



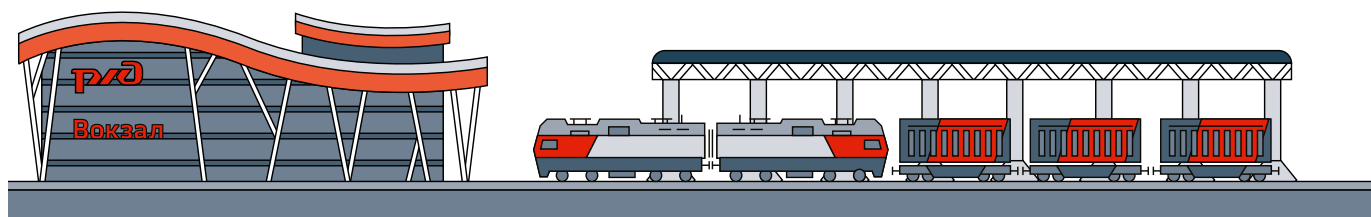
2015 Annual Report

On the Path to Change

Open Joint-Stock Company Russian Railways



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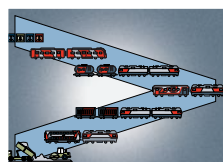
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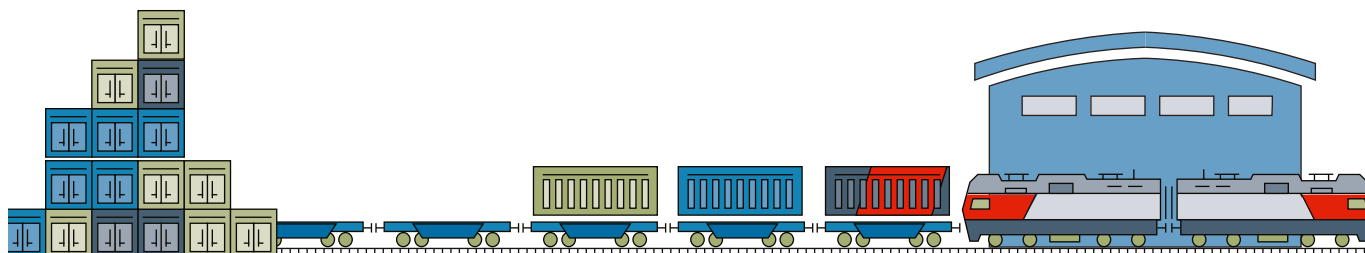
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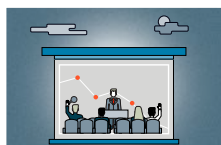
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Message from Russian Railways management to shareholders and investors

Statement from the Chairman of the Board of Directors



Dear Colleagues,

Despite difficult economic conditions in 2015, Russian Railways achieved positive results that are reflected in reporting and in the specific actions taken by management. The corporate governance system demonstrated a clear understanding of the problems and challenges currently facing society as a whole and the Company in particular.

The Russian Government supports the Company in its core focuses and plans. Government support measures, above all tax incentives, have been prepared for 2016 and beyond. Specifically, a 10% VAT rate has been set for passenger transportation, and incentives will keep the current property tax rate at 1% without any further increase and also provide a three-year grace period on property tax for newly built facilities. This strategy was chosen for a good reason as it creates conditions to expand business and generate additional income.

Passenger transportation, including long-haul travel, is a major priority for the Company. The Russian Government continues to provide roughly RUB 60 bln per year in financial

support for passenger transportation, not including tax incentives. This prevents excessive growth in tariffs for the public. A flexible tariff policy makes it possible to slash ticket prices for certain groups of people, at different times of the year and for particular routes.

Russian Railways has engaged in substantial work with the country's individual regions to develop passenger transportation on suburban routes. Problems have been resolved in most regions, although this issue remains on the agenda. Our goal is to build sustainable long-term mechanisms for interaction with the constituent entities of the Russian Federation, and such work must be continued in 2016.

High-speed transportation is one of the top priorities for the development of the railway industry. One pilot project being implemented to this end is the Moscow-Nizhny Novgorod-Kazan High-Speed Railway, an integral part of the Moscow-Beijing Eurasian High-Speed Transport Corridor. Such projects are essential not only for passengers, but for increasing freight transportation speeds since they free up a substantial amount of track space for cargo shipments. We expect the design of the railway line to be completed in 2016.

As for freight transportation, the market is constantly improving. The tariff decisions made by the Company should aim to attract additional clientele and increase profitability. Such work requires interaction

with all market participants and the establishment of an appropriate package of services and opportunities that will make it possible to deliver cargo from the place it is manufactured to the place it is consumed on time.

As a result of work undertaken in 2015 to optimise operating activities, Russian Railways management adopted decisions that enabled the Company to find internal sources of development. The Board of Directors supports these decisions and is certain that such work will continue in 2016.

At present, the Company's investment programme is one of the largest in the country. Investment in infrastructure

development covers a large territory of the Russian Federation from the northwest to the south and Far East. The Government supports the Company's investment plans and allocates funding, including from the National Wealth Fund.

International cooperation in matters concerning railway transportation also held a prominent place among the results of the outgoing year. The Company is actively developing its global transportation activities as part of the Eurasian Economic Union and work in such areas is under way using the platform of the Council of Rail Transport of CIS States. Cooperation will continue in such matters, making it possible to resolve any systemic issues that may arise as well as

matters related to ensuring transport safety throughout the entire 1520-mm standard gauge railway domain.

Implementing this strategy will enable Russian Railways to remain a strong and highly capable company that has substantial resources and internal reserves along with a sustainable financial position and government support.

Arkady Dvorkovich

Chairman of the Russian Railways Board of Directors

Statement from the Management Board Chairman and President



Dear Partners and Colleagues,

Russian Railways remained a leader in infrastructural support for Russia's socioeconomic development in 2015.

Railways account for 45.3% of overall freight turnover – a number that includes pipeline transportation. The taxes paid by the Company have become a reliable source of replenishment for the state budget: tax payments totalled RUB 281 bln in 2015. Russian Railways employs more than 800,000 people, or more than 1% of all the country's workforce workers. Over a twelve-year period, Russian Railways has almost cut in half the railway industry's tension on the economy with our share of the nation's GDP decreasing from 3% in 2004 to 1.5% today.

These figures are without question important to understanding the role of railways in the country, but for the majority of the population the importance of

Russian Railways is above all measured by the quality of the Company's passenger services. We are pleased to note that we were able to offer our customers popular new services in 2015 such as multimodal transportation, double-decker trains and daily express trains with a convenient schedule. Passenger traffic increased on routes between Moscow and St Petersburg, Bryansk, Yaroslavl and other cities where we offered a new quality of services with growth of up to 50% on some routes. This means that our customers appreciate the work we have carried out.

For the first time ever, the suburban transportation sector is closing in on the break-even point in terms of its financial performance. Special thanks for this must be given to the Russian Government, the Russian Ministry of Transportation and other core ministries as well as governors for their productive dialogue and support.

Finally, updates were made to the Programme for the Development of Rapid-Transit and High-Speed Traffic in Russia and priority status was assigned to the Moscow-Nizhny Novgorod-Kazan High-Speed Railway pilot project as a part of the Moscow-Beijing Eurasian High-Speed Transport Corridor. The design of this railway line will be fully completed in 2016.

Along with acquiring new rolling stock, the Company actively introduced advanced transportation technologies, information and telecommunications systems, and satellite technologies in 2015. Innovative technologies are leading the way as we fully phase out imports, primarily as a result of joint projects with the regions and domestic industry enterprises.

We expect our partners to continue fulfilling the Group's orders diligently with the supply of high-quality materials and components, advanced machinery and innovative rolling stock at a mutually advantageous price. We are always open to constructive and honest cooperation.

Despite the difficult economic conditions, the Company managed to ensure social stability in 2015. We met all our social obligations to the staff, veterans and pensioners in accordance with the collective bargaining agreement. The Russian Railways Management Board also implemented a RUB 39.7-bln cost-cutting programme primarily through optimising the consumption of material resources and restricting prices on the products it procures. The Company managed to reduce resource usage costs, while not only retaining the same volume of major overhauls, but also increasing it versus the initial plan.

These measures helped to maintain growth in costs for transportation activities at a level of 7.1%, which is lower than the average annual growth seen in consumer and producer prices. Labour productivity increased by 4.8% despite a 3.4% decline in this indicator for the country's economy as a whole.

The plans and objectives that Russian Railways will pursue in 2016 are directly aligned with the economic development prospects of the Russian Federation. The decisions have been taken to index freight tariffs at 9% and partially establish property tax incentives for railway infrastructure facilities. For the first time in two years, the Company will ensure a balance in its activities without the provision of government subsidies for major repair work on railway infrastructure facilities.

In order to achieve this, we need to find sources of additional income as part of a strategy that focuses on the customer and aims to enhance the quality of services as well as improve the tariff system along with technological and innovative development. Work continues to improve management efficiency in accordance with the Russian Government's directives: the Company has drafted regulations on the quality control and internal audit system for this purpose.

Our primary focal point is to be attentive and respectful of our most important and fair customer – the passenger. The Russian Railways Group has already declared 2016 to be the Year of the Passenger, which reflects our desire to reduce ticket costs, increase train speed and improve the comfort and quality of services, particularly for people with limited mobility. I hope that our customers will soon notice the initial results of the work we have performed and that our Company's services will become more integrated and accessible.

Oleg Belozеров
Chairman of the Management Board
and President of Russian Railways

ON THE PATH TO CHANGE



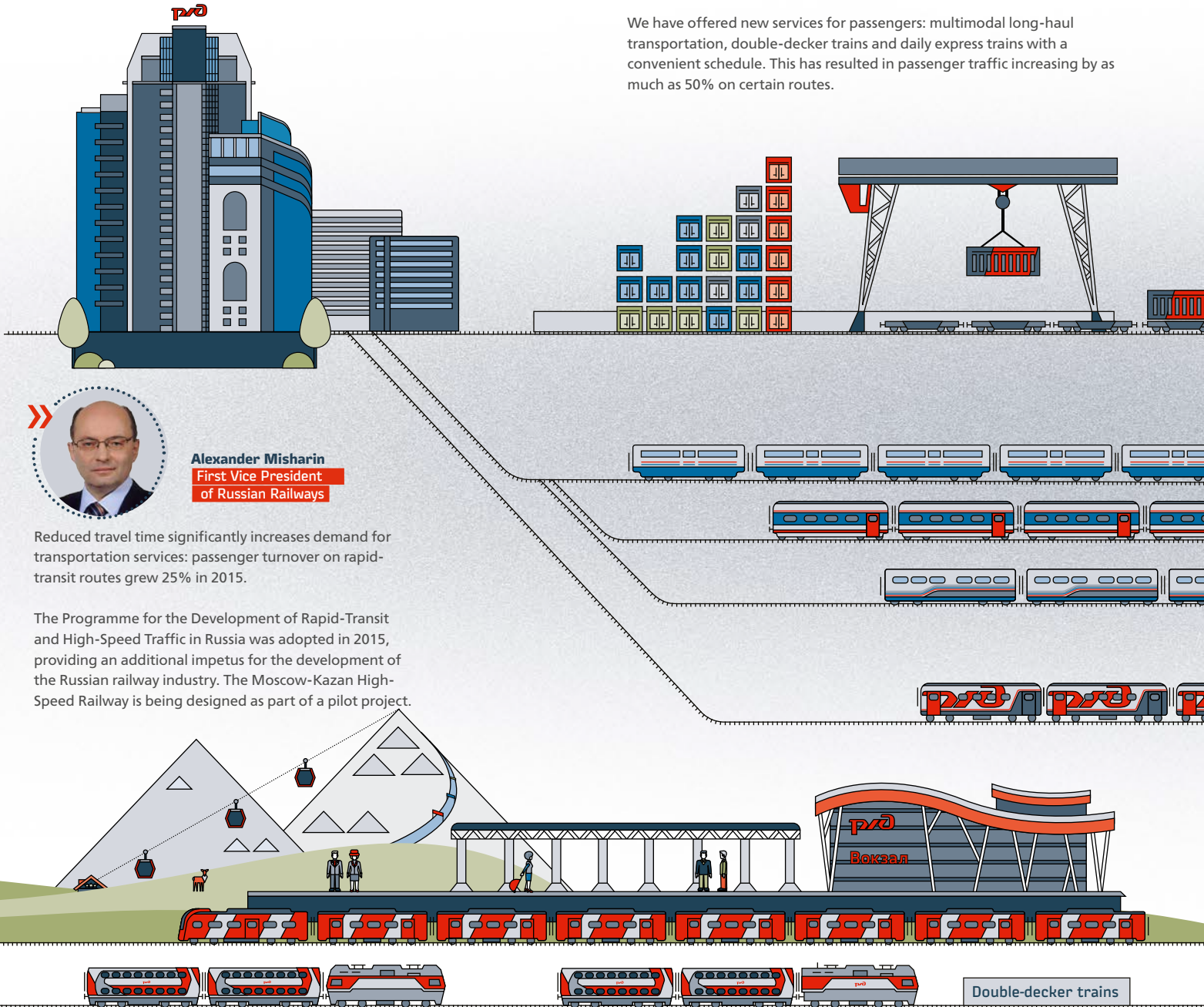
Oleg Belozarov

President and Management Board Chairman of Russian Railways

The Company aims to develop by improving internal efficiency, strengthening its customer focus, working to lower costs in all areas and efficiently utilising available resources.

In the current macroeconomic conditions, we managed to contain growth in transportation operation costs at 7.1%, a rate 55% lower than inflationary growth. Net profit totalled RUB 318 mln and labour productivity expanded 4.8%.

We have offered new services for passengers: multimodal long-haul transportation, double-decker trains and daily express trains with a convenient schedule. This has resulted in passenger traffic increasing by as much as 50% on certain routes.



Alexander Misharin
First Vice President of Russian Railways

Reduced travel time significantly increases demand for transportation services: passenger turnover on rapid-transit routes grew 25% in 2015.

The Programme for the Development of Rapid-Transit and High-Speed Traffic in Russia was adopted in 2015, providing an additional impetus for the development of the Russian railway industry. The Moscow-Kazan High-Speed Railway is being designed as part of a pilot project.

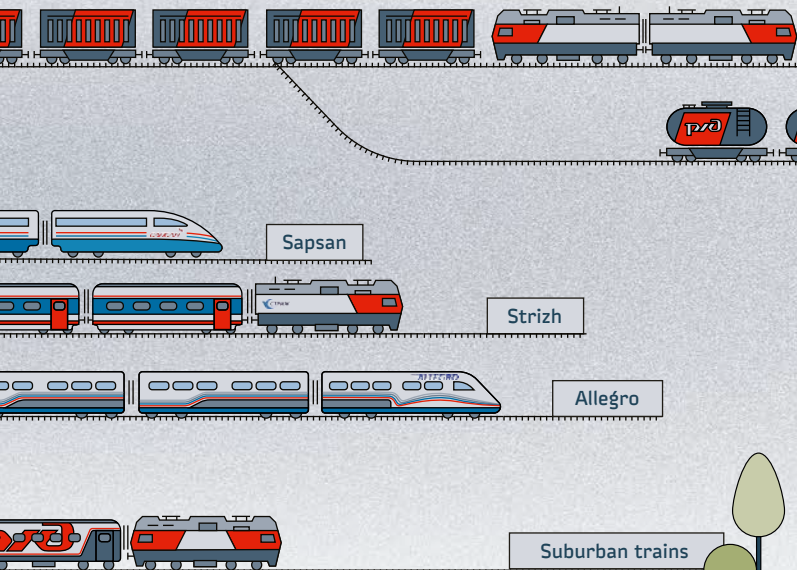
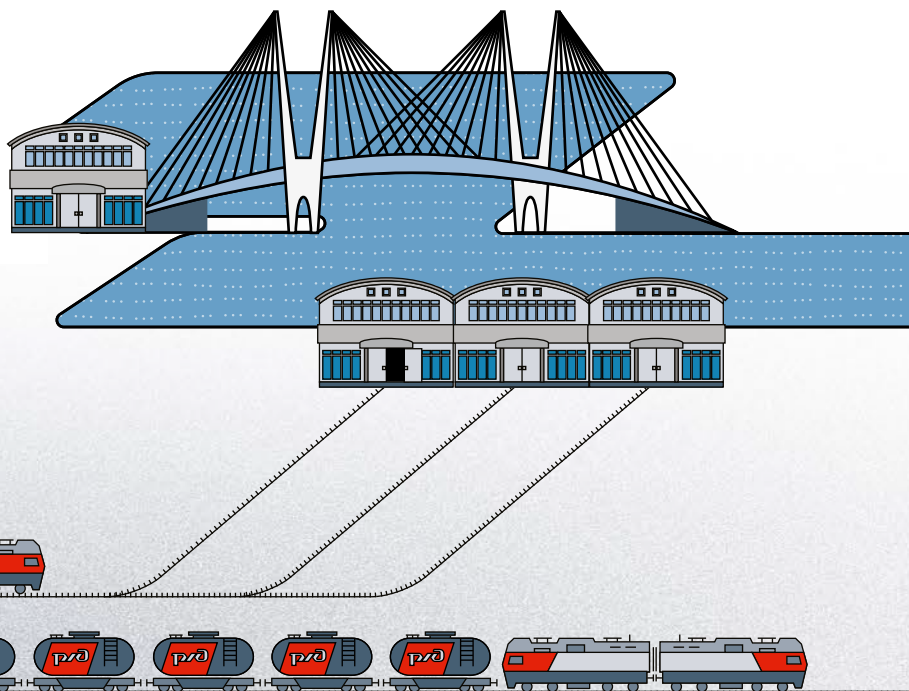
Double-decker trains



Anatoly Krasnoshchek
First Vice President
of Russian Railways

Operating amidst challenging macroeconomic conditions and a more than 3% slump in industrial production, the Company managed to contain the decline in handling volume to just 1% and maintain freight turnover at the 2014 level. Handling volume actually increased for a wide range of freight grew due to the flexible and effective use of the tariff corridor, boosting the Group's income in the process. The share of profit from the sale of integrated transportation and logistics services also increased last year.

Enhanced internal efficiency within the Production Unit and an optimal transportation management model were primary factors behind improved external customer focus indicators as well as growth of 13.5% in the average freight delivery speed to 371.5 km per day and a 1.1% increase in container train route speed to 896 km per day.



Vadim Mikhailov
Senior Vice President
of Russian Railways

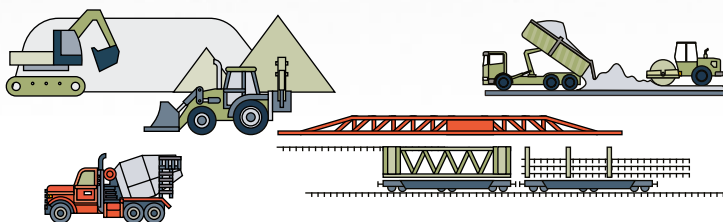
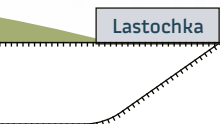
We implemented an investment programme valued at RUB 365 bln in 2015 with part of the programme financed by borrowed funds. In particular, the Company placed infrastructure bonds for the first time using money from the National Wealth Fund. The placement totalled RUB 60.2 bln and is for 25 years, which resulted in the average term of the credit portfolio increasing from nine years to ten years, while the share of short-term borrowings stood at only 7% at the end of the year.

We were able to introduce special accounting for our hedging operations in 2015, which mitigated the negative effect of exchange rate differences in the Company's financial results by RUB 70 bln. Operating profit from sales increased 43% last year compared with 2014.

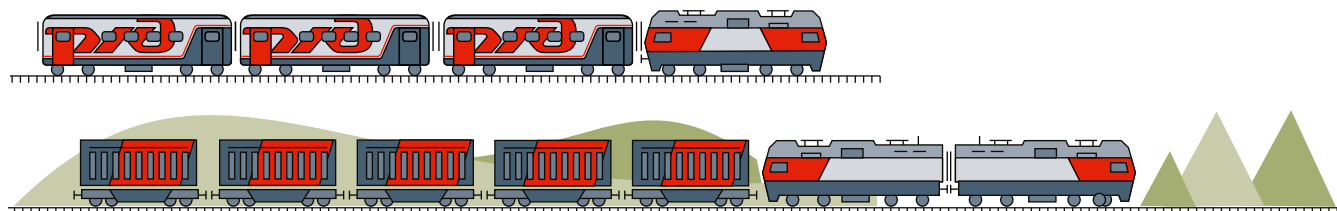


Oleg Toni
Vice President of Russian Railways

Strategic priorities include ensuring the balanced development of railway infrastructure in order to increase the volume of freight and passenger transportation, supporting traffic safety, introducing new transportation products and services, developing railway transit potential as well as improving the quality and effectiveness of investment in construction.



Highlights of core operations in 2015



Key performance indicators

Indicator	Measurement unit измерения	2014	2015	Change	
				+ / -	%
Handling	mln t	1,226.9	1,214.5	-12.5	99.0,%
Freight turnover, including	bln tkm	2,954.5	2,954.9	0.4	100.0,%
excluding empty runs by railcars belonging to other owners ¹	bln tkm	2,298.6	2,304.8	6.2	100.3,%
empty runs by railcars belonging to other owners ²	bln tkm	655.9	650.1	-5.8	99.1,%
Passenger turnover, including	bln pass. km	128.8	120.4	-8.4	93.5,%
long haul	bln pass. km	96.3	89.5	-6.7	93.0,%
suburban traffic	bln pass. km	32.6	30.9	-1.7	94.8,%
Passengers transported, including	mln pass.	1,070.3	1,020.4	-49.9	95.3,%
long haul	mln pass.	103.1	97.9	-5.2	95.0,%
suburban traffic	mln pass.	967.2	922.5	-44.7	95.4,%
Average service speed of freight train	km/h	37.7	39.1	1.4	103.7,%
Technical speed of freight train	km/h	45.6	46.4	0.8	101.8,%
Freight car turnover	per day	17.0	16.5	0.5	103.2,%
Average weight of freight train	t	3,929	3,966	37	100.9,%
Average delivery speed of loaded shipments	km/day	327.4	371.5	44.1	113.5,%
Share of shipments delivered within required (contractual) period	%	87.1	92.9	5.8 p.p.	X
Growth in productivity for handling activities	%	10.6	4.8	X	X

¹ Hereinafter referred to as "loaded freight turnover" in the Annual Report

² Hereinafter referred to as "empty freight turnover" in the Annual Report

Main achievements of Russian Railways

Financial stabilisation of the Company

Given the macroeconomic situation and its direct impact on performance indicators, pricing pressure and volatility in the national currency, Russian Railways appropriately assessed the risks associated with its financial and business activities in 2015. The Company has estimated its losses from decreased transportation income, growth in interest payable on loan obligations tied to inflation and an increase in negative exchange rate differences and other operational and financial risks at more than RUB 130 bln.

Under these conditions, the Company implemented an action programme to ensure its financial stability:

- Decrease in income from transportation was compensated by a RUB 39.7-bln reduction in expenses (versus the initial plan) and an additional plan was implemented for

profit from other activities in the amount of RUB 10.1 bln. As a result, sales income totalled RUB 83.6 bln, an increase of RUB 17 bln (+22.5%) versus the initial plan and +43% compared with 2014.

- Social expenses were optimised by RUB 1 bln.
- Hedge accounting was introduced in accordance with the currency risk management policy, making it possible to reduce losses from the decline in the rouble exchange rate by RUB 69.7 bln.
- Measures were taken to prevent the impairment of subsidiaries and affiliates (S&A) for a total of RUB 18.8 bln.
- Debt of RUB 10.9 bln was recovered from the reserves of the Ministry of Health and Social Development based on interaction with the federal executive authorities.

- A RUB 19.3-bln package of shares in subsidiaries and affiliates was sold with profit of RUB 5.7 bln.

As a result, the Company reported net profit of RUB 0.3 bln in 2015 (versus a loss of RUB 44 bln in 2014).

For more on the financial stabilisation of the Company, see the "Results of financial and business activities" section.

1,020.4

mln passengers

Transported

2,954.9

bln tkm

Total freight turnover

RUB 0.3 bln

Net profit
(versus loss of RUB 44 bln in 2014)

4.8 %

Growth in productivity
for handling activities

7.1 %

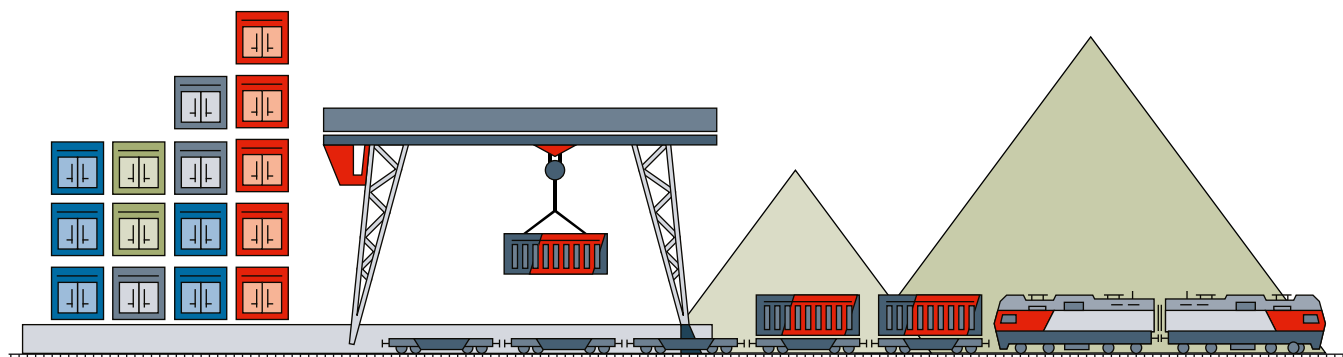
Growth in the cost of handling activities
versus 2014 despite average annual
inflation of 15.5%

RUB 365.5 bln

Investment programme spending in 2015

Key results by business unit within the Group's Strategy

Transportation and Logistics Business Unit



- Given the current economic situation, freight handling decreased 1% compared with 2014 and amounted to 1,214.5 mln tonnes. A decline in shipments within Russia was the main reason for lower handling volume.
- Freight turnover (including empty runs by railcars belonging to other owners) remained virtually changed versus the 2014 level (+0.01%) and amounted to 2,954.9 bln tkm.
- The share of railway transportation in the freight turnover of the country's transportation system remained at last year's level and totalled 45.3%.
- The share of shipments delivered within the required (contractual) period increased 5.8 p.p. as shipments in loaded railcars grew 5.2 p.p. versus the 2014 level. The average freight shipment delivery speed grew 14%.
- More than 100,000 trains operated on a schedule in 2015, including approximately 22,000 under contracts. Roughly 9,000 container trains were dispatched in addition to 214 "Freight Express" trains.

45.3 %

share of railway transportation in the
freight turnover of the transportation
system

⬆ +0.01 % vs. 2014

2,954.9

bln tkm

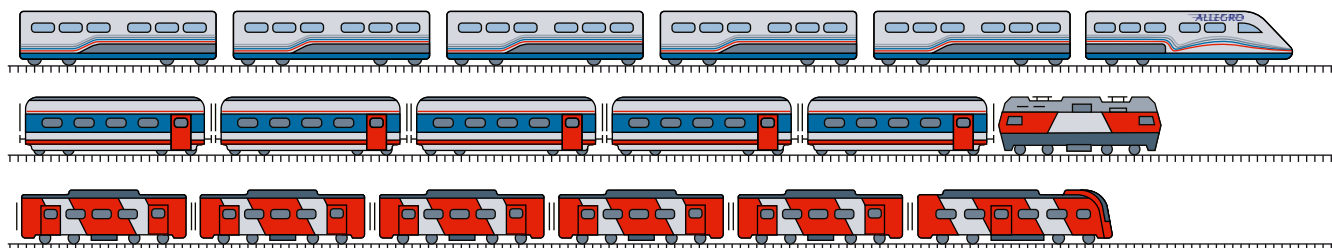
freight turnover

over 100,000

freight trains

operated on schedule in 2015

Passenger Transportation Business Unit



- Passenger turnover on rapid-transit trains increased 25% to 2.5 bln passenger km in 2015, while passenger turnover on long-haul rapid-transit trains within Russia grew 26% to 2,440.2 mln passenger km.
- Passenger turnover on Russian Railways infrastructure declined 6.5% in 2015 versus 2014, including 7.0% for long haul transportation and 5.2% for suburban transportation.
- The Company managed to reach the break-even point for suburban transportation in 2015, in part due to the measures taken by the Russian Government to support suburban transportation.
- Russian Railways carried 1,020.4 mln passengers in 2015 (-4.7% versus 2014), including 97.9 mln passengers on long-haul journeys (-5%) and 922.5 mln passengers on suburban routes (-4.6%).
- As part of the existing schedule of the 'Daily Express' programme, the Company has 39 trains running on 21 railway network routes and transported 8.2 mln passengers last year, or 50% more than in 2014.
- The area served by double-decker rolling stock was expanded to 4 new routes, and for the year double-decker trains carried approximately 1.5 mln passengers.
- The new Strizh rapid-transit train began running from Moscow to Nizhny Novgorod in June 2015 with minimum travel time of 3 h 35 min. Some 700,000 passengers travelled on these trains in 2015.

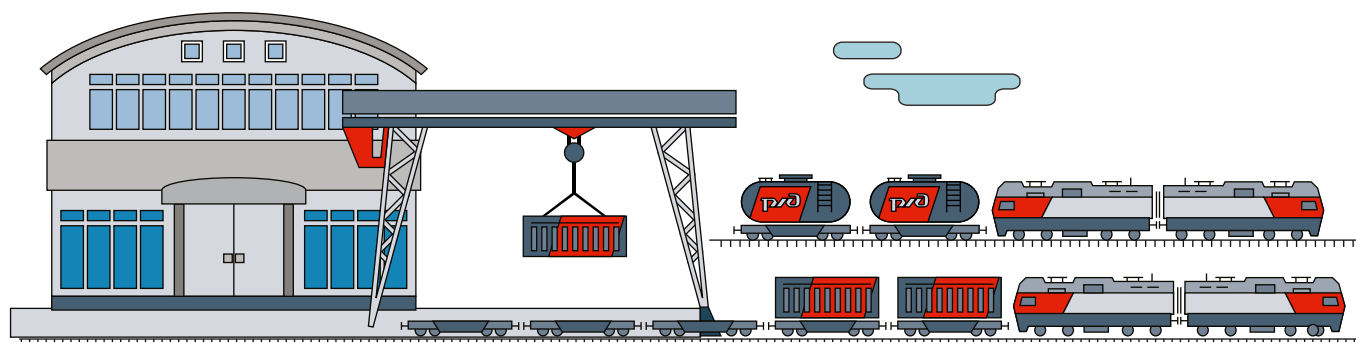
4 new routes

traversed by double-decker rolling stock

Implementation of high-speed rail projects

- High-Speed Rail Lines and a consortium of designers comprised of Mosgiptrotrans, Nizhegorodmetroproekt and Eryuan Chinese Railway Engineering Corporation have signed a contract to perform engineering survey work, develop a project to plan and survey areas, and draft design documentation for the construction of the Moscow-Kazan section of the Moscow-Kazan-Yekaterinburg High-Speed Railway in 2015-2016.
- The Programme for the Development of Rapid-Transit and High-Speed Traffic in Russia until 2030 was drafted and approved. The Programme primarily focuses on selecting areas for the modernisation of existing lines and the construction of new rapid-transit and high-speed routes that offer the maximum economic and social effects by expanding the boundaries of existing metropolitan areas and forming new urban areas.
- The Ministry of Transportation of the Russian Federation, the National Development and Reform Commission of the People's Republic of China, Russian Railways and China Railway signed a memorandum on the forms of cooperation and models for financing and investing in the Moscow-Kazan High-Speed Railway project and the Moscow-Beijing Eurasian High-Speed Transport Corridor.

Railway Transportation and Infrastructure Business Unit



- Work continued in 2015 on projects to modernise the Baikal-Amur and Trans-Siberian Mainlines, completely rebuild the Mezhdurechensk-Tayshet railway section, develop the Moscow Transport Hub, renovate railway infrastructure at approaches to ports in the Azov and Black Seas, and build the Prokhorovka-Zhuravka-Chertkovo-Bataysk railway line (a new line on the Zhuravka-Millerovo route).
- Projects to develop carrying capacity were also continued in 2015, including: the reconstruction of the Mga-Gatchina-Veyarn-Ivangorod section, the development of the Tobolsk-Surgut-Korotchayevo section, the reconstruction and construction of engineering structures, the construction of secondary tracks and the development of marshalling yards.
- The Production Unit enhanced its internal efficiency, making it possible to meet the main budget parameters for rolling stock use, including for average freight train weight (+0.9%

versus 2014), average daily locomotive productivity (+3.7%) and service speed (+3.7%).

- Traction Resource Management Centres (TRMC) were completed on the network, making it possible to transition to the targeted model for managing the transportation process based on operating domain technology. The TRMC Automation System was developed to automate the work of the centres.
- The utilisation of information management technologies was an integral part of the Company's work to improve the efficiency of the transportation process, including the organisation of scheduled freight train traffic and an expansion in the railways using the Elbrus system, which ensures freight trains run on schedules that are optimal in terms of energy consumption.
- Container trains increased their route speed by 10 km per day (+1.1%) to

892 km per day in 2015 and reached speeds of 1,139 km per day as part of the 'Trans-Siberian Mainline in 7 Days' project, an increase of 66 km per day (+6.1%) versus the 2014 level.

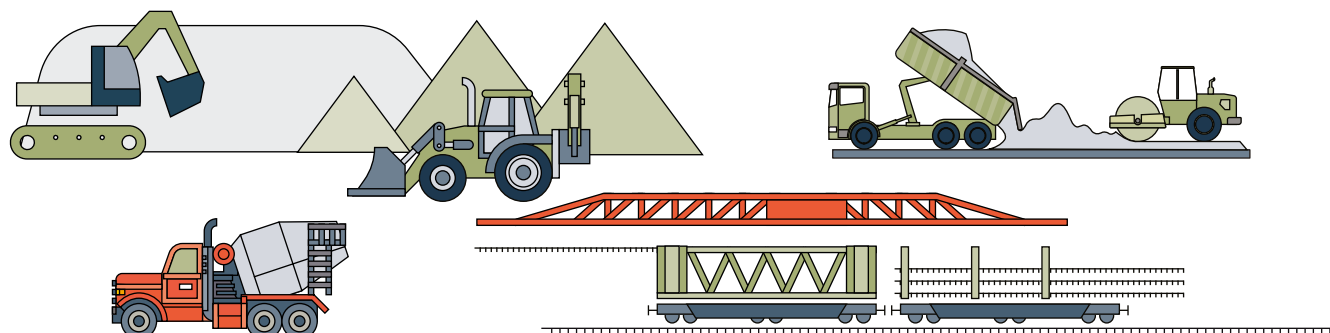
■ In 2015:

- 500 traction rolling stock units were purchased;
- The Company commissioned 163.5 km of new and secondary tracks and 157.7 km of station tracks, electrified 45.8 km of tracks and rebuilt 2,814.0 km of railway tracks.

892 km/day

**Container train route speed
(increase of 10 km/day)**

International Engineering and Transportation Construction Business Unit



Republic of Serbia

The Russian Railways Group has fulfilled its contractual obligations for the reconstruction of a number of railway sections of the Corridor X Pan-European railway that runs through Serbia as well as the supply of diesel trains. Trains officially started running in September on the secondary main track of the Golubinci-Ruma section and the new Sopot Kosmajsky-Kovachevats (Serbia) section. In addition, RZD International has signed an additional agreement to rebuild three southern sections of the Corridor X pan-European railway as well as a memorandum on strategic partnership with Serbian Railway Infrastructure that serves as the foundation for the further development of Russian-Serbian cooperation in the railway industry.

Iran

Islamic Republic of Iran Railways and RZD International signed a contractual agreement on the design and supply of materials and equipment as well as construction as part of a project for the electrification of the Garmsar-Ince Burun railway section.

India

Russian Railways and the Ministry of Railways of the Republic of India signed a memorandum on mutual understanding concerning technical cooperation in the railway sector with the goal of jointly searching for mutually advantageous projects to implement in India.

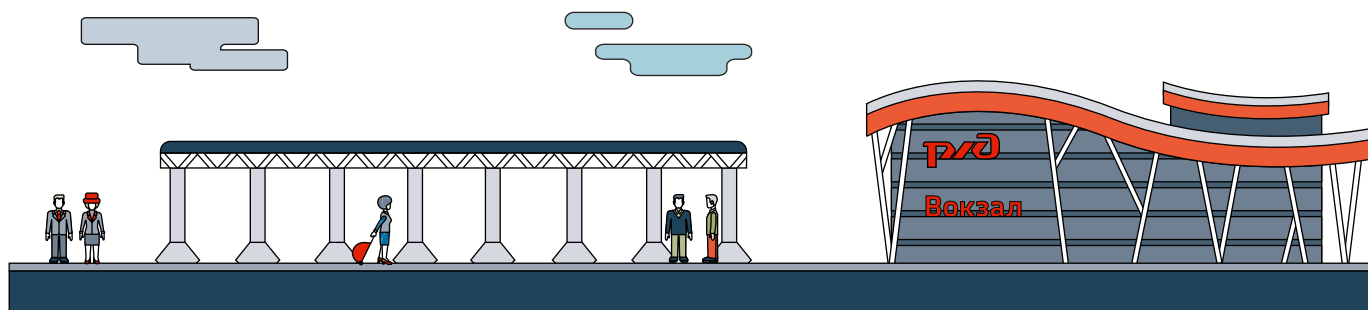
North and South Korea

Some 1.17 mln tonnes of coal were transited via North Korea's Rason port to China and South Korea as part of efforts to enhance the transit potential of Russia's railways.

Vietnam

Russian Railways and Vietnam Railways signed a cooperation agreement to develop interaction in several areas: logistics, the implementation of infrastructure projects, cooperation within international organizations and the exchange of experience as well as scientific and technical information.

Social Unit



- Despite macroeconomic instability and reduced income in 2015, Russian Railways maintained its status as a socially responsible employer. The Company met its obligations under the 2014-2016 collective bargaining agreement during the reporting period. In particular, employee salaries were indexed at 3.7% in March.
- The competitiveness of salaries earned by Russian Railways employees increased versus the 2014 level: the ratio of the Company's salaries to the overall Russian level was 1.31 in 2015 compared with 1.27 in 2014.
- The average monthly salary of Russian Railways employees working in transportation was almost RUB 45,000 in 2015, an increase of 8.2% from the 2014 level, although real wages were down 6.3% (9.5% for the country as a whole). Labour productivity grew 4.8% despite a 3.4% decline in this indicator throughout Russia.
- The staffing level was 99.2% (1.0 p.p. higher than in 2014) and turnover was 7.4% (down by 1.0 p.p.).
- More than 50,000 employees underwent professional training in 2015, while more than 150,000 and 103,600 executives and specialists underwent advanced training, which is in line with the planned targets.

1.31

ratio of Company employee salaries to overall Russian level

99.2 %

staffing level

◆ +1.0 p.p. vs. 2014

Investment development

The Investment Development Programme implemented by Russian Railways in 2015 led to improvements in the following indicators:

- sections on which passenger trains travel at speeds of 120-140 km/h were expanded by 1,176 km, or 4.6% compared with 2014, while sections for freight trains running at speeds of more than 80 km/h were increased by 580.6 km (+1.0%);
- the total length of main tracks on concrete sleepers stood at 97,794.517 km at the end of 2015, an increase of 1,756.4 km (+1.8%) from the previous year, while the total length of continuous welded rail totalled 90,695.168 km, an increase of 1,701.778 km (+1.87%);
- work to renovate and modernise railway automation and telemechanic equipment on crucial railway sections featured a comprehensive approach with the simultaneous modernisation of electric interlocking, automatic locking and remote monitoring devices and their integration into complex transportation process control systems. The modernisation of

railway automation and telemechanic equipment that is still in operation despite doubling its useful life helped improve traffic safety and the reliable operation of devices; equipping technical diagnostics and monitoring centres with railway diagnostic and remote monitoring systems ensured the maximum detection of pre-failure conditions in railway automation and telemechanic equipment. As a result of these measures, the Company managed to decrease the number of first and second category failures (the KASANT system) from 6,920 in 2014 to 6,363 in 2015, or by 8.1%;

- work to renovate railcar fixed assets in 2015 resulted in an 11% decrease in the number of hardware failures compared with the 2014 level and also expanded the length of dedicated sections for non-stop train traffic by 16 km versus 2014;
- work to renovate electrification and power supply fixed assets in 2015 reduced the number of hardware failures 9.4% compared with the 2014 level, 111.5 km of contact network tracks for 160-km/h rapid-transit trains were rebuilt, 21.6 km of contact

network were renovated on 200-250-km/h tracks to establish rapid-transit and high-speed transportation and restrictions were lifted on trains weighing 6,300 tonnes on three inter-station zones with total length of 71 km.

Overall in 2015, Russian Railways commissioned:

- 163.5 km of new and secondary tracks,
- 45.8 km of electrification,
- 157.7 km of station track;

and rebuilt:

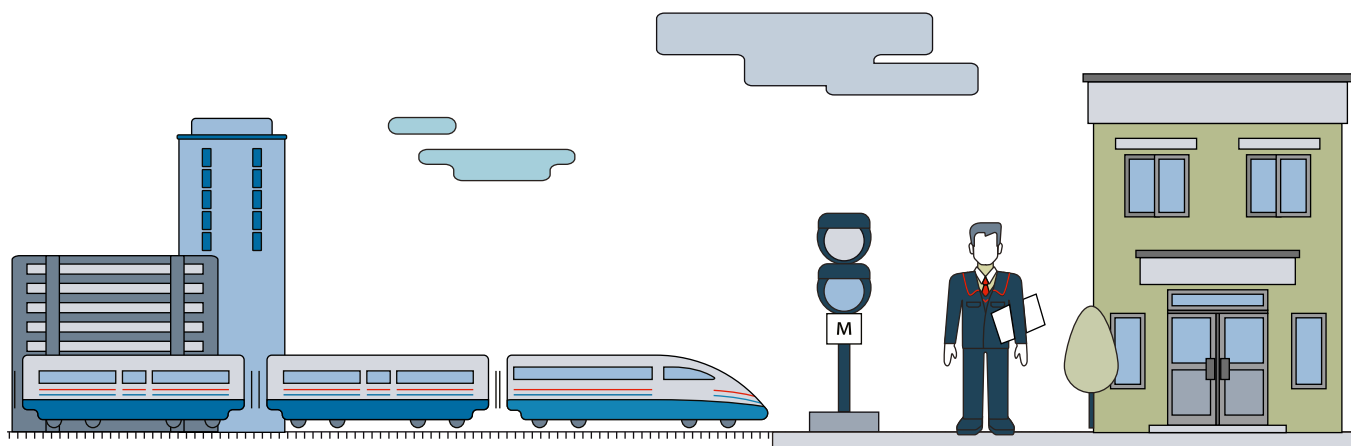
- 129 electric interlocking switch units,
- 50.8 km of the automatic blocking system,
- 280.5 km of centralised traffic control,
- 640.4 km of long-distance cable communication lines,
- 288.1 km of the contact network,
- 2,814 km of railway tracks.

Energy efficiency

Russian Railways implemented 11,800 measures as part of an Energy Conservation Programme at more than 2,290 structural units in 2015, resulting in savings of RUB 4.9 bln, including:

- 848.2 mln kWh of electricity valued at RUB 2,412.9 mln,
- 53,900 tonnes of diesel fuel valued at RUB 1,663.9 mln,
- 5,300 tonnes of petrol valued at RUB 178.0 mln,
- 152,500 Gcal of heat valued at RUB 251.4 mln,
- 25.8 mln cubic metres of natural gas valued at RUB 114.9 mln,
- 64,500 tonnes of coal valued at RUB 93.0 mln,
- 21,900 tonnes of fuel oil valued at RUB 216.6 mln.

Traffic safety



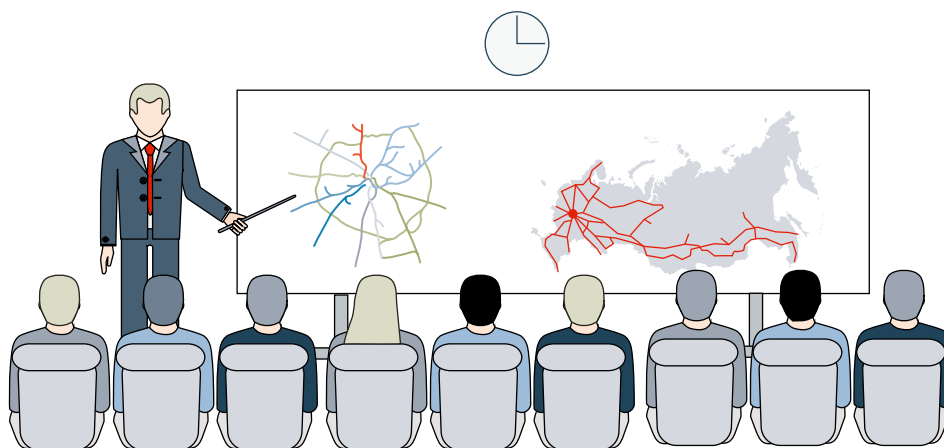
The Russian Railways Group spent RUB 2.1 bln on its Traffic Safety Programme in 2015

- The target traffic safety indicator for the Russian Railways Group had a value of 1.17 events per 1 mln train km in 2015 versus the planned level 1.58 events (a decrease of 26%).
- The number of facilities equipped with technical traffic safety equipment systems was expanded to 1,627, a 1.3% increase from the 2014 level.
- The number of traffic safety violations committed on Russian Railways infrastructure increased 64.2% (from 4,693 to 7,704) in 2015. However, third party organisations operating on Russian Railways infrastructure were responsible for most of the violations (68%).

1.17

Value of the target traffic safety indicator for the Russian Railways Group

Measures to expand the use of the process approach



As of the end of 2015, as part of the Action Programme to Expand the Use of the Process Approach:

- a process model flow chart was created for Russian Railways;
- regulatory and methodological documents on process management were drafted and approved;
- approximately 800 executives and specialists underwent process management training;
- a contest was held for the unit that best employs the process approach in managing and enhancing the performance efficiency of Russian Railways;
- decisions were adopted by the boards of directors of Russian Railways subsidiaries to introduce the process approach with the subsidiaries developing their own action programmes.

approximately 800
executives
and specialists underwent process management training

MARKET OVERVIEW

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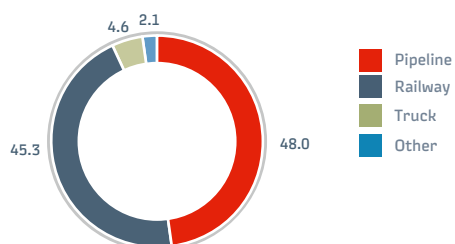
Russian Railways continued actively working in 2015 to transition from purely shipping activities to transportation and logistics operations by developing integrated services, organising scheduled shipments, expanding the range of 2PL, 3PL and 4PL services and establishing global logistics chains.





Infrastructure of a stable economy

Freight turnover by transportation mode, %

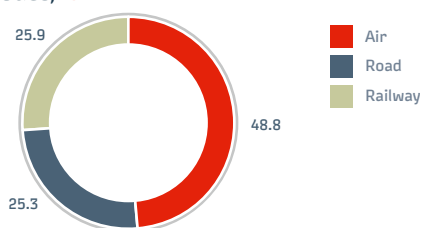


5,088.9
bln tkm

freight
turnover



Passenger turnover by main transportation modes, %



465.3
bln pass. km

passenger turnover on public
transportation



Overview and key trends in the Russian transportation industry

A key feature of 2015 was the instability seen on global financial and commodity markets amidst heightened uncertainty regarding the future of the global economy.

Key trends and changes in the global and Russian economies

The global economic experienced a slight decline in 2015. According to the IMF, global GDP growth slowed to 3.1% from 3.4% in 2014. International trade growth rates declined to 2.6% compared with 3.4% in 2014.

The global economic slowdown in 2015 resulted from a significant decline in activity in emerging markets where economic growth slowed to 4% from 4.6% in 2014. The slowdown in economic growth in China, a key player in global trade, had a major impact on the global economy. Economic

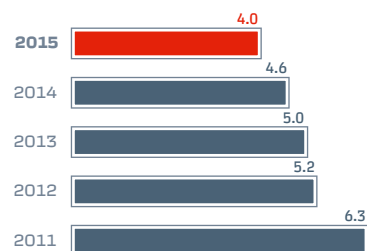
dynamics also deteriorated in other BRICS nations (except India).

The economic situation in developed nations was relatively positive in 2015 with economic growth accelerating to 1.9% from 1.8%. In the United States, economic growth remained at the previous year's level (2.4%). At the same time, the dollar's appreciation had a negative impact on the financial stability of certain emerging markets where capital outflow was observed.

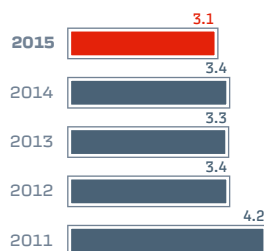
One of the major negative features of 2015 was the instability on global financial and commodity markets amidst heightened uncertainty surrounding the future of the global economy. A decrease in global oil prices exacerbated the situation in oil-exporting countries where revenues plummeted, but had a positive impact on oil-importing countries where economic activity increased. However, the decline in prices on the global oil market was too extreme and had a negative impact on the global economy overall.

Overall global GDP growth rates in developed nations and emerging markets in 2011-2015 (IMF data), % vs. previous year

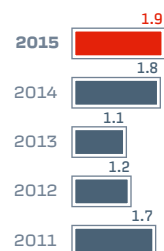
Emerging markets



World



Developed nations



Meanwhile, recessionary trends prevailed in the Russian economy. Russia's GDP went into a recession (decline of 3.7% versus 2014) following growth that had nevertheless begun to slow over the course of 2010-2014. Industrial production declined 3.4% versus the 2014 level.

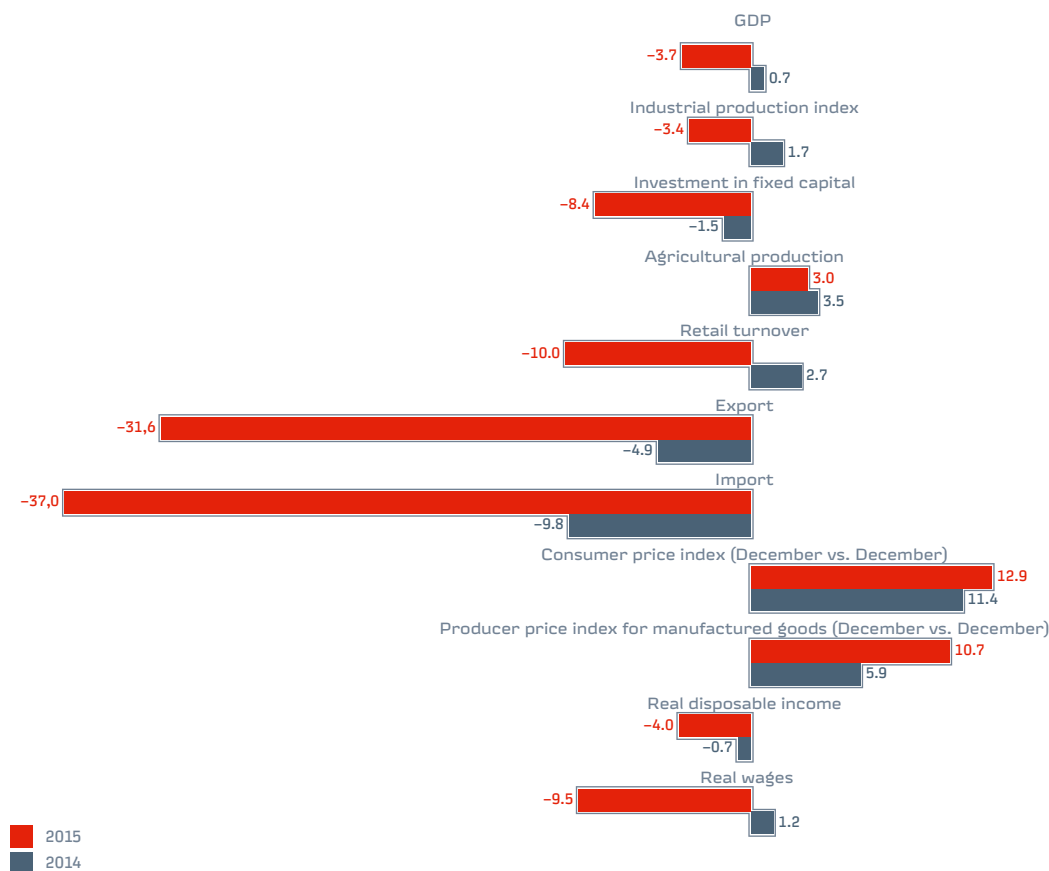
Deterioration was seen in virtually all the factors that support economic growth. Consumer demand fell sharply as retail turnover declined 10% compared with 2014. Such dynamics are attributable to a decrease in the population's income and real wages, accelerated inflation and deterioration in consumer sentiment.

The slump in investment activity also continued. The depth of the decline in investments in fixed assets expanded to 8.4% in 2015 from 1.5% in 2014. Investment contracted amidst lower demand, the increased cost of imports, the greater appeal of investing in financial markets, high interest rates and lower expectations with respect to the prospects of the Russian economy.

Global oil prices dealt the decisive blow to the macroeconomic situation in Russia. The decline in oil prices not only led to reduced revenue for the state budget and raw commodity companies, but also contributed to lower income in the corporate sector as a whole due to the weakening of the multiplier effect.

The decrease in foreign currency earnings among exporters combined with the continued outflow of capital, the closure of international capital markets as a result of sanctions and the lack of support for the national currency led to the depreciation of the rouble on the currency market and a high level of volatility in its exchange rate. Thus, the economy is currently in a situation where the future has become even more uncertain, which in conjunction with other negative factors led to the decline in economic activity in Russia.

Change in Russia's macroeconomic indicators in 2014-2015, % vs. previous year



Freight turnover

Freight turnover in Russia grew 0.2% in 2015 compared with 2014 to 5,088.9 bln tkm.

The growth in freight turnover in the transportation system resulted from increased freight turnover on all modes of transportation except inland waterway and road transportation.

Freight turnover by railway transportation increased 0.3%¹.

Freight turnover increased significantly via sea (+24.1%) and air (+5.6%) transportation.

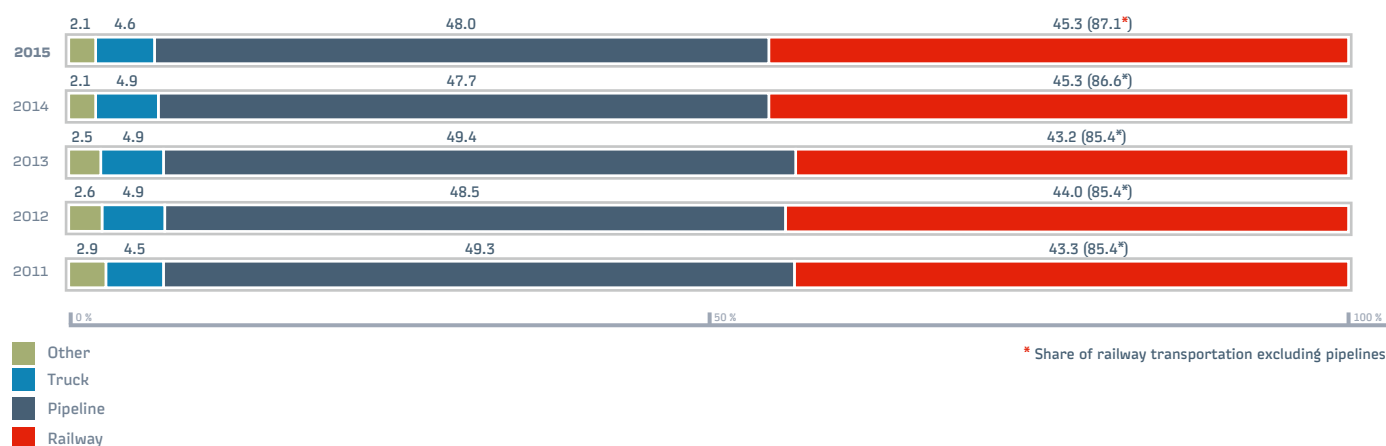
Railway transportation accounted for 45.3% of total freight turnover in the country's transportation system (unchanged versus the 2014 level).

If pipeline transportation is excluded, railway transportation accounted for 87.1% of total freight turnover.

Freight turnover by transportation mode in 2015³

Transportation mode	2015		Share in overall freight turnover, %	
	bln tkm	+/- % 2014	2014	2015
Freight turnover by transportation	5,088.9	+0.2	100.0	100.0
including				
railway	2,304.8	+0.3	45.3	45.3
road	232.1	-5.9	4.9	4.6
sea	39.8	+24.1	0.6	0.8
inland waterways ²	62.6	-13.5	1.4	1.2
air (transport aviation)	5.4	+5.6	0.1	0.1
pipeline	2,444.2	+0.9	47.7	48.0
Reference: share of railway transportation excluding pipelines			86.6	87.1

Freight turnover by transportation mode, %



¹ Railway freight turnover excluding empty runs by Russian Railways railcars according to reporting data of Russian Railways.

² Reference: freight shipments by sea and inland waterway transportation include shipments made under a freight shipment contract by the company's own vessels and/or leased (chartered) vessels (including vessels leased to foreign companies (charterers) based on time charter conditions sailing under the flag of the Russian Federation with the appropriate shipment documents.

³ According to the data of the Russian State Statistics Service, excluding railway transportation.

Passenger turnover via public transportation

Passenger turnover via public transportation totalled 465.3 bln passenger km in 2015, including:

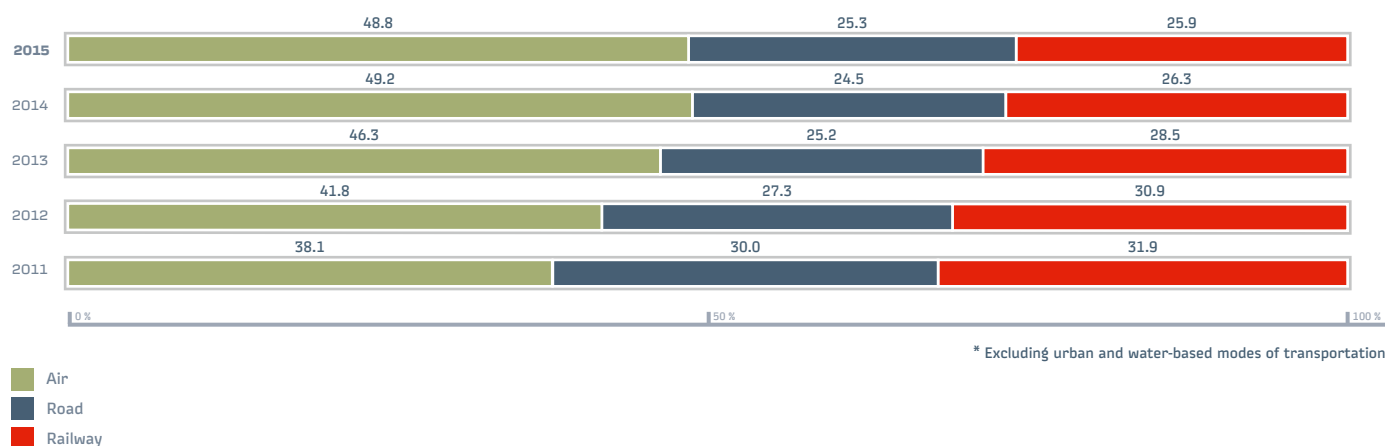
- railway – 120.4 bln pass. km,
- road – 118.0 bln pass. km,
- air – 226.9 bln pass. km.

Road (bus) transportation accounts for 25.3% of overall passenger turnover via public transportation (+0.8% p.p. versus 2014). Air travel accounts for 48.8% of passenger turnover via public transportation (-0.4 p.p. versus 2014), while railway transportation makes up 25.9% (-0.4 p.p. versus 2014).

Passenger turnover by transportation mode in 2015

Transportation mode	2015		Share of transportation mode in overall passenger turnover, %	
	bln pass. km	+/- % 2014	2014	2015
Passenger turnover via public transportation	465.3	-5.4	100.0	100.0
including				
railway	120.4	-6.5	26.3	25.9
road (buses)	118.0	-2.0	24.5	25.3
air (transport aviation)	226.9	-6.0	49.2	48.8

Passenger turnover by main transportation modes*, %



Inter-industry competition

Inter-industry competition on the freight transportation market

Russian Railways carries out business activities on the freight and passenger transportation market amidst significant competitive pressure from other types of transportation.

The main competitors in the freight transportation segment are pipeline, road as well as water-based transportation (sea transportation primarily in the transit container transportation segment).

Russian Railways experiences the most competitive pressure from pipeline transportation in the crude oil and light petroleum product segments. This poses the significant risk of a reduction in the potential cargo base for railway transportation in these segments.

In addition to pipeline transportation, railway shipments of oil freight face competitive pressure from inland waterway transportation.

Road transportation is used to move freight short distances compared with other transportation modes and accounts for approximately 4.6% of freight turnover in the transportation system. However, road transportation is becoming increasingly active in delivering small batches of high-margin and perishable goods over long distances, and the competitive pressure from this mode of transportation on railways is intensifying.

At the same time, railway transportation has the following special advantages that create opportunities to focus on consignors who need to ship large-tonnage freight over long distances:

- mass shipments and high carrying capacity of railways;
- shipment regularity regardless of season, time of day or weather conditions;
- versatility of this type of transportation in terms of its utilisation to ship a variety of cargo and the ability for mass freight transportation;
- the ability to create a direct link between major industrial enterprises via railway access routes;
- the relatively low cost of shipping 1 tonne of cargo when transporting mass freight over long distances due to the high load carrying capacity of railway transportation.

For this reason, railway transportation is the dominant mode in the long-haul shipping segment among all types of public transportation.

Only inland waterway transportation can rival the competitive advantages of railways. However, competition between inland waterway and railway transportation is seasonal and only exists in the summer when mass freight is shipped in the north-south direction in areas adjacent to the Volga River basin and also via the system of channels, rivers and lakes of the Volga-Baltic waterway. According to the Russian Federal State Statistics Service, freight turnover via railway transportation in Russia exceeds the same indicator for inland waterway transportation by more than 27 times.

The primary competitive advantage of river transportation over railway transportation is the significantly low level of shipment costs due to the absence of expenses on infrastructure maintenance as well as the smaller proportion of energy expenses on the transportation of one tonne of freight.

Inter-industry competition on the passenger transportation market

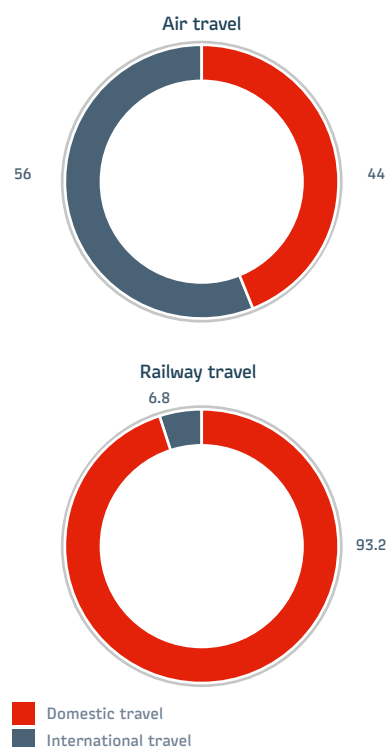
Railway transportation continued to face competitive pressure from domestic air travel in the deregulated segment in 2015.

Given the competition from air travel seen in 2015, the stable demand for Sapsan and Allegro trains (which offer passengers fast travel time, a high level of comfort, an optimal price level and a convenient schedule), double-decker trains and Strizh trains as well as the use of multimodal transportation and new transport products as part of the "Daily Express" programme on Lastochka (Desiro RUS)

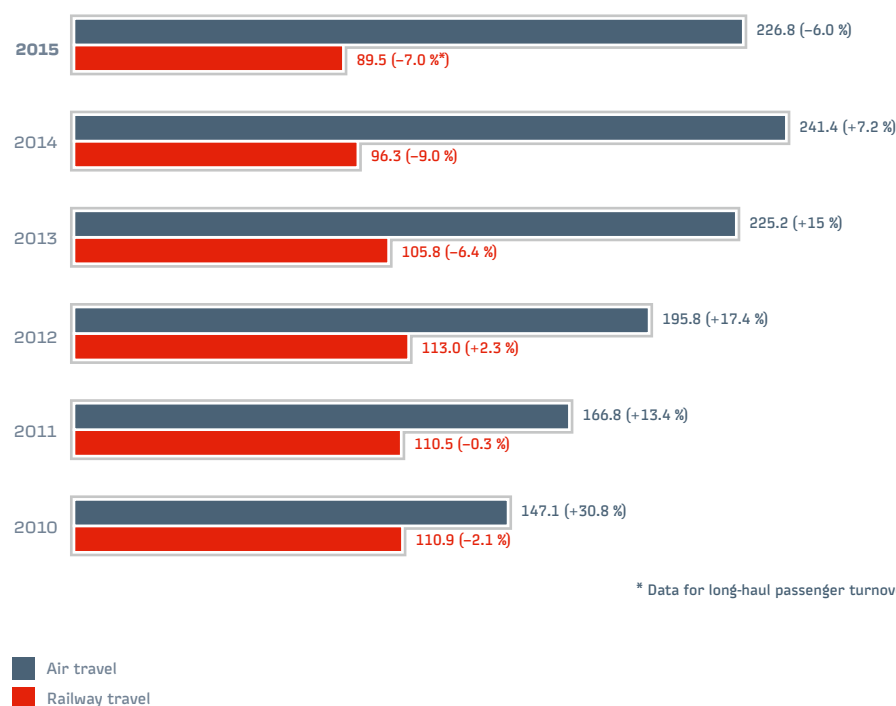
trains demonstrates the positive trend of attracting additional passenger flows from alternative transportation modes and reaffirms the need to continue the development of rapid-transit passenger transportation.

The deteriorating macroeconomic situation, depreciation of the rouble and continued geopolitical tensions resulted in a decline (-6%) in passenger turnover for the railway industry's main competitor – air travel – for the first time.

Passenger turnover for railway and air travel by transportation mode in 2015, %



Passenger turnover for railway and air travel in 2010-2015, bln pass. km



Russian Railways in the railway industry

Freight transportation

Competition continued in freight railway transportation in 2015. The Russian Railways Group's share of transportation fell from 71.3% in 2003 to 13.8% in 2015.

Russian Railways (excluding S&A) saw its share of shipment volume on the Russian freight car handling market decline from

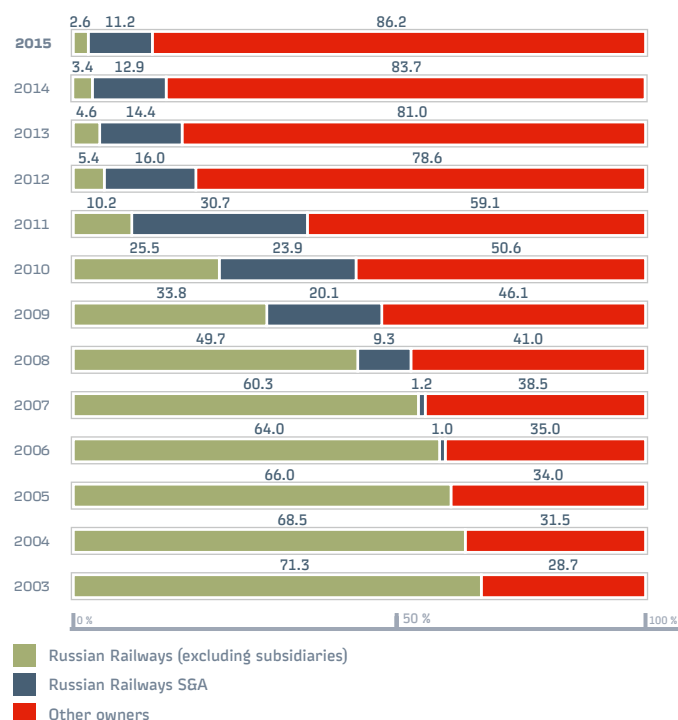
3.4% to 2.6% in 2015 compared with the previous year.

Russian Railways S&A accounted for 11.2% of shipment volume in 2015.

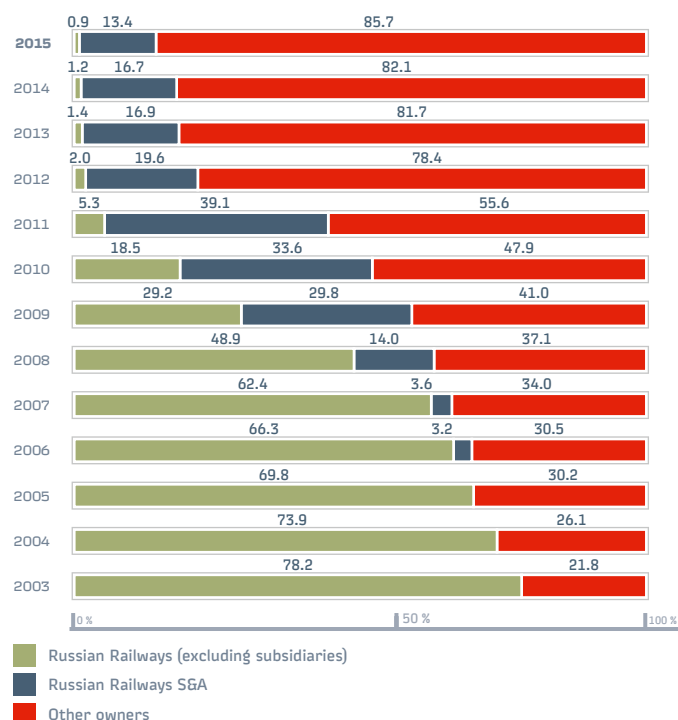
In terms of freight turnover volume, Russian Railways (excluding S&A) saw its share of

the freight car handling market plummet from 78.2% in 2003 to 0.9% in 2014, while the share of freight turnover handled by privately owners railcars increased from 21.8% in 2003 to 85.7% in 2015.

Structure of the Russian freight car handling market by transportation volume in 2003-2015, %



Structure of the Russian freight car handling market by freight turnover volume in 2003-2015, %

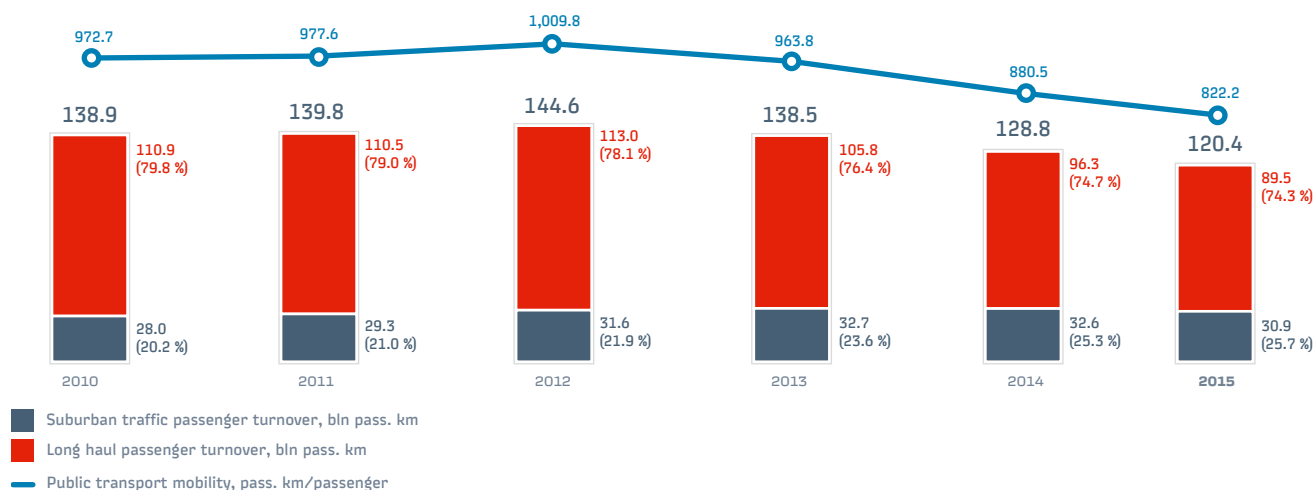


Passenger transportation

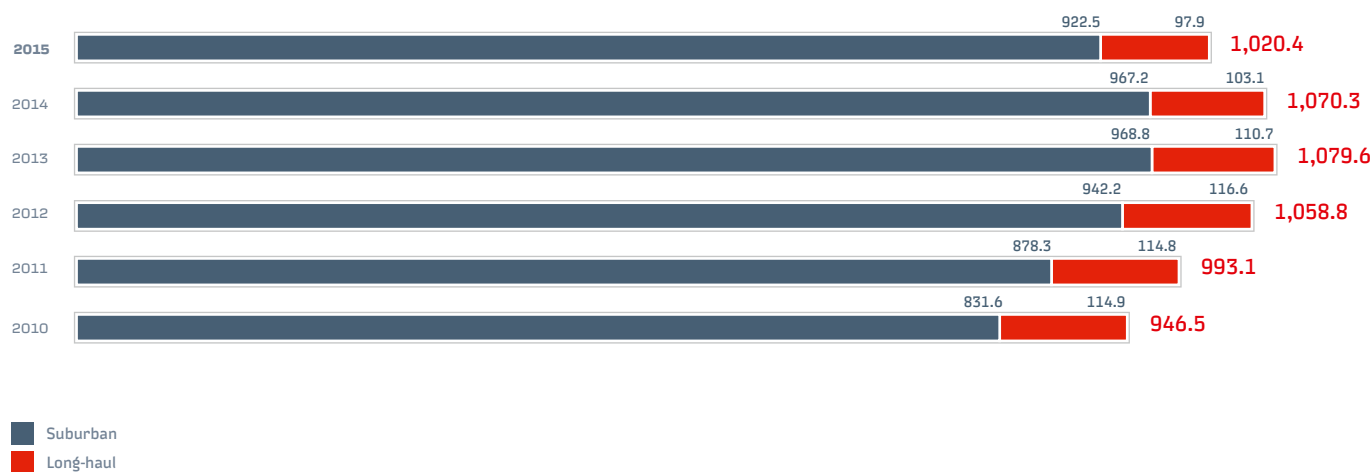
The share of Russian Railways S&A in long-haul passenger turnover declined 1.2 p.p. to 95.7% in 2015. Private carriers increased their share 0.5 p.p. to 1.4%, while the proportion of passenger turnover handled by high-speed trains (High-Speed Transportation Directorate – branch of Russian Railways) increased 0.7 p.p. to 2.9%.

Suburban traffic makes up only 0.8% of the total suburban passenger transportation of Russian Railways, while the Company's S&A account for 99.1% of such travel. Private carriers have a 0.1% share of this market. This ratio has remained unchanged on the suburban passenger transportation market for the last several years.

Passenger turnover via railway transportation and public transport mobility



Passengers carried by railway transportation using Russian Railways infrastructure, mln passengers



Tariff policy

Railway freight transportation tariffs were indexed at 10% in 2015.

Principles of freight transportation tariff policy

Legislation defines the principles for government regulation and establishing a tariff policy for freight transportation with respect to natural monopolies. The Russian Government adopts decisions and the federal executive authorities pass departmental regulations establishing the principles of government tariff regulation on the basis of federal laws.

The tariff regulation model for railway transportation transitioned to the establishment of a long-term tariff policy for public railway transportation services in 2014 in accordance with the decisions of the Russian Government.

The relevant guidelines have been adopted on the government regulation of tariffs for railway freight transportation services as well as the use of public railway infrastructure for freight transportation.

The growth rates for railway freight shipments in 2014-2018 had been set with restrictions on tariff increases based on the inflation level of the previous year.

However, in 2014 the Russian Government decided to keep tariffs on railway freight shipments at the 2013 level with their subsequent indexation in accordance with the actual inflation level for the previous year.

Thus, railway freight transportation tariffs were not indexed in 2014, but were indexed at 10% in 2015.

Tariff regulation of passenger transportation

Suburban transportation

In accordance with clause 23 of the Rules for the Railway Transportation of Passengers, Baggage and Cargo Luggage, which were approved by Order No. 473 of the Russian Ministry of Transportation dated 19 December 2013, the following tariffs are in effect for suburban railway passenger transportation:

- zone tariffs – in the form of a fixed rate for a tariff zone;
- tariffs per km – in the form of a fixed rate per 1 km;

- combined tariffs – (amount of the fixed rate per 1 trip for a certain tariff distance and when travelling above this tariff distance – payment at a fixed rate for each km).
- The average tariff on the network was RUB 23.24 per 10 passenger km in 2015, a 10.0% increase over the tariff level of 2013, or RUB 2.11 per 10 passenger km.

Long-haul transportation

As of 1 January 2015, the existing tariffs in the regulated sector were indexed by Order No. 280-t/1 of the Russian Federal Tariffs Service dated 5 December 2014:

- tariffs for travel in second-class sleeping railcars and sitting railcars were indexed at 10%;
- tariffs for passenger transportation using first-class rolling stock were indexed at 10%;

- tariffs for owned (leased) railcars that are part of long-haul trains were indexed at 10%;
- tariffs for the transportation of baggage and cargo luggage as well as fees and charges for additional work (services) related to the transportation of baggage and cargo luggage were indexed at 10%;

- fees and charges for additional work (services) related to passenger transportation were indexed at 10%.

In the de-regulated sector, tariffs were indexed for long-haul travel in first class sleeping railcars and compartment railcars at 5%.

RUB 23.24
/10 pass. km

**suburban traffic tariff
on the network in 2015**

Tariff indexation

Year	Regulated	De-regulated	
	Second-class sleeping railcars and sitting railcars	Compartment railcars	First-class sleeping railcars
2010	1.1		1.08
2011	1.1		1.05
2012	1.1		1.05
2013	1.2	1.05	—
2014	1.042	—	—
2015	1.1	1.05	1.05

Implementing the tariff policy in accordance with the international treaties of the Russian Federation

Tariffs for freight transit via the railways of CIS member states, Georgia and Baltic nations are set based on the rates of the CIS Tariff Policy in effect as part of the Tariff Agreement of Railway Administrations of CIS Member Nations dated 17 February 1993.

The base rates of the CIS Tariff Policy for transportation via Russia's railway network were indexed at 3.7% as of 1 February 2015.

With the enactment on 1 January 2015 of the Eurasian Economic Union (EEU) Treaty, which was signed by the presidents of Russia, Belarus and Kazakhstan in Astana on 29 May, freight transit via Russia's railway

network from Kazakhstan to Belarus and back as well as transit from Kazakhstan and Belarus to other countries via Russian ports takes according to the unified tariff denominated in the national currency contained in section 2 of Price List No. 10-01 "Tariffs for freight transportation and infrastructure services rendered by Russian railways".

Tariff policy on transit freight shipments

In accordance with WTO requirements, the tariff policy of the railways of CIS member nations for international freight shipments involving Russian Railways contains only base transit tariff rates starting in 2014 and no longer includes descending indices and special rates.

Special tariff conditions for freight transit via Russia's railway network are established by the Russian Railways Management Board and information about such rates is posted on the Company's official website.

In 2015, the Russian Railways Management Board decided to set the level of transit tariffs on Russian railways at the rates of 2014.

Implementing a flexible tariff policy within the tariff corridor

Russian Railways is granted the right to modify tariffs for railway freight transportation services within certain price limits as part of international treaties that form the contractual basis for the Common Economic Space and subsequently the Eurasian Economic Union.

Having the ability to independently alter tariffs has proved to be highly effective for the Company with respect to attracting freight. In 2015 alone, railway transportation attracted 6.2 mln tonnes of various freight due to the decisions to use the Transport Corridor (which is equal to almost two days of the Company's operations).

However, the practice of applying the tariff corridor has revealed the need to further improve the conditions for its use.

Russian Railways has prepared proposals to modify the rules for applying the tariff corridor that aim to enhance the competitiveness of railway transportation with respect to other modes of transportation in order to attract additional shipment volumes as well as create conditions that provide greater flexibility to take into account the economic situation when the company's makes tariff-related decisions.

These proposals are considered by the relevant federal executive authorities and parties interested in using railway transportation services.

6.2
mln t

**Additional transportation volume
attracted by decisions as part
of the tariff corridor**

Implementation of Russian Railways' tariff policy proposals

Federal Law No. 503-FZ of the Russian Federation dated 31 December 2014 "On Amendments to the Federal Law 'Railway Transportation Charter of the Russian Federation'", which took effect on 1 April 2015, grants the right to charge a fee for rolling stock located on public railway tracks as part of the transportation process or outside of the transportation process (Article 39 of the Railway Transportation Charter of the Russian Federation).

In order to meet the requirements of changing legislation, the Russian Federal Tariffs Service along with the relevant units of Russian Railways drafted the Tariff Guide (Order No. 127-T/I of the Russian Federal Tariffs Service dated 29 April 2015) "On the approval of the fee for rolling stock located on public railway tracks and the rules for its application" (the Tariff Guide), and amendments and additions were also made to the Rules on Applying Rates for the Use of Federal Railway Transportation Railcars and Containers (Tariff Guide No. 2), which were approved by Resolution No. 35/12 of the Federal Energy Commission of the Russian

Federation dated 19 June 2002 (registered by the Russian Ministry of Justice on 26 May 2015 as Registration No. 37379).

This Tariff Guide took effect as of 7 June 2015.

Given the decline in shipments and the existence of railcars that are not needed in the transportation process, the Tariff Guide will make it possible to collect full payment for railcars located on public railway tracks that are not part of the transportation process and also those that are part of the transportation process, but have been delayed through the fault of the customer.

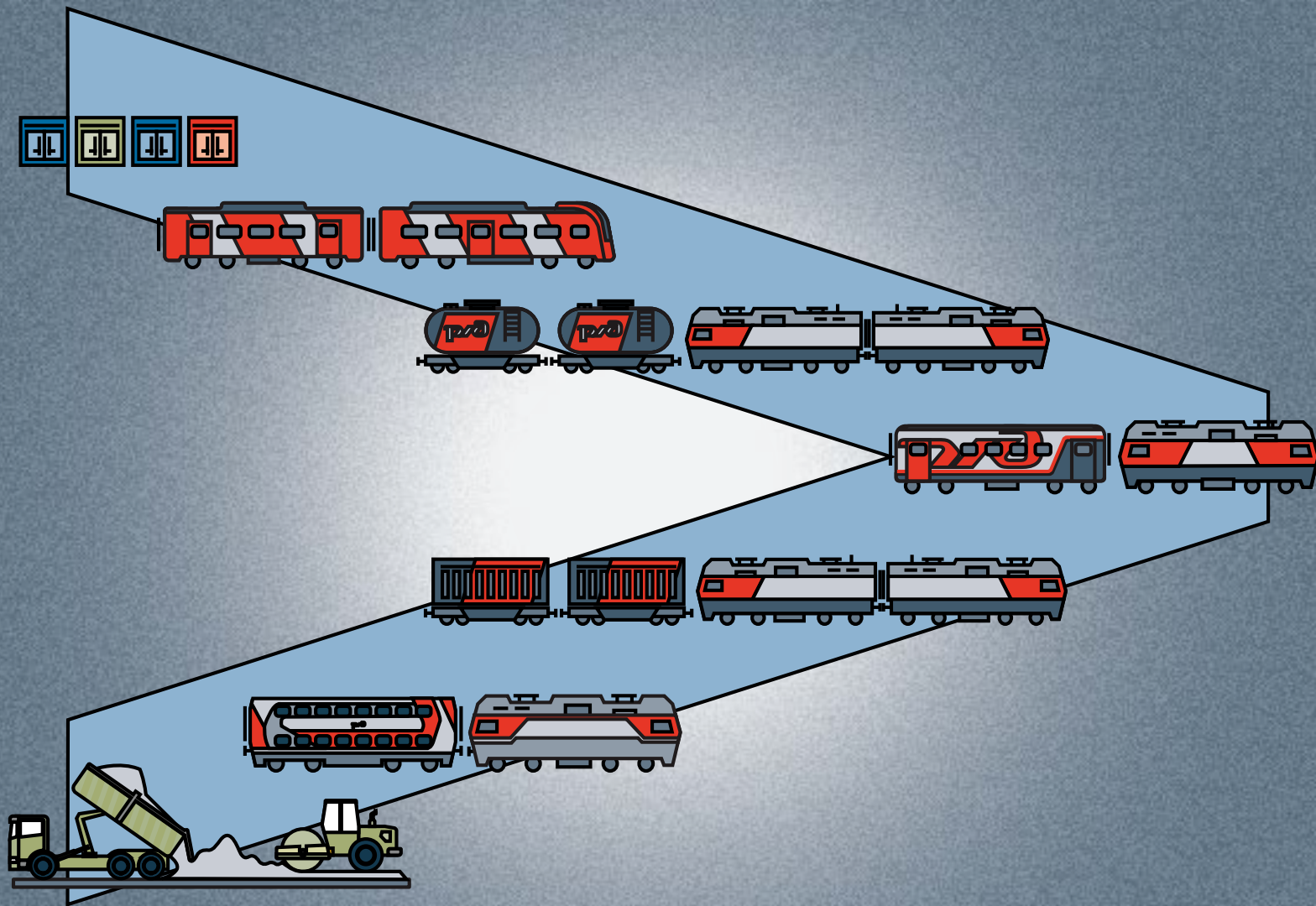
The Tariff Guide's introduction of a fee for railcars located on public railway tracks will provide a higher level of responsibility for railcar owners and users of railway transportation services and also encourage those involved in the transportation process to utilise the potential of infrastructure and rolling stock more effectively.

STRATEGY OF THE RUSSIAN RAILWAYS GROUP

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The Russian Railways Board of Directors approved the Development Strategy of the Russian Railways Group until 2030 on 20 December 2013, which describes the goals and objectives of the Russian Railways Group as well as its key priorities and long-term development projects. The Long-term Development Programmes of Russian Railways and its subsidiaries and affiliates until 2020 were approved by the Board of Directors on 1 December 2014.





Strategy scaled for a vast country

The mission of the Russian Railways Group is to effectively develop a transportation business that is competitive on the Russian and international markets and focuses on effectively meeting its objectives as a national freight and passenger carrier and owner of public railway infrastructure.

Brief description of the Development Strategy of the Russian Railways Group until 2030

Strategic goals

The Russian Railways Group's mission aims to achieve the following strategic goals by 2030:

1

To maintain leading positions in freight railway transportation in Europe, enhance the attractiveness of railway transportation for customers and increase freight shipments by 500–800 mln tonnes by 2030

4

To provide efficient servicing for the global supply chains of major Russian and international customers and expand the transportation and logistics business on the Eurasian space

2

To improve the customer satisfaction level by enhancing the quality of services while maintaining competitive transportation costs

5

To maintain the existing proportion of passenger turnover via the Russian transportation system and increase suburban passenger turnover by 1.8–2.2 times and long-haul and interregional turnover by 1.3–1.7 times by 2030

3

To become one of the top five companies in Europe in terms of logistics business volume and increase the proportion of transportation and logistics services in the Group's business portfolio to 25%

6

To implement projects for the development of rapid-transit and high-speed transportation and ensure transportation at the new speed level makes up 20% of overall passenger turnover by 2030

7

To become a top ten global company in terms of infrastructure construction and ensure the creation of a long-term order portfolio and the highest level of project implementation

8

To retain leading positions throughout the world as regards efficiency, safety and the quality of infrastructure services

9

To ensure the systematic upgrading of assets using innovative technologies and solutions based on the efficient management of the life cycle cost as well as the readiness and reliability of fixed assets

10

To prioritise 'green' technologies and ensure a 50% reduction in the environmental burden

11

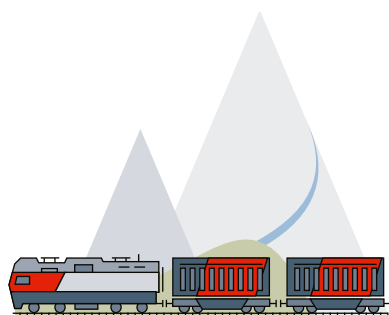
To become one of the top five most attractive employers among major Russian companies and recruit the best specialists to work at the Group while guaranteeing a competitive salary, increased productivity, improved labour conditions and a modern social package

12

To consistently optimise the Group's business portfolio in accordance with the chosen strategy, focus on the core and most effective types of business and ensure sustainable synergy among the Group's different components

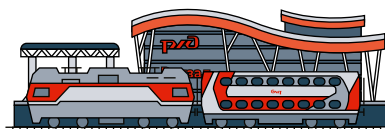
Target business model

The target business model ensures the balanced and interdependent development of the Russian Railways Group based on five key units:



Transportation and Logistics Business Unit

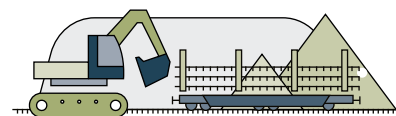
A strategic priority for the development of this business unit is to establish a diversified product basket for the Russian Railways Group with a transition from providing mostly transportation services to providing freight owners with complex integrated door-to-door services with a subsequent expansion in the spectrum from 2PL to 3PL and 4PL services and the formation of global logistics chains.



Passenger Transportation

A strategic priority for this business unit is to expand the range of advanced transportation services offered to customers by accelerating and increasing multimodal transportation and improving the quality of traditional services in trains and areas related to transportation.

One of the key objectives is to expand the operating domain of rapid-transit and high-speed transportation between the country's largest metropolitan areas on the basis of modern efficient solutions.

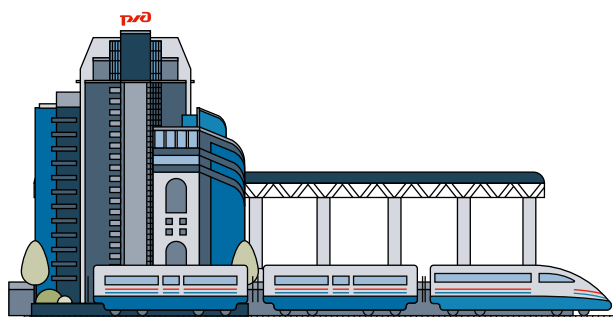


International Engineering and Transportation Construction

A strategic priority for this business unit is to consolidate and expand the Group's presence on the international railway engineering and transportation construction market and lay the groundwork to expand the Group's other businesses on the markets where it operates as a contractor for the construction of infrastructure facilities.

The Company plans to actively develop this unit based on the Group's unique skills in designing and building railway transportation facilities, establishing complex infrastructure and transportation management systems, organising traffic and managing railway economics and finances.

Development Strategy of the Russian Railways Group

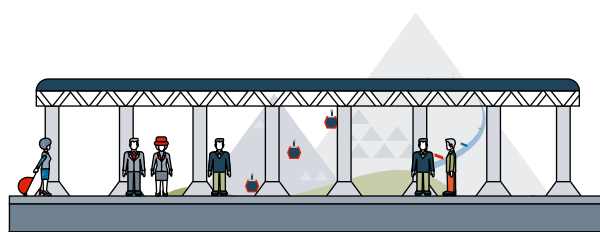


Railway Transportation and Infrastructure

The strategic priorities for the development of infrastructure are dictated by its status as a natural monopoly and include reducing infrastructure costs, broadening opportunities to create new transportation (freight and passenger) and logistics products (speed, reliability of infrastructure services, increasing carrying capacity), modernising the network and building profitable additional mainlines for growing transportation volumes.

One of the specific features of developing the business unit is to retain its public services and government regulation as a natural monopoly as well as equal accessibility for consumers.

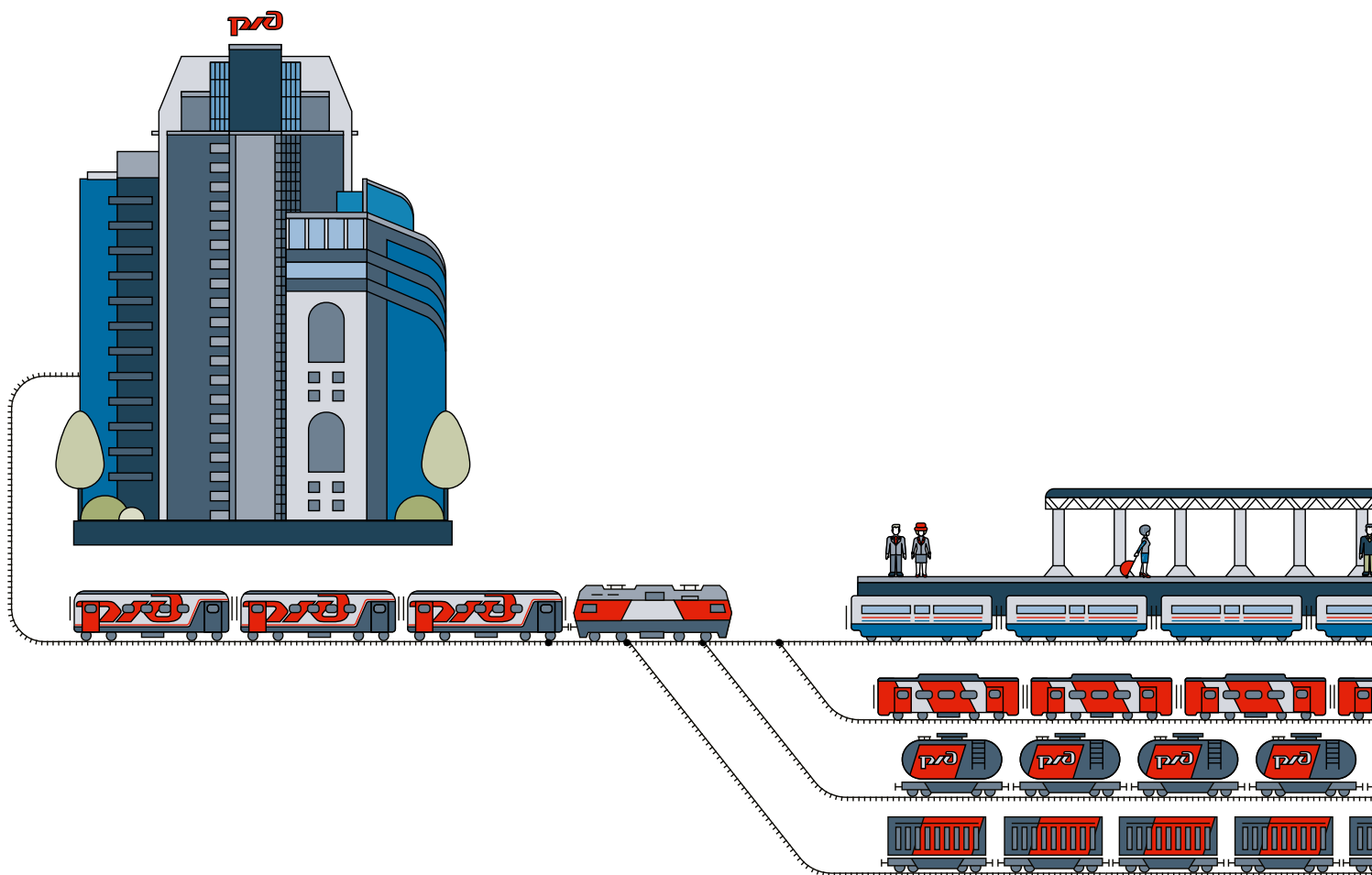
The Infrastructure Unit not only includes infrastructure, but traffic management systems and as well as traction operation and repair systems.



Social Unit

The Russian Railways Group's Development Strategy is based on an understanding of the importance of the Group's team as a key asset that is capable of ensuring long-term development goals and the perception of the Group's social sphere as a significant competitive advantage.

To this end, the Company develops the Social Unit based on an objective assessment of the added value created from social support to employees and the effective use of the unit's assets to provide market services. The Group's social and public policy pursued outside of the workforce is an integral component of this unit.



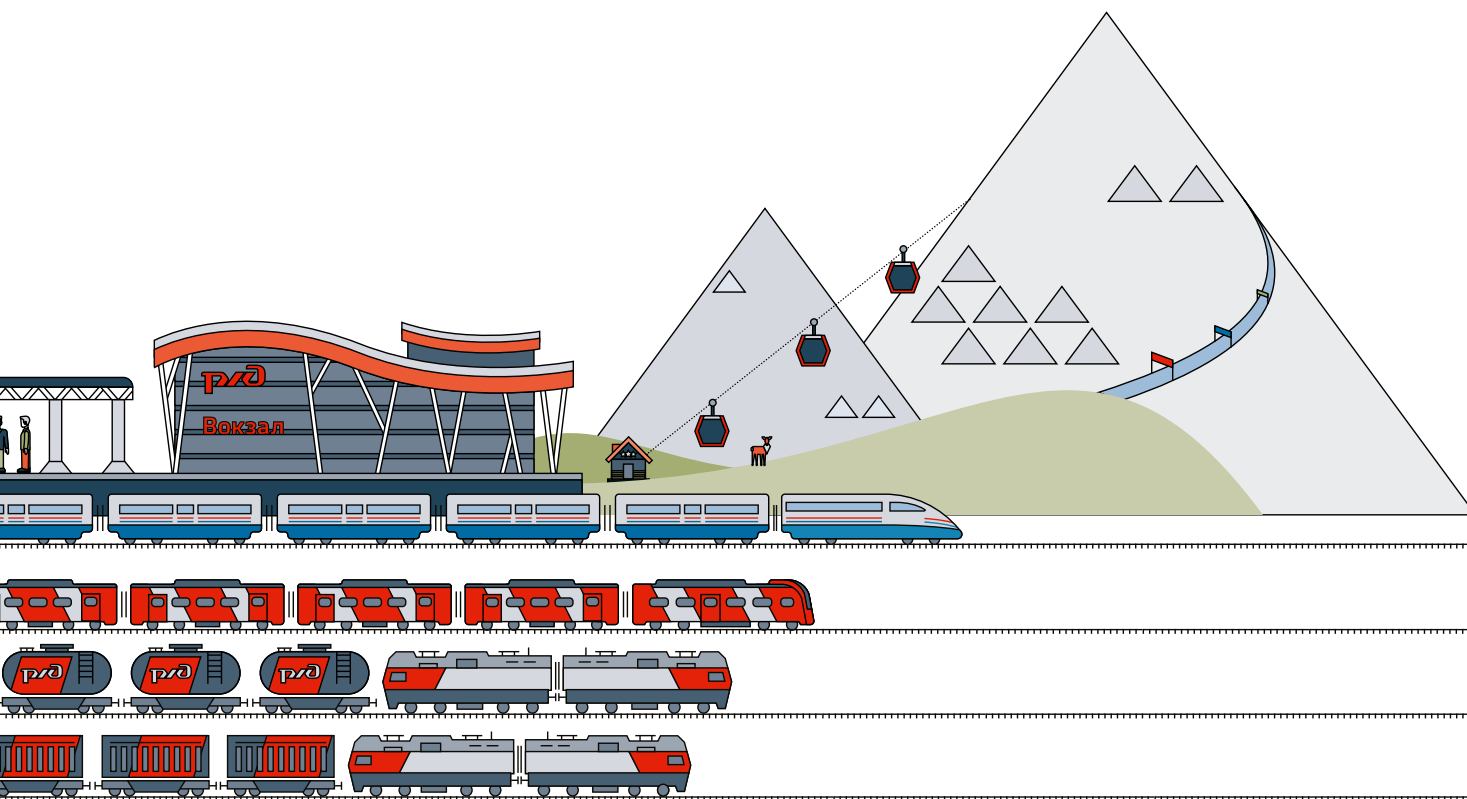
Russian Railways Group's Long-term Development Programme until 2020

The Long-term Development Programme for the Russian Railways Group and its subsidiaries and affiliates until 2020 (hereinafter the LDP) was drafted as the first step towards implementing the Group's Development Strategy (tentatively approved by the Russian Railways Board of Directors in October 2014). In accordance with the Directives of the Russian Government to representatives of the interests of the Russian Federation for participation in meetings of the boards of directors (supervisory boards) of joint-stock companies included in a special list approved by the Russian Government. The goals and objectives of the LDP have been fully synchronised with the Russian Railways Group's Development Strategy.

In addition, the Russian Railways Board of Directors approved the LDP Audit Standard, which regulates the procedure for conducting such an audit, as well as the Terms of Reference for the LDP Audit for 2014. Due to the absence of a duly approved LDP, no audit of its implementation was performed in 2015.

The LDP is currently being revised as part of Interaction Plan between the Expert Council under the Russian Government and Russian Railways. In accordance with sub-clause b, clause 2 of List of Orders of the Russian President as well as the Orders and Directives of the Russian Government, the LDP was supplemented with the main parameters for workforce needs, including for engineering

and technical professions, as well as a set of measures for the planned and phased substitution of the purchase of foreign products (work, services) with the purchase of equivalent Russian products in terms of technical features and consumer properties that are used in investment projects and daily operations based on the principles of economic viability and technological feasibility. On the basis of this work and during the coordination of the LDP by the federal executive authorities, the LDP will be submitted to the Russian Railways Board of Directors for approval in the prescribed manner.



Implementation status of the Russian Railways Group's Development Strategy until 2030

In December 2013, the Russian Railways Board of Directors approved the Russian Railways Group's Development Strategy until 2030, which specifies the goals and objectives, key priorities and long-term development projects of the Russian Railways Group.

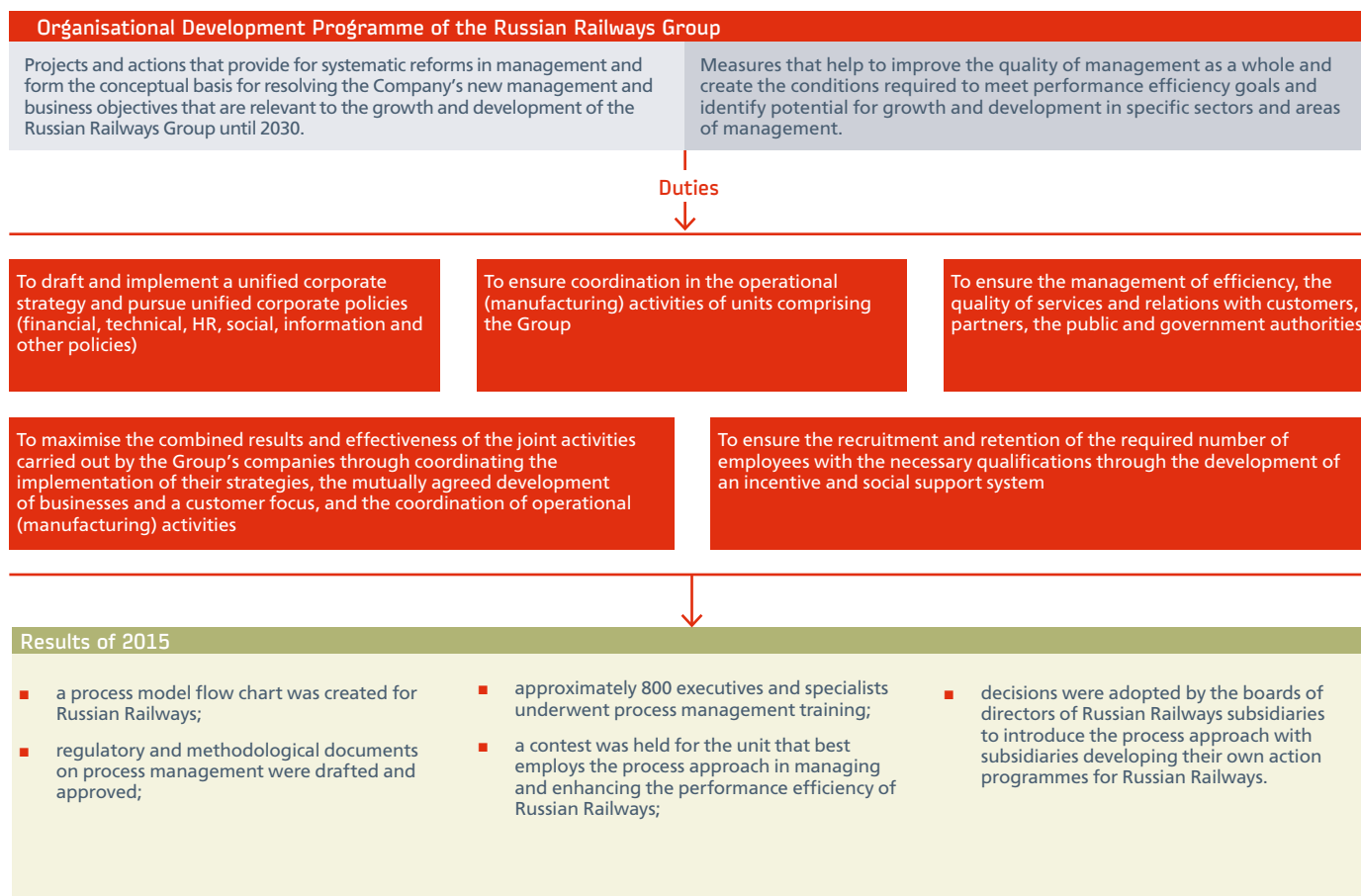
In order to implement the Development Strategy, the Group approved an Action Plan that consists of broad corporate and regional actions as well as business unit activities and was formed based on strategic initiatives and projects with detailed specific actions.

The Russian Railways Group's Development Strategy was implemented in accordance with this Action Plan in 2015. The main results of this work with a breakdown by business unit are presented in the 'Analysis of operating results by business unit' section.

Organisational model

Organisational development of the Russian Railways Group

The Russian Railways Group's Organisational Development Programme until 2015 was implemented to ensure the targeted development of all components of the management system.



The existing management system and organisational structure of the Russian Railways Group was established under the influence of the business model established by the Company, target markets as well as the composition and structure of its assets.

The Russian Railway Group's management system consists of processes to manage the business side, employees involved in such processes, the organisational structure and tools that ensure the adoption of effective decisions. It is designed to ensure the Group's long-term economic efficiency, financial stability and competitiveness through the optimal alignment of its economic goals and the capabilities (manufacturing, financial, intellectual and material) of both its internal

and external environment. In order to achieve this, the system must respond efficiently and promptly to any changes that occur, resolve contradictions, conflicts and crisis situations, dynamically develop the Group's internal environment and also impact the external environment taking into account possible synergy.

In accordance with the business development goals set by the Group and the external environment, improvements to the management system in the period until 2020 will aim to introduce tools and establish processes that allow for continuously enhancing performance efficiency and the quality of services while also meeting customer demand, including through:

- forming and implementing mutually agreed plans and development programmes for Russian Railways and its S&A;
- coordinating the operating activities of the Group's business units;
- optimising production and management processes;
- implementing unified corporate policies (financial, technical, HR, social, information and other policies);
- recruiting and retaining the required number of employees with the necessary qualifications.

Contribution of the procedural approach to improving the Group's performance efficiency

In 2016, Russian Railways set the objective of describing processes to an extent that allows for optimising end-to-end processes to improve customer satisfaction.

Clear description: who does what, how are results assessed and who is responsible for them

Ensure transparency: easily monitor and conduct an audit

Understanding: which work can safely be sacrificed without damaging the final result

Eliminate **redundant activities** and non-production losses

Identification and widespread replication of the most effective work samples

Improve labour productivity

Organising work to stably maintain the required level of service quality and generated profit

Increased **customer satisfaction** while maintaining profitability

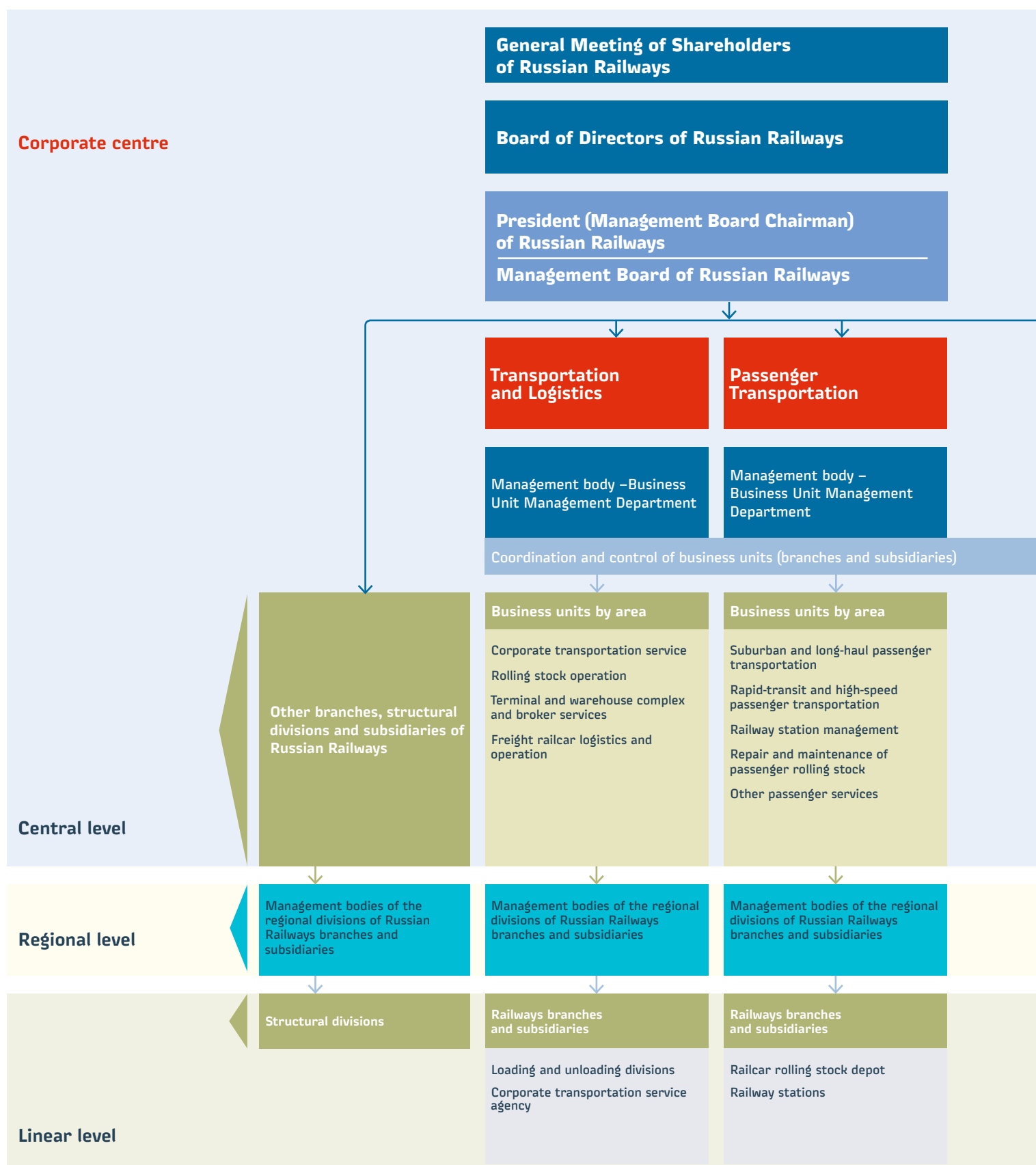
Proper alignment of components of the traffic safety control system in the transportation process

Ensure the **safety and reliability** of the transportation process

Organisational, technical and technological measures are being developed to improve performance efficiency, optimise costs and increase income as part of an Action Programme to improve the performance efficiency of Russian Railways in 2013-2015.

Work to improve the Company's performance efficiency is organised on project-based principles. Organisational methods to improve performance efficiency have been established and are being further developed.

Diagram of organisational model



Advisory and coordinating bodies

Committees	Workers
Commissions	Headquarters groups
Boards	

Railway Transportation and Infrastructure

Management body – Business Unit Management Department

Business units by area

Routine maintenance and infrastructure repair
Railway transportation management
Management of traction rolling stock and locomotive crews

International Engineering and Transportation Construction

Management body functions performed by the Corporate Centre divisions

Business units by area

Design, construction and operation of railway infrastructure facilities abroad
Management of international infrastructure projects

Social

Management body functions performed by the Corporate Centre divisions

Business units by area

Training and development
Social infrastructure
Healthcare services

Departments, offices, structural divisions

Strategic development
Customer focus
Traffic safety
Technological coordination
Risk management
Technical policy
Corporate governance
Innovations and investments
Finances and economics
HR management and social development
Management system development
Intra-corporate control and audit
Information technologies
External relations
Traffic safety and state secrecy
Other

Management bodies of the regional divisions of Russian Railways branches and subsidiaries

Structural divisions of the regional divisions of Russian Railways branches and subsidiaries

Railway station work organisation centres (RSWOC)
Operating locomotive depots (OLD)
Track divisions (TD)

Signalling, centralisation and blocking divisions (SCBD)
Railway stations (RS)
Power supply divisions (PSD)
Track machine stations (TMS)



Railways (regional corporate governance centres) – branches of Russian Railways performing functions delegated by the corporate centre at the regional level

Description of the organisational model

The Group's Corporate Centre and business divisions grouped into business units are the core components of the organisational model.

The Corporate Centre is the body of Russian Railways divisions that specialises in managing the Group as a set of business divisions. The Corporate Centre primarily performs the functions of strategic goal-setting as well as monitoring and coordinating the activities of business divisions.

A business division is a part of the Company that handles specific types of business activities and has the property complex, specialised manufacturing and management technologies, personnel and management structure required to perform such activities.

A business unit is a structural entity that includes several business divisions and is responsible for the Company's top priority businesses.

The Corporate Centre includes:

- at the central management level: the Russian Railways Management Board, advisory bodies and administrative staff consisting of departments (including Business Unit Management Departments), offices and structural divisions of Russian Railways;

- at the regional management level: railways – branches of Russian Railways that perform the functions of Regional Corporate Governance Centres (RCGC).

Business divisions are grouped into business units to optimise the work of the Corporate Centre. The inclusion of a business division in a business unit ensures it focuses on fulfilling the strategic objectives of the business unit and enables the Corporate Centre to perform monitoring and coordination functions more effectively.

Corporate Centre

The Corporate Centre is where strategic decisions are made and general policies and standards are formed in the target structure.

The Corporate Centre's main area of responsibility is to determine the Group's long-term development objectives, distribute the Group's resources based on such objectives and also coordinate the interaction of business units and business divisions amongst each other and with external parties.

The Corporate Centre does not directly manage business activities.

Railways – branches of Russian Railways that perform the functions of Regional Corporate Governance Centres (RCGC)

The Russian Railways Group's business covers the entire territory of the Russian Federation and is a significant factor in the country's socioeconomic development. Given the geographic scale of the business complex, the Group's management functions are fully performed at the regional level by railways – branches of Russian Railways. Railways are authorised representative offices of the Russian Railways administrative staff in the regions. They are centres of corporate control and organisational support at the local level.

Business unit management bodies

Business unit management bodies coordinate the activities of business divisions during the planning, operational and investment activity stages at the central, regional and linear management levels.

Business unit management bodies are centres responsible for achieving a business unit's targeted benchmarks.

Business divisions

Business divisions handle operating activities within the Russian Railways Group. Each business division is organisationally or legally a separate component of the Russian Railways Group and a centre of responsibility for the results and effectiveness of the type of activities it performs as well as achieving a business division's targeted benchmarks.

Business divisions perform activities in strict compliance with corporate policies, norms, standards and regulations on business

processes and are responsible for resolving problems and achieving the indicators prescribed by the Corporate Centre and business unit management bodies.

The goals, objectives and strategy KPIs of business divisions are determined by breaking down the goals, objectives and targeted benchmarks of the Group's Development Strategy.

Business divisions are granted broad powers in adopting operational decisions

and determining ways to achieve strategic goals as well as financial and non-financial indicators.

Business divisions are granted the right to independently identify methods to achieve their strategic development provided that these goals are consistent with the Group's Development Strategy, the business unit's development programme and general corporate policies.

Transportation and Logistics Business Unit

Function:

- organising work with consignors;
- establishing and developing a transport service system;
- developing operator and logistics activities.

Operating within the business unit are subsidiaries, affiliates and branches of Russian Railways, which include the major freight operators:

- Federal Passenger Company;
- UTLC;
- GEFCO.

A strategic priority is for the Russian Railways Group to establish a diversified product basket with a transition from providing mostly transportation services to providing freight owners with complex integrated door-to-door services with a subsequent expansion in the spectrum from 2PL to 3PL and 4PL services and the formation of global logistics chains.

Passenger Transportation Business Unit

Functions:

- providing transportation services for passengers, baggage and cargo luggage;
- passenger service and passenger rolling stock maintenance.

Transportation activities within the business unit are performed by:

- suburban transportation – 25 suburban passenger companies (Suburban Passenger Company) and Russian Railways (via High-Speed Transportation Directorate – branch of Russian Railways);
- the main long-haul carrier is Russian Railways subsidiary Federal Passenger Company.

A strategic priority is to expand the range of advanced transportation services offered to customers by accelerating and increasing multimodal transportation and improving the quality of traditional services in trains and areas related to transportation.

One of the key objectives is to expand the operating domain of rapid-transit and high-speed transportation between the country's largest metropolitan areas on the basis of modern efficient solutions.

Railway Transportation and Infrastructure Business Unit

Function:

- maintaining infrastructure and the public railway transportation locomotive fleet.

Activities within the business unit are performed by the following structural divisions of Russian Railways:

- Central Infrastructure Directorate;
- Traction Directorate;
- Central Traffic Control Directorate.

The Railway Transportation and Infrastructure Business Unit is the largest unit within the Russian Railways Group in terms of asset size (75%), investment and essential personnel (70%). The business unit's activities ensure the Russian Railways Group's services comply with the market and economic requirements for the quality and accessibility of transportation, orders for technological innovations and the creation of conditions for the development of the Group's other business units. Approximately 74% of the Group's income depends on this business unit's activities.

International Engineering and Transportation Construction Business Unit

Function:

- Providing services for the design, construction and supply of equipment required to maintain and operate infrastructure facilities.

Activities within the business unit are performed by structural divisions and S&A of Russian Railways, including:

- RZD International LLC;
- RasonKonTrans JV.

Social Unit

Function:

- overseeing the social responsibility policy with respect to employees, society and the government.

Activities within the business unit are performed by the following structural divisions and S&A of Russian Railways:

- Social Development Department;
- Personnel Management Department;
- Labour Organisation, Remuneration and Motivation Department;
- Russian Railways Health;
- Railway Trading Company.

Information about the Company's KPI system

The Russian Railways Board of Directors on 30 June 2014 approved the Regulation on the Key Performance Indicators of Russian Railways (hereinafter the Regulation on KPI) in accordance with the Directives of the Russian Government to representatives of the interests of the Russian Federation for participation in meetings of the boards of directors (supervisory boards) of joint-stock companies included in a special list approved by Orders of the Russian Government dated 23 January 2003.

The Regulation on KPI includes two groups of indicators: financial (amount of dividends, EBITDA, EBITDA margin and revenue (collected)) and industry-related indicators (traffic safety level and work performed). The KPI stipulated in the Regulation serve as the basis for motivating members of the Russian Railways Management Board (approved by

the Russian Railways Board of Directors on 30 June 2015).

In 2015, Russian Railways approved the method for calculating the Russian Railways Group's return on invested capital (RIOCI) for unregulated types of activities (in accordance with the guidelines for applying key performance indicators by state

corporations, state companies, state unitary enterprises as well as business companies in which the Russian Federation has a more than 50% stake in charter capital drafted jointly by the Russian Ministry of Economic Development and the Russian State Property Committee and approved by the Russian Government on 27 March 2014).

RISK MANAGEMENT

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	Insurance	61

The Russian Railways Group's corporate risk management system functions in accordance with the main areas specified by the functional strategy. In December 2015, the Russian Railways Board of Directors approved a separate Regulation on the Risk Management System of Russian Railways.





Risk management system

Goals of the risk management system:

- To ensure the continuous and stable production operations of Russian Railways by limiting the degree of exposure to negative external and internal factors.
- To provide a reasonable level of assurance in achieving the targeted benchmarks envisaged by the regulatory documents of Russian Railways given the impact of external and internal factors.

Primary objectives of the risk management system

1

Identifying potential risk areas and assessing the feasibility of preventing or minimising risks

5

Preventing risks based on their systematic forecasting and assessment

2

Balanced distribution and consolidation of regulatory powers and responsibility among participants in the Russian Railways risk management system

6

Creating management tools and mechanisms to ensure effective risk management

3

Developing and assessing the set of measures to prevent risk situations and minimise damage if they occur

7

Determining the cost impact of all significant risks on the financial and economic indicators of Russian Railways and building a response system during the Russian Railways Group's financial planning stage

4

Identifying the resources required to eliminate and minimise risks as well as their optimal distribution in accordance with the established regulations

Functional principles of the risk management system

Complexity

Risk management based on a common methodology and unified principles taking into account the systematic interconnection of risks, the nature of their mutual influence and possible consequences.

Integration

Risk management coordinated by risk owners and handled by employees in the process of implementing their job duties.

Continuity

Conducting regular monitoring and updates of information used in the Russian Railways risk management system.

Coverage of all types of activities

Introduction of risk management procedures in all functional areas of the Company's activities, including as part of the procedural approach to management.

Balance

An objective balance of criteria when adopting decisions on risk response methods: choosing between possible losses and opportunities as well as between risk management costs and possible damages revealed as part of risk management.

Development of the risk management system

One of the ways the Russian Railways Group develops its risk management system is by introducing the provisions of the Code of Corporate Governance, which was approved by the Board of Directors of the Central Bank of the Russian Federation on 21 March 2014.

The Regulation on the Risk Management System drafted in accordance with the guidelines approved by Order of the Russian Government was approved by the Russian Railways Board of Directors In December 2015.

The document identifies:

- the goals and objectives of the risk management system;
- the functional principles of the risk management system;
- the participants involved in the risk management process and their functions;
- interaction within the framework of the risk management system;

- preferred risk;
- stages of the risk management process;
- the method for assessing the effectiveness of the risk management system.

According to the Regulation, the Company will set up a project office to develop the risk management system in 2016.

Risk map of the Russian Railways Group

External	
Category	Risk
Macroeconomic 	• reduction in the volume of freight provided for transportation; • risk of unplanned fluctuations in transportation volumes exceeding the carrying capacity of certain railway sections; • deterioration in the structure of industrial and agricultural production; • growth in prices for goods and services consumed by the Russian Railways Group as a result of inflation; • decrease in the Company's income from passenger transportation due to a decline in the public's ability to pay; • decline in investment and business activity.
Market 	• decrease in the Russian Railways Group's share of highly profitable segments of the transportation market; • growth in intra-industry and cross-industry competition; • advanced development of alternative types of transportation, including through the accelerated introduction of innovations; • establishment and full-scale operation of international corridors to bypass Russia; • risk of the quality and range of services not complying with new customer requirements; • lack of production capacity among product suppliers for the Russian Railways Group.
Financial 	• credit risks; • currency risks; • interest risks; • price risks as regards raw commodity and energy assets; • risk of liquidity loss; • downgrading of Russian Railways positions by international ratings agencies; • financial implications from property and liability risks.
Human resource risks 	• increased imbalances in the structure of the workforce represented on the market; • deterioration in the positions of Russian Railways on the labour market; • deterioration in the quality of the workforce; • reduction in the working population in remote regions due to the urbanisation of society; • risk of the diminished attractiveness of professions in the railway transportation industry.

External

Category

Risk

Regulatory risks



- continued strict government tariff regulation;
- stricter environmental requirements;
- stricter legislation (transportation, tax, etc.);
- failure to fulfil the action plan to give the constituent entities of the Russian Federation greater responsibility to compensate for falling income by suburban passenger companies.

Political



- impact of international sanctions against the country's economy and activities of Russian Railways;
- deterioration in intergovernmental relations;
- local military operations.

Manmade, natural and climatic



- accidents at facilities that support the work of the Russian Railways Group;
- manmade accidents on related types of transportation (primarily in seaport waters and on major highways);
- fires or natural disasters in areas where the Russian Railways Group operates.

Scientific, technical and technological



- use of new energy resources and energy-saving modes on alternative types of transportation;
- improving the carrying capacity of vehicles and vessels.

Internal

Category

Risk

Production and technological



- lag in infrastructure development compared with the increase in freight and passenger transportation;
- disruptions in the organisation of freight delivery logistics schemes;
- disruptions to the plan for making up trains and the train traffic schedule;
- violations of traffic safety;
- diminished efficiency from the use of rolling stock;
- discrepancies in existing technological processes for organising transportation with the quality requirements for transportation products.

Technical and resource

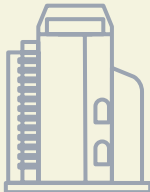


- continued high level of fixed asset deterioration;
- breach of the deadlines and conditions for supplies of material resources;
- risk of using substandard and incomplete information about consumers of the Russian Railways Group's services.

Investment



- incorrect substantiation and erroneous selection of new investment targets;
- diminished return on investment and failure to ensure planned profitability from invested funds;
- lack of clear guarantees for transportation volume from freight owners when implementing infrastructure investment projects;
- risk of the failure to meet the parameters of the projects implemented (exceeding the budget, failure to meet deadlines or failure to achieve the project objective).

Internal	
Category	Risk
Risks of structural reforms 	• threat of a disruption to the technological processes of the Russian Railways Group and significant financial losses as a result; • threat of the loss of financial sustainability and the risk of bankruptcy of S&A; • decrease in the profitability of the Russian Railways Group due to the uncompensated spin-off of highly profitable S&A; • decline in asset value and capitalisation of the Russian Railways Group in the event of the ineffective work of S&A.
HR 	• lack of compliance of the professional level of personnel with the requirements of the Russian Railways Group; • risk of a further increase in the number of employees approaching retirement age; • outflow of highly skilled personnel due to insufficient motivation and the decreased competitiveness of salaries for employees of the Russian Railways Group compared with other industries; • violations of labour safety through the fault of personnel; • risk of ineffective recruiting, placement and management of personnel; • violations of labour discipline; • deterioration in the corporate culture of employees.
Management 	• reduced manageability of Russian Railways Group structures; • adoption of unsubstantiated management decisions; • failure to execute decisions by the required deadlines; • failure to achieve target economic and production performance results of the Russian Railways Group.

Risk map for business units of the Russian Railways Group

Main risks of the Transportation and Logistics Business Unit

Risk matrix

Risk probability	High		④		①
	Significant			③	②
	Average		⑤	⑥ ⑦	
	Insignificant				
Risk implications		Insignificant	Average	Significant	High

An analysis of the activities of the Transportation and Logistics Business Unit produced a risk matrix of the following risks that have the greatest impact on the Group's income base.

Main risks and their implications for Russian Railways

Main risks	Risk implication
1. Decreased transportation volumes.	■ Loss of income from railway freight transportation.
2. Increased competition on the freight railcar handling market.	■ Dumping prices from competitors. ■ Decreased rates of return.
3. Changes to the freight turnover structure, increase in the proportion of low-margin freight and a decrease in export shipments.	■ Loss of income from railway freight transportation.
4. Changes to the exchange rate of the national and foreign currencies.	■ Increased expenses due to exchange rate differences.
5. Changes to the refinancing rate.	■ Increased cost of debt capital. ■ Curtailed investment programmes.
6. Government restrictions on the flexible tariff policy.	■ Decreased income from basic services.
7. Continued imbalance in legislative pressure on railway and road transportation.	■ Decrease in the amount of freight for short- and medium-distance transportation (handling level). ■ Loss of income from transporting freight over short and medium distances.

In order to mitigate the most probable and significant risks, the following key working areas were identified along with measures to optimise them:

- Measures to reduce the negative impact from the decrease in freight transportation volumes on the performance results of operator companies (Freight One and TransContainer):

- attracting customers to railway transportation from other types of transportation (road, pipeline, sea);
- increasing the volume of transit freight;

- flexible tariff regulation (a tariff corridor);
- fully utilising the fleet of the Russian Railways Group's operating companies in transportation for the needs of the Russian Railways Group.

- In order to potentially improve competition on the freight railcar handling market, the following measures are being implemented:

- the use of a customer-focused approach in providing services;
- a higher level of service must be offered to attract consignors and

provide services using the Group's rolling stock;

- revised approaches to the pricing of railcar provision services for freight transportation with respect to Russian Railways.

- In order to possibly alter the freight turnover structure, the following measures are being implemented:

- consignors with high-margin freight must be attracted by offering additional services, utilising the capabilities of the Group's logistics companies and the Centre for Corporate Transportation Service.

Main risks of the Passenger Transportation Business Unit

Risk matrix

Risk probability	High		④ ⑤		① ②
	Significant				
	Average				③
	Insignificant				
Risk implications		Insignificant	Average	Significant	High

Main risks and their implications for Russian Railways

Main risks	Risk implications
1. Infrastructural constraints.	■ Reduced transportation availability for the public.
2. Possible decrease in transportation volumes due to tariff growth and/or a decrease in disposable incomes.	■ Lower revenues for carriers.
3. Lack of the required volume of subsidies, including with respect to the investment component.	■ Reduced traffic in the subsidised segment and sequestering of the fleet renewal programme.
4. Intensified inter-industry competition, including due to the government's stimulation of other types of transportation.	■ Loss of railway transportation's market share.
5. Higher-than-anticipated growth in supplier prices.	■ Increased price burden on the passenger.

The Russian Railways Group's main corrective measures to minimise the most significant and probable risks include:

- Infrastructural constraints:
 - further development of infrastructure as regards the implementation of the 'Daily Express' programme and the development of the Moscow Transport Hub.
- A possible decrease in transportation volumes due to tariff growth and/or a decrease in disposable incomes:
 - implementation of a range of marketing campaigns and loyalty programmes, expansion in the scope of the yield management system and possible changes taking into account the elasticity of demand for price and comfort;
- development of multimodal transportation.
- Lack of the required volume of subsidies:
 - performing targeted work with the constituent entities of the Russian Federation to subsidise suburban transportation at the level of the Government Transportation Commission.

Main risks of the Railway Transportation and Infrastructure Business Unit

Risk matrix

Risk probability	High			1 2	
	Significant				3
	Medium				
	Insignificant				
Risk implication		Insignificant	Medium	Significant	High

Main risks and their implications for Russian Railways

Main risks	Risk implications
1. Increase in the length of railway infrastructure sections of Russian Railways carrying tonnage in excess of industry standards given limited financial resources (25,200 km as of 31 December 2015).	■ Reduced safety levels. ■ Breach of contractual deadlines for freight delivery (the proportion of consignments delivered by the required (contractual) time; delivery speed of loaded freight).
2. Deterioration of electrification and power supply fixed assets.	■ Reduced safety levels. ■ Increase in the number of failures of electrification and power supply equipment. ■ Growth in unit costs for equipment maintenance and service.
3. Shortage in the locomotive fleet compared with the requested transportation volume.	■ Traffic safety violations due to the operation of locomotives with abnormally worn-out nodes and components. ■ Increase in the number of hardware failures due to locomotives exceeding their viable operation time. ■ Increased claims concerning fines for violating the freight delivery deadlines due to shortages in the fleet.

The Russian Railways Group's main corrective measures to minimise the most significant and probable risks include:

- Increase in the length of railway infrastructure sections of Russian Railways carrying tonnage in excess of industry standards:
 - revision of the regulatory framework for rules concerning the repair of fixed infrastructure assets, including changes to repair diagrams;
 - increase in the volume of repair work, including through the seamless replacement of rails supported by mid-life repairs;
 - decrease in the procurement price for material and technical resources and services performed by third-party organisations;
 - introduction of resource-saving technologies.
- Deterioration of electrification and power supply fixed assets:
 - differentiated approach to repair work on railway line power supply equipment depending on their class and specialisation;
 - drafting of (new) rules on the maintenance of the contact network, power supply lines, suction lines, shunting lines and electricity transmission lines;
 - revision of the maintenance rules for traction substations, transformer substations and linear devices of the traction electric power supply system.
- Shortage in the locomotive fleet compared with the requested transportation volume:
 - revision of the regulatory framework for rules concerning the repair of traction rolling stock;
 - decreased demand for locomotives due to the improved quality of rolling stock utilisation;
 - reduced downtime for locomotives under repair;
 - increased repair volumes;
 - introduction of efficient technologies that aim to improve the reliability and failure-free performance of traction rolling stock.

Main risks of the International Engineering and Transportation Construction Business Unit

When implementing major infrastructure development projects abroad, the Russian Railways Group may encounter economic and political risks related to the possible instability of a political regime or the economic situation in the countries where it implements foreign projects.

The Group also takes into account the probability of technological risks and human factor risks caused by the possible lack of technologies or skills to work in highly competitive segments of the foreign transportation construction market.

These types of risks were recorded in the Russian Railways Group's Development Strategy until 2030.

Main risks and their implications for Russian Railways

Main risks	Risk implications
1. Risks of an economic and political nature in countries where foreign projects are implemented.	■ Unfavourable changes in the political or economic situation of a country where a project is being implemented which may result in the foreign customer being unable to meet its payment obligations on time or the violation of other contractual terms.
2. Possible technological risks (lack of production capacity) and human factor risks (lack of skills).	■ Increased competition from foreign engineering companies working in the Russian Railways Group's targeted regions for international railway projects.
3. Risks of competition from foreign companies that are willing to independently finance projects.	

Risk management within the business unit takes place based on requirements that ensure the Company is among the global leaders in terms of infrastructure construction, the formation of a long-term order portfolio as well as a high standard of project implementation.

The business unit's risk management system is based on the following elements:

- A detailed analysis of the political, economic, social and technological components of promising projects during the pre-project implementation phase (PEST analysis);
- Hiring internationally recognised legal and financial consultants to prepare design documentation during the pre-project implementation phase;
- Use of project management methodology during the pre-project implementation phase.

Several focus areas are being considered as key mechanisms for minimising risk:

- Risks of an economic and political nature in countries where foreign projects are implemented:
 - Cooperation with insurance agencies, which in addition to insurance provides additional advantages when applying for a loan in the form of a possible interest rate reduction for a contract that provides insurance for the necessary risks;
 - optimising work with customers via advance payments under a contract;
 - implementing projects as part of export loans provided by the Russian Federation.

- Possible technological risks (lack of production capacity) and human factor risks (lack of skills):
 - Implementing advanced training programmes for employees and programmes to exchange experience with global leaders in the industry as well as studying and analysing international experience in implementing major construction projects.
- Risks of competition from foreign companies that are willing to independently finance projects:
 - establishing strategic alliances and forming consortiums with design and construction industry companies for the joint implementation of major projects.

Financial risk management

The Company's Financial Risk Management Policy is the framework document of the financial risk management system.

The Company's financial risk management system

Risk management principles	Management tools, including hedging
Management process ■ identification, ■ analysis and assessment, ■ adoption of decision (selection of risk management strategy), ■ actual risk management, including using hedging tools if necessary, ■ monitoring of results, ■ assessment of effectiveness of financial risk management measures (self-diagnostics).	

The centre for decision-making with respect to financial risk management is the Company's Financial Risk Management Commission – a collective body comprised of representatives from several Departments chaired by the senior vice president for economics and finance. The Commission held 6 meetings in 2015.

The Company focuses on managing the following key financial risks:

Credit risks

In order to manage credit risks, Russian Railways has approved methods for calculating credit limits and regulatory documents that govern work with bank guarantees and sureties, including the unified corporate standard of the Russian Railways Group for work with collateral instruments. Based on the credit limit calculation methods, the Company conducts an assessment of financial institutions and calculates the relevant credit limits to regulate transactions with banks involving

deposits and the receipt of bank guarantees depending on the assessment of the condition of the corresponding financial institution.

When interacting with companies in the real sector, Russian Railways employs a system of management standards that includes standard settlement terms with counterparties, interim measures, treasury control, rate setting of receivables and payables, commitment bank guarantees

for the proper performance of obligations (including over warranty periods for supply contracts), repayment of advances and sureties of parent companies in order to ensure that Russian Railways is protected against risks of counterparties failing to execute (improperly executing or late execution of) their obligations. Financial institutions that issue bank guarantees and sureties are selected taking into account credit history and the existing credit limits.

Liquidity

The Company performs operational management of liquidity based on the balance of payments, payment schedule and payment positions within the limits of the approved budgets. Depending on current liquidity, the Company promptly attracts or deposits funds under the best market conditions. Operational management of liquidity is performed based on the systems of Reuters and Bloomberg.

Currency, interest and price risks

In order to assess these risks, the Company utilises modelling and an assessment of budget parameters taking into account potential volatility in the relevant market indicators.

The assessment of the currency risks faced by Russian Railways and the selection of a currency risk management tool is based on an analysis of the Company's foreign currency exposure. In order to estimate

foreign currency exposure, the Company's transactions are analysed and categorised in terms of investment, operating and financial activities. The amount and structure of the estimated foreign currency exposure impacts the Company's borrowing policy and determines the hedging approaches. The Company regularly reviews its foreign currency exposure and makes the relevant adjustments to manage foreign currency risks and the foreign currency borrowing portfolio.

The Company minimises its currency risks by reducing its foreign currency exposure, including by utilising derivative financial instruments.

In addition, given the Company's foreign currency-denominated assets and liabilities, Russian Railways has used hedge accounting since 16 July 2015 for liabilities denominated in foreign currency. An example of a hedged item is revenue from transit operations denominated in Swiss francs as well as investments in GEFCO denominated in euros.

Hedging tools include loans in Swiss francs and U.S. dollars (with conversion into Swiss francs) and partial loans in euros, i.e. the corresponding amount of net investments in GEFCO. Hedge accounting reflects the effect of the currency risk management policy and reduces the volatility of the Group's financial results given the changes in foreign exchange rates. In particular, the exchange rate differences on loans involved in hedging are recognised as equity and then re-classified under the profit and loss statement based on the receipt of foreign currency earnings and/or the sale of a foreign currency-denominated asset.

The interest risk is assessed based on an analysis of the volatility of floating interest rates and the corresponding effect on the borrowing portfolio of Russian Railways.

As regards price risk, the Company seeks to establish settlement and indexation terms in contracts with counterparties that mitigate this risk as much as possible.

Insurance

The Company has insurance for its real estate, rolling stock (locomotives, electric, rapid-transit and high-speed trains) and employees, liability insurance as a railway infrastructure owner and carrier as well as liability insurance for the directors and officers of the Company in addition to 77 subsidiaries and affiliates.

A number of open competitions were held in 2015 and the following types of contracts were concluded:

- mandatory civil liability insurance of the carrier for harm to the life, health or property of railway passengers;
- mandatory civil liability insurance for the owner of a hazardous facility for damages as a result of an accident at the hazardous facility;
- liability insurance for the Company's directors and officers;
- personal insurance;

- mandatory civil liability insurance for an owner of transportation vehicles;
- transport vehicle (automobile) insurance.

A total of 513 insurance claims were settled in the reporting year. Total insurance compensation received in 2015 amounted to more than RUB 614 mln.

In order to ensure a unified approach to organising insurance protection for subsidiaries, the Unified Corporate Framework of Insurance Protection for Subsidiaries and Affiliates of Russian Railways has been in effect since 2010. It establishes the general principles for organising the insurance protection of Russian Railways S&A, the procedure for the interaction of S&A with insurance market participants and the procedure for planning insurance protection as well as concluding and servicing insurance contracts in accordance with the legislation of the Russian Federation and the Group's regulatory acts.

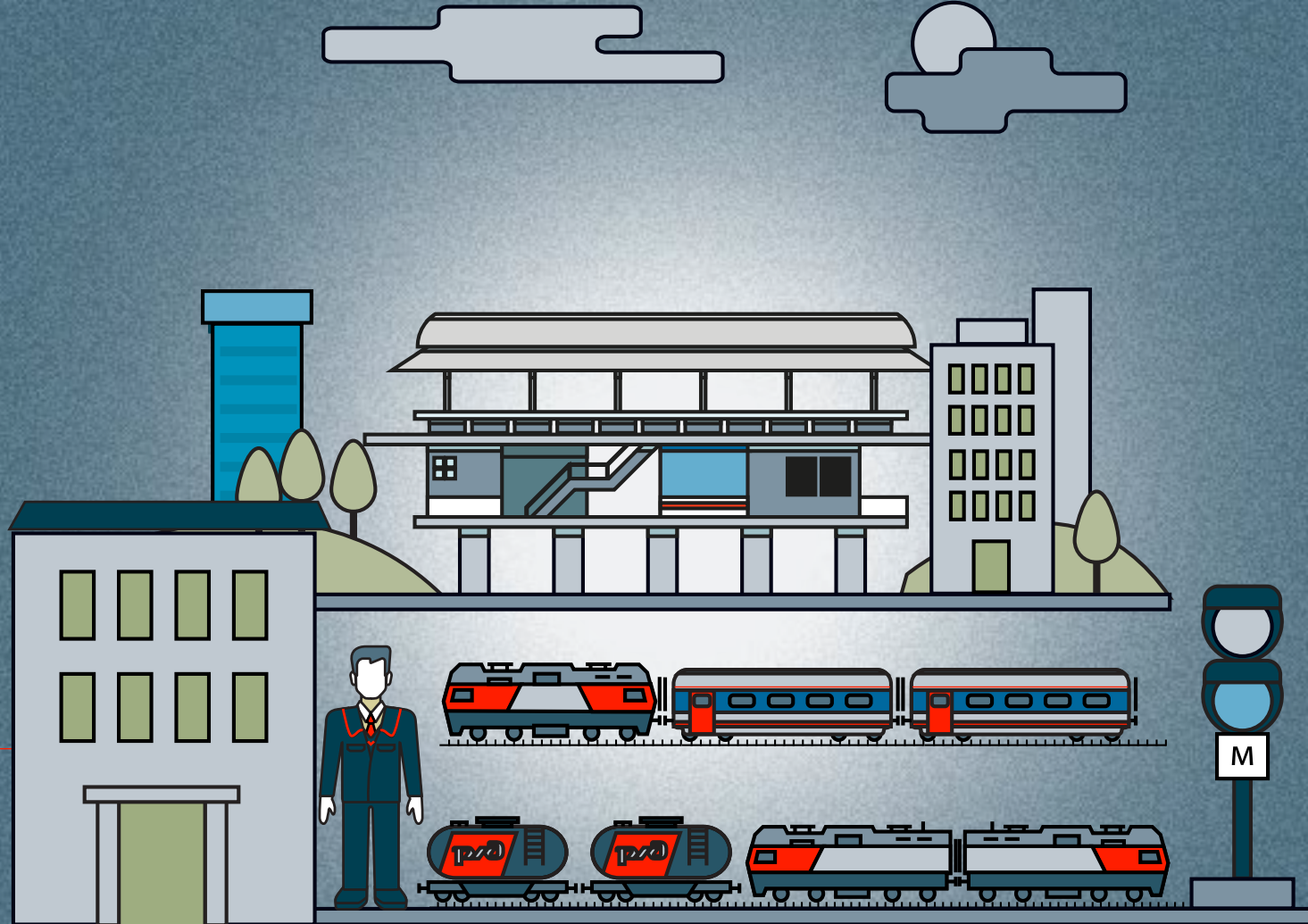
As part of work conducted regularly to improve the parameters of the insurance protection of Russian Railways property and to ensure the highest level of insurance coverage, the most expensive and high-risk facilities have been identified from among the overall number of the Company's insurable properties for which a separate limit has been set for a single insurance event in the amount of RUB 22.5 bln. The combined value of these facilities is more than RUB 390 bln. The Company performs work each year to provide special facultative reinsurance at leading foreign reinsurance companies. In particular, the reinsurance of risks for these facilities is provided by such major reinsurance companies as Swiss Re, Munich Re, Allianz and Zurich Insurance Company, among others.

TRAFFIC SAFETY

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The main document reflecting the Company's long-term goals, objectives and obligations in traffic safety is the Russian Railways Group's Traffic Safety Policy, which was approved in December 2014. One of the mechanisms used in the Traffic Safety Policy is the Strategy for the Guaranteed Safety and Reliability of the Transportation Process at the Russian Railways Group, which is based on effective traffic safety management systems that rely on risk on management tools and the principles of a special safety culture.





The basic principle underlying the Strategy is to ensure the stable operation of the transportation process with the given safety and reliability parameters.

The primary aim of the Strategy is to achieve the target traffic safety indicators for all production complexes (enterprises) and, consequently, for the Russian Railways Group as a whole.

Traffic Safety Policy of Russian Railways

The strategy identifies the objectives set by the Russian Railways Holding taking into account the goals for the guaranteed safety and reliability of the transportation process, specifically:

- improving the reliability and functional safety of the hardware that comprises infrastructure facilities and rolling stock;
- reducing the probability of traffic accidents;
- preventing injuries;
- reducing damage to the property of process owners in railway transportation and other losses;
- preventing adverse environmental effects.

The Company is implementing a set of measures to achieve the following goals:

- to maintain leading positions around the globe in terms of the safety of infrastructure services and the safety and reliability of all processes;
- to ensure a traffic safety level that is consistent with international and national requirements.

26 %

improvement in the value of the target traffic safety indicator

Traffic safety results of 2015

The target traffic safety indicator for the Russian Railways Group had a value of 1.17 events per 1 mln train km in 2015 versus the planned level 1.58 events (a decrease of 26%).

The number of traffic safety violations committed on Russian Railways infrastructure increased by 70.2% (from 4,693 to 7,704). However, third party organisations operating on Russian Railways infrastructure were responsible for most of the violations (68%), including Russian railcar repair and construction enterprises (3,243 violations); CIS and Baltic nation enterprises (1,060); railway equipment and system maintenance enterprises (391) and vehicle drivers (272).

The number of traffic safety violations within the Central Infrastructure Directorate grew due to an increase in such violations by railcar enterprises by 38.5%, track and structure enterprises by 33%, electrification and power supply enterprises by 42.9% and mechanisation enterprises by 50%.

Spending on the Russian Railways Group's Traffic Safety Programme totalled RUB 2.1 bln in 2015.

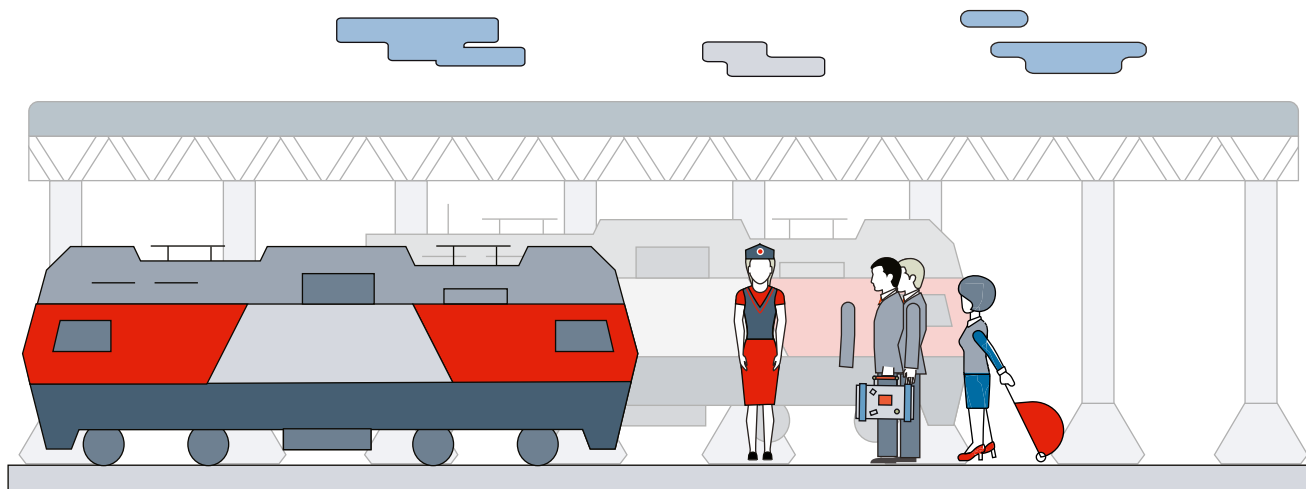
The internal efficiency of traffic safety investments was improved as part of the programme through the priority implementation of measures having the most significant key indicators.

An action programme to bring Russian Railways infrastructure into compliance

with technical operating rules (TOR) was fulfilled at a rate of 128% in 2015: despite the plan to eliminate discrepancies with TOR requirements at 26,386 facilities, work was actually performed at 33,784 facilities. Total spending on these measures amounted to RUB 141.8 bln, or less than the planned expenditures of RUB 146.2 bln.

128 %

fulfilment of an action programme to bring Russian Railways infrastructure into compliance with the rules of technical operation



Transportation Security project

In order to mitigate the risk of unauthorised interference in the operations of railway transportation, Russian Railways continued the implementation of the Transportation Security project in 2015 as part of the Russian Railways Investment Programme.

A range of measures was carried out in 2015 to protect railway transportation facilities against acts of unauthorised interference. Most of the measures aimed to enhance the protection of essential public railway transportation facilities, above all high-speed (rapid-transit) railway sections and railway stations.

A total of 6,582 infrastructure facilities of Russian Railways were put under protection in 2015, a 0.4% increase from 2014, including 1,642 essential public railway transportation facilities and 482 railway stations. The Company set up 400 specialised groups from railway transportation departmental security

with more than 7,480 people to perform measures aimed at preventing unlawful acts on railways.

The following measures were conducted in the reporting year using the RUB 558.8 mln earmarked by Russian Railways:

- installation of transportation security equipment on the Moskovskoye Morye-Zavidovo (km 526-532) and Zavidovo-Podsolnechnaya (km 532-585) high-speed sections of the St Petersburg-Moscow mainline;
- work was continued to install transportation security equipment on the St Petersburg-Roshchino (km 0-58) rapid-transit section of the St Petersburg-Helsinki mainline;
- technical security systems were installed or modernised at 14 facilities (railway stations, bridges, repair and

maintenance locomotive depots and communications centres).

In addition, equipment used to screen passengers, carry-on bags and luggage was installed at 16 railway stations as part of the spending of RUB 322.2 mln in federal budget subsidies granted to Russian Railways.

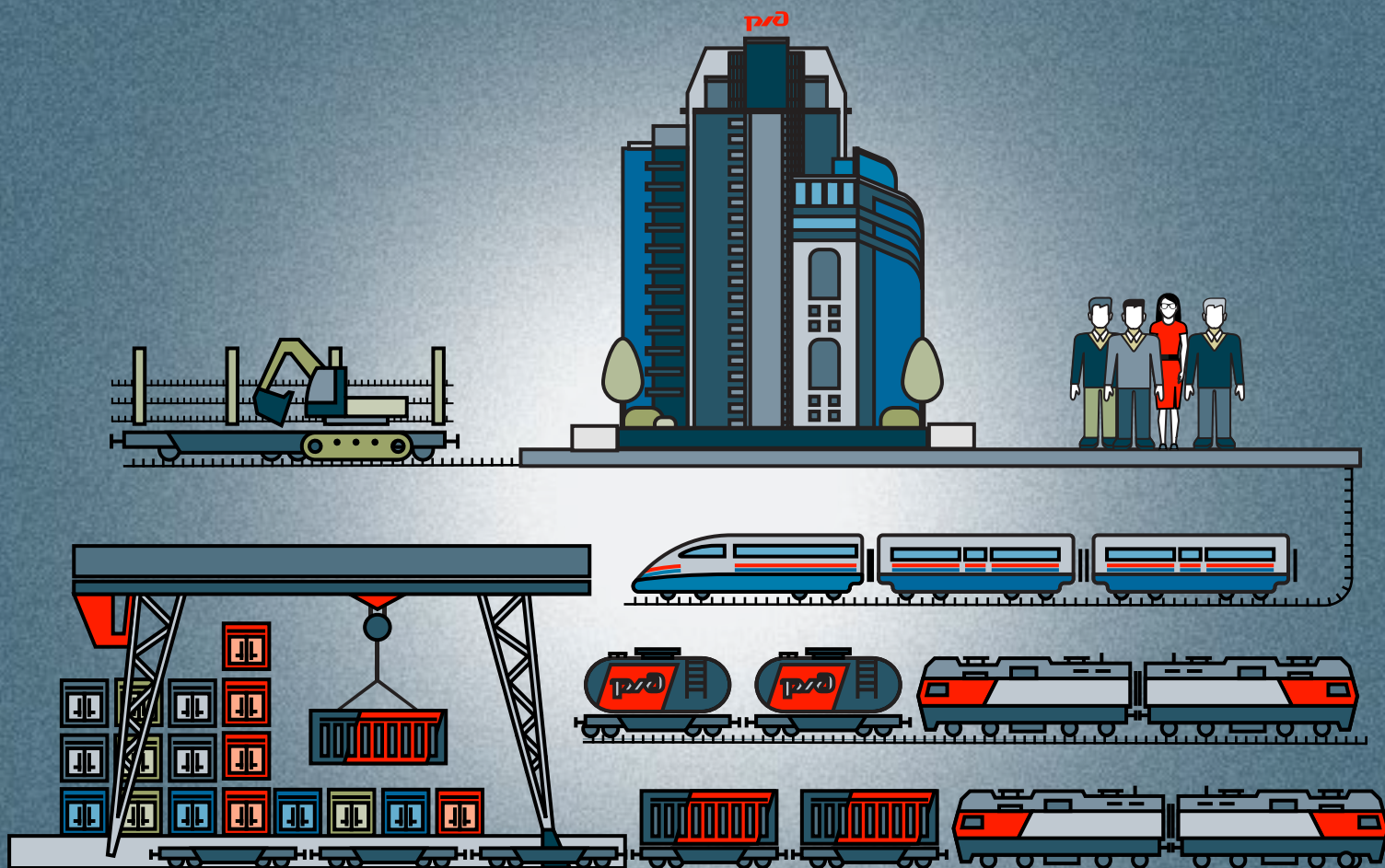
As part of investment projects and measures to create technical security systems, the number of facilities equipped with such security equipment has increased to 1,627, or 1.3% more than the same indicator for 2014.

16 stations

equipped with devices to screen passengers, carry-on bags and luggage

ANALYSIS OF OPERATING RESULTS BY BUSINESS UNIT

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Key performance indicators

2,954.9 bln tkm

Total freight turnover

1,020.4 mln passengers

Transported

89.5 bln pass. km

Long-haul passenger turnover

30.9 bln pass. km

Suburban traffic turnover



Transportation and Logistics

As a result of the measures undertaken by the business unit to increase the freight base and income, loaded freight turnover grew 0.3% to 2,304.8 bln tkm in 2015.



Key achievements of the business unit in 2015

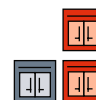
1

Despite the crisis, loaded freight turnover totalled 2,304.8 bln tkm, up 0.3% from the 2014 level, thanks to measures implemented by the business unit to increase the freight base and income.



3

The proportion of shipments delivered by the required (contractual) date increased 5.8 p.p. to 92.9%



2

A total of 23,076 trains took part in the 'Scheduled Freight Shipments with an Agreed Departure and Arrival Time' project (growth of 59%)



4

The route speed of container trains grew 1.1% to 892 km/day, and 6.1% to 1,139 km/day as part of the 'Trans-Siberian Mainline in 7 Days' project



5

The share of the Russian Railways Group's profit from the implementation of integrated transportation and logistics services



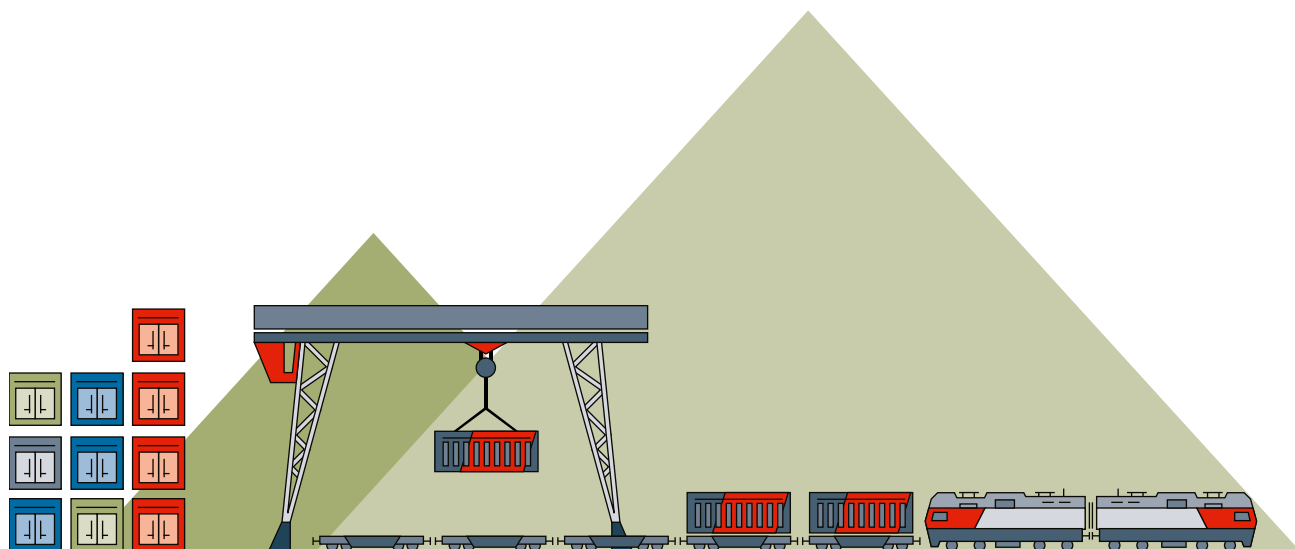


Business Unit

Freight transportation using Russian Railways infrastructure

Key indicators for freight transportation using Russian Railways infrastructure

Indicator	Measure- ment unit	2011	2012	2013	2014	2015	
						value	%
Handling	mln t	1,241.5	1,271.9	1,236.8	1,226.9	1,214.5	−1.0 %
average per day	'000 t	3,401.5	3,475.0	3,388.5	3,361.5	3,327.3	−1.0 %
Overall freight turnover, including:	bln tkm	2,704.8	2,782.6	2,813.1	2,954.5	2,954.9	0.01 %
loaded freight turnover	bln tkm	2,127.8	2,222.4	2,196.2	2,298.6	2,304.8	0.3 %
empty freight turnover	bln tkm	576.9	560.2	616.9	655.9	650.1	−0.9 %
Proportion of shipments delivered by the required (contractual) date	%	81.6	72.5	77.5	87.1	92.9	5.8 p.p.



Activities of the business unit

The Transportation and Logistics Business Unit was established to consolidate the Group's competencies in organising the transportation process and in logistics activities, including organising freight traffic, the range of freight handling services and customer relations.

The business unit performs the following types of activities:

- the provision of rolling stock operation services;
- the provision of work and services at terminal and warehouse facilities, including handling work, freight storage and warehouse processing, and preparing railcars for shipment;
- the development of terminal and logistics centres;
- the provision of integrated transportation and logistics services (3PL/4PL segment).
- the organisation of railway-ferry transportation;
- the development and implementation of measures to attract freight from other types of transportation to railway, including through the use of a tariff corridor and the introduction of new services.

Handling

Given the challenging macroeconomic environment and decrease in the railway transportation freight base, the volume of freight handling on the railway network edged down 1% in 2015 compared with 2014.

The main reason for this was a reduction in the handling of construction materials and oil freight. For the year, freight handling totalled 1,214.5 mln tonnes (3,327,300 tonnes on average per day).

At the same time, freight handling for exports increased 4.3% compared to the previous year and totalled 420 mln tonnes, while the handling of domestic traffic declined 3.2% to 797.5 mln tonnes.

Decreased handling was seen both within Russia as well as for exports in 2015. However, the decrease in export handling was less significant at 0.2% (to 419.2 mln tonnes) versus 1.4% (to 786.4 mln tonnes) within Russia. As a consequence, the share of domestic traffic in the overall handling

structure fell from 65% to 64.8% in 2015, while the proportion of exports increased from 34.2% to 34.5%.

The overall handling structure is dominated by coal, oil, petroleum products and construction freight. In 2015, these products made up 67% of total handling volume.

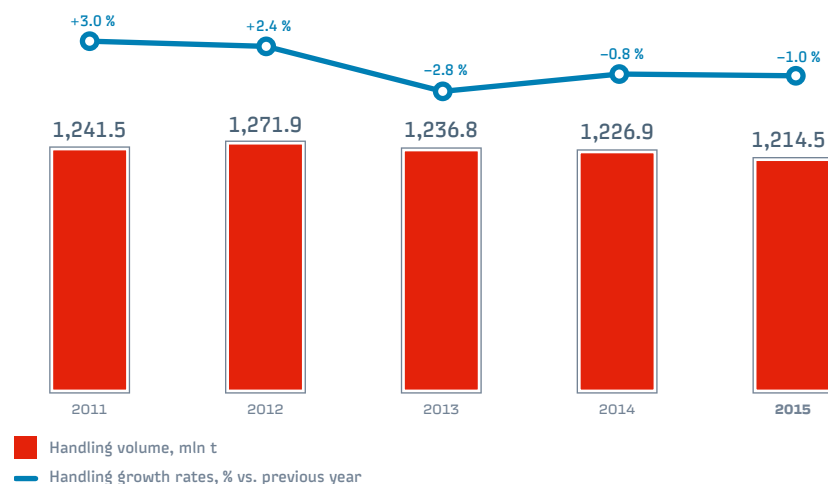
Handling was down for all freight classes in 2015. The biggest decrease among first-class tariff freight was seen in construction freight (-7.4%, or 10.4 mln tonnes); among

second-class tariff freight – petroleum products (-2.1%, or 5.3 mln tonnes); and among third-class tariff freight – scrap metal (-10.1%, or 1.7 mln tonnes). At the same time, an increase was seen compared with 2014 in the handling of coal (+2.5%, or 7.9 mln tonnes), non-ferrous ore (+6.0%,

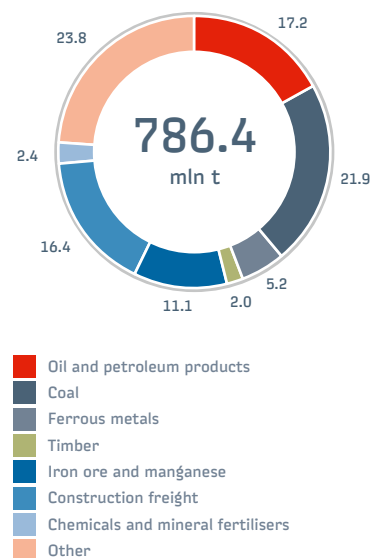
or 1.2 mln tonnes) and fertiliser (+4.4%, or 2.2 mln tonnes).

Low margin freight makes up the greatest share of freight handling at 59.2%. Average-margin and high-margin freight make up 30.4% and 10.4%, respectively.

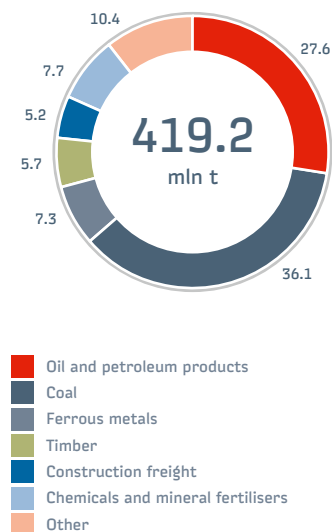
Handling volume



Structure of domestic freight handling in 2015, %



Structure of export freight handling in 2015, %



On the path to change



Anatoly Krasnoshechek
First Vice President of Russian Railways

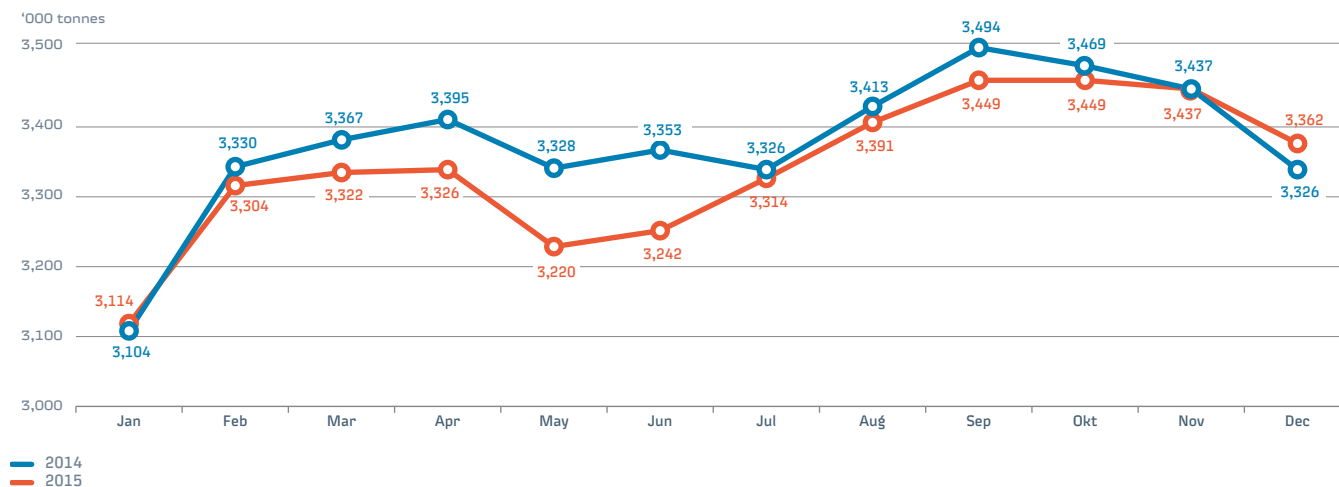
Russian Railways is working to improve the quality of services and increase freight transportation speed. In 2015, more than 9,000 expedited container trains were dispatched, which demonstrates the demand for such services. Freight delivery reliability increased 5.4%. More than 23,000 freight trains operated with agreed departure and arrival times, a 59% increase from 2014.

The efforts made by Russian Railways to improve transportation process technologies as well as plans to expand the practice of using tariff corridors are aimed at attracting additional freight volumes from alternative transportation modes to the railway.



Based on materials from the final meeting of the Russian Railways Management Board

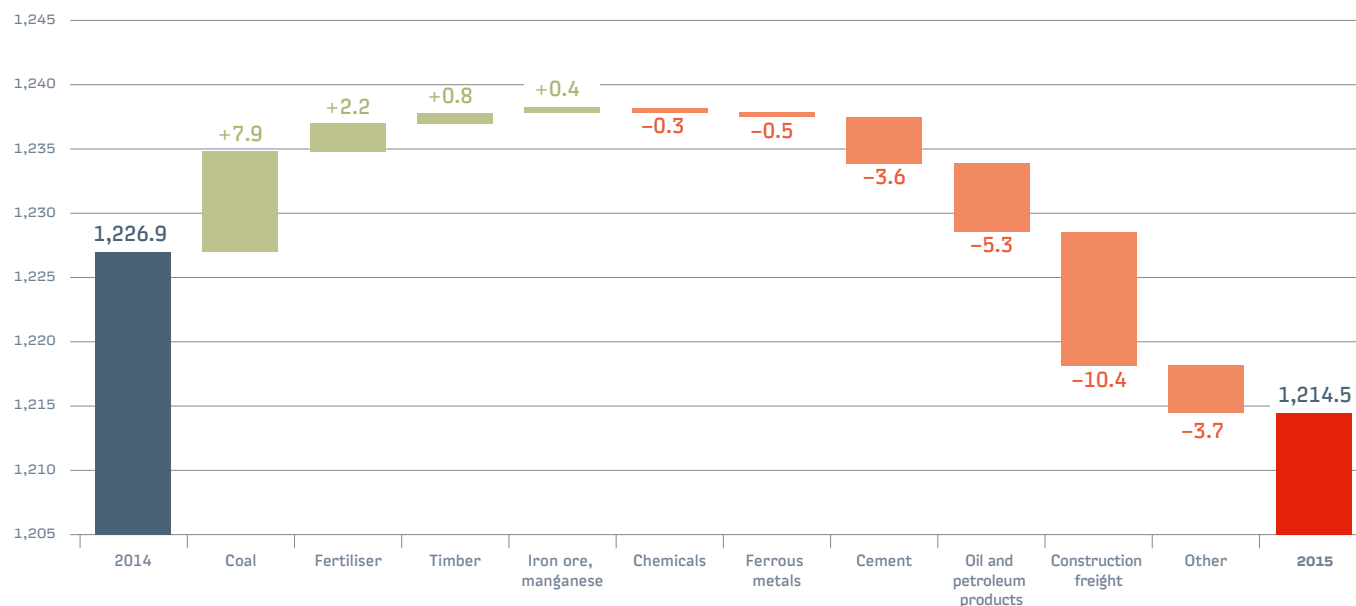
Average daily handling, '000 tonnes



Handling by traffic type

Indicator	2014		2015		Change in volume, %
	mln t	share, %	mln t	share, %	
Handling	1,226.9	100.0	1,214.5	100.0	-1.0
Domestic traffic	797.5	65.0	786.4	64.8	-1.4
Export, including	419.9	34.2	419.2	34.5	-0.2
via ports	250.3	20.4	260.0	21.4	3.9
via border crossings	169.6	13.8	159.2	13.1	-6.1
Import and transit	9.5	0.8	8.8	0.7	-7.5

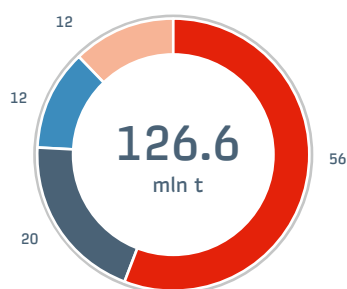
Change in freight handling volume in 2015, mln tonnes



Structure of freight handling in 2015, %

High-margin freight

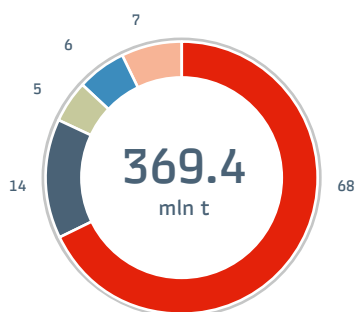
Handling – 126.6 mln t (–2.6%)
Share of overall handling – 10.4% (–0.2 p.p.)



■ Ferrous metals
■ Chemicals and soda
■ Ferrous scrap metal
■ Other

Average-margin freight

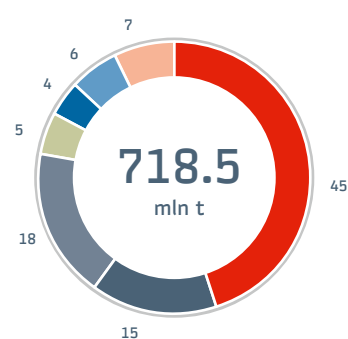
Handling – 369.4 mln t (–1.1%)
Share of overall handling – 30.4% (–0.0 p.p.)



■ Oil and petroleum products
■ Fertilisers
■ Grain
■ Containerised freight
■ Other

Low-margin freight

Handling – 718.5 mln t (–0.7%)
Share of overall handling – 59.2% (+0.2 p.p.)



■ Coal
■ Iron ore
■ Construction freight
■ Industrial raw commodities
■ Cement
■ Timber
■ Other

Freight turnover

Loaded railway freight turnover grew 0.3% to 2,304.8 bln tkm in 2015.

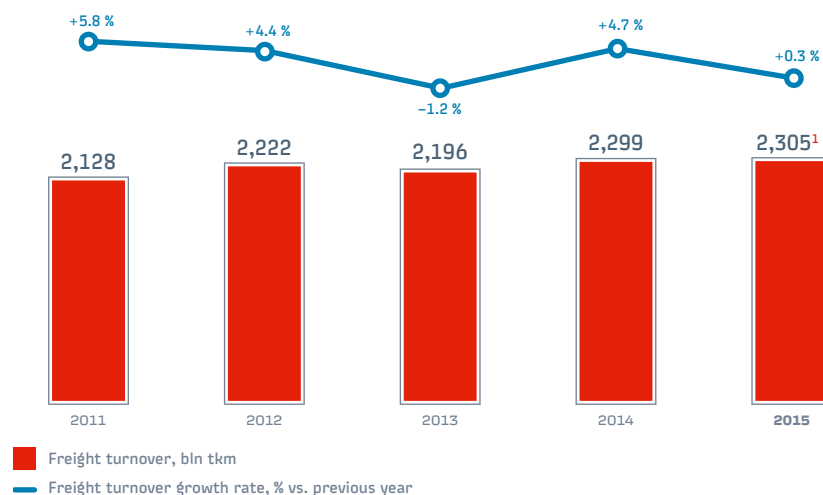
Total freight turnover (including empty runs by the railcars of other owners) on Russian Railways infrastructure remained virtually unchanged compared with 2014 and totalled 2,954.9 bln tkm, while empty freight turnover declined 0.9% (to 650.1 bln tkm).

The positive dynamics in freight turnover combined with decreased handling volumes are attributable to growth in the average distance of freight transportation. The reduction in the volume of short-distance domestic and imported freight transportation was compensated by exports via port railway stations (by 34.0 bln tkm, or 4.3%).

In 2015, the average transportation distance was 1,570 km, which is 3.1%, or 46 km, more than the 2014 indicator, including 1,734 km for loaded shipments (up 4%) and 1,177 km in freight on its own axes (up 0.6%).

Domestically, loaded freight turnover declined 0.3% to 1,000.3 bln tkm. A decrease was also seen in import freight turnover (-14.8% to 84.5 bln tkm) and transit freight turnover (-7.7% to 48.6 bln tkm). Meanwhile, loaded freight turnover for export increased 2.4% to 1,171.4 bln tkm.

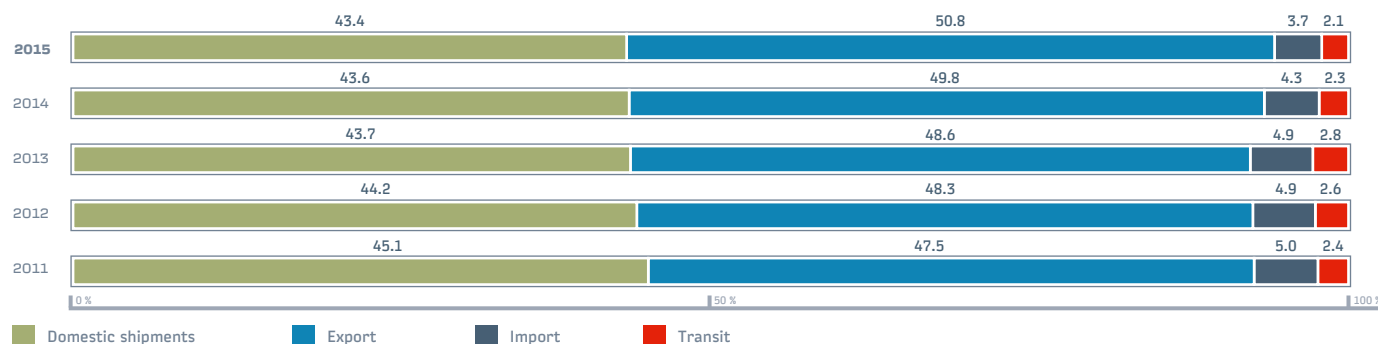
Loaded freight turnover



Average distance of freight shipments, km

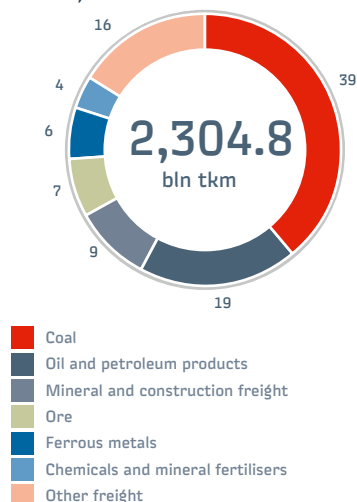
Indicator	2014	2015	Change, %
Loaded shipment	1,668	1,734	4.0
Empty shipment	1,170	1,177	0.6
Average total for network	1,524	1,570	3.1

Structure of loaded freight turnover, %



¹ rounded figures

Structure of loaded freight turnover in 2015, %



The changes led to a further reduction in the share of domestic shipments within the loaded freight turnover structure and growth in the share of exports.

Over the last five years, the share of export shipments in freight turnover increased 3.3 p.p. and reached 50.8% in 2015, while the share of domestic shipments declined to 43.4% by contrast.

Coal accounted for the lion's share of loaded freight turnover in 2015 (39.2%, up 0.6 p.p. versus 2014) followed by petroleum products (19.3%, or the same as last year) and mineral and construction freight (8.8%, down 0.8 p.p.).

50.8 %

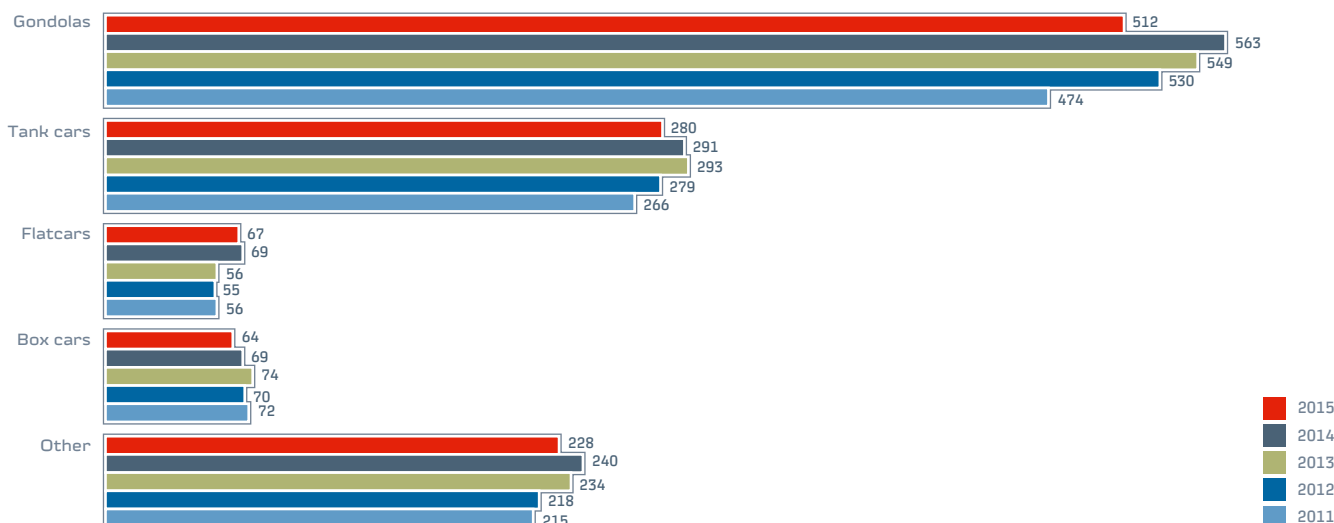
share of exports in freight turnover in 2015

Freight car market

The Russian freight car fleet was comprised of 1,150,988 railcars as of the end of 2015, including:

- 196,400 railcars, or 17%, belonging to the Russian Railways Group fleet;
- 954,700 railcars, or 83%, belonging to other owners.

Structure of Russian freight car fleet, 000 railcar



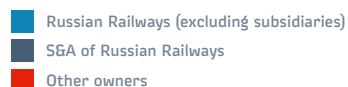
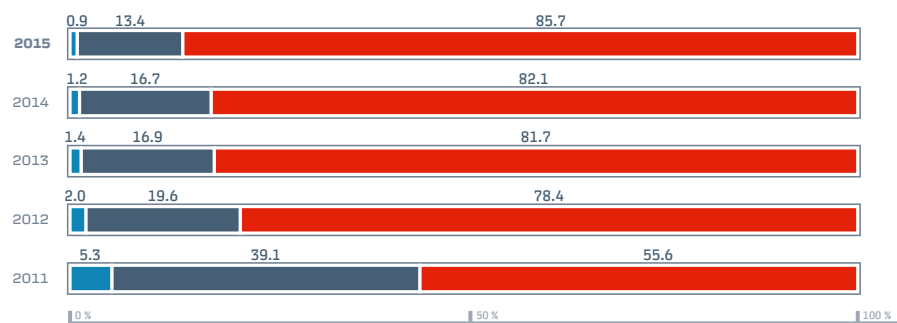
Overall, the Russian fleet increased by 81,500 railcars in 2015 (a 6.6% increase compared with 2014). The private rolling stock fleet of other owners expanded by 34,600 railcars (3.5%), while the Group's fleet decreased by 46,900 railcars (19.3%).

The effect of the excess operating railcar fleet on Russian Railways infrastructure in 2015 led to service speed losses of 0.30 km/h, a decrease in locomotive productivity by 30,800 tkm gross per day and a slowdown in turnover by 2.22 days.

Structure of the Group's railcar fleet

Railcar type	As of 31 December 2014		As of 31 December 2015		Change	
	'000 units	share, %	'000 units	share, %	'000 units	%
Gondolas	113.7	46.8	74.3	37.8	-39.4	-34.7
Tank cars	4.7	1.9	5.2	2.6	0.5	10.6
Flatcars	37.9	15.6	36.1	18.4	-1.8	-4.7
Box cars	25.2	10.4	20.6	10.5	-4.6	-18.3
Other	61.7	25.4	60.1	30.6	-1.6	-2.6
Total	243.2	100.0	196.4	100.0	-46.9	-19.3

Structure of Russian freight car market by freight turnover volume, %



Transportation and logistics services

One of the Russian Railways Group's strategic objectives is to transition from providing freight shipment services to establishing integrated door-to-door services, expanding the range of 2PL, 3PL and 4PL services and establishing global logistics chains.

Given the limited opportunities to increase the scale and profitability of business in transportation segments regulated by the government, the Group is performing active work to expand activities in de-regulated segments of the transportation and logistics market, strengthen the positions of Russian

Railways on Russian and foreign logistics markets and introduce modern 3PL/4PL logistics technologies on the network.

Performance results of Federal Freight Company

Federal Freight Company, one of the biggest players on the rolling stock market, performed its activities in 2015 in accordance with the goals and objectives specified in the Development Strategy of Federal Freight Company and the Long-term Development Programme of the Russian Railways Group, which aim to preserve leading positions on the market for operator services, renovate the railcar fleet, increase the share of rolling stock in the fleet and enhance technological leadership in the management of the railcar fleet.

Federal Freight Company increased its share in freight shipments 0.7 p.p. to 12.4% of the overall transportation volume on the railway network in 2015. Its share of the network freight turnover market totalled 14.2% of the overall network and 11.3% of the overall freight car fleet.

Federal Freight Company shipped 165.5 mln tonnes of freight in 2015 (up 2% from 2014), or 2.6 mln railcar shipments. The biggest growth was seen in the segment of shipments in gondola cars owned by Federal Freight Company: 151.1 mln tonnes were shipped in 2015 (5.5 mln tonnes more than in 2014).

However, the negative macroeconomic environment and market deterioration, specifically a lack of freight base combined with a significant surplus of rolling stock, and the resulting decline in the average market yield of shipments due to increased competition among operators, led to a decrease in the company's income and a negative financial result.

Key financial and economic performance indicators of Federal Freight Company

Indicator	Measurement unit	2014	2015
Revenue	RUB mln	49,791.9	46,484.7
Net profit/loss	RUB mln	-3,630.0	-8,548.6

For more on the performance results of Federal Freight Company, see the company's website:
<http://ru.railfgk.ru/>



Performance results of international logistics company GEFCO

The GEFCO Group is a global player on the transportation and logistics services market and operates on five continents.

The GEFCO network includes 42 representative offices and 70 partners, including in key regions for the international business development of Russian Railways such as Central and Eastern Europe, the CIS and China.

The Company specialises in supply chain management (3PL services) as well as integrated services for the management of all logistics processes at client companies (4PL services), which are virtually non-existent in Russia right now.

The Company's customer base includes more than 40,000 counterparties around the world, including transnational industrial corporations, many of which are represented on the Russian market (PSA Peugeot Citroën, General Motors, Renault, Ford, BMW, L'Oréal, Phillips and Electrolux).

GEFCO received the first transportation assignments from Russian Railways Supply at the pilot operating domain of October Railway in May 2015 and began shipping freight for certain types of materials and equipment and providing engineering services as part of a project to optimise the Russian Railways supply system.

The company is also working on the GEFCO Terminal, a project involving interaction between GEFCO and the Central Directorate for Terminal and Warehouse Complex Management (CDTWCM). This work includes: attracting freight traffic to GEFCO for processing and storage at the freight yards of the CDTWCM as well as the provision by GEFCO of integrated logistics services to CDTWCM clients who currently only receive 2PL services from the CDTWCM.

GEFCO generated revenue of EUR 4.173 bln in 2015, an increase of 3% compared with 2014.

For more on the performance results of GEFCO, see the company's website: <http://ru.gefco.net/>



Performance results of United Transportation and Logistics Company

As part of efforts to develop its transit potential, the Russian Railways Group continued work to establish United Transportation and Logistics Company (UTLC) in 2015.

Russian Railways has fully met its obligations for contributions to the charter capital of UTLC. The operational model of the UTLC Group has been approved.

In addition, the Company carried out active work to expand the potential customer base and develop transit shipments. The initial results of this work led to significant growth in transit shipments via the China-Europe-China route despite the overall negative market dynamics.

Almost 43,000 TEU were transported via the China-Europe-China route in 2015, a 170% increase from 2014. Transit time took 14 days.

For more on the performance results of UTLC, see the company's website: <http://www.utlc.com>



Measures that aim to improve the quality of transportation service for consignors

The main criterion for assessing the degree of customer focus by Russian Railways is customer satisfaction, not only in terms of quality, but in terms of the accessibility of the services it offers in all activities.

A system that aims to measure customer loyalty based on the Net Promoter Score

(NPS) concept was introduced at the Northern Railway operating domain as a pilot project to monitor the level of customer satisfaction. The system enables a customer to assess the quality of service and Russian Railways to monitor changes in customer opinion concerning the quality of service so it can respond promptly.

After this system was launched, the customer satisfaction level within the Northern Railway operating domain spiked from 14.7% in 2012 to 51.3% in 2015.

Results of systematic work to improve scheduled train traffic technology

Russian Railways conducts systematic work to improve scheduled train traffic technology, including for the purpose of enhancing the quality of transportation service for customers. Delivery time remains a uniform criterion for quality.

Customers have recently shown growing demand for freight transportation services with an agreed departure and arrival time, which makes it possible to optimise the delivery of raw materials and product sales. A total of 23,076 freight trains operated using the agreed departure and arrival time service in 2015, a 59% increase from 2014. Income from the provision of such services

totalled RUB 1,502.4 mln. The Company currently has 120 contracts for this service, including 71 contracts signed in 2015. The main clients are: SUEK, Kuzbassrazrezugol Coal Company, Mechel, Sibur Holding and Kuzbass Fuel Company.

Russian Railways concluded 43 contracts with customers in 2015 utilising the Freight Express service (sale of a railcar space in a train running with an agreed departure and arrival schedule). Sales income from this service totalled RUB 16.6 mln, including 5.5 mln for trains comprised of refrigerator cars (44 trains dispatched) and RUB 11 mln for all other trains (228 trains dispatched).

A total of 168 expedited refrigerator trains were dispatched in 2015. The number of trains dispatched increased by 9% to 8,436 units. Income from this type of transportation totalled more than RUB 26 mln.

Overall, the freight train schedule via the railways network was met at a rate of 60.5% in 2015, which is 12.9 p.p. higher than the 2014 indicator.

Plans of business units to boost income

The plans of business units to increase income include the following measures:

- expanding the practice of tariff corridors;
- attracting additional freight to railways from alternative types of transportation;

- developing container and refrigerator shipments;
- organising freight shipments as part of freight trains according to a schedule with an agreed departure and arrival time;

- developing piggyback transportation;
- organising further interaction with Asia-Pacific transportation and logistics companies.



Passenger Transportation

Russian Railways worked to develop and improve passenger transportation as well as enhance the quality and expand the range of services offered in 2015 in order to stabilise its share of the railway passenger transportation market.

Key achievements of the business unit in 2015

1

Passenger turnover via rapid-transit trains grew 25% to 2.5 bln pass. km in 2015. Passenger turnover via long-haul rapid-transit trains on domestic routes increased 26% to 2,440.2 bln pass. km



3

Passenger turnover via Russian Railways infrastructure totalled 120.4 bln pass. km, including 89.5 bln pass. km for long-haul transportation and 30.9 bln pass. km for suburban traffic



2

A total of 1,020.4 mln passengers were transported, including 97.9 mln passengers on long-haul transportation and 923 mln passengers on suburban transportation



4

Strizh trains began running from Moscow to Nizhny Novgorod in June. Some 700,000 passengers were transported for the year

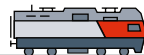




Business Unit

5

As part of the Daily Express programme, 39 train pairs operate on 21 routes on the railway network under the current schedule. A total of 8.2 mln passengers were transported under the programme, a 50% increase from the previous year



7

Active efforts to concentrate Sapsan high-speed trains on the Moscow-St Petersburg line helped railway transportation to maintain a 64% share of this route



6

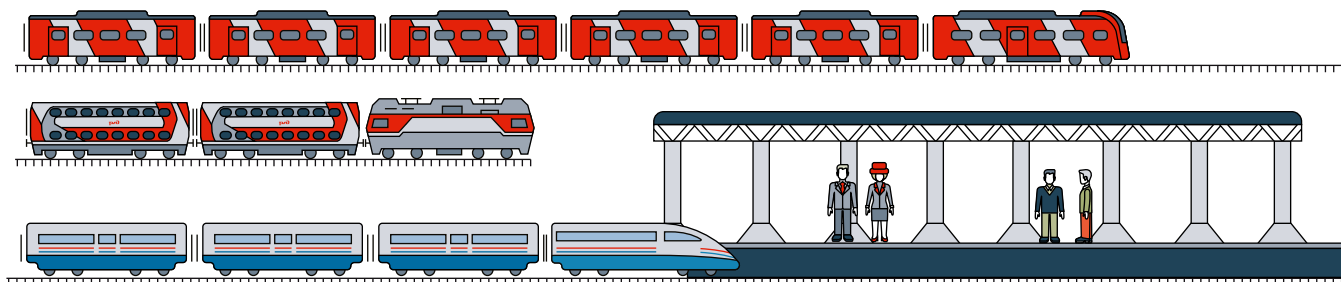
The geography of double-decker rolling stock was expanded to 4 new routes. For the year, double-decker trains carried approximately 1.5 mln passengers



8

Multimodal transportation organised on 8 routes





Activities of the business unit

The business unit's objectives include developing and offering the market fundamentally new products and services at attractive prices and ensuring railway transportation is competitive with its primary competitors – air and road transportation.

In long-haul transportation, the Company seeks to provide an affordable passenger transportation alternative for all regions of Russia and maintain its share of the transportation market by expanding the segment of short-haul transportation and public contracts.

The Company is implementing rapid-transit and high-speed projects to increase the public's mobility between metropolitan areas.

Performance of the passenger service system

Passenger turnover on public transportation totalled 465.3 bln pass. km in 2015, including 120.4 bln pass. km on railways, 118.0 bln pass. km on road transportation and 226.9 bln pass. km on air transportation.

The negative dynamics in passenger transportation on Russian Railways infrastructure seen in recent years continued

in 2015. Passenger transportation decreased 6.5% to 120.4 bln pass. km for the year.

The deterioration in the macroeconomic environment in Russia and reduced effective demand above all resulted in the decreased mobility of the most disadvantaged members of the population – potential passengers in the socially significant regulated transportation segment.

The biggest impact in the long-haul sector stemmed from increased competition combined with an aggressive tariff policy by airlines as well as a decrease in international passenger traffic, including with CIS and Baltic nations, in particular Ukraine due to changes in the geopolitical situation within the country.

Key indicators for passenger transportation using Russian Railways infrastructure

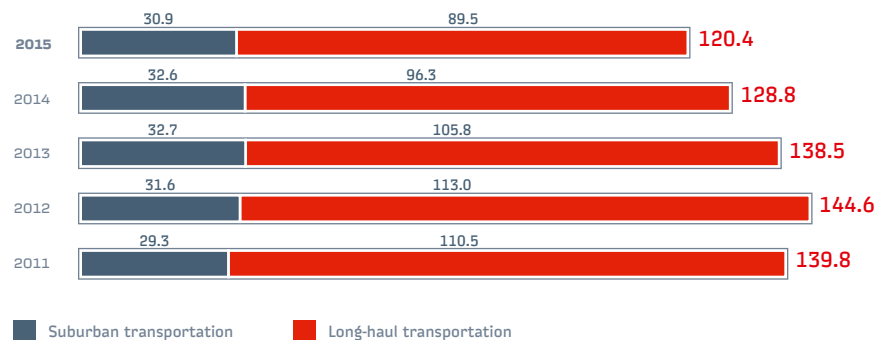
Indicator	2014	2015	Change	
			bln pass. km	%
Passenger turnover, bln pass. km	128.8	120.4	–8.4	–6.5
Suburban transportation	32.6	30.9	–1.7	–5.2
Long-haul transportation, including:	96.2	89.5	–6.7	–7.0
Rapid-transit transportation	2.0	2.5	+0.5	25.0
Passengers transported, mln	1,070.3	1,020.4	–50.0	–4.7
Suburban transportation	967.2	922.5	–44.7	–4.6
Long-haul transportation, including:	103.1	97.9	–5.2	–5.0
Rapid-transit transportation	3.9	4.8	+0.9	22.2

At the same time, despite this situation the number of passengers transported decreased only 4.7% (to 1,020.4 mln). This was possible thanks to a range of marketing tools to make transportation affordable (flexible tariff policy, a dynamic pricing system, marketing campaigns and a loyalty programme). In 2015, the share of passengers who purchased tickets in first-class sleeper and compartment railcars below the base rate made up 68% of the total number.

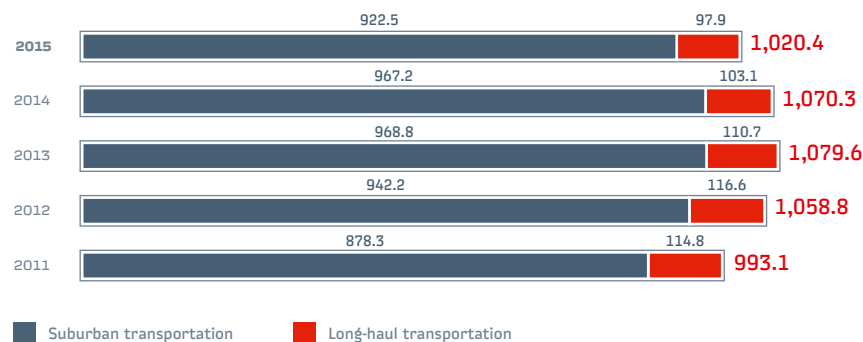
Approximately 2 mln passengers travelled at reduced tariffs in the regulated segment, utilising the right granted by Federal Passenger Company to reduce the cost of travel in second-class railcars and sitting cars.

The highest level of demand was seen for travel on new rapid-transit trains with a convenient schedule. Passenger traffic increased in travel between Moscow and St Petersburg, Bryansk, Yaroslavl, Belgorod, Smolensk, Kursk, Voronezh and Nizhny Novgorod (the routes where the Russian Railways Group offers such services). The most significant growth in passenger traffic was seen on the recently launched Moscow-Smolensk routes (+40%) and the Moscow-Belgorod route (almost +50%). This can largely be attributed to the use of comfortable trains with double-decker cars and Strizh trains as well as the new transportation services offered by the Daily Express programme.

Railway passenger turnover, bln pass. km



Number of passengers transported by railway, mln passengers



On the path to change



Mikhail Akulov
Vice President
of Russian Railways

More than one bln passengers utilise the Russian Railways Group's services each year. In the competitive battle with other transportation modes, we employ a range of marketing tools that support the affordability of transportation and include a flexible tariff policy, a dynamic pricing system, marketing campaigns and loyalty programmes.

Approximately 2 mln passengers travelled at reduced tariffs in the regulated segment, taking advantage of the right granted to Federal Passenger Company to reduce the cost of travel in second-class sleeper cars and sitting cars.

In 2015, the share of passengers who bought tickets in first-class sleeper and compartment railcars at tariffs below the base rate made up roughly 68% of the total number of passengers.



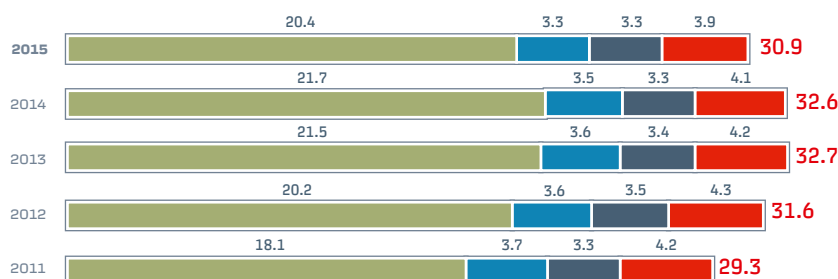
Based on materials from the final meeting of the Russian Railways Management Board

Suburban passenger transportation via Russian Railways infrastructure

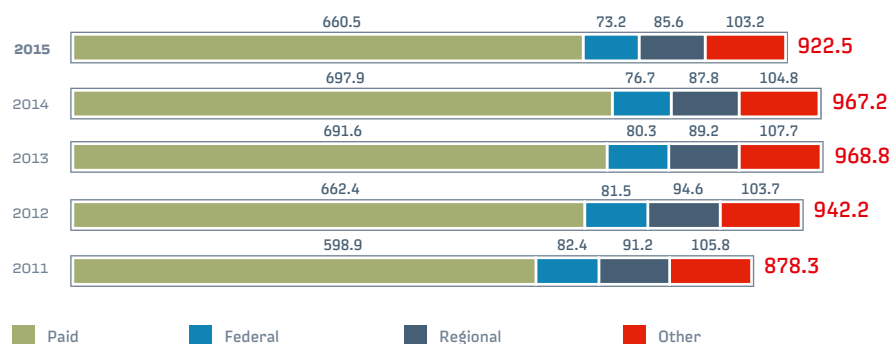
Suburban passenger turnover via Russian Railways infrastructure declined 5.2% to 30.9 bln pass. km in 2015 compared with 2014.

Suburban transportation carried 922.5 mln passengers in 2015, or 4.6% less than in 2014. Paying passengers made up 71.6% of the passenger structure, federal benefit recipients – 7.9%, regional benefit recipients – 9.3% and other categories – 11.2%. The number of paying passengers decreased by 5.4% compared with 2014.

Suburban passenger turnover by category, bln pass. km



Number of suburban traffic passengers transported via Russian Railways infrastructure, by category, mln passengers



Structure and performance results of the suburban passenger service system

At present, services are provided by 25 suburban passenger companies (SPC) that were established with the participation of Russian Railways, regional executive authorities, private investors as well as Aeroexpress, Interregional Passenger Company and Russian Railways (as represented by the High-Speed Transportation Directorate – branch of Russian Railways).

Russian Railways has a more than 50% stake in the charter capital of 19 suburban companies.

Suburban passenger companies concluded 92 contracts for public transportation services with 72 constituent entities of the Russian Federation in 2015.

Based on the 2015 results, 22 SPC were operating in the black with net profit of RUB 4,840.0 mln. Three SPC (North Caucasus SPC, Zabaikalskaya SPC and Kuban Express-Suburb) had combined losses of RUB 504.7 mln.

Performance results of SPC in 2015, RUB mln

No.	SPC	Net profit in 2015	No.	SPC	Net profit in 2015
1	Northern SPC	3.0	15	Kuban Express-Suburb	-44.0
2	Chernozemye SPC	412.8	16	Sakhalin PC	9.6
3	North Caucasus SPC	-186.7	17	Perm Suburban Company	6.5
4	Zabaikalskaya SPC	-273.9	18	Volgogradtransprigorod	4.8
5	Primorye Express	22.5	19	Krasprigorod	2.9
6	Baikal SPC	46.3	20	Altai-Suburb	0.2
7	Sverdlovsk Suburban Company	160.6	21	Express-Suburb	36.3
8	Bashkortostan SPC	210.4	22	Omsk-Suburb	1.6
9	Kaliningrad SPC	0.8	23	North-West SPC	845.6
10	Volgo-Vyatskaya SPC	69.2	24	Moscow-Tver SPC	441.0
11	Saratov SPC	33.0	25	Central SPC	2,441.4
12	Sodruzhestvo	0.5	Total		4,435.4
13	Kuzbass Suburb	7.1	including for profitable SPC		4,840.0
14	Samara SPC	83.9	for unprofitable SPC		-504.7

Compensation for shortfalls in income of carriers by constituent entities of the Russian Federation

Ensuring that Russian suburban transportation reaches the break-even point is one of the main objectives in the reform of the suburban sector. The break-even operation model cannot be built without the involvement of the constituent entities of the Russian Federation that regulate tariffs on suburban transportation. In this regard, only full compensation by the regions for the shortfall in income from government tariff regulation will help ensure that suburban transportation breaks even.

Given the preferential tariff rate in 2015 for the infrastructure services of suburban railway transportation, the demand

of suburban carriers for subsidies to compensate for shortfalls in income arising as a result of the government regulation of tariffs amounted to RUB 12 bln. Subsidies were provided to compensate for shortfalls in income from the government regulation of tariffs in the amount of RUB 9.4 bln, which compensated for 56% of this demand. The subsidies received from regional budgets to compensate for shortfalls in income in 2015 amounted to RUB 9.5 bln.

The deficit in subsidies from the regions amounted to RUB 2.8 bln in 2015. Thirty-seven regions fully compensated for their shortfalls in income in 2015. Transportation

is provided on a self-sustaining basis under preferential infrastructure conditions in five regions (Moscow, the Moscow Region, St Petersburg, the Leningrad Region and Astrakhan Region).

At the same time, in twelve regions compensation for the shortfall in the income of carriers amounted to less than 50%. Subsidies to compensate for shortfalls in income by suburban companies were not provided at all in three regions.

Compensation for shortfalls in income of carriers by constituent entities of the Russian Federation

Compensation level by constituent entities of the Russian Federation	Number of constituent entities of the Russian Federation				
	2011	2012	2013	2014	2015
No compensation required	6	5	5	4	5
100% compensation	12	17	9	13	37
> 80% compensation	8	6	10	9	9
50–80% compensation	11	9	15	20	6
< 50% compensation	31	32	31	22	12
Not provided	5	4	3	5	3
Transportation stopped	—	—	—	—	1
Total					73

Renovation of rolling stock fleet

Passenger rolling stock is regularly renovated to develop and improve suburban passenger transportation, enhance the quality of services provided as well as improve the technical condition of railcar rolling stock.

The Central Railcar Rolling Stock Directorate supplied 70 railcars valued at RUB 2.7 bln in 2015. A total of RUB 0.5 bln was spent on the rolling stock modernisation programme.

The High-Speed Transportation Directorate supplied 160 railcars (valued at RUB 18.9 bln) in 2015 and spent RUB 0.2 bln on the rolling stock modernisation programme.

160 railcars

Supplied by the High-Speed Transportation Directorate

70 railcars

supplied by the Central Railcar Rolling Stock Directorate

Results of work to establish multimodal hubs

The Company implemented a number of projects in 2015 as part of work to establish multimodal hubs:

- Establishing Lastochka (Desiro RUS) train traffic on the following routes: Moscow-Kryukovo-Tver, St Petersburg-Volkhovstroy, St Petersburg-Tosno, Yekaterinburg-Nizhny Tagil and Yekaterinburg-Kamenk-Uralsky. Passenger traffic will be further increased by the completion of construction on a fourth mainline on the Moscow-Tver section that will significantly reduce the amount of

downtime for repairs, which in 2015 resulted in changes to train routes on this section and the cancellation of 7,727 trains.

- The Company continued developing the Urban Commuter Train project currently under way in Krasnoyarsk, Kaliningrad, Ufa and a number of other cities.
- Combined 'train + bus' routes were set up in the Gorky Railway operating domain in 2015 on the following routes: Nizhny Novgorod-Syava, Nizhny Novgorod-Vakhtan, Nizhny Novgorod-

Tonshayevo (including transfer at Shakhunya station) and Nizhny Novgorod-Sharanga (transfer at Uren station). More than 2,000 passengers utilised this service over the period from September to December. Similar projects are to be launched on the operating domain of Bashkortostan SPC on the Ufa-Tuymazy-Yfa section with transfer at Kandry station and on the operating domain of Krasprigorod on the Ilanskaya-Reshoty section.

Reconstruction and development of the Moscow Little Ring Railway

The project to rebuild and develop the Moscow Little Ring Railway will significantly reduce transportation congestion in Moscow and enable urban rail transportation to transition to a whole new level of passenger service.

This project will result in new economic growth points emerging in Moscow and the creation of more than 10,400 modern jobs, including approximately 4,000 jobs in the passenger transportation sector. The electrification of the Moscow Little Ring Railway will significantly improve the environmental situation in the city and enhance the attractiveness of adjacent areas.

The development of the Moscow Little Ring Railway involves electrifying the ring railway with the construction of two new traction substations, the reconstruction of three existing traction substations, the construction of a 38-km third mainline as well as the construction and reconstruction of new engineering structures. A total of 31 stops will be built on the Moscow Little Ring Railway, including 19 major transportation hubs (TH): 12 with transfer to the metro system and six with transfer to radial railways.

Starting in 2016, Moscow Railways will carry more than 250 mln passengers each year on 100 electric train pairs per day with intervals of less than 5 minutes at rush hour.

Russian Railways has currently set up a working group in charge of preparing measures to ensure that the Moscow Little Ring Railway launches transportation services for the public starting in September 2016.

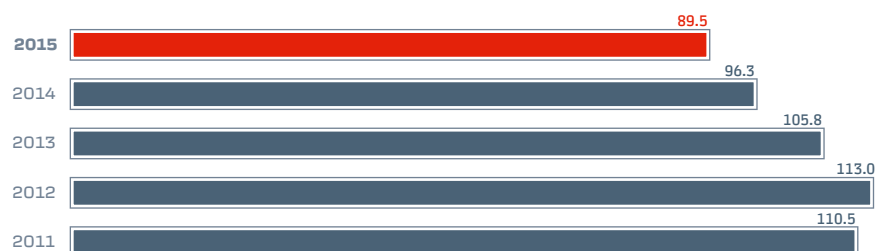
Long-haul passenger transportation via Russian Railways infrastructure

The following companies provide long-haul passenger transportation services via Russian Railways infrastructure:

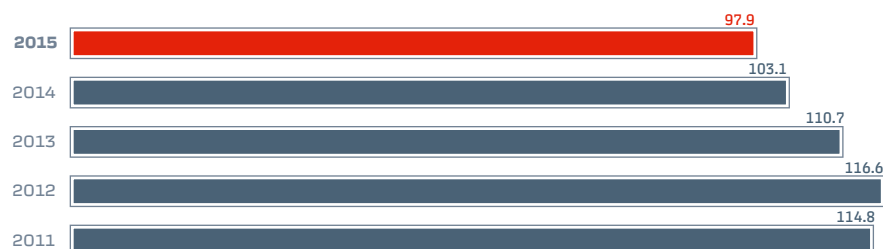
- S&A of Russian Railways (Federal Passenger Company and Sakhalin Passenger Company). Their share of passenger turnover is 95.5%. In particular, Federal Passenger Company has a 95.2% share, including a 89.7% share of passenger turnover via its own trains.
- Independent carriers: Grand Service Express TC, Tverskoy Express and TransClassService. Their share of passenger turnover is 1.4%.
- High-Speed Transportation Directorate. Its share of passenger turnover is 2.8%.

Long-haul passenger turnover via Russian Railways infrastructure decreased 7.0% to 89.5 bln pass. km in 2015, while the number of passengers transported fell 5.0% to 97.9 mln.

Long haul passenger turnover on Russian Railways infrastructure, bln pass. km



Number of long-haul passengers transported, mln passengers



Performance results of Federal Passenger Company

Federal Passenger Company trains transported passengers 86.1 bln pass. km in 2015 (down 9% compared with 2014), including 81.1 bln passengers via its own trains.

Federal Passenger Company had income from core operations of RUB 181.2 bln in 2015 (down 2.4%), including RUB 160.0 bln

of income from passenger transportation (down 2.6%). Operating expenses also decreased – from RUB 204.9 bln in 2014 to RUB 199.0 bln in 2015.

For the year, Federal Passenger Company had net profit of RUB 0.1 bln versus a loss of RUB 0.4 bln the previous year.

For more on the performance results of Federal Passenger Company, see the company's website: <http://fpc.ru/>



Key financial indicators of Federal Passenger Company, RUB bln

Indicator	2014	2015	Change, %
Income from core operations	185.6	181.2	–2.4
Income from passenger transportation	164.2	160.0	–2.6
Income from other sales	21.4	21.2	–0.7
Expenses on core operations	204.9	199.0	–2.9
Expenses on transportation operations	189.6	183.6	–3.2
Expenses on other sales	15.2	15.3	0.8
Operating profit (loss)	–19.3	–17.8	–7.8
Result from other income and expenses	20.5	20.2	–1.6
Profit (loss) before tax	1.2	2.4	50
Net profit/loss	–0.4	0.1	—

High-speed passenger transportation

High-speed passenger transportation is handled by the High-Speed Transportation Directorate (HSTD).

Passenger turnover via high-speed trains grew 25% to 2.5 bln pass. km in 2015. Passenger turnover via long-haul high-speed trains on domestic routes increased 26% to 2.44 bln pass. km. Passenger turnover via high-speed trains on international routes decreased 7.5% to 58.6 mln pass. km in 2015.

The number of passengers transported by high-speed trains increased 22.2% to 4.8 mln in 2015 compared with 2014. In particular, Sapsan and Lastochka (Desiro RUS) trains carried 4.6 mln passengers on long-haul domestic routes (growth of 24%), while Allegro trains carried 0.2 mln passengers on international routes (decrease of 14%). Declining passenger traffic along Russian-Finnish routes has been a general trend for all carriers and is primarily related to the lower economic growth rates in Russia and the rouble's exchange rate.

Double-decker Sapsan trains continued to operate in 2015 following their launch in August 2014 via the Moscow-St Petersburg route. The Sapsan train occupancy rate was 80.3% for the year.

It should be noted that active efforts to

concentrate Sapsan high-speed trains on the Moscow-St Petersburg route helped railway transportation to maintain a 65% share of this route.

In order to meet demand for passenger transportation in the Krasnoyarsk Region, two electric Lastocha (Desiro RUS) train pairs were launched via the Rostov-Krasnodar route starting in March 2015 and one train pair via the Adler-Maykop route starting from 1 May.

The High-Speed Transportation Directorate generated a financial result of RUB 2,077.2 mln in 2015 from performing transportation operations.

25 %

passenger turnover growth
for high-speed trains in 2015

On the path to change



Alexander Misharin
First Vice President
of Russian Railways

The primary goal of the programme we adopted to establish rapid-transit and high-speed railway transportation is to accelerate economic growth rates and improve the quality of life of the Russian population by building a railway network that ensures an optimal ratio of speed, comfort and cost for passengers.

The Moscow-Kazan High-Speed Railway is a priority project for the Moscow-Beijing Eurasian High-Speed Transport Corridor.

The project involves building the most advanced high-speed rolling stock in terms of onboard safety, comfort and quality of services for passengers. International and national experience will be used in its development with technology localised (at least 80%) in Russia.



Based on materials from the final meeting of the Russian Railways Management Board

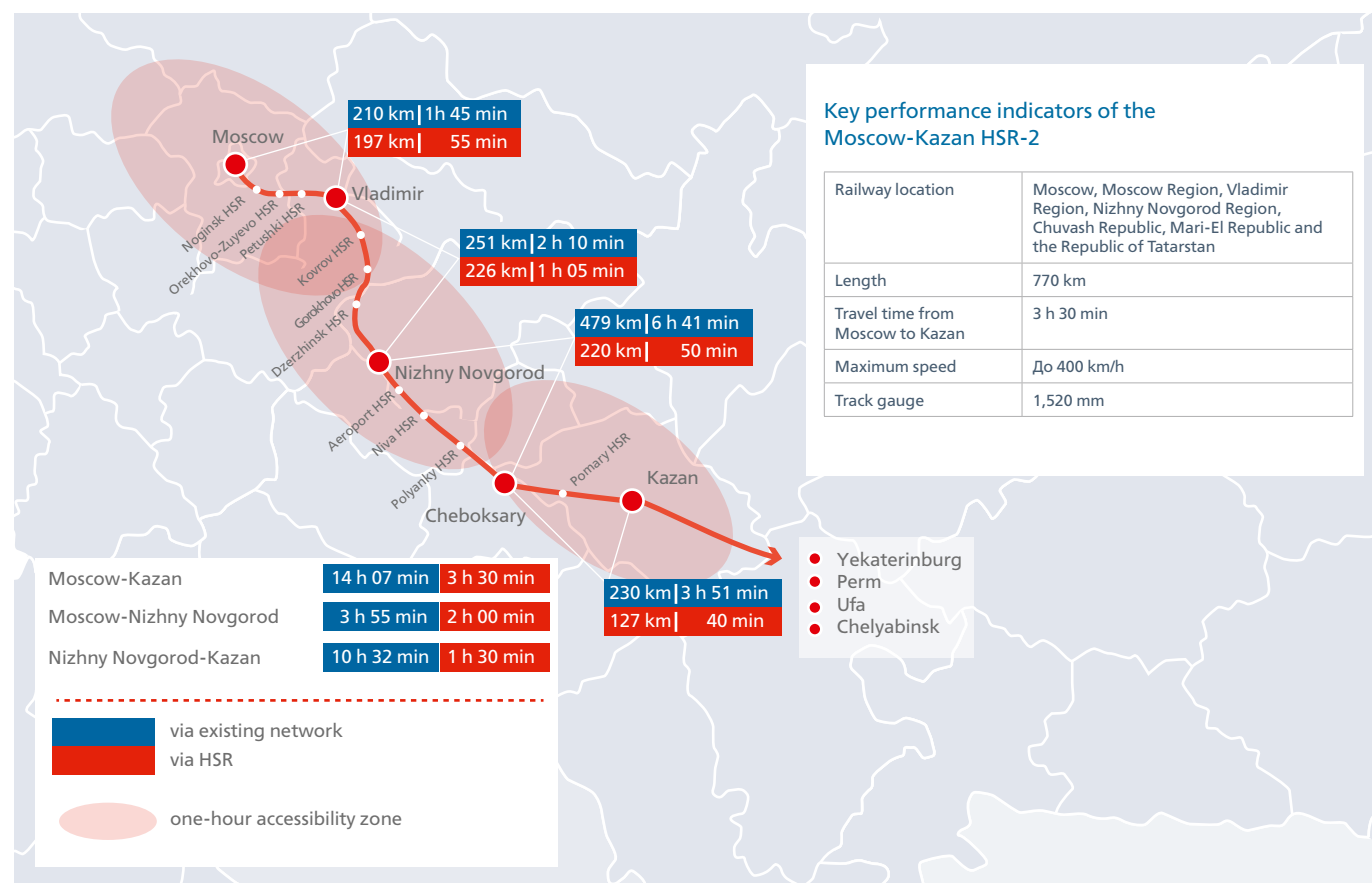
Key indicators of high-speed passenger transportation (HSTD)

	Passengers transported, '000			Passenger turnover, mln pass. km		
	2014	2015	Change, %	2014	2015	Change, %
Total, including	3,921.52	4,792.14	22.2	1,999.44	2,500.56	25.0
Sapsan	3,238.82	3,764.48	16.2	1,834.07	2,261.52	23.3
Allegro	213.20	183.30	-14.0	63.28	58.56	-7.5
Lastochka	469.50	844.36	79.8	102.09	180.48	76.8

Implementation of rapid-transit and high-speed transportation projects

Moscow-Kazan High-Speed Railway

Moscow-Kazan HSR-2



A pilot high-speed railway (HSR) project under way in Russia involves the construction of an HSR from Moscow to Kazan with an extension to Yekaterinburg.

This project will help to meet the growing demand in Russian cities for passenger transportation, reduce travel time and offer a whole new level of service.

The project aims to offer the highest level of transportation reliability and safety and provide passengers with the proper level of comfort. The most advanced technologies and equipment will be used to meet these objectives.

Implementing the project will provide an impetus for the development of innovative technologies in Russian economic sectors whose enterprises will be involved in building and supplying HSR infrastructure.

As part of an update to the action plan flow chart for implementing the Moscow-Kazan High-Speed Railway project, the actions included in the flow chart were systematised and the deadlines for their implementation were adjusted until 2021.

According to the updated action plan flow chart, the following work was performed in 2015:

- Conclusion of a general agreement between Russian Railways and High-Speed Rail Lines for the preparation and management of HSR projects.
- Signing of a contract to perform engineering survey work, develop

a project to plan and survey areas, and draft design documentation for the construction of the Moscow-Kazan section of the Moscow-Kazan-Yekaterinburg High-Speed Railway in 2015-2016. The parties to the contract are High-Speed Rail Lines and a consortium of designers comprised of Mosgiprottrans, Nizhegorodmetroproekt and Eryuan Chinese Railway Engineering Corporation.

As part of this contract, an engineering survey programme was drafted and approved, a work performance scheduled was prepared, a range of work was launched to prepare the area for construction, design and survey work is under way and a technical consultant has been hired to support this work. Funding in the amount of RUB 3.05 bln was contributed from the Russian federal budget to the charter capital of Russian Railways in 2015 for design work (total project work amounted to RUB 4.757 bln in 2015 excluding VAT).

- Technical requirements were approved for high-speed rolling stock for the HSR.
- The Ministry of Transportation of the Russian Federation, the National Development and Reform Commission of the People's Republic of China, Russian Railways and China Railway signed a memorandum on the forms of cooperation and models for financing and investing in the Moscow-Kazan High-Speed Railway project, which is a priority project for the Moscow-Beijing Eurasian High-Speed Transport Corridor.

- A Road Map was drafted and signed for Russian-Chinese interaction as part of the implementation of the Moscow-Kazan HSR.
- The draft federal law 'On Amendments to Certain Legislative Acts of the Russian Federation in Connection with the Construction of High-Speed Railway Transportation Infrastructure that Establishes Special Considerations for Obtaining a Construction Permit, Preparing Territory and Performing Preparatory Work' was drafted, endorsed by the federal executive authorities and submitted to the Russian Government for consideration.
- As part of efforts to implement the Russian Railways Group's Development Strategy until 2030, the Company drafted and approved the Programme for the Development of Rapid-Transit and High-Speed Traffic in Russia until 2030, which primarily focuses on selecting areas for the modernisation of existing lines and the construction of new rapid-transit and high-speed routes that offer the maximum economic and social effects by expanding the boundaries of existing metropolitan areas and forming new urban areas.



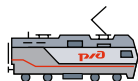
Railway Transportation and Infrastructure Business Unit

The Railway Transportation and Infrastructure Business Unit consolidates the core production business divisions that support the Company's activities in railway transportation as well as the maintenance and development of infrastructure and locomotives.

Key achievements of business unit in 2015

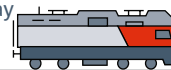
1

Improvements were made to the internal efficiency of production unit divisions, making it possible to fulfil the main budget parameters for the use of rolling stock, including for the average freight train weight (+0.9% versus the 2014 level), average daily locomotive productivity (+3.7%) and service speed (+3.7%)



3

The average freight delivery speed of loaded shipments grew by 44.1 km/day (13.5%) to 371.5 km/day



2

The share of loaded shipments delivered within the required (contractual) period in loaded railcars increased 5.2 p.p. versus the 2014 level



4

The freight train traffic schedule improved by 2.9 p.p. in terms of departure and by 12.9 p.p. in terms of travel time



5

All parameters of passenger train scheduling were improved, including by 0.7 p.p. for departure, 0.2 p.p. for embarkation/disembarkation stations on the train's route and 0.8 p.p. for arrival at the destination station versus the 2014 level





Business Unit

6

The scheduling of suburban trains ensured growth versus 2014 of 0.2 p.p. for departure from the departure point, 0.3 p.p. for arrival at intermediate destinations, 0.4 p.p. for departure from immediate destinations and 0.2 p.p. for arrival at destination points



7

Railway stations improved their quality of work. The downtime of transit railcars at marshalling yards declined 14.8% without processing and 10.3% with processing, while the time of railcar terminal operations at stations decreased 21.1% compared with 2014



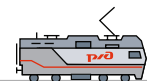
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The number of downtime hours in the work time of locomotive crews decreased 15.8% compared with 2014 while the plan was for a 7% reduction



9

As a result of implementing an energy efficiency programme, renovating the locomotive fleet and introducing an optimal energy schedule for train traffic, the specific consumption of fuel and energy resources fell 2.0% for train traction and 1.2% for electric traction versus the 2014 level



Key achievements of business unit in 2015

The Railway Transportation and Infrastructure Business Unit met all of its objectives for 2015. Enhancing the organisational level of operational work based on improvements to the system used to plan and transport freight traffic enabled the Company to transport the required volume of shipments and reduce risks associated with infrastructural constraints.

Work to utilise information and management technologies played an integral role in enhancing the efficiency of the transportation process, including by establishing scheduled freight train traffic and expanding the scope of application of the Elbrus system, which ensures freight trains run on optimal energy schedules.

Russian Railways continues to draft regulatory and technical documentation governing the procedure for routine maintenance and repairs of infrastructure facilities as well as organising the operation of locomotives and locomotive crews taking into account the classification and specialisation of railway lines.

Activities of the business unit

The primary goal in the business unit's activities is to improve the efficiency of the transportation process through coordinated operational work and the coherent strategic development of business divisions taking into account their common objectives, technologies and the additional synergistic effects from joint activities.

The Russian Railways Group's strategy sets forth a number of production goals and objectives for developing the business unit:

- modernising and building new infrastructure;
- separating public infrastructure into freight and passenger infrastructure, including through the spin-off of high-speed transportation, as independent technical and technological systems;
- improving the uniform use of infrastructure as well as increasing the load on or restructuring low-intensity lines;
- developing infrastructure in order to transition to heavy haul traffic with weight standards of 9,000 tonnes or more;
- renovating the locomotive fleet and reducing the life-cycle cost of traction resources;
- improving transportation safety and mitigating risks related to the impact of the human factor on the production process;
- increasing energy efficiency and labour productivity and streamlining repair and maintenance work.

Key production indicators

Total freight turnover remained at the 2014 level in 2015. The comprehensive performance indicator that describes the reliability of freight delivery – the share of loaded shipments delivered by the required date – came to 94.7% (growth of 5.2 p.p. versus the previous year's level).

The average loaded freight delivery speed was 371.5 km per day (+13.5% versus the 2014 level). Positive dynamics were achieved on all railways.

Key performance indicators of the Railway Transportation and Infrastructure Business Unit

Indicator	Measurement unit	2014	2015	
			Value	Change, %
Total freight turnover	mln tkm	2,954.5	2,954.9	0.01
Average loaded freight delivery speed	km/day	327.4	371.5	13.5
Share of loaded shipments delivered by the required date	%	89.5	94.7	5.2 p.p.
Decrease in specific consumption of electricity for train traction (2014 – 100%)	%	100.0	98.8	–1.2
Decrease in specific consumption of diesel fuel for train traction (2014 – 100%)	%	100.0	98.0	–2.0

Results of the business unit's investment programme in 2015

The Central Infrastructure Directorate fully utilised its budget of RUB 87.6 bln in 2015. The bulk of the funds were spent on the track reconstruction (modernisation) programme. As a result, RUB 70 bln worth of work was performed to rebuild (modernise) tracks.

As part of the investment programme, work valued at approximately RUB 65.2 bln was performed under the federal programme to develop the Eastern operating domain.

The amount of fixed assets put into operation as part of projects of the Central Infrastructure Directorate totalled RUB 85.8 bln in 2015, a 0.6% increase versus the target.

Spending by the Central Traffic Control Directorate totalled RUB 3.2 bln in 2015. The main project was the 'Construction of Secondary Tracks, Extension of Station Tracks and the Development of Railway Hubs and Border Stations', on which RUB 1.9 bln was spent. The Directorate's investment programmes above all aimed to increase the carrying and processing capacity of the main railway network routes

and improve the reliability of operations by branches.

The amount of fixed assets put into operation as part of projects of the Central Traffic Management Directorate totalled RUB 8.3 bln in 2015, a 44.5% increase versus the target.

Spending of investment funds by the Traction Directorate totalled RUB 68.2 bln in 2015, or 0.9% less than the target (plan of RUB 68.8 bln), including RUB 59.9 bln spent on the investment project 'Purchase of Traction Rolling Stock' (0.4% below the plan), which aims to purchase 500 locomotives.

100.6 %

execution of the plan for commissioning fixed assets under the Central Infrastructure Directorate's projects in 2015

Measures to improve the efficiency of the business unit

Eliminating infrastructural constraints and increasing carrying capacity are among the priority objectives of the business unit's activities. Track repair work was carried out on 5,021 km of tracks in 2015 (100% of the annual plan), including the reconstruction (modernisation) of railway tracks on 2,814 km (100% of the annual plan).

The track improvement work resulted in an increase in traffic speed in the operating domain on 1,100.7 km for passenger trains and on 811 km for freight trains.

In order to ensure certain sections have carrying capacity for the planned transportation volumes, restrictions were eliminated for freight trains weighing 6,300 tonnes over a section of 71 km through enhancements to power supply equipment.

As a result of a range of measures implemented by the business unit's divisions in 2015 (energy efficiency programme, renovating the locomotive fleet and introducing an optimal energy schedule for train traffic), the specific consumption of fuel and energy resources was reduced versus the 2014 level:

- by 2.0% for train traction;
- by 1.2% for electric traction.

Traction Resource Management Centres (TRMC) were completed on the network, making it possible to transition to the targeted model for managing the transportation process based on operating domain technology. The Traction Resource Management Centre Automation System

On the path to change



Anatoly Krasnoshchek
First Vice President
of Russian Railways

Almost 3,000 new locomotives have been purchased over the last five years, or more than over the previous 15 years. The physical wear of the locomotive fleet has been reduced on average to 68.8%. This has made it possible to accelerate the development of heavy-haul transportation. More than 4,000 trains weighing over 8,000 tonnes and 30,000 coupled trains were in operation in 2015, an increase of 10% from the previous year.

Eliminating infrastructural constraints and increasing carrying capacity are among the priority objectives of the business unit's activities. Track repair work was carried out on 5,021 km of tracks in 2015 (100% of the annual plan), including the reconstruction (modernisation) of railway tracks on 2,814 km (100% of the annual plan).

In 2015, the service speed of freight trains increased to 39.1 km/h, a 3.7% increase compared with 2014.



Based on materials from the final meeting of the Russian Railways Management Board

(TRMC AS) was developed to automate the work of the centres.

The Central Traffic Management Directorate is carrying out preparatory work to introduce operating domain management systems at the pilot Eastern operating domain within the Krasnoyarsk, East Siberian, Zabaykalsk and Far Eastern Railways.

At a meeting on 17 April 2015, the Russian Railways Board of Directors considered and approved the Programme

on the Development of a Traffic Control Hierarchy Based on Scientific and Technical Achievements, which includes both medium-term measures (for the next 3-5 years) as well as long-term measures to be implemented prior to 2030. These measures should substantially enhance traffic safety and improve the occupational safety levels by automating train handling processes and the marshalling work of stations, introducing paperless technologies and minimising the impact of the human factor.

100 % of annual plan

5,021 km of tracks
track repair work

Development of heavy haul traffic in 2015

Increasing weight standards has been identified as one of the priorities for handling the growing transportation volume according to the Russian Railways Group's Development Strategy until 2030.

Trains weighing 8,000 and 9,000 tonnes are already running on the routes Kuzbass-Northwest ports and Kuzbass-Centre. There were over 4,800 trains weighing 8,000 tonnes or more in operation in 2015 (an increase of 2% versus 2014) and more than 32,800 coupled trains (up 14.6% from 2014).

As part of the implementation of the Programme for the Development of Heavy Haul Railway Traffic, a range of measures was implemented in 2015 to assess axial forces that occur in trains and their impact on the infrastructure of trains weighing over 12,600 tonnes. These measures resulted in the formation of a scientifically substantiated regulatory framework that describes the procedure for such trains to use Russian Railways infrastructure. Just over 2,600 such trains operated in 2015.

Trains weighing 7,100 tonnes formed from railcars with axle loads of 25 tonnes operated regularly on dedicated route schedules in the Eastern operating domain (just over 380 trains such trains ran in 2015).

In addition, the first stage was completed in comprehensive studies to assess the feasibility of operation for coupled trains weighing 14,200 tonnes formed from railcars with axle loads of 25 tonnes.

Development of marshalling yards in 2015

The Company continued work in 2015 to implement the Marshalling Yard Improvement and Development Programme with a budget of RUB 1,182.2 mln.

The allocated funds were spent on track development and equipping marshalling yards with mechanical devices and systems to automate the core technological processes in order to increase the processing capacity of marshalling yards.

As part of the allocated capital investment limit and also in accordance with the updated marshalling yard development programmes, the Company performed work

in 2015 to mechanise and automate gravity humps and rebuild six marshalling yards, including:

- St Petersburg-Marshalling Moscow of October Railway (modernisation and reconstruction Fleet No. 3);
- Volkhovstroy 1 of October Railway (reconstruction of station, receiving yard);
- Losta of Northern Railway (modernisation of station, introduction of an integrated marshalling process automated control system (IMPACS));
- Kinel of Kuybyshev Railway (reconstruction of a down-yard marshalling system, Depot No. 8);
- Yekaterinburg-Marshalling of Sverdlovsk Railway (reconstruction of the station's up-yard marshalling, receiving yard and gravity hump);
- Chelyabinsk-Main of South Urals Railway (modernisation and an integrated automated control system for the down-yard marshalling system).

In April 2015, October Railway hosted an enlarged meeting of the Russian Railways Scientific and Technical Council's System Transportation Problems subpanel devoted to the development of marshalling yards in the period until 2025 at which the decision was made to select Luzhskaya station as a pilot test site to refine the innovative technologies of marshalling yards such as:

- automatic shunting technology developed by Siemens AG with the

automated control of the shunting locomotive that provides for automatic switching integrated with a Russian marshalling yard automated control system and linked to domestic interlocking systems and the automated locomotive signalling shunting system (ALSSS);

- automated rolling stock and commercial inspection diagnostic systems;

- unmanned train assembly technologies;
- automated transport hub control system and electronic document technology in the transportation process.

Dynamics and structure of the traction rolling stock fleet in 2015

At the end of the year, the locomotive fleet of the Russian Railways Group in operation was comprised of 12,696 units, including:

- in freight traffic – 6,442 units;
- in passenger traffic – 1,378 units;
- in utility traffic – 1,644 units;
- in special shunting and other shunting operations – 3,184 units;
- in other operations – 48 units.

At the end of the reporting year, the working locomotive fleet of the Russian Railways Group was comprised of 8,438 units, including:

- in freight traffic – 4,798 units;
- in passenger traffic – 728 units;
- in utility traffic – 545 units;
- in special shunting and other shunting operations – 2,336 units;
- in other operations – 31.

Russian Railways purchased 500 locomotives in 2015 (99.6% of the plan), including:

- 275 electric locomotives, including 43 passenger and 232 freight locomotives;
- 225 diesel locomotives, including 15 passenger, 92 freight and 118 shunting locomotives.

Seventeen of the 500 new locomotives are innovative.

The increase in the purchase of locomotives is already producing positive results in terms of the reduced wear of the locomotive fleet. Overall, the physical wear of the locomotive fleet has been cut to 68.8% on average.

Measures to improve the utilisation efficiency of locomotives

One of the strategic areas of work for locomotives is the renovation and unification of the locomotive fleet by operating domain.

New locomotives are distributed in accordance with the operating domain method. The supply of new locomotives makes it possible to gradually get rid of the locomotive fleet in operation and redeploy it to railway operating domains that have increased freight turnover as well as retire the fleet that has exhausted its standard service life.

A total of 566 locomotives were relocated throughout the Russian Railways network in 2015, including 309 electric trains and 257 diesel trains.

The following work was carried out in 2015 to improve the efficient use of locomotives:

- the ability to operate coupled trains weighing 12,600 tonnes on the Maykop-Belorechenskaya domain of North Caucasus Railway was confirmed. Testing approved the Temporary Instructions for Organising Coupled

Trains Weighing 12,600 Tonnes on the Public Railway Tracks of Russian Railways;

- freight trains weighing 9,000 tonnes were put into operation on the Kuzbass-Northwest domain with 2 route schedules as a result of the supply of 3ES10 electric trains;
- operating technology for diesel freight trains was optimised on the Baikal-Amur Mainline and freight train weight was increased by 700 tonnes from

4,900 tonnes to 5,600 tonnes due to the supply of 51 Vityaz 2TE25A diesel locomotives. Given that Vityaz 2TE25A diesel locomotives have asynchronous traction drive and motor-axle roller bearings, this made it possible to increase the run between TO-2 from 72 to 96 hours;

- 2x2ES5K electric freight trains weighing 7,100 tonnes were put into operation on the Inskaya-Tayshet-Smolyaninovo section merged into four sections;
- freight trains weighing 6,300 tonnes were put into operation on 2 route schedules using 2x2TE10 diesel locomotives on the Volochayevka-2-Komsomolsk section;
- traction energy testing was conducted on the operating domain of Far Eastern

Railway to determine the operational feasibility of coupled freight trains, which made it possible to ensure their operation during track repair work.

- 3TE10MK diesel locomotives weighing up to 9,800 tonnes were put into operation on the Volochayevka-2-Komsomolsk-on-Amur section,
- 3ES5K electric locomotives weighing up to 12,000 tonnes were put into operation on the Belogorsk-Khabarovsk-2-Shkotovo section,
- 2TE25A and 3TE10MK diesel locomotives weighing up to 11,200 tonnes were put into operation on the Khani-Tynda-Novy Urgal section;

- the operating domain of the EP2K electric locomotives was expanded to the station of Samara and Kartaly of Kuybyshev and South Urals Railways by 1,004 km (from 1,802 km to 2,806 km).

500 locomotives

(99.6 % of the plan) purchased by Russian Railways in 2015

Development of effective technologies to manage the freight car fleet in 2015 given the large number of rolling stock operators. Results of the introduction of SNOP for railway freight transportation

Russian Railways works consistently to implement the provisions of the Single Network Operating Procedure (SNOP) insofar as it does not require changes to the regulatory legal framework when organising the transportation process.

At present, the SNOP is used when solving problems involving effective interaction between the Company's functional branches, including the technical regulation of the transportation process, train traffic control technologies, the work of locomotives and locomotive crews and the provision of information on production activities.

This work has resulted in positive trends in key rolling stock utilisation indicators. A total of 32,800 extended trains were dispatched on the railway network in 2015, a 14.6% increase from 2014.

Utilising the technological tools specified in the SNOP improved the freight train schedule execution level, including by 2.9 percentage points for dispatches and 12.9 percentage points for passage.

The SNOP is also used when implementing the Integrated Programme for the Phased Transition to the Organisation of Scheduled Freight Train Traffic. In order to develop

freight train traffic technology according to specialised schedules, the goal was set of dispatching 400 specialised freight trains daily starting in January 2015.

In 2015, 116,800 trains (320 trains per day) were dispatched via exit routes from mass loading stations according to specialised schedules. The dispatch of freight trains according to specialised schedules increased 76% in 2015 compared with 2014. The schedule for specialised trains was met at a rate of 98% for dispatches (+3% compared with 2014) and 42% for travel (also (+3% versus 2014).

Repair and modernisation of infrastructure facilities in 2015

In terms of track facilities, reconstruction (modernisation) of railway tracks was carried out on 2,814 km (100% of the annual plan) and 1,283 turnouts were built (100% of the plan). Total spending on track reconstruction (modernisation) amounted to RUB 70.2 bln at the expense of the investment budget (100.2% of the plan).

The funds for major track repairs were used to perform the following work:

- major repairs of used materials on 829 km (103.6% of the plan for RUB 7.0 bln);
- 2,186 turnouts built (101.2% of the plan for RUB 3.6 bln);
- average railway track repairs of 1,365 km (101.4% of the plan for RUB 3.8 bln);
- rail replacement work for 1,911 km (100.6% of the plan for RUB 4.4 bln).

Total spending on major repairs amounted to RUB 22.1 bln (100.1% of the plan).

Major repairs were carried out on engineering structures valued at RUB 3.3 bln (99.8% of the plan). A total of 129 engineering structures (bridges, pipes and tunnels) and 27.0 km of roadbed were repaired.

In automation and telemechanics, RUB 3.5 bln in funds for major repairs of railway automation and telemechanics equipment were spent in full.

Repairs were conducted on:

- 846 km of the automatic block system;
- 1,223 electric interlocking switches.

The Automation and Telemechanics Office spent RUB 3,797.86 mln of the allocated funding limit of RUB 4,630.8 mln, or 82% of the annual plan, on nine investment projects in 2015. The failure to fully utilise the investment budget resulted from the termination of relations with Italy's ECM s.p.a. as well as an adjustment to the list of facilities and the late issuance of their design and estimate documentation.

Spending as part of the investment budget for electrification and power supplies totalled RUB 5.0 bln in 2015, or 98.8% of the annual plan. For the year, the following major work was performed:

- reconstruction of 133.1 km of installed contact network;
- renovation of 88.7 km of high-voltage power supply lines to the automatic block system;

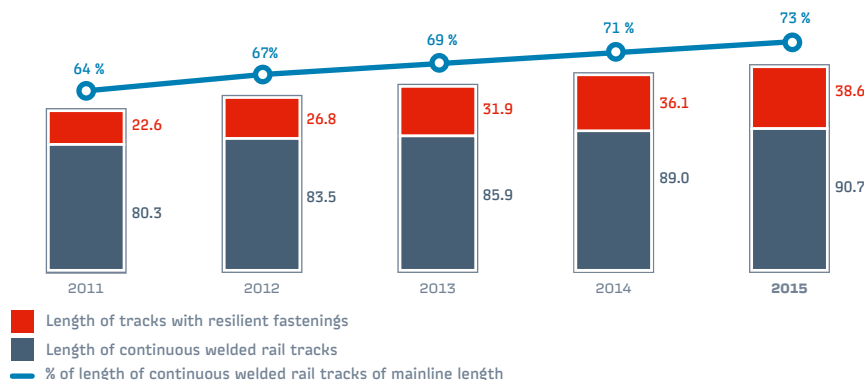
- installation of 103.3 km of suspension cable and 83 km of line feeder;
- installation of 1,733 new contact network supports and 1,230 substructures;
- modernisation of equipment at 12 traction substations;
- replacement of 5 telemechanics systems.

A total of RUB 4.9 bln were spent on major repairs to facilities in 2015. The following facilities were repaired:

- 2,402 km of contact network;
- 1,435 km of overhead and cable electricity transmission lines;
- 73 traction substations.

RUB 5 bln
investment budget for electrification

Length of continuous welded rail tracks, including with resilient fastenings, '000 km





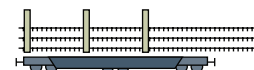
International Engineering and Transportation Construction

In 2015, Russian Railways continued implementing initiatives and projects that aim to strengthen the Company's competitiveness on the international passenger and freight transportation market as well as ensure the integration of the national railway network into the Eurasian transportation and logistics system. The Company fully met its contractual obligations as part of projects to develop railway infrastructure abroad and undertook measures to develop new and promising markets.

Key achievements of business unit in 2015

1

Russian Railways continued implementing measures to achieve the goals set forth in the Group's Development Strategy and Long-term Development Programme. Two major projects helped the Group to meet its objectives – the construction and modernisation of railway infrastructure in Serbia and the North Korean project Khasan-Rason. Most of the business unit's revenue was generated by income from the implementation of projects to build the Belgrade-Pancevo railway line and northern sections of the Corridor X Pan-European railway in Serbia. The business unit had revenue of RUB 5.3 bln in 2015, an increase of more than 380% from the results of the previous year.

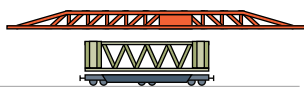




Business Unit

2

Interaction with countries of the Asian-Pacific Region intensified significantly, above all with China, North Korea and Mongolia, in the implementation of joint projects



3

The Russian Railways Group continued implementing infrastructure projects abroad in accordance with previously signed agreements and memorandums.



Activities of business unit

The international infrastructure projects being implemented by the Russian Railways Group may be roughly classified as follows:

- Complex projects that involve the design, construction and supply of the necessary equipment to maintain and operate the infrastructure facilities that are built. The main economic effect for the Russian Railways Group

from implementing projects is the ability to include such railway systems in logistics chains that operate using the Company's infrastructure on the East-West and North-South routes. Examples of such projects can be found in Armenia, Mongolia and North Korea.

- Construction projects in which companies of the Russian Railways

Group operate as contractors during the design and performance of construction work. The economic effect for the Russian Railways Group from implementing projects in this group is the profit generated from the work performed. A project in Serbia is an example of this.

International activities of Russian Railways and key international projects

Cooperation with CIS and Baltic States within the 1520 Domain

- The Russian Railways Group's participation in the Council of Rail Transport of CIS States helped to promote key issues concerning international passenger and freight transportation. The Council adopted a number of resolutions to update regulatory documents and signed several important agreements at its 62nd and 63rd sessions. In particular, at the 62nd session in May 2015 Russian Railways and Azerbaijan Railways signed a memorandum on cooperation that aims to expand the transit potential of the two countries and

increase transportation between Iran, Azerbaijan, Russia and Europe as part of the North-South international transport corridor.

- The intermodal logistics operator United Transportation and Logistics Company (UTLC), which was founded by Russian Railways, Belarusian Railway and NC Kazakhstan Temir Zholy, continued to develop its operations. The Company provides a full range of integrated transportation and logistics services in railway freight and intermodal transportation throughout the Eurasian

Economic Union with eventual entry to the markets of Europe and China. The main outcome of the Tenth International Rail Business Forum Strategic Partnership 1520 (3-5 June, Sochi) was the development of coordinated approaches to the development of the railway industry in the '1520 space'. A number of important agreements were signed.

- Armenian railway infrastructure was rebuilt and developed in full compliance with a concession agreement.

Cooperation with Asia-Pacific Region countries

The Company continued working jointly with its Chinese partner on the project to establish the Eurasian High-Speed Transportation Corridor from Moscow to Beijing for which the Moscow-Kazan section of the Moscow-Kazan-Yekaterinburg Mainline is to serve as a pilot stage.

On 8 May, the Ministry of Transportation of the Russian Federation, the National Development and Reform Commission of the People's Republic of China, Russian Railways and China Railway signed a memorandum on high-speed railway transportation. The memorandum

provisions govern the forms of cooperation and models for financing and investing in the Moscow-Kazan High-Speed Railway project.

On 18 June, High-Speed Rail Lines and a consortium of designers that won a tender

(Mosgioprotrans, Nizhegorodmetroproekt and the Second Design and Survey Institute of Chinese Railways) signed a contract to develop design documentation for this project.

On 3 September, Russian Railways signed a memorandum of intentions with the Port of Yingkou Group on the construction of joint logistics centres, including in the Moscow Region, on a common operational platform for the further provision of integrated services. The first freight was shipped from the Port of Yingkou to Russia in October.

Interaction with international organisations

Russian Railways continued its chairmanship of the International Union of Railways (UIC) in 2015. Russian Railways President Oleg Belozеров was elected chairman of the UIC for 2016 under a resolution adopted at the 87th General Assembly of the UIC.

As a result of joint efforts by Russian Railways and the UIC headquarters, the Committee on Non-Governmental Organisations of the UN Economic and Social Council adopted a favourable decision to raise the status of the UIC to that of a Special Advisory body.

Based on an initiative from Russian Railways, the UIC adopted the important decision to set up a joint working group of the Organisation for Co-operation between Railways (OSJD) and UIC to draft international railway standards for the 1520 cluster.

A concept for the development of international transportation corridors prepared by Russian Railways as part of the UIC Global Expert Group on international transportation corridors was published in May. A number of significant documents were also drafted as part of the security platform against acts of unlawful interference in railway transportation.

In June, the OSJD completed work on the draft Convention on Direct International Railway Transportation along with its

Thus, a full-scale dialogue mechanism has been formed to link the processes of Eurasian economic integration with the construction of the Silk Road Economic Belt.

Russian Railways also devotes considerable attention to establishing a constructive dialogue with Japanese businessmen concerning the development of cooperation in railway transportation.

appendices. The Convention is to be officially adopted after it is considered at the International Intergovernmental Conference and the relevant internal government procedures are carried out.

Comprehensive amendments and additions to the Agreement on International Goods Transport by Rail (SMGS) and procedural instructions for the SMGS took effect starting from 1 July.

A joint working group between NC Kazakh Temir Zholy, Russian Railways and Belarusian Railway prepared proposals for the draft Customs Code of the Eurasian Economic Union, including with respect to the provision of preliminary information about goods being transported as well as the customs procedures for customs transit and the declaration of international transportation vehicles.

The Group's activities within the format of the BRICS Business Council helped to further converge the positions of BRICS nations on matters concerning the development of joint commercial projects.

On the path to change



Alexander Saltanov
Vice President
of Russian Railways

In 2015, the Russian Railways Group continued to work amidst a challenging foreign economic and macroeconomic situation. The changing geopolitical and geo-economic conditions forced us to search more actively for different opportunities to achieve the Company's goals. We also relied on support from the country's leadership as well as the global stature and significant potential of Russian Railways.

Other important factors included the development of integration processes within the Eurasian space, strengthening the role of such powerful organisations as the Shanghai Cooperation Organisation and BRICS, and the continued high level of interest in cooperation with the Group among foreign businesses, including Western ones.

This all enabled us to make progress in resolving some of the top priority tasks – achieving a new level of interaction with foreign partners in infrastructure construction and logistics as well as strengthening the position of Russian Railways in international organisations.



Based on materials from the final meeting of the Russian Railways Management Board

Russian Railways Group's cooperation with European partners

The Russian Railways Group's interaction with European partners primarily focused on the design and manufacturing of new rolling stock and its introduction to the national railway network. In 2015, Russian Railways continued work to strengthen cooperation with global railway engineering leaders such as Siemens,

Alstom, Bombardier, Talgo, Knorr Bremse and others. Further progress was also made in matters concerning the localisation of advanced rolling stock production in Russia and the introduction of environmentally friendly and energy efficient technologies to the Russian railway network.

In addition, Russian Railways continued to promote a project to set up a new Eurasian transportation corridor jointly with the railway administrations and transportation agencies of Austria, Slovakia and Ukraine.

Implementation of international transportation infrastructure construction projects

The Russian Railways Group continued implementing foreign projects in 2015 to build railways and develop infrastructure in Serbia, North Korea, Mongolia, Austria, Slovakia, Indonesia and other countries as well as studying opportunities for expanding cooperation in such matters with Vietnam, Ecuador, Brazil, India and Iran.

Joint work carried out with the Russian Railways Group's companies RasonKonTrans JV and RZD International aimed to achieve the International Engineering and Transportation Construction Business Unit's targets in projects in Serbia and North Korea.

In Serbia, RZD International and Serbian Railways continued implementing a contract on the construction of railway infrastructure and the supply of diesel trains. Most of the additional agreements governing the work in individual areas have now been signed. Work is on schedule and even ahead of schedule for some areas. Traffic officially started running in September on a second mainline on the Golubinci-Ruma section and the new Sopot Kosmajski-Kovacevac section. In October, RZD International and Serbian Railways Infrastructure signed a memorandum on a strategic partnership that outlines spheres of mutual interest in the long term as well as areas where joint efforts can be made.

The Group also studied the feasibility of entering the markets of the region (Hungary, Slovenia, Bulgaria, Montenegro and Croatia) in order to utilise construction machinery upon conclusion of the Serbian project.

The commissioning of a new trans-shipment terminal at the Rason port (North Korea) in 2014 and the start of regular transit freight shipments via North Korea with trans-shipment at the Rason port signalled the completion of the pilot stage of the project to rebuild the Trans-Korean Mainline. In 2015, 1.17 mln tonnes of coal were transported via the Rason port. Russian Railways also held negotiations with a consortium of South Korean companies including POSCO, Korail and Hyundai Merchant Marine.

The modernisation and development of Ulan-Bator Railways continued as part of obligations under a trust agreement to manage the shares of Ulan-Bator Railways. In December 2015, the Mongolian Ministry of Roads and Transportation and Russian Railways approved an action plan to implement projects for the modernisation and development of Ulan-Bator Railways in 2015-2016. The modernisation of Ulan-Bator Railways must provide for the necessary increase in carrying capacity both for freight transportation, primarily minerals

from Mongolians fields shipped to China and ports in Russia's Far East, as well as for growth in transit between Russia and China.

A project office set up by Russian Railways for the establishment of a new Eurasian transportation corridor that envisages the construction of a 1,520-mm railway line to Bratislava and Vienna continued work to promote the project via a four-way joint venture and interaction with the government and business structures of these countries. Work performed in 2015 included an analysis of the environmental impacts, the final determination of the route and land acquisition dates and the preparation of a business plan with a detailed study of the technical parameters of the line as well as investment and operating expenses for the entire life cycle of the project.

On 23 November 2015, RZD International and Islamic Republic of Iran Railways signed a preliminary contractual agreement on design, supply of materials and equipment, and construction as part of a project to electrify the Garmsar-Ince Burun railway section. Financing is expected to come from a state export loan.

Plans of the business unit to increase income

An increase in the business portfolio of foreign projects in railway transportation and infrastructure development will help to meet the objective of increasing the Russian Railway Group's income. The geography of the projects currently being studied by the Group as well as future projects encompasses a significant number of countries in Eastern Europe and Asia as well as Africa and Latin America. The Russian Railways Group is expanding the range of promising infrastructure projects abroad based on a comprehensive study and direct monitoring of the markets that are of interest in the short and medium term.

The Group is studying matters related to its involvement in the development of railway industries in Brazil, India, Ecuador, Vietnam, Ethiopia and a number of other countries.

In Ecuador, the Group plans to take part in the construction of a railway network that is designed to unite the capital of Quito with the country's major ports – Esmeraldas, Manta and Guayaquil.

Russian Railways and its Brazilian partners are also studying the feasibility of participating in a federal programme to develop Brazil's railways.

Specific projects in India will be determined jointly with the Company's Indian partners in accordance with the terms of the memorandum on mutual understanding signed by Russian Railways and the Ministry of Railways of the Republic of India in December 2015.

The main criteria when selecting promising projects:

- whether the potential implementation of the project will produce a positive financial result for the Russian Railways Group;
- whether the customer has the necessary financing to implement the project;
- whether the Russian Railways Group has the relevant competencies and experience;
- the ability to ensure the safety of employees involved in implementing the project;
- the political situation in the country where the project is to be implemented and the degree of country risks (market, legal, currency, operating, credit);
- whether there is a synergistic effect from the projects to be implemented by the Russian Railways Group;
- the degree of the project's readiness for implementation.

The Company is open to discussing any interesting opportunities for business development abroad and is prepared to take part in the implementation of railway construction projects or the establishment of new transportation chains.



Social Unit

The development of the Social Unit is based on an objective assessment of the added value created from social support to employees and the effective use of the unit's assets to provide market services. The Group's social and public policy pursued outside of the workforce is an integral component of this unit.

Key achievements of business unit in 2015

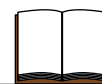
1

Labour productivity in transportation businesses increased 4.8% in 2015 compared with 2014



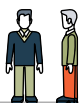
3

Russian Railways fully met its obligations under the collective bargaining agreement in 2015



2

Staff turnover decreased 1.0% versus the 2014 level and stood at 7.4% thanks to the Company's social policy



4

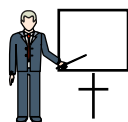
The Company indexed employee salaries at 3.7% in March 2015





5

The Company drafted and approved 15 professional standards on 31 professions and positions in 2015



7

Russian Railways adopted an updated version of its Business Ethics Code, which aims to strengthen common corporate values, standards and rules for employee conduct



6

Due to the introduction of distance learning programmes, a record number of Russian Railways managers and specialists underwent training at the Corporate University in 2015 – 8,800 people (an 80% increase from 2014)



8

The incidence of Russian Railways employees with temporary disabilities decreased 2.9% compared with 2014, including 2.8% for locomotive crew employees



On the path to change

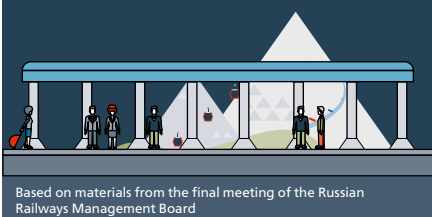


Dmitry Shakhnov
Vice President
of Russian Railways

The Company met all its obligations under the Russian Railways collective bargaining agreement and ensured social stability in its workforces despite the difficult economic conditions. All obligations under the collective bargaining agreement were fulfilled.

Growth was also seen in the competitiveness of the salaries of Russian Railways employees engaged in all types of activities. The ratio of the salary of Company employees to the average salary for the country was 1.29. The Company achieved a high staffing level while simultaneously reducing personnel turnover. The share of employees with a higher education continues to increase. Labour productivity grew 4.8% compared with 2014. The social and personnel unit is actively working to improve its labour productivity.

In 2015, a new version of the Business Ethics Code was adopted, the targeted programme Russian Railways Youth was updated and a number of projects were implemented to develop corporate culture. In 2016, the social and personnel unit will continue work to implement projects that aim to improve the personnel management system.



Based on materials from the final meeting of the Russian Railways Management Board

Activities of the business unit

The primary function of the Social Unit is to pursue a socially responsible policy with respect to the Company's employees and the government.

The core strategic objectives of the Russian Railways Group's social policy are:

- to improve the Group's competitiveness as an employer;
- to hire and retain personnel with the required qualifications at the Group;
- to effectively manage staffing levels taking into account the introduction of new machinery and modern technologies;
- to introduce the competence approach in personnel management;

- to establish an effective talent pool;
- the continuous development of personnel;
- to pursue an effective youth policy and strengthen the corporate culture;
- to carry out an effective social policy;
- effective personnel management and social support;
- to provide healthcare services.

In 2015, the Company maintained its status as a socially responsible employer and ensured social stability in the workforce.

Personnel management

Russian Railways views its personnel as its primary asset. Recruiting and retaining personnel with the required skills along with their continuous development and social support are the top priorities of the Company's personnel policy.

Labour productivity

Russian Railways has carried out systematic work since its establishment to ensure growth in labour productivity and to optimise staffing levels. Over this entire period, the growth dynamics in labour productivity has outpaced the growth dynamics in transportation volumes due to the optimisation of staffing levels.

Labour productivity for transportation businesses increased 4.8% in 2015 compared with 2014.

Personnel numbers and structure

Russian Railways had 808,900 employees as of 31 December 2015, a decrease of 26,900 people from a year prior. As a result of the Company's effective social and personnel policy, the personnel turnover rate fell 1.0% compared with 2014 to 7.4%.

Planned downsizing was carried out above all due to the natural outflow of staff,

retirement, temporary hiring constraints, the use of temporary and seasonal employment, the redistribution of personnel between divisions and pro-active personnel re-training.

The educational level of personnel continued to expand in 2015. In particular, employees with a higher education made up

28.8% of total personnel, a 1.9% increase from the start of the previous year, while employees with a secondary vocational education made up 26.8% of employees (up 0.3% from the start of the year).

Remuneration and improving personnel motivation

The average monthly salary of Russian Railways employees engaged in all businesses increased 8.2% in 2015 compared with 2014 and totalled RUB 44,500 (RUB 41,126 in 2014) as a result of a set of measures to improve labour productivity and salary indexation in accordance with the obligations of the collective bargaining agreement.

The material incentive system, which is built on the principle of assigning key objectives to the structural division level, made it possible to:

- meet the main budget parameters of increasing freight train speed, average train weight and employee labour productivity;

- improve adherence to the passenger and freight train schedule and reduce the downtime of transit railcars at marshalling yards;
- reduce the working downtime of locomotive crews.

Remuneration

Indicator	2011	2012	2013	2014	2015
Average monthly salary of Russian Railways employees engaged in all types of activities, RUB	33,130	35,702	38,935	41,126	44,500
Growth vs. previous year, %	114.5	107.8	109.1	105.6	108.2
Ratio of salaries of Russian Railways employees vs. national average	1.42	1.34	1.31	1.27	1.31

Personnel training

Russian Railways continued systematic work in 2015 to provide training, re-training and advanced training for its personnel, in particular:

- training of more than 52,000 workers in key professions;
- more than 25,000 people upgraded their skill category;
- 13,700 people were trained in a second profession;

- more than 154,000 people upgraded their skills in various courses at training centres and in the workplace.

The Company has established and is effectively developing a unique corporate system of vocational training comprised of 15 vocational training centres that meet the demands of the Company's divisions for skilled personnel in the main railway professions. Employees are trained at training centres according to curricula and programmes are developed on the basis of professional standards.

13,700 people

trained in a second profession

Russian Railways continued close cooperation with industry-based higher educational institutions in 2015 to train specialists with a higher and secondary vocational education. At present, more than 40,000 students are studying at railway universities based on orders from Russian Railways.

The Company has drafted 29 professional standards specific to railway transportation that cover more than 500,000 employees of the Russian Railways Group on 65 professions and positions, which makes up over 54% of the Group's total number of employees. In 2015, the Company drafted and approved 15 professional standards on 31 professions and positions.

Based on the approved professional standards, 20 curricula and programmes were prepared for 29 professions that will be introduced in 2016.

Due to the introduction of a number of distance learning programmes, a record number of Russian Railways managers and specialists underwent training at the Corporate University in 2015 – 8,800 people (an 80% increase from 2014).

A total of 15,700 people underwent training as part of engineering training programmes based at railway universities.

A number of training programmes were implemented in strategic areas for the Company's development with 2,100 employees trained in the 'Lean Manufacturing' programme and 128 employees trained in the 'Development of an Integrated Rapid-Transit and High-Speed Transportation Network in the Russian Federation' programme.

Russian Railways promotes business education for the Company's high-potential managers. In 2015, 80 employees underwent training as part of MBA programmes, while 866 Russian Railways managers and specialists engaged in international activities underwent foreign language training.

Systematic work was carried out to optimise training expenses. The economic effect from optimising contractual work, the co-financing of business education by employees and the expanded use of distance learning reached RUB 80 mln in 2015.

8.2 %

growth in average monthly employee salary in 2015

4.8 %

growth in labour productivity compared with 2014

15,700 people

underwent training as part of engineering training programmes based at railway universities

8,800 people

underwent training at the Corporate University in 2015

Collective bargaining agreement

The collective bargaining agreement for 2014-2016 applies to all of Russian Railways, including branches, structural divisions and representative offices.

The main focus of the agreement is on hiring, developing, retaining and motivating employees. The Group has introduced the principle of employee responsibility for production results.

Russian Railways traditionally meets all the obligations set forth in the collective bargaining agreement. In 2015, the Company spent more than RUB 100 bln on such purposes.

More than 2,200 employees received subsidised mortgage loans in 2015 to purchase housing with total subsidies amounting to RUB 4.3 bln.

The Company primarily focuses on young and large families as well as single parents raising children. Non-repayable subsidies for up to 70% of housing costs are earmarked for such families.

Over the period from 2006 to 2015, more than 31,800 Russian Railways employees improved their living conditions with the Company's financial support.

As part of its efforts to ensure the continuity and safety of the transportation process, Russian Railways operates a network of private healthcare facilities that includes 102 hospitals and 71 clinics.

The Company's healthcare system supports the medical component of train traffic safety with more than 1.5 mln mandatory preliminary and regular medical examinations of hired employees as well as 30 mln pre-trip medical check-ups.

In 2015, a total of 115,729 people vacationed and underwent rehabilitation at Russian Railways facilities, including 13,100

railway employees and 9,100 members of their families, almost 8,000 retirees, 47,500 branch employees as well as 38,300 other individuals and legal entities.

The Company carried out measures in 2015 as part of its 'Russian Railways Youth' target programme, which aims to develop professional and corporate skills among young employees and actively involve them in resolving the Russian Railways Group's corporate objectives. An updated version of the 'Russian Railways Youth' programme (2006-2020) was approved to effectively implement the corporate youth policy and develop the potential of young personnel.

The Company organised social corporate projects in which 15,400 children, young people and Company employees took part in 2015:

- the 'Roads of the Future' and 'Your Safety Path' projects for children of Russian Railways employees;

- the 'Company Open Doors' programme for teenagers choosing their future professions;
- the '3D Network. Road, Home, Friends' project for students and young people;
- the 'Family Album' programme for family vacations and rehabilitation.

The Russian Railways corporate pension system is based on the principle of the shared interest of the employee and employer in generating an 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.

More than 603,000 Russian Railways employees have pensions with the Blagosostoyanie Private Pension Fund. Over 284,000 former railway workers draw a private pension. In 2015, pensions were assigned to 16,140 Russian Railways employees with the average pension totalling RUB 7,942.

More information about the Russian Railways social policy is available in its annual social report at the Company's website: www.rzd.ru



Occupational safety

The Russian Railways Group's Occupational, Environmental, Industrial and Fire Safety Policy is the fundamental document that describes the Company's position, goals and key objectives in ensuring the safety of production processes.

The Company has established and employs an Occupational Health and

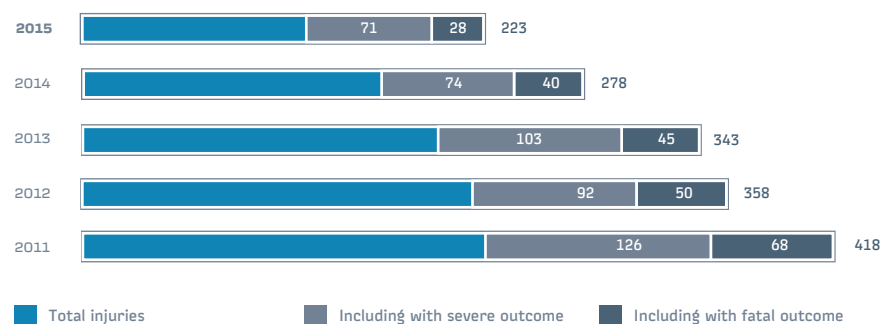
Safety Management System to meet these objectives.

In order to improve occupational safety management efficiency, the Company systematically conducts work to improve its regulatory framework. There are roughly 150 occupational safety rules and instructions in effect at Russian Railways.

The injury rate is the key efficiency indicator of how the occupational safety management is functioning.

In 2015, the injury rate declined 20% compared with the previous year, while the fatal injury rate fell 30%.

Occupational injury dynamics



20 %

decline in the injury rate compared with 2014

Key industrial safety indicators

Indicator	2011	2012	2013	2014	2015
Spending on labour safety (measures to improve occupational safety and conditions), RUB mln	11,117.3	12,676.1	16,030.0	16,330.0	18,593.5
Occupational injury frequency rate (number of injures per '000 workers)	0.45	0.39	0.39	0.34	0.29
As a percentage, '000 jobs	10.8	19.7	7.5	9.4	4.3
Improved labour conditions, '000 jobs	49	55,7	46	33	23

Environmental protection

Russian Railways has drafted and is implementing an Environmental Responsibility Programme, approved a Concept for Environmental Protection Activities and an Environmental Protection Policy and has set strategic benchmarks for reducing the energy intensity of services and the negative environmental impact.

Railway transportation is recognised as one of the most environmentally friendly modes of transportation. The energy efficiency of railway transportation is two to three times higher than that of road transportation, both in terms of freight and passenger transportation. The Russian Railways Group's share of environmental pollution in Russia is less than 1%. Nevertheless, Company management believes it is essential to take active part in the goal of minimising the negative environmental impact.

The Company's programmes aim to create a 'green' economy based on energy conservation, the introduction of environmentally friendly technologies, renewable and alternative energy sources and integrated solutions for utilising waste in the production process.

Russian Railways systematically conducts work to:

- eliminate pollution and facilities with accumulated environmental damage related to railway transportation activities;

- transition to environmentally friendly types of products;
- organise work to improve legislation in environmental protection.

The Company declared 2015 the Year of Waste Management. As part of this campaign, a wide range of diverse activities was carried out to draw the attention of the government, the public as well as the Company's employees and customers to environmental problems.

Total spending by the Company on environmental protection measures in 2015 exceeded RUB 3.2 bln, including RUB 816 mln in investments.

The following measures were carried out in 2015:

- design and estimate documentation was prepared for 16 titles;
- construction and installation work was performed at ten facilities with construction completed at seven of them;
- seven environmental protection facilities were put into operation, 51 units of testing and measuring equipment were purchased for 20 laboratories and five vehicle-based mobile environmental laboratories were supplied along with one environmental track test car.

Pollutant emissions from stationary sources decreased by 5,700 tonnes, or 7%, in 2015.

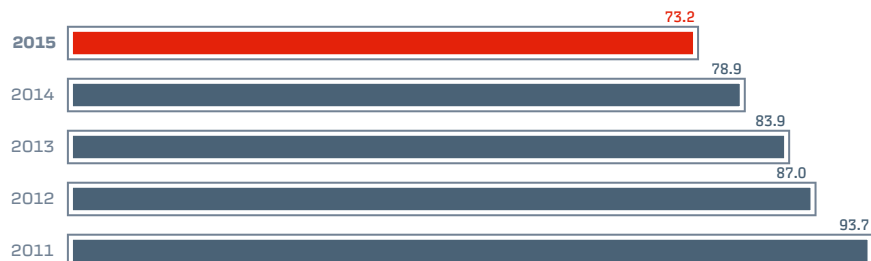
Water consumption fell by 3.7 mln m3 (3.7%) in 2015 to 94.3 mln m3.

The discharge of contaminated wastewater to the environment decreased by 2.2 mln m3 (20%) to 8.9 mln m3 last year.

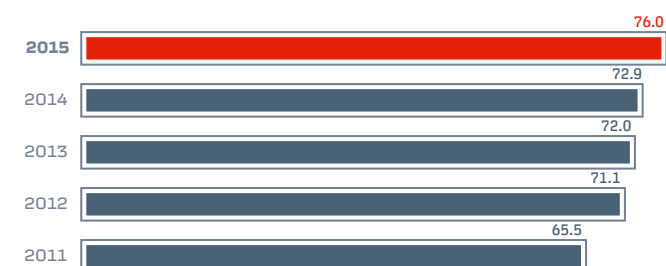
Russian Railways structural divisions generated 2.166 mln tonnes of production and consumption waste in 2015 with 44% of that amount utilised and decontaminated by the Company's divisions. In addition, 54% of the generated waste is given to third-party organisations with 40% transferred under consumption agreements and 60% under revenue agreements.

The Company's structural divisions recycled 1,750 tonnes of paper, glass and plastic waste in 2015 as part of a separated waste collection project, producing an economic effect of RUB 4.6 mln.

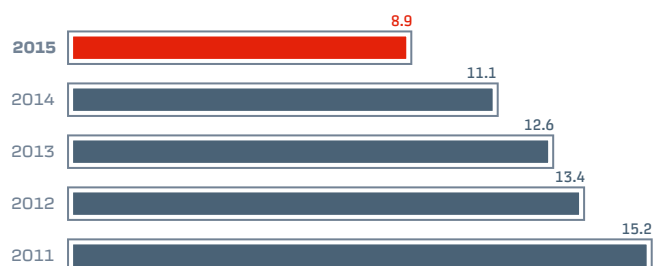
Pollutant emissions from stationary sources of Russian Railways branches, '000 tonnes



Proportion of decontamination and recirculation of Russian Railways waste into economic activities, %



Discharges of contaminated wastewater into water bodies and terrain by Russian Railways branches, mln m³



Charitable activities

The Company approves a Charitable Activities Plan for each year.

A total of RUB 730 mln were allocated for charity in the reporting year.

In 2015, Russian Railways:

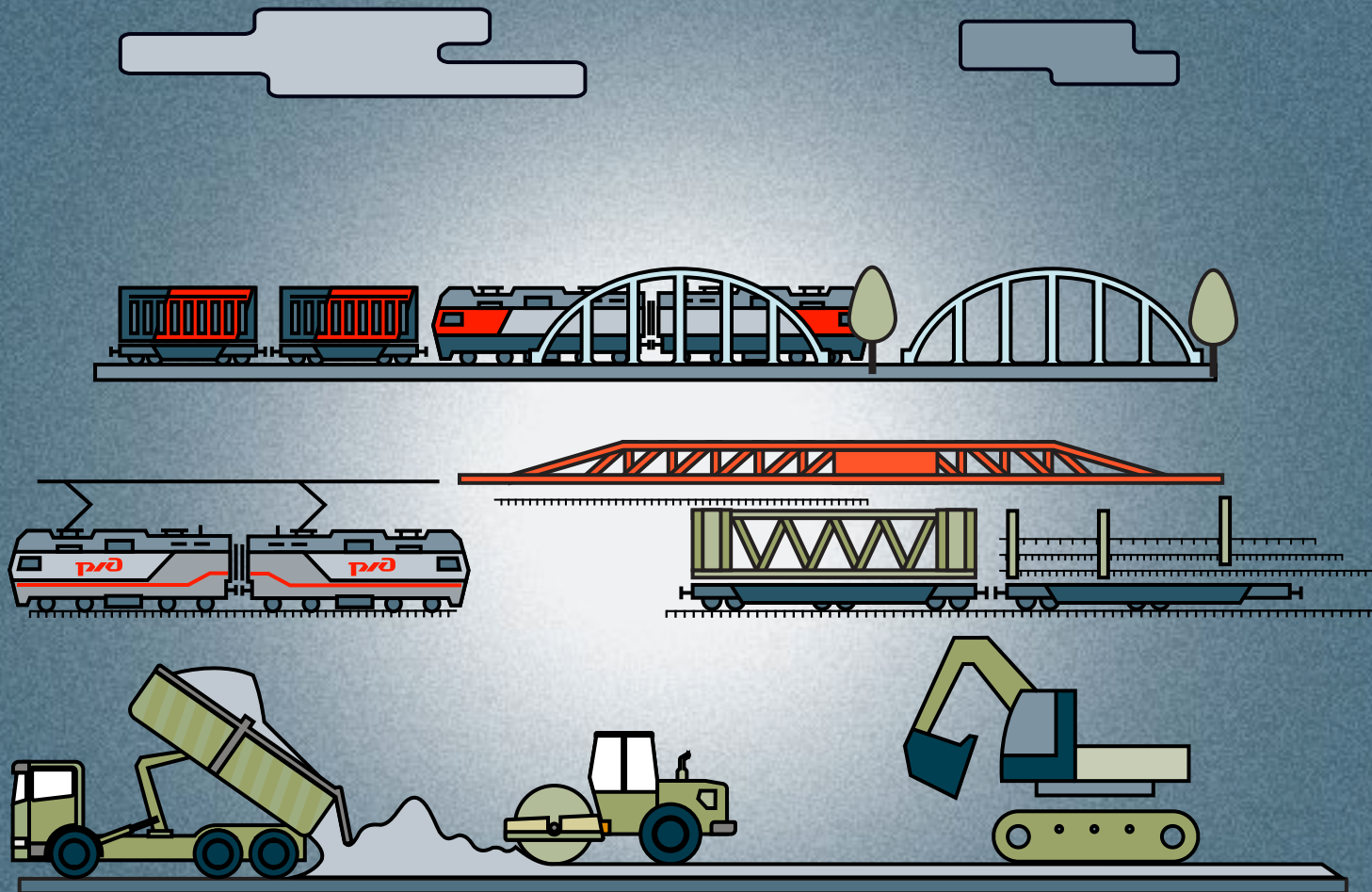
- provided assistance to railway transportation employees and retirees affected by flooding in the Primorye Region;
- provided charitable assistance for repair and restoration work at the Holy-Transfiguration Valaam Monastery and Novo Jerusalem Monastery;
- provided support for the creative activities of musicians Valery Gergiyev, Vladimir Spivakov and Yuri Bashmet;
- allocated funds to support the activities of Moscow State University of Railway Engineering and Petersburg State Transport University;
- provided charitable assistance to orphanages and children's hospices;
- organised free and discounted transportation as part of charitable activities.

MANAGEMENT OF INVESTMENT ACTIVITIES

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The priority objective in the Russian Railways investment budget for 2015 was to implement projects of national importance involving the fulfilment of orders from the Russian President and Government that are to be carried out with state support.





Investment programme

RUB **365.5** bln

Spending under Russian
Railways investment
programme in 2015

RUB **133.8** bln

investments in projects
to fulfil orders from the Russian
Government

RUB **88.8** bln

investment in rolling stock
renovation

RUB **74.3** bln

investment budget for eliminating
infrastructural constraints

On the path to change



Oleg Toni
Vice President
of Russian Railways

In 2015, more than RUB 200 bln were spent on the construction and modernisation of railway infrastructure performed by the Company's construction units.

Russian Railways met its objectives of developing the Eastern operating domain, the Moscow Hub, approaches to ports in the Northwest and Azov and Black Seas as well as a number of other projects throughout the entire railway network that aim to eliminate bottlenecks, increase carrying capacity and improve traffic safety.

A process and price audit of the Company's investment projects was conducted in 2015 with the results published on the Company's website and discussed with expert organisations.

The Company actively works to optimise project and technological solutions in order to improve the efficient use of investment resources as part of implementing the orders of the Russian Government.



Based on materials from the final meeting of the Russian Railways Management Board

Investment planning approaches

The planning of the investment programme takes place in several stages:

- formation of a master plan for the development of the railway network using an input-output balance and identification of the general areas for the development of railway transportation;
- identification of sources to fund the investment programme as part of the formation of the Company's financial plan;
- prioritisation during the consideration of investment projects at meetings of the Investment Projects Expert Council and Investment Committee based on the available sources of funding.

Formation of a master plan for the development of the railway network

The process of identifying promising areas for the development of railway transportation essentially consists of the following three stages:

- forecasting transportation volume based on the input-output balance;
- forming a master plan for the development of the railway network;
- identifying medium-term objectives for the development of railway transportation based on the master plan.

Building an input-output balance

Today, the interregional input-output balance of freight transportation is the primary tool used to identify the prospective freight base and the main freight routes on the Company's railway network.

The main principle for building the input-output balance is transitioning from the macroeconomic forecasts of the Russian Ministry of Economic Development to forecasts of interregional traffic flows taking into account the industry's programmes and development strategies, Russia's subnational entities as well as requests from individual enterprises.

One important aspect of constructing forecasts is to take into account plans for

the development of related modes of transportation (plans of Russian sea ports) as well as the development programmes and strategies of the constituent entities of the Russian Federation.

An interregional input-output balance of freight transportation was used to determine growth in the freight base of the project 'Modernisation of the Railway Infrastructure of the Baikal-Amur and Trans-Siberian Mainlines with the Development of Traffic and Carrying Capacity' (ensuring growth in freight volumes shipped from the main fields of the Eastern operating domain to 66 mln tonnes).

Formation of a master plan for the development of the railway network

The prospective freight base for railway transportation serves as the basis for identifying and substantiating the measures required to develop railway transportation infrastructure and, in turn, forms the basis of the master plan for the development of

the railway network for the period until 2020.

The master plan developed based on this approach aims to detect and resolve a number of systemic constraints and

bottlenecks that emerge on railway transportation and are critical for the further development of railway infrastructure.

Identifying medium-term objectives for the development of railway transportation based on the master plan

The Company identifies medium-term priorities for implementing development and renovation investment projects based on the long-term railway infrastructure development plans as well as the growth rates in the freight base.

This three-tiered systematic approach enables the Company to construct forecasts for the development of railway infrastructure with a rather high degree of accuracy and form the Long-term Investment Programme of Russian Railways.

Using the Long-term Investment Programme as a basis, the Company can clearly identify projects that should be implemented in the medium term (three-year period).

Identification of sources to fund the Investment Programme as part of the formation of the Company's financial plan

When forming its Investment Programme, Russian Railways adheres to the principle of consistency with respect to sources of funding and the structure of the Investment Programme.

Specifically, the Company seeks to secure investment budget funding for spending on:

- renovations to fixed assets at the level of depreciation charges;
- commercially effective projects at the level of borrowed funds;
- commercially ineffective projects at the level of government support.

Russian Railways has classified the entire package of investment projects based on the criteria of the payback period and commercial effectiveness according to three categories.

The first category includes projects with a payback period of 10-15 years that Russian Railways is prepared to finance using its own cash flow as well as borrowed funds within an accepted level of debt load.

The second category includes projects with a payback period of 15-30 years. Russian Railways cannot borrow to finance these projects since the market does not offer borrowed funds with this kind of term structure. At present, investment projects in this category are financed by issuing infrastructure bonds.

The third category consists entirely of ineffective (stranded) investment projects for Russian Railways that may only be funded by budget sources since the state budget can recoup the invested funds via a multiplier budget effect. This category includes the following projects:

- modernisation of the railway infrastructure of the Baikal-Amur and Trans-Siberian Mainlines with the development of traffic and carrying capacity;
- comprehensive development of the Mezhdurechensk-Tayshet section of Krasnoyarsk Railway;
- development and renovation of railway infrastructure at approaches to ports in the Azov and Black Seas;

- construction of the Prokhorovka-Zhuravka-Chertkovo-Bataysk railway line (a new line on the Zhuravka-Millerovo route);
- development of the Moscow Transport Hub;
- construction of secondary tracks and the electrification of the Vyborg-Primorsk-Yermilovo section;
- construction of the Moscow-Kazan High-Speed Railway.

Prioritisation of investment projects

After the objectives for railway transportation development are identified at meetings of the Russian Railways Investment Projects Expert Council and Russian Railways Investment Committee taking into account the transition projects that have already been implemented and also based on the available sources of funding for the Investment Programme in the medium term, the parameters of the investment projects for renovating and developing railway infrastructure are optimised.

The Investment Projects Expert Council's primary objective is to conduct an in-depth technological study of the proposed projects prior to their consideration by the Investment Committee.

The Investment Projects Expert Council considers the details of the medium-term

investment projects on an itemised basis each year at meetings in August and September and selects the most optimal measures from a technological standpoint.

The primary objectives of the Investment Committee are:

- to conduct an economic expert evaluation of the projects;
- to identify possible funding targets for the Company's Investment Programme;
- to rank and prioritise the investment projects based on the performance indicators and overall strategic objectives of the Company's investment policy;
- to consider and approve the projects in the Company's Investment Programme;

- to monitor the implementation of the Company's Investment Programme;
- to consider matters concerning the optimisation of the management of the Company's investment activities.

Based on the decisions regarding the priority of investment projects adopted at the meeting of the Company's Investment Committee, a three-year Investment Programme is prepared and subsequently considered by the Russian Railways Board of Directors and the Russian Government.

Audit of investment projects

Design documentation underwent a process and price audit at 30 railway infrastructure facilities in the reporting year.

The Company continued work initiated by the Russian Government in 2015 to conduct an independent process and price audit (PPA) of its investment projects.

The introduction of the PPA procedure was an important step towards improving the openness and transparency of the Company's investment programmes that are funded in full or in part by federal budget funds and generate increased interest from the public.

Taking into account the decisions of the Russian Government as well as the procedure specified in the Corporate Standard 'Mandatory Process and Price Audit of the Investment Projects of Russian Railways and Its Subsidiaries and Affiliates', the biggest investment projects included in the Russian Railways Investment Programme underwent an audit during their pre-project stages:

- reconstruction and modernisation of the Baikal-Amur and Trans-Siberian Mainlines;
- development of railway infrastructure at approaches to ports in the Azov and Black Seas, including the bypass of the Krasnodar Railway Hub;
- development of railway infrastructure at approaches to ports in northwest Russia until 2020.

In accordance with the Corporate Standard, the results of the audit were published on the official website of Russian Railways and discussed with expert communities.

Overall, the experts noted that the projects have been sufficiently studied given the current implementation stage.

In December 2014, the Government Transportation Commission ordered audits of the design documentation for 72 railway infrastructure facilities in the Eastern operating domain with a final decision to be made on 12 of the facilities at meetings of the Interdepartmental Working Group on Railway Transportation Development Affairs.

Since the start of 2015, design documentation audits have already been conducted for 30 railway infrastructure facilities in the Eastern operating domain. Seven of the audit reports were sent to the Interdepartmental Group for consideration and two of them have already been reviewed by the Interdepartmental Group.

In 2016, design documentation audits are to be conducted at 38 facilities taking into account the expiration of deadlines for the

preparation of design documentation by design institutes. In 2017, audits will be conducted at four facilities.

The Company also actively cooperates with the Russian Government, the Expert Council under the Russian Government, the Open Government and the Consumer Council on matters concerning the activities of Russian Railways as regards developing an optimal mechanism for managing the process and price audit procedure for projects. In particular, Russian Railways insists on the need to regulate independent process and price audit procedures at the level of federal legislation, which would make it possible to

eliminate existing conflicts in the legislative provisions of the Russian Federation as well as determine the status of these procedures and the extent of liability.

In future years, the Company also plans to regularly carry out all the necessary comprehensive measures that aim to optimise the use of investment resources in order to improve its performance efficiency and execute the orders of the Russian Government.

Implementation of the Russian Railways Investment Programme for 2015

In 2015, the actual execution of Russian Railways Investment Programme amounted to RUB 365.5 bln.

The adjustments to the Investment Programme were primarily attributable to changes to the 2015 federal budget in the form of updates to funding sources for the Company's infrastructure projects as well as certain decisions by the Russian Government on the implementation of Russian Railways investment projects and in connection with work on technological and price solutions that are required to optimise and enhance the effective use of budget funds.

Among other things, spending on railway track reconstruction was moved up to 2015 from 2016 taking into account work performed on closed runs using 'winter stowage' technology, and updates were made to the parameters of a number of investment projects.

In 2015, the structure of the Russian Railways investment budget continued to

be presented in the form of independent units that allow for prioritising their implementation with a breakdown of key tasks, including:

- projects related to the fulfilment of orders by the Russian Government;
- ensuring safety;
- eliminating infrastructural constraints;
- improving transportation accessibility for the public;
- renovating rolling stock;
- other projects.

On the path to change



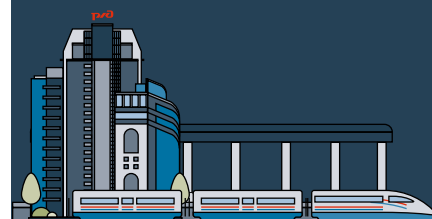
Vadim Mikhailov
Senior Vice President
of Russian Railways

One of the priority tasks in executing the Russian Railways investment budget in 2015 was the implementation of projects of national importance related to the fulfilment of orders from the Russian President and Russian Government that are implemented with state support.

The Company performed substantial work in 2015 to ensure its investment programme had the necessary sources of funding.

A total of RUB 50 bln was raised from preferred shares for the project to modernise the Baikal-Amur and Trans-Siberian Mainlines.

A number of projects, including renovations to traction rolling stock, were funded via infrastructure bonds.



Based on materials from the final meeting of the Russian Railways Management Board

Investment budget indicators of Russian Railways for 2015, RUB bln

Section	2014		2015				+/- 2015 vs. 2014	% 2015 vs. 2014
	Actual	Share of total ex- penditures	Target	Actual	Share of total ex- penditures	%		
TOTAL	396.0	100.0	382.9	365.5	100.0	95.4	-30.5	92.3
Projects related to the fulfilment of the Russian Government's orders	67.5	17.1	147.4	133.8	36.6	90.8	66.3	198.2
Safety	46.9	11.8	45.6	44.3	12.1	97.0	-2.6	94.4
Elimination of infrastructural constraints	140.8	35.6	74.8	74.3	20.3	99.3	-66.5	52.8
Improving transportation accessibility for the public	12.8	3.2	13.4	13.2	3.6	98.9	0.4	103.4
Renovating rolling stock	104.4	26.4	89.5	88.8	24.3	99.2	-15.6	85.0
Other projects	23.6	6.0	12.2	11.0	3.0	90.5	-12.6	46.7

The priority objective in the Russian Railways investment budget for 2015 was to implement projects of national importance

involving the fulfilment of orders from the Russian President and Government that are to be carried out with state support.

Investment budget indicators of Russian Railways for 2015 by source, RUB bln

Source	Plan	Fulfilment	% vs. plan
Total	382.9	365.5	95.4
Including:			
internal	238.7	228.6	95.8
Russian Railways	201.7	191.7	95.0
Pension Fund bonds	37.0	37.0	100.0
government support	144.2	136.9	94.9
NWF	8.9	7.9	88.8
federal budget, City of Moscow funds, subsidies	75.1	69.1	91.9
NWF bonds	60.2	59.9	99.5

Projects related to the fulfilment of the Russian Government's orders

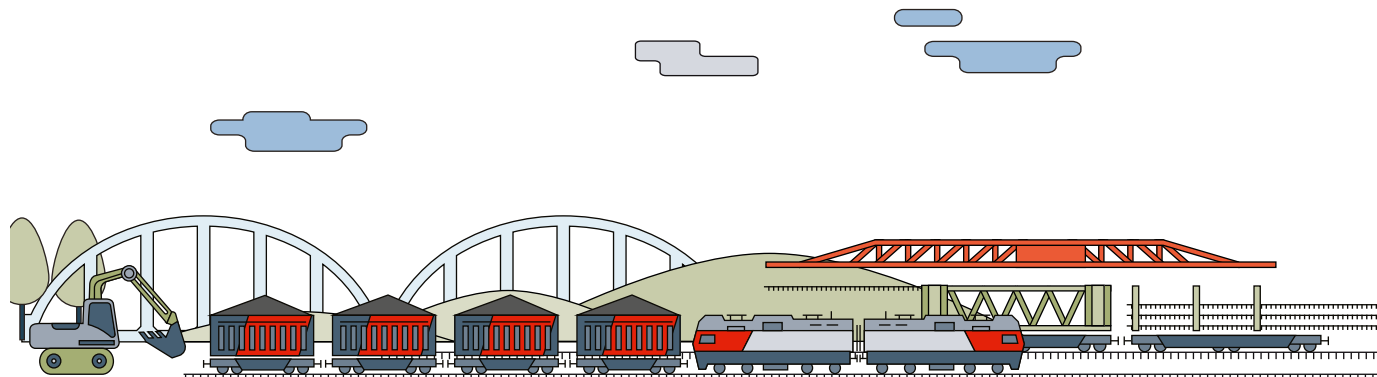
As a result of the decisions adopted by the Russian Government, the following projects were implemented in 2015 using government support funds:

- modernisation of the railway infrastructure of the Baikal-Amur and Trans-Siberian Mainlines;
- comprehensive reconstruction of the Mezhdurechensk-Tayshet section;
- comprehensive reconstruction of the M. Gorky-Kotelnikovo-Tikhoretskaya-Krymskaya section with a bypass of the Krasnodar hub;
- development of the railway infrastructure of the Moscow Transport Hub;
- measures envisaged by the Comprehensive Public Transport Safety Programme;
- construction of the Moscow-Kazan High-Speed Railway.

Investment budget indicators of Russian Railways for 2015 by projects, RUB bln

Project	Plan	Actual	%	Including											
				Russian Railways funds			federal budget, including City of Moscow funds and subsidies			National Wealth fund			NWF infrastructure bonds		
				Plan	Actual	%	Plan	Actual	%	Plan	Actual	%	Plan	Actual	%
TOTAL for Russian Railways	382.9	365.5	95.4	238.7	228.7	95.8	75.1	69.0	91.9	8.9	7.9	88.4	60.2	59.9	99.4
Modernisation of the railway infrastructure of the Baikal-Amur and Trans-Siberian Mainlines with the development of traffic and carrying capacity (Eastern operating domain)	72.8	64.2	88.1	54.8	49.0	89.3	9.1	7.4	80.8	8.9	7.9	88.4	—	—	—
Comprehensive reconstruction of the Mezhdurechensk-Tayshet section of Krasnoyarsk Railway	6.6	5.9	90.5	0.2	0.2	69.4	6.3	5.8	91.3	—	—	—	—	—	—
Development and renovation of railway infrastructure at approaches to ports in the Azov and Black Seas	7.0	5.8	82.8	3.5	2.9	84.4	3.6	2.9	81.3	—	—	—	—	—	—
Development of the Moscow Transport Hub	49.9	47.8	95.8	8.3	8.2	98.7	41.5	39.6	95.2	—	—	—	—	—	—
Construction of the Prokhorovka-Zhuravka-Chertkovo-Bataysk railway line	6.5	6.3	96.4	0.04	0.04	100.0	6.5	6.3	96.4	—	—	—	—	—	—
Construction of secondary tracks and the electrification of the Vyborg-Primorsk-Yermilovo section	4.6	3.8	82.6	—	—	—	4.6	3.8	82.6	—	—	—	—	—	—
Measures envisaged by the Comprehensive Public Transport Safety Programme	0.9	0.9	92.4	0.6	0.5	97.9	0.4	0.3	84.3	—	—	—	—	—	—
Construction of the Moscow-Kazan High-Speed Railway	5.1	5.1	100.0	2.0	2.0	100.0	3.1	3.1	100.0	—	—	—	—	—	—
Purchase of traction rolling stock	60.3	59.9	99.3	0.1	0.05	69.8	—	—	—	—	—	—	60.2	59.9	99.4
Other projects	169.2	165.8	98.0	169.2	165.8	98.0	—	—	—	—	—	—	—	—	—

Modernisation of the railway infrastructure of the Baikal-Amur and Trans-Siberian Mainlines



The measures required to develop the railway infrastructure of the Eastern operating domain involve eliminating infrastructural constraints on the Baikal-Amur and Trans-Siberian Mainlines in order to transport 66 mln tonnes of additional freight from the fields of the Eastern operating domain. Implementing this project will contribute to the development of the region's industrial enterprises, create new jobs and establish the necessary economic conditions for the effective and sustainable development of Siberia and the Far East.

Spending as part of the 2015 Investment Programme on work to develop the railway infrastructure of the Eastern operating domain (the Baikal-Amur and Trans-Siberian Mainlines) totalled RUB 64.2 bln.

In accordance with the detailed action plan for the development of the Eastern operating domain approved on 28 December 2015 in Minutes

No. 9 of the Government Transportation Commission, the following was commissioned as part of the project:

- 559.6 km of secondary tracks on the Predlensky-Chudnichny, Chudnichny-Zvezdnaya and Kun-Poni stretches (second and third phases);
- 30.5 km of station tracks and 87 turnouts at the Tuluchi, Gurskoye, Bolshoy Log, Inau, Oune and Ryazanovka stations, the Moscow Komsomolets passing loop and Khuma;
- 312.3 m of the Obluchensky Tunnel (second phase of reconstruction) on the Obluchye-Izvestkovaya section;
- a pedestrian bridge at the Urusha station, four bridges on Zabaykalsk Railway with total length of 88.2 m, three bridges on Far Eastern Railway – 183.2 m and two pipes on East Siberian Railway – 48.1 m;
- a vacation retreat for locomotive crews at the Volochayevka-2 station;
- a first-group operational enterprise with the construction of a vacation retreat for locomotive crews at the Zima station.

A total of 1,217.9 km of tracks were modernised, 1,171.2 km of seamless long-welded rails were laid and 437 turnouts with concrete sleepers were installed.

RUB 64.2 bln

worth of work on the development of the railway infrastructure of the Eastern operating domain

Development of the Moscow Transport Hub

As part of the development of the Moscow Transport Hub, the Company continued work to rebuild and develop the Moscow Little Ring Railway throughout 2015 by laying the permanent way, installing the contact network, signalling, interlocking and blocking, utilities, the reconstruction and construction of engineering structures, the construction of stops and traction substations as well as the clearing of territories.

The following stations were rebuilt as part of a project to rebuild the Domodedovo (Aviation)-Airport section and build additional main tracks:

- the Aviatsionnaya station with the laying of 7.7 km main and station tracks and the installation of 21 turnouts and 14.4 km of contact network;
- the Kosmos station with the laying of 2.1 km of main and station tracks, the installation of 4 km of contact network, including the construction of two pedestrian bridges, and the reconstruction of two passenger platforms.

Funds allocated in 2015 for the comprehensive reconstruction project of the 81st km-Dmitrov-Iksha-Povarovo section of the Moscow Big Ring Railway were spent on construction work on the Naugolny-Zheltikovo and Zheltikovo-Kostino stretches and the mobilisation of work on the Kostino-Ivantsevo stretch. A total of 21.3 km of utility lines were removed in the reporting year.

As part of a project to build an additional main track on the Moscow-Kryukovo section, work was completed in December 2015 to prepare railway infrastructure on the Moscow-Kryukovo section for the launch of a train traffic schedule that envisages an increase in the number of high-speed Sapsan trains on the Moscow-St Petersburg route and high-speed Lastochka (Desiro RUS) electric trains on the Moscow-Kryukovo-Tver route. A total of 17.1 km of secondary tracks were put into operation.

In addition, work was performed on the Yaroslavl, Gorky and Kursk lines to prepare a construction area, build and rebuild engineering structures, install roadbed and track structure and build platforms and technological buildings.

Comprehensive development of the Mezhdurechensk-Tayshet section of Krasnoyarsk Railway

As part of work to rebuild the Mezhdurechensk-Tayshet section, which aims to support 15 mln tonnes of freight transportation from the Kyzik-Kuraginko railway line under construction, including the transportation of 12 mln tonnes of coal from the Elegestky coal field to Far East ports, 3.4 km of new railway tracks

were commissioned in 2015 along with 2.4 km of secondary tracks and 4.5 km of electrification, secondary tracks were built on ten stretches, sidings were built and work was carried out to strengthen power supply devices, rebuild the second Dzhebsky Tunnel as well as build and rebuild engineering structures.

On the path to change



Oleg Toni
Vice President
of Russian Railways

The Company had capital expenditures of RUB 64.2 bln on the project to develop the Eastern operating domain in 2015.

The project is being implemented with money from the federal budget, the National Wealth Fund and the Company's own funds and will result in a significant contribution to the increased carrying capacity in Siberia and the Far East.

Savings have amounted to RUB 8.3 bln thanks to measures taken to optimise investments since the start of the project's implementation.



Based on materials from the final meeting of the Russian Railways Management Board

Development and renovation of railway infrastructure at approaches to ports in the Azov and Black Seas

The project 'Comprehensive reconstruction of the M. Gorky-Kotelnikovo-Tikhoretskaya-Krymskaya section with a bypass of the Krasnodar Hub' is being implemented as part of the comprehensive project 'Development and renovation of railway infrastructure at approaches to ports in the Azov and Black Seas',

The goal of this investment project is to rebuild railway infrastructure to ensure freight delivery to the ports of the Azov-Black Sea Transport Hub (Novorossiysk, Tuapse, Kavkaz, Temryuk and Grushevaya) in the volume planned for the target years (up to 130 train pairs per day) as well as to optimise the operation of the Krasnodar Hub by having freight traffic use the bypass on the Timashevskaya-Krymskaya section.

In 2015, spending on the project 'Comprehensive reconstruction of the M. Gorky-Kotelnikovo-Tikhoretskaya-Krymskaya section with a bypass of the Krasnodar Hub' amounted to RUB 2.5 bln, and work was continued on

the following stretches: Remontnaya-Gashun, Poroshinskaya, Poltavskaya-Protola and Abganerovo-Gniloaksayskaya (excluded from reconstruction); design and survey work was also conducted for the construction of secondary tracks on the following stretches: Razlivnaya-Peschanokopskaya, Eya-Rovnoye, Rovnoye-Poroshinskaya, Bursak-Vyselki, Vyselki (included in reconstruction)-Kozyrki (excl.) and Protoka-Sebedakhovo; the Tikhoretskaya station was rebuilt; and design documentation was drafted for the construction of the bypass of the Krasnodar Hub with an opinion obtained from the Russian State Expert Evaluation Department.

As regards the project 'Reconstruction of the Trubnaya-Baskunchak-Aksarayskaya section', the third phase of the Trubnaya station's reconstruction was completed in 2015, 11.3 km of station tracks were commissioned on the Zaplavnoye-Trubnaya stretch of Privolzhskaya Railway and construction work was performed to extend

tracks at the Volzhsky station (Trubnaya), build secondary tracks on the Leninsk-Zaplavnoye stretch, build a bridge over the Akhuba River and rebuild the locomotive maintenance centre at the Aksarayskaya station.

The project is being implemented to rebuild the railway infrastructure of the Trubnaya-Aksarayskaya section to ensure freight delivery to ports in the Caspian Sea and the country's southern regions in the volume planned for the target years (up to 153 train pairs per day).

up to 153 train pairs per/day

result of the reconstruction of the railway infrastructure of the Trubnaya-Aksarayskaya section

Construction of secondary tracks and the electrification of the Vyborg-Primorsk-Yermilovo section

As part of the project 'Construction of secondary tracks and the electrification of the Vyborg-Primorsk-Yermilovo section', which is being implemented to transport a projected 8 mln tonnes of freight to the ports of Primorsk and Vyborg, design

documentation was completed in 2015 with favourable opinions received in a state expert evaluation, working documentation was drafted, and construction and installation work was mobilised to ensure the start of operation in 2016.

up to 130 train pairs per/day

result of the reconstruction of railway infrastructure to ensure freight delivery to the ports of the Azov-Black Sea Transport Hub

Construction of the Moscow-Kazan High-Speed Railway

The project 'Construction of the Moscow-Kazan High-Speed Railway' was implemented in accordance with the network schedule for the Moscow-Kazan (HSR-2) High-Speed Railway approved by Chairman of the Russian Government Dmitry Medvedev on 30 September 2013 (No. 5858p-P9) and also on the basis of

a memorandum signed on 13 October 2014 by the Ministry of Transportation of the Russian Federation, the National Development and Reform Commission of the People's Republic of China, Russian Railways and China Railway on cooperation in high-speed railway transportation.

Projects to eliminate infrastructure constraints

Project 'Reconstruction of the Mga-Gatchina-Veymarn-Ivangorod section and railway approaches to ports on the south shore of the Gulf of Finland'

This project is being carried out to prepare railway infrastructure on the near approaches to the Ust-Luga port and to ensure Russian Railways has the projected transportation volume that experts estimate may amount to 80.3 mln tonnes by 2020.

In 2015, the Company commissioned the following as part of the project: 1.4 km of secondary tracks, 56.6 km of station tracks, 12 km of the automatic blocking system and 233 electric interlocking units, and also rebuilt 1.2 km of railway tracks and 20 km of contact network. The gravity hump at the Luzhskaya-Marshalling station was equipped with the MSR-32 interlocking system.

These measures will help to ensure the Ust-Luga railway hub has carrying capacity of 64.0 mln tonnes.

RUB 13,4 bln

amount of work performed in 2015

Project 'Organisation of rapid-transit passenger traffic on the St Petersburg-Buslovskaya section (2nd stage)'

This project is being implemented to ensure passenger trains run at the required speed. The overall travel time from St Petersburg to Helsinki should decrease from 5 h 50 min (2 h 30 min on Russian territory) to 3 h 30 min (1 h 30 min on Russian territory). To this end, the project provides for shifting freight traffic travelling to the sea ports of the Gulf of Finland for export to Finland from the St Petersburg-Buslovskaya line to the Ruchi-Petyarvi-Kamennogorsk-Vyborg route.

As part of the project, the Company electrified 41.3 km of tracks, commissioned 16.5 km of secondary tracks on the Vyborg-Kamennogorsk section, four crossings, 9.7 km of noise screens and 19.0 km of the automatic blocking system.

RUB 0,9 bln

project expenses in 2015

Project 'Development of the Tobolsk-Surgut-Korotchayevo section'

The goal of this project is to ensure the transportation of the projected volume of raw hydrocarbons from the Yamalo-Nenets and Khanty-Mansi Autonomous Districts through a phased increase in the traffic and carrying capacity of the Tobolsk-Surgut section to 66 train pairs per day.

In 2015, the Company commissioned 30.6 km of secondary tracks, 16.6 km of station tracks and 51 electric interlocking units.

Spending on this work in 2015 totalled RUB 9.7 bln.

RUB 9,7 bln

work expenses in 2015

Projects to ensure safety

In 2015, Russian Railways rebuilt:

- 2,814 km of railway tracks;
- a 99-metre bridge over the Adagum River on the Krymskaya-Novorossiysk section of North Caucasus Railway that had been damaged during catastrophic flooding on 6-7 July 2012;
- three engineering structures

(reconstruction of small bridges over culverts);

- five roadbed objects and also built four pedestrian bridges at the Osechenka and Lyuban stations of October Railway, the Orichi station of Gorky Railway and the Mashmet station of South Eastern Railway.

2,814 km of tracks

rebuilt in 2015

Improving transportation accessibility for the public

Russian Railways had earmarked RUB 13.4 bln in investment for the implementation of projects to improve transportation accessibility for the Russian public in the reporting year and spent RUB 13.2 bln of this amount.

As part of this section, projects were carried out to rebuild railway stations for long-haul and suburban passenger transportation

with the main goal of building and reducing wear on passenger and suburban infrastructure, adapting passenger infrastructure for people with limited mobility and ensuring transportation safety.

In 2015, the Company completed the reconstruction of Ladoga Railway Station (second phase), Ufa Railway Station as well as the Leningradskaya and Kazanskaya

Railway Stations in Moscow and also built a new building for the Knyazhpogost Railway Station in the Republic of Komi.

The Seyatel station of West Siberian Railway and Verkhoturys station of Sverdlovsk Railway opened in the reporting year.

Purchase of traction rolling stock

The Company purchased 500 locomotives (99.6% of the plan) for a total of RUB 59.9 bln in 2015, including:

- 275 electric locomotives, including 43 passenger and 232 freight locomotives;
- 225 diesel locomotives, including 92 freight, 15 passenger and 118 shunting locomotives.

A total of 5,076 new locomotives were purchased over the period from 2003 to 2015. Increased purchases of locomotives reduce the overall wear level of the locomotive fleet. Overall, the physical wear level of the locomotive fleet has decreased to 68.76%.

In 2015, Bryansk Machine Building Plant quickly prepared for and started manufacturing modern 2TE25KM domestic diesel freight locomotives in place of the 2TE116 diesel locomotives manufactured by

Ukraine's Luganskteplovoz. Compared with the Ukrainian 2TE116 diesel locomotives that Russian Railways operates, the Russian-produced 2TE25KM fully meets the requirements of Customs Union technical regulations and has a lower life cycle cost. A total of 68 such diesel locomotives were purchased for the needs of Russian Railways in 2015.

In addition, TG16M freight and passenger diesel locomotives started being supplied to the Yuzhno-Sakhalinsk operational locomotive depot of the Far Eastern Traction Directorate in 2015 to replace the TG16 diesel locomotives, which have exhausted their specified service life. The TG16M diesel locomotives are designed to haul freight and passenger trains on the tracks of Sakhalin Railway with gauges of 1,067-1,520 mm. The first three diesel locomotives of this series were delivered in 2015.

The Company purchased a new TEM19 gas-piston shunting locomotive, which was

manufactured by Bryansk Machine Building Plant, for the first time in its history in 2015.

The supply of pilot TEM19 gas-piston locomotives that run on liquefied natural gas is required to confirm the locomotive's performance indicators under real operating conditions. The TEM19 is designed for shunting work, which includes detaching freight trains weighing up to 9,000 tonnes at the hump yards of marshalling yards.

Of the 500 new locomotives in the 2017 supply plan, 17 of them are innovative, including:

- 2ES10 direct-current freight electric locomotives with asynchronous traction drive and a booster section – 4 units;
- 2TE25A freight diesel locomotives – 8 units;
- EP20 double-current passenger electric locomotives – 4 units;

- TEM19 gas locomotive with a gas-piston power plant – 1 unit.

In 2015, the Company modernised 684 locomotive sections and commissioned 704 units (including locomotives with an extended service life) for a total of RUB 6.3 bln.

A total of 230 rolling stock railcars were purchased in the reporting year for a total of RUB 20.8 bln, including:

- 64 railcars of the ED electric train series manufactured by Demikhovsky Machine Building Plant;

- 6 railcars of the RA-2 rail bus series manufactured by Metrovagonmash;

- 4 Sapsan electric trains (40 railcars) and 1 Desiro electric train (5 railcars) manufactured by Siemens AG;

- 23 Lastochka (Desiro RUS) electric trains (115 railcars) manufactured by Ural Locomotives.

A total of 513 rolling stock railcars were modernised, including locomotive traction railcars and 8 Sapsan trains for a total of RUB 720.8 mln.

The electric trains are equipped with modern air conditioning systems, hermetically sealed inter-railcar walkways, automatic sliding doors, LED lighting, soft cushioned seating and headrests, a video surveillance system, forced ventilation of railcar vestibules, an on-board train diagnostics and technical monitoring system as well as security and fire alarm systems.

Other projects

Projects to introduce resource-saving technologies and develop the social sphere, among other things, were implemented as part of the 'Other projects' section.

17 innovative locomotives purchased in 2015

Investment Programme results

The measures implemented as part of the Russian Railways investment budget in 2015 resulted in improvements to the following indicators:

- the work performed to rebuild (modernise) railway tracks in 2015 increased the domain of passenger train traffic with speeds of 120-140 km/h by 1,176 km, or 4.6%, with respect to 2014 and the domain of freight trains with speeds of more than 80 km/h by 580.6 km (+1.0%);
- the total length of main tracks on concrete sleepers stood at 97,794.517 km at the end of 2015, an increase of 1,756.4 km for the year (+1.8%), while the total length of seamless tracks stood at 90,695.168 km, an increase of 1,701.778 km (+1.87%);
- when performing work to renovate and modernise railway automation and telemechanic equipment in

2015 on certain railway sections, the comprehensive approach prevailed with the simultaneous modernisation of electric interlocking devices, the automatic blocking system and remote monitoring and their integration into comprehensive transportation management systems. Modernisation of technical railway automation and telemechanic equipment that has doubled its service life made it possible to improve the safety and reliability of the devices; equipping technical diagnostic and monitoring centres with diagnostic and remote monitoring systems on railways ensured the maximum detection of pre-failure conditions in technical railway automation and telemechanic equipment. As a result of these measures, the number of first- and second-category failures (the KASANT system) decreased at the Company from 6,920 in 2014 to 6,363 in 2015, or 8.1%;

- work to renovate railcar fixed assets in 2015 resulted in an 11% decrease in the number of hardware failures compared with the 2014 level and also expanded the length of dedicated sections for non-stop train traffic by 16 km versus 2014;
- work to renovate electrification and power supply fixed assets in 2015 reduced the number of hardware failures 9.4% compared with the 2014 level, 111.5 km of contact network tracks for 160-km/h rapid-transit trains were rebuilt, 21.6 km of contact network were renovated on 200-250-km/h tracks to establish rapid-transit and high-speed transportation and restrictions were lifted on trains weighing 6,300 tonnes on 3 inter-station zones with total length of 71 km.

Overall in 2015, Russian Railways commissioned:

- 163.5 km of new and secondary tracks,
- 45.8 km of electrification,
- 157.7 km of station track;

and rebuilt:

- 129 electric interlocking switch units,
- 50.8 km of the automatic blocking system,
- 280.5 km of centralised traffic control,

- 640.4 km of long-distance cable communication lines,
- 288.1 km of the contact network,
- 2,814 km of railway tracks.

Modernisation and innovative development projects

The Company spent a total of RUB 1.3 bln on scientific and technological development in 2015, an 18% increase versus the amount spent in 2014.

New technologies

In accordance with Order of the Russian Government dated August 2014, the Company has established the Comprehensive Innovative Development Programme of the Russian Railways Group until 2020 under which a wide range of innovations is planned: technological, product, process, organisational and marketing innovations. The Programme consists of a new format of measures and projects that aim to introduce breakthrough innovative technologies and technical equipment based on the requirements of the Company's customer-focused business processes.

As part of the Programme's development, the Scientific and Technical Development Strategy until 2020 and Beyond until 2025 (the 'White Book'), which is an integral component of the Programme, was updated taking into account engineering, technological and economic challenges. The Strategy underwent a comprehensive discussion by the scientific community and was approved by Russian Academy of Sciences President Vladimir Fortov.

One breakthrough project that incorporates a number of innovative solutions by Russian and foreign developers was the Ust-Luga

Transport Hub. The station was the first in Russia to introduce an automated control system for a driver-less hump locomotives. The promising set of automated control systems set up for the transport hub allows for using the building-block approach to configure the hardware of a marshalling yard, maximise automation and drastically reduce the use of manual labour, and cut costs on all components of the station's production process. Utilising such approaches should become the basis for the design and modernisation of marshalling yards throughout the entire railway network of the Russian Federation for the period until 2025.

Import substitution

The Company has approved and is implementing an Import Substitution Programme for the products it purchases.

The share of purchases of import-containing materials and equipment decreased 4% in 2015.

Challenging issues with respect to import substitution are being resolved

in informatisation. The main problem is the lack of Russian-made products on the market of digital IT products and operating systems. Together with developers and manufacturers, the Company is implementing an import substitution plan for software. Traffic control and safety systems are transitioning to open source software using domestic components.

Components were tested using Milandr controllers and will be used in 2016 to manufacture prototypes for locomotive safety systems and automatic blocking systems.

Innovations in infrastructure

One of the key areas of the Company's scientific and technological policy is the introduction of innovations in infrastructure, where expenses on shipping activities make up approximately 35% of the total volume. A key priority is to reduce the cost of the life cycle of facilities while ensuring the safety of the transportation process and a high level of reliability of technical equipment.

New physical principles were employed in the reporting year when developing the interval traffic control system using a fibre-optic vibro-acoustic monitoring system and data transmission via a digital radio channel. The project is being introduced in the Moscow Railway operating domain. While a similar development is being implemented in Germany, the solutions developed by Russian Railways have fundamental differences: whereas in Germany the fibre-optic cable is used as a rolling stock location sensor, in the Russian design this function is integrated into the microprocessor interval control system through the use of digital radio communications. Compared with modern systems, the cost of equipping a section with this automatic blocking system is more than 75% cheaper.

The operating domains of the North Caucasus and West Siberian Railways conducted a set of tests to assess whether they could handle coupled trains weighing 12,600 and 14,200 tonnes.

As a result of pull and energy efficiency tests and an assessment of track impact parameters, such technology was introduced for trains weighing 12,600 tonnes starting from 1 July 2016 and was actively used during possessions on the Zabaykalsk and West Siberian Railways.

In September 2015, West Siberian Railway carried out pilot runs with coupled trains weighing 14,200 tonnes for the first time in the practice of Russian Railways. As part of the testing, mathematical modelling methods and an analysis of traffic safety criteria for freight trains with increased weight and length were carried out. The

testing results and mathematical modelling results had a high degree of convergence.

On the Baikal-Amur Mainline, positive results were seen in the operation of a multi-functional mobile laboratory that was set up on the core of the 2TE116 diesel locomotive. The number of third- and fourth-degree faults detected increased 50%, while operation costs decreased 50% compared with a track recording car.

Operating domain technology to organise freight train traffic on fixed optimal energy schedules was further developed in 2015.

The Elbrus hardware system was introduced to the operating domains of eleven railways from Vladivostok to St Petersburg.

On the Kuzbass-Northwest route alone, the use of this technology made it possible to save more than 380 mln kWh in 2015, while freight delivery speed was 13% higher in December 2015 than it was in December 2014.

An operational train handling reconfiguration system was put into permanent operation on the operating domain of South Urals Railway. Updated train traffic schedules are transferred in real time to locomotives equipped with systems to inform drivers.

An analysis of the development prospects for diagnostic tools revealed the need for the full automation of the control and monitoring process of infrastructure facilities by equipping rolling stock with comprehensive diagnostics systems and shifting away from a fleet of infrastructure diagnostic railcars. Together with Siemens, the Company established the world's first innovative on-board diagnostic system that was installed on the high-speed Sapsan train and since June 2015 has been evaluating the infrastructure of the St Petersburg-Moscow line according to 76 parameters at speeds of up to 250 km/h.

On the path to change



Valentin Gapanovich
Senior Vice President
of Russian Railways

One of the breakthrough projects of recent years that has incorporated a number of innovative solutions from domestic and foreign designers was the marshalling system at the Luzhskaya station, marking the first time that Russia has introduced an automated control system for shunting locomotives and integrated minimally manned technology in all sectors, which made it possible to increase labour productivity 21% compared with the traditional gravity hump technologies.

The technological solutions that were applied when designing and building the Luzhskaya marshalling yard will serve as the foundation for the modernisation of other marshalling yards in Russia in the future.

Operating domain technology was further developed to organise freight train traffic on fixed optimal energy schedules in 2015. On the Kuzbass-Northwest route alone, the use of this technology made it possible to save more than 380 mln kWh in 2015, while freight delivery speed was 13% higher in December 2015 than it was in December 2014.



Based on materials from the final meeting of the Russian Railways Management Board

Work with small- and medium-sized enterprises

The Company utilises a range of measures to encourage new suppliers to participate in procurements, including small- and medium-sized enterprises (MSE), and also to assess the level and potential effectiveness of the high-tech products that are offered.

In order to further expand interaction with MSE in matters of innovative development, the Company established the 'MSE One-Stop Shop'

system to increase purchases of innovative and high-tech products from MSE in the overall annual volume of procurements.

A pilot system in its early stages allows for the initial classification of offers received, the compilation of a register and the subsequent processing of the offers. A data entry form is available for external users to help them negotiate the registration

procedure in addition to a form to collect information about the offer.

The next stages of the system's development will provide the ability to classify the relevant innovative and high-tech features in the proposed product when the user submits an application.

Energy efficiency

Russian Railways remains a leader among global railway companies in terms of the energy efficiency and eco-friendliness of freight and passenger transportation.

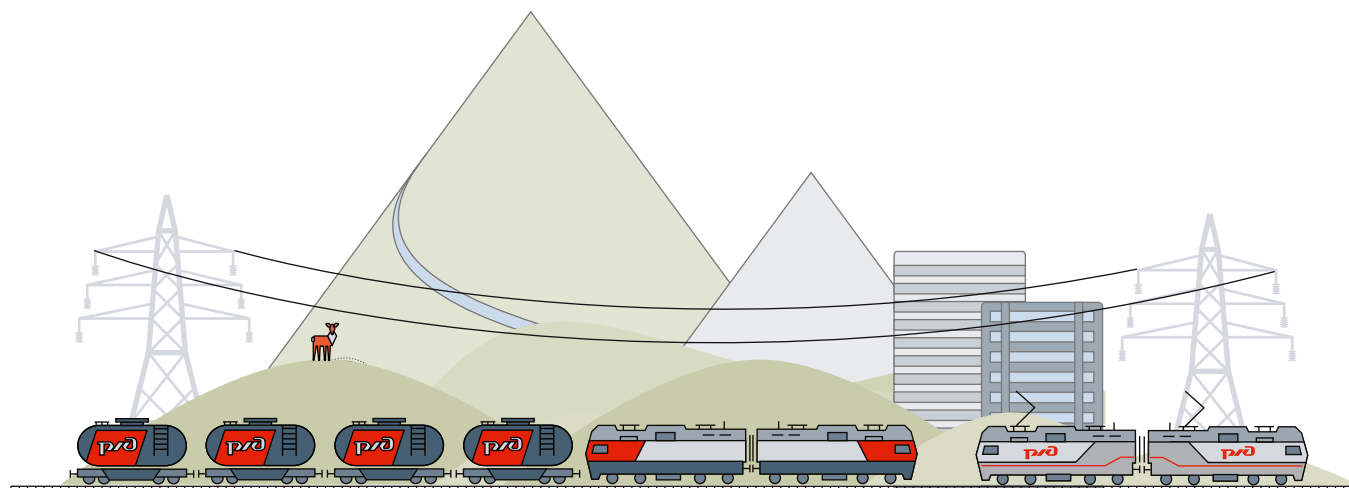
Given the challenging economic conditions of 2015, effective cost-cutting tools included improvements to the management system for the Company's energy conservation activities, including measures under the Energy Conservation Programme and the increased energy efficiency of Russian Railways, as well as planning and monitoring the fulfilment of target indicators in energy conservation within the Energy Efficiency Automated Information System.

As a result of the Russian Railways Energy Conservation Programme in 2015, 41 of the Company's branches achieved savings of 9.36 PJ valued at RUB 4.932 bln and reduced greenhouse gas emissions in the amount of 904,400 tonnes of CO₂ equivalent, which is the best result seen in the Company's energy conservation activities over the last six years.

With freight transportation decreasing 1.0% versus the 2014 level, Russian Railways reduced its absolute energy consumption level by almost 3.4%.

Specific electricity consumption for train traction declined 1.2% in 2015, while diesel fuel consumption fell 2.0%.

With the targets for the reduction in the energy intensity of industrial activities set at no less than 1.1% by the Russian Federal Tariffs Service for Russian Railways in 2015, the Company actually decreased the energy intensity of its industrial activities by 1.3%.



The greatest effect was achieved by the following measures of the Energy Conservation Programme that aim to improve the Company's energy efficiency:

- improved train traffic control methods (savings of RUB 1,285.9 mln, or 1,708,467.3 GJ);
- improved locomotive utilisation indicators (savings of RUB 831.5 mln, or 1,128,281.8 GJ);
- improved technical condition of locomotives (savings of RUB 148.9 mln, or 238,580.6 GJ);
- improved technical condition of track facilities (savings of RUB 41.4 mln, or 52,045.2 GJ);
- improved traction power supply system indicators (savings of RUB 66.8 mln, or 79,146.9 GJ);

- increased level of regenerative power return (savings of RUB 456.7 mln, or 612,695.6 GJ);

- optimised operating modes and modernisation of heating systems (savings of RUB 600.3 mln, or 2,673,496.6 GJ);

- use of energy efficient bulbs and optimisation of lighting system modes (savings of RUB 507.9 mln, or 607,785.8 GJ);

- increased energy efficiency of technological processes and infrastructure facilities (savings of RUB 603.2 mln, or 1,127,527.2 GJ);

In 2015, more than 2,290 of the Company's structural divisions implemented 11,800 measures under the Energy Conservation Programme, saving RUB 4.932 bln, including due to the savings of:

- 848.2 mln kWh of electricity valued at RUB 2,412.9 mln;
- 53,900 tonnes of diesel fuel valued at RUB 1,663.9 mln;
- 5,300 tonnes of petrol valued at RUB 178.0 mln,
- 152,500 Gcal of thermal energy valued at RUB 251.4 mln;
- 25.8 mln cubic metres of natural gas valued at RUB 114.9 mln;
- 64,500 tonnes of coal valued at RUB 93.0 mln;
- 21,900 tonnes of heating oil valued at RUB 216.6 mln.

ANALYSIS OF FINANCIAL RESULTS

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↑ 7.8% vs. 2014

RUB **1,510.8** bln

**Income from
core activities**

↑ 42.9% vs. 2014

RUB **83.6** bln

Sales profit

↑ 6.2% vs. 2014

RUB **1,427.2** bln

**Expenses
on core activities**

RUB **0.3** bln

**Net profit despite a planned loss
of RUB 26 bln and actual loss
of RUB 44.1 bln in 2014**

Results of financial and business activities

In the current macroeconomic conditions, the Company aims to develop by improving internal efficiency, strengthening its customer focus, working to lower costs in all areas and efficiently utilising its available resources.

The measures taken by the Company to attract additional transportation volume resulted in significantly lower rates of decrease in handling volumes than the decline in the country's GDP and industrial production in 2015.

Freight handling declined 1% versus the 2014 level, while GDP contracted 3.7% and industrial production decreased 3.4%.

The Company managed to maintain freight turnover at the 2014 level (2,954.9 bln tkm) and increased loaded freight turnover 0.3% in 2015.

The Company transported more than 1 bln passengers in 2015, while overall passenger turnover declined 6.5% compared with 2014. At the same time, significant growth was seen in rapid-transit transportation (+22.2%) and passenger turnover (+25%).

Improved efficiency of Russian Railways in 2015

-3.4 %
decrease in industrial production

-3.7 %
decrease in GDP

Total freight turnover remained at 2014 level

2,954.9
bln tkm

Passengers transported

1,020.4
mln

Freight handling declined by only 1%

1,214.5
mln tonnes

Loaded freight turnover vs. 2014

+0.3 %

Passenger turnover (-6.5%)

120.4
bln pass. km

Rapid-transit passenger turnover (Sapsan, Allegro, Lastochka trains)

+25.0 %

Key financial results in 2015

↑ 7.8% vs. 2014

Income from core activities

RUB 1,510.8 bln

Dividends from Russian Railways S&A

RUB 2.9 bln

Income from transportation totalled RUB 1,326.0 bln in 2015, an increase of 8.2% (RUB 101.0 bln) from 2014, while income from other types of activities grew 4.6% (RUB +8.0 bln) to RUB 184.8 bln.

The Company took timely measures to reduce spending on transportation activities by RUB 39.7 bln versus the initial plan and managed to neutralise the effect of inflation. Transportation costs increased only 7.1% (despite inflation of 15.5% and industry price indexing of 12.4%). As a result, sales profit increased by RUB 25.1 bln, or 43%, compared with 2014.

The Company also promptly amended its accounting policy as regards the use of hedge accounting of its cash flow, which made it possible to significantly mitigate the impact of changes in the rouble's exchange rate on the financial result by reflecting a substantial portion of foreign exchange rate differences arising from the revaluation of the foreign currency-denominated part of the loan portfolio as capital. In particular, by employing hedge accounting for its cash flow, the bulk of the Company's RUB 91.8 bln in foreign exchange rate losses

↑ 6.2% vs. 2014

Expenses on core activities

RUB 1,427.2 bln

Net profit

RUB 0.3 bln

Result from the sale of shares in Russian Railways S&A

RUB 5.7 bln

(RUB 69.7 bln, or 76%) was classified as additional capital, and the actual restoration to income totalled RUB 22.1 bln.

As part of corporate governance, dividends of RUB 2.9 bln were received from subsidiaries. The lion's share of dividends (RUB 1.0 bln) came from GEFCO. The Company generated income of RUB 19.3 bln and profit of RUB 5.7 bln from selling stakes in subsidiaries.

Russian Railways met all of its social obligations to the workforce, veterans and pensioners in accordance with the collective bargaining agreement.

For the year, net profit amounted to RUB 318 mln (despite a planned loss of

On the path to change



Vadim Mikhailov
Senior Vice President
of Russian Railways

In 2015, we devoted special attention to stabilising the Company's performance and implementing its development plans. Given the decrease in handling and revenue from freight transportation and the significant increase in price pressure on transportation expenses, key actions were taken to mitigate such risks.

Costs were optimised without instituting additional part-time work and also without slashing the programmes for major repairs to fixed assets.

In 2015, we managed to cut costs on transportation activities by RUB 39.7 bln versus the initial plan. We contained growth in transportation costs to 7.1% despite inflation of 15.5% and industry price indexing of 12.4%. Sales profit increased 43%, compared with 2014. Net profit was actually RUB 318 mln instead of the planned loss of RUB -26.2 bln and last year's loss of RUB -44.1 bln.

Based on materials from the final meeting of the Russian Railways Management Board

RUB 26.2 bln and an actual loss of RUB 44.1 bln in 2014).

In addition, the Company carried out substantial work to ensure its investment programme has the required sources of funding:

- On 13 March 2015, as part of a debut placement of preferred shares, Russian Railways received a first tranche from the National Wealth Fund in the amount of RUB 50 bln, which the Company spent on the project to modernise the Baikal-Amur and Trans-Siberian Mainlines. In accordance with the decisions adopted by the Russian Government, dividend yield on shares has been set at 0.01% until 2019 and 2.98% starting in 2020. Russian Railways was the first company to receive government support in the form of share capital from the National Wealth Fund.
- The Company placed RUB 97.2 bln worth of infrastructure bonds, including four tranches for a total of RUB 60.2 bln with a floating rate tied to inflation and a term of 25 years from the National Wealth Fund to fund the project to purchase traction rolling stock, and Vnesheconombank purchased two tranches of infrastructure bonds for a total of RUB 37 bln (RUB 20 bln and RUB 17 bln) using money from

the Russian Pension Fund under its management.

- In May and October, the Company placed three series of market rouble-denominated bonds for a total of RUB 45 bln with a term of 15 years and offers in 5.5 years (one series) and 4.5 years (two series) at a rate just below 11%.
- In December, Moody's Investors Service revised its rating outlook on Russian Railways from 'negative' to 'stable' based on the results of a similar action for Russia's sovereign rating. The Company's actual rating was affirmed at the previous level of 'Ba1'. The ratings of other agencies remained unchanged.

Support from the executive authorities and the Company's shareholder as represented by the Russian Government also contributed to the positive results achieved in 2015.

A number of government decisions were adopted to improve the competitiveness and financial stability of railway transportation:

- funds were allocated for the first time ever to compensate for losses in income from services involving the use of suburban transportation infrastructure;
- a zero VAT rate was established for the provision of suburban passenger

transportation services, which helped to balance suburban transportation operations in 2015;

- RUB 121.2 bln in funds were allocated for the implementation of investment projects. Total government support to Russian Railways in 2015 amounted to RUB 157.9 bln (including extra-budgetary funds);
- as part of an exchange agreement on the transfer of a motorway section to Alpika-Service, property in the amount of RUB 24.2 bln was transferred in 2015 of the total amount of RUB 93.3 bln, thereby enabling Russian Railways to partially reduce its burden on maintaining the road.

Continued work to improve internal efficiency and mutually beneficial partnership relations between the Company, consumers and the federal executive authorities will ensure the stable operation of Russian Railways in 2016.

Financial results, RUB bln

Indicator	Measurement unit	2011	2012	2013	2014	2015		Change: actual vs. plan in 2015		Change: 2015 vs. 2014	
						plan	actual	+/-	%	+/-	%
Total income	RUB bln	1,288.3	1,366.0	1,376.6	1,401.7	1,506.9	1,510.8	3.9	100.3	109.0	107.8
Income from transportation, infrastructure services and locomotive traction	RUB bln	1,109.1	1,206.5	1,209.5	1,225.0	1,327.0	1,326.0	-1.0	99.9	101.0	108.2
freight transportation	RUB bln	1,003.1	1,089.3	1,088.2	1,105.6	1,205.8	1,203.9	-1.9	99.8	98.3	108.9
provision of infrastructure services	RUB bln	87.2	96.7	101.7	99.0	99.3	99.8	0.5	100.5	0.7	100.8
for freight transportation	RUB bln	1.0	6.0	7.8	9.7	8.2	8.1	-0.1	98.5	-1.6	83.5
suburban transportation	RUB bln	25.6	27.3	28.4	27.0	28.6	28.7	0.1	100.2	1.7	106.3
long-haul transportation	RUB bln	60.6	63.4	65.4	62.4	62.6	63.1	0.5	100.8	0.6	101.0
provision of locomotive traction services	RUB bln	11.4	12.4	11.0	10.3	10.5	10.5	0.0	100.1	0.3	102.5
passenger transportation	RUB bln	7.4	8.1	8.6	10.0	11.3	11.7	0.4	103.7	1.7	116.9
Income from other types of activities	RUB bln	179.2	159.5	167.0	176.8	179.9	184.8	4.9	102.7	8.0	104.6
Total expenses	RUB bln	1,215.6	1,298.6	1,317.8	1,343.2	1,438.6	1,427.2	-11.5	99.2	83.9	106.2
Expenses on transportation, infrastructure services and locomotive traction	RUB bln	1,050.8	1,151.5	1,165.9	1,185.6	1,277.9	1,266.2	-11.8	99.1	80.5	106.8
freight transportation	RUB bln	933.3	1,017.4	1,027.6	1,048.1	1,149.5	1,137.4	-12.0	99.0	89.4	108.5
provision of infrastructure services	RUB bln	102.2	118.8	122.3	119.4	109.4	109.0	-0.4	99.7	-10.4	91.3
for freight transportation	RUB bln	0.8	5.4	7.1	8.8	7.4	7.3	-0.1	98.5	-1.4	83.5
suburban transportation	RUB bln	32.6	35.8	35.2	32.5	32.9	33.1	0.2	100.7	0.6	101.9
long-haul transportation	RUB bln	68.7	77.6	80.0	78.1	69.1	68.6	-0.5	99.3	-9.5	87.8
provision of locomotive traction services	RUB bln	8.4	9.2	8.2	7.6	7.8	7.8	0.0	100.1	0.2	102.6
passenger transportation	RUB bln	7.0	6.2	7.8	10.6	11.3	11.9	0.6	105.4	1.3	112.7
Expenses on other types of activities	RUB bln	164.7	147.1	151.9	157.6	160.7	161.0	0.3	100.2	3.4	102.1
Total sales profit	RUB bln	72.8	67.4	58.8	58.5	68.2	83.6	15.4	122.5	25.1	142.9

Indicator	Measure- ment unit	2011	2012	2013	2014	2015		Change: actual vs. plan in 2015		Change: 2015 vs. 2014	
						plan	actual	+ / –	%	+ / –	%
Profit from transportation, infrastructure services and locomotive traction	RUB bln	58.3	54.9	43.6	39.4	49.0	59.8	10.8	122.0	20.4	151.9
freight transportation	RUB bln	69.9	71.9	60.6	57.6	56.4	66.5	10.1	118.0	8.9	115.5
provision of infrastructure services	RUB bln	–15.0	–22.1	–20.6	–20.3	–10.1	–9.2	0.8	91.7	11.1	45.4
for freight transportation	RUB bln	0.1	0.6	0.8	0.9	0.7	0.7	0.0	98.5	–0.1	83.1
suburban transportation	RUB bln	–7.0	–8.5	–6.8	–5.5	–4.3	–4.4	–0.2	103.9	1.1	80.6
long-haul transportation	RUB bln	–8.1	–14.2	–14.6	–15.7	–6.5	–5.5	1.0	84.6	10.2	35.2
provision of locomotive traction services	RUB bln	3.0	3.2	2.9	2.7	2.7	2.7	0.0	100.1	0.1	102.4
passenger transportation	RUB bln	0.4	1.9	0.8	–0.5	0.0	–0.2	–0.2	—	0.3	34.6
Profit from other types of activities	RUB bln	14.5	12.5	15.1	19.1	19.2	23.8	4.6	123.9	4.7	124.4
Result from other types of income and expenses	RUB bln	3.8	–1.3	–39.4	–97.7	–70.1	–58.6	11.5	—	39.1	—
Result from the sale of shares in S&A	RUB bln	66.3	33.9	1.4	1.4	5.7	5.7	0.0	100.5	4.3	407.2
Budget allocations	RUB bln	1.8	23.2	0.9	27.6	31.8	32.2	0.4	101.3	4.6	116.6
Exchange rate differences	RUB bln	–6.4	4.5	–18.4	–142.5	–32.8	–22.1	10.7	—	120.4	—
Changes in provisions and other estimated liabilities	RUB bln	–51.8	–18.2	–1.7	38.7	13.7	15.2	1.5	110.7	–23.5	39.3
Income from participation in other organisations, including dividends	RUB bln	21.3	9.8	23.0	16.7	2.8	2.9	0.1	102.3	–13.8	17.2
Expenses on loans and borrowings	RUB bln	–19.6	–19.3	–26.8	–35.5	–64.8	–64.7	0.1	99.8	–29.2	182.2
Profit before tax	RUB bln	76.6	66.2	19.4	–39.2	–1.9	25.0	26.9	—	64.2	—

Indicator	Measure- ment unit	2011	2012	2013	2014	2015		Change: actual vs. plan in 2015		Change: 2015 vs. 2014	
						plan	actual	+/-	%	+/-	%
Profit tax and other similar obligations	RUB bln	59.8	52.0	18.7	-4.9	-24.3	-24.6	-0.3	101.4	-19.8	—
Net profit	RUB bln	16.8	14.1	0.7	-44.1	-26.2	0.3	26.5	—	44.4	—
EBITDA	RUB bln	295.3	279.8	266.7	355.8	321.1	336.3	15.1	104.7	-19.5	94.5
Net debt (Financial debt – cash balance)/ EBITDA		0.7	1.1	2.1	2.3	2.8	2.7	-0.1	95.5	0.4	116.9
Change in loans and borrowings received (principal of the debt)	RUB bln	74.7	38.3	175.4	96.8	30.2	35.5	5.3	117.5	-61.3	36.7
Net change in loan portfolio including exchange rate differences and loan interest	RUB bln	79.8	35.7	196.5	240.1	104.6	132.7	28.1	126.9	-107.4	55.3
Loan debt, including accrued interest	RUB bln	383.9	419.6	616.1	856.2	960.8	988.9	28.1	102.9	132.7	115.5

Equity, assets and liabilities (according to Russian Railways accounting data using Russian Accounting Standards)

Indicator	As of 31/12/2014	As of 31/12/2015	+, – vs. 31/12/2014	% vs. 31/12/2014
Balance sheet total	4,846.7	5,057.1	210.4	104.3
Non-current assets	4,457.3	4,691.4	234.1	105.3
Current assets	389.4	365.7	-23.7	93.9
Capital and reserves	3,516.2	3,570.4	54.2	101.5
Long-term liabilities	805.7	1,014.1	208.4	125.9
Short-term liabilities	524.8	472.6	-52.2	90.1
Net asset value	3,553.4	3,578.1	24.7	100.7

Analysis of income from transportation activities

Freight transportation accounted for 79.7% of Russian Railways' total income in 2015.

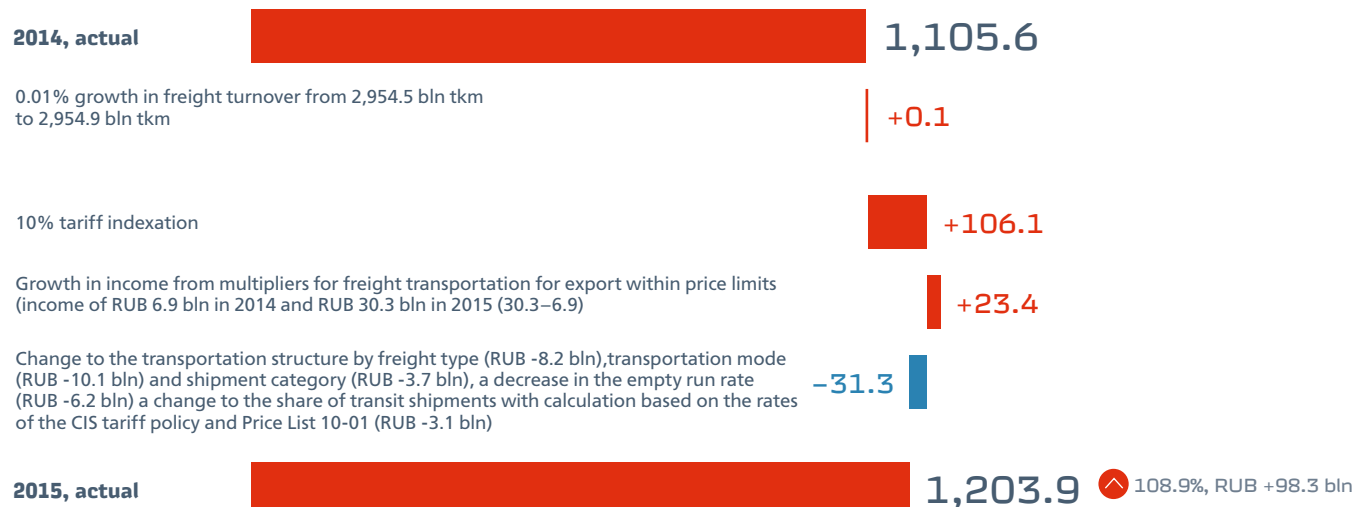
Income from freight transportation

Russian Railways had total income of RUB 1,203.9 bln in 2015, an increase of RUB 98.3 bln, or 8.9%, compared with 2014.

The change in income versus the previous year resulted from the following factors:

- 0.01% growth in freight turnover versus 2014 influenced the increase in income by RUB 0.1 bln;
- 8.9% growth in the average revenue rate per 10 tkm led to additional income of RUB 98.2 bln due to the following main factors:
 - the indexation of the freight transportation tariff by 10% resulted in additional income of RUB 106.1 bln;
 - the right to change tariffs within the tariff corridor, including using multipliers for freight transportation for export, which generated an additional RUB 23.4 bln;
 - at the same time, a number of negative factors resulting from changes to the transportation structure influenced the change in income (RUB -31.3 bln):
 - for types of goods (RUB -8.2 bln) due to growth in the proportion of first-class freight combined with a decline in the share of second- and third-class freight;
 - for types of traffic (RUB -10.1 bln) due to a decrease in the proportion of transit freight turnover, domestic shipments and international shipments via border crossings combined with a simultaneous increase in the proportion of less profitable freight coming through Russian ports;
 - for shipment categories growth in the proportion of block train shipments using a reduction factor vs. Price List 10-01 of up to 15% combined with a decrease in the share of railcar shipments influenced the decrease in income by RUB 3.7 bln;
 - a decrease in the revenue rate for empty runs based on the railcar type (RUB -6.2 bln);
 - a change to the share of transit shipments with calculation based on the rates of the CIS tariff policy and Price List 10-01 (RUB -3.1 bln).

Factor analysis of growth in income from freight transportation for 2015 vs. 2014, RUB bln



Income from long-haul passenger transportation

Russian Railways provides long-haul passenger transportation on the Sapsan, Lastochka (Desiro RUS) and Allegro trains.

Income from such transportation totalled RUB 11.2 bln in 2015, an increase of RUB 2.1 bln, or 23%, versus the previous year.

The main factor behind the increase in income from long-haul passenger transportation by high-speed trains was a 22% increase in the number of passengers transported compared with 2014 to 4.8 mln.

The primary reasons for growth in the number of passengers transported include:

- the assignment of 56 additional Sapsan train pairs on the Moscow-St Petersburg route (on holidays and also for the St Petersburg International Economic Forum);
- the assignment of two daily Lastochka (Desiro RUS) electric train pairs on the Rostov-Krasnodar route starting in March 2015;
- the assignment of one daily train pair on the Adler-Maykop route starting in May 2015.

Income from suburban passenger transportation

Income from suburban passenger transportation amounted to RUB 0.5 bln in 2015.

Russian Railways provides suburban passenger transportation as a carrier in the Krasnodar Region using twelve daily

Desiro RUS (Lastochka) trains on sections of the Sochi operating domain (six pairs each on the routes Olympic Park-Tuapse and Sochi-Roza Khutor) from 1 January to 29 June 2015 and 20 daily train pairs starting from 30 June 2015 (five pairs for Olympic Park-Tuapse, one pair for

Olympic Park-Lazarevskaya, six pairs for Sochi-Roza Khutor, two pairs for Aeroport-Lazarevskoye, two pairs for Aeroport-Tuapse, two pairs for Aeroport-Sochi and two pairs for Aeroport-Roza Khutor).

Income from infrastructure services

Income from infrastructure services totalled RUB 99.8 bln in 2015, an increase of RUB 0.7 bln, or 0.8%, from 2014.

The change in income versus the previous year occurred for the following reasons:

- increased income from the provision of infrastructure services for passenger transportation amounted to RUB 2.3 bln, including RUB 0.6 bln from long-haul infrastructure services and RUB 1.7 bln from suburban infrastructure services due to the following factors:
 - growth in the average revenue rate, including due to the indexation of the tariff for infrastructure services at 10%, led to an increase in income of RUB 9.9 bln, including RUB 7.3 bln for long-haul transportation and RUB 2.6 bln for suburban transportation;
 - an 8.9% decrease in the volume of long-haul and suburban passenger transportation as measured in railcar

km compared with 2014 as a result of traffic optimisation by carriers led to reduced income of RUB 7.6 bln, including a decrease of RUB 6.7 bln in long-haul transportation and RUB 0.9 bln in suburban transportation;

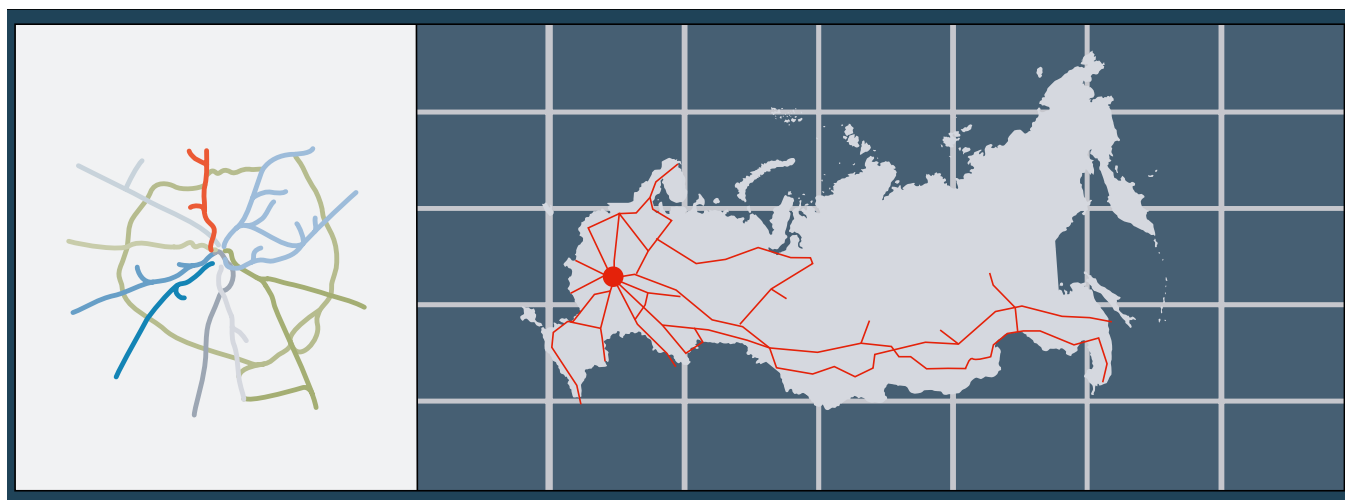
- income from the provision of infrastructure services for freight transportation decreased by RUB 1.6 bln versus the previous year, including due to:
 - a decrease in the number of railcars left on infrastructure due to a reduction in the working railcar fleet (RUB -0.5 bln). The working railcar fleet decreased 5.4% (-55,000 units) in size in 2015 versus the 2014 level;
 - changes to the tariff level for services involving the occupation of railway transportation infrastructure due to

the introduction on 7 June 2015 of new rates established by Order No. 127-T/I of the Russian Federal Tariffs Service dated 29 April 2015, which are almost 63% lower than the Russian contractual tariffs of Russian Railways that had previously been in effect (RUB -1.1 bln).

Income from locomotive traction services

Income from locomotive traction services totalled RUB 10.5 bln in 2015, an increase of RUB 0.26 bln, or 2.5%, from the previous year.

Analysis of expenses on transportation activities

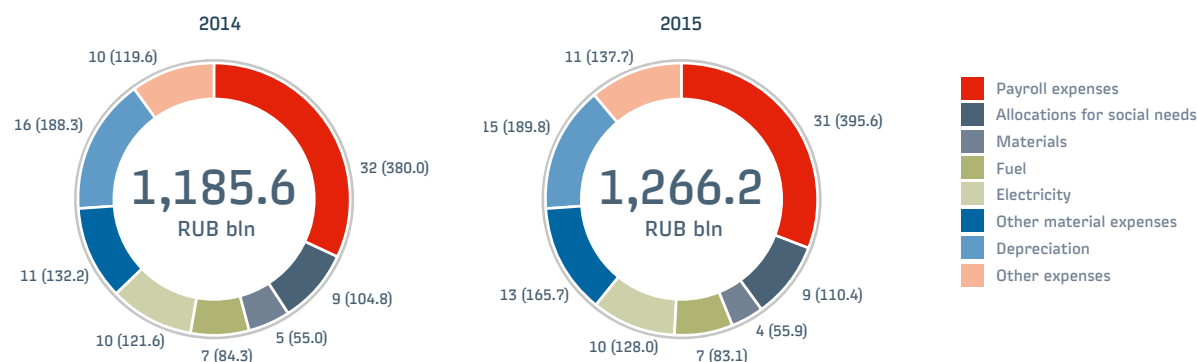


Expenses on transportation activities totalled RUB 1,266.2 bln in 2015, a 6.8% increase compared with 2014.

Expenses on transportation activities, RUB bln

Indicator	2014	2015	Growth	
			+ / -	%
Expenses on transportation activities	1,185.6	1,266.2	80.5	106.8
Payroll expenses	380.0	395.6	15.6	104.1
Allocations for social needs	104.8	110.4	5.6	105.4
Material expenses	393.0	432.7	39.7	110.1
Materials	55.0	55.9	0.9	101.7
Fuel	84.3	83.1	-1.2	98.6
including for train traction	69.6	70.5	0.9	101.3
Electricity	121.6	128.0	6.4	105.3
including for train traction	106.4	112.5	6.1	105.7
Other material expenses	132.2	165.7	33.5	125.4
Depreciation	188.3	189.8	1.5	100.8
Other expenses	119.6	137.7	18.1	115.1

Structure of Russian Railways expenses on transportation activities by cost components, % (RUB bln)



Payroll expenses totalled RUB 395.6 bln in 2015, an increase of 4.1%, or RUB 15.6 bln, compared with 2014.

The change in expenses was due to the following factors:

- growth in expenses that depend on transportation volume by RUB 0.3 bln;
- growth in expenses due to the partial indexation of wages at 3.5% starting from 1 March 2015 (5.1% average for 2015 versus 2014) in accordance with local company regulations prepared based on clause 4.1.5 of the Russian Railways collective bargaining agreement for 2014-2016 (RUB +17.5 bln);
- growth in expenses by RUB 0.5 bln due to the maintenance of newly built facilities in the Eastern operating domain and Ust-Luga, among others.
- a decrease in expenses by RUB 2.1 bln (including through the outsourcing of non-core operations and the transition to full after-sales service of the locomotive fleet starting from 1 July 2014).

At the same time, it should be noted that salaries were indexed at 5.1% (in average annual terms) in order to achieve a financial balance in operations given actual average annual consumer price growth of 15.5% (12.9% December vs. December), which led to a decline in the real salaries of the Company's employees.

Allocations for social needs totalled RUB 110.4 bln in 2015, an increase of 5.4%, or RUB 5.6 bln, compared with 2014.

The change in expenses was caused by the following factors:

- increased expenses resulted from amendments to legislation (RUB +2 bln):
 - starting from 1 January 2015, mandatory medical insurance premiums are paid at a tariff of 5.1% of all payments and other remuneration paid to an individual for the corresponding fiscal year with no restriction on the limit value of the premium base;
 - starting from 1 January 2015, exemptions are made for compensation payments for the dismissal of employees prescribed by employment and collective bargaining agreements in an amount not exceeding three times the average monthly salary or six times the average monthly salary for employees dismissed from organisations located in areas of the Far North and equivalent areas.
- increased expenses in accordance with growth in payroll expenses resulting from the partial indexation of salaries and the introduction of new facilities (RUB +3.6 bln).

Fuel expenses amounted to RUB 83.1 bln in 2015, a decrease of 1.4%, or RUB 1.2 bln, from 2014, including:

- fuel expenses on train traction increased 1.3% (RUB +0.9 bln) with the change in expenses occurring due to:
 - a decrease in transportation volume as measured in gross tkm in diesel traction by 2.1% (RUB -1.5 bln);
 - an increase in diesel fuel prices taking into account growth in excise taxes for diesel fuel in accordance with Federal Law No. 306-FZ dated 27 November 2010 'On Amendments to Part One and Part Two of the Tax Code of the Russian Federation' (RUB +3.3 bln);

- optimisation measures that aim to cut fuel consumption by reducing specific fuel consumption rates for train traction in diesel traction by 2.0%, which made it possible to cut costs by RUB 0.9 bln;
- expenses on other production needs decreased 13.9% (RUB -2.1 bln) with the change taking place due to:
 - an increase in diesel fuel prices taking into account growth in excise taxes for diesel fuel in accordance with Federal Law No. 306-FZ dated 27 November 2010 'On Amendments to Part One and Part Two of the Tax Code of the Russian Federation' (RUB +0.7 bln);

- a decrease in fuel consumption due to optimisation measures, including through the outsourcing of non-core operations, the transition to full after-sales service of the locomotive fleet starting from 1 July 2014 and other measures (RUB -2.8 bln).

Electricity expenses amounted to RUB 128.0 bln in 2015, an increase of 5.3%, or RUB 6.4 bln, from 2014, including:

- electricity expenses on train traction grew 5.7% (RUB +6.1 bln) with the change in expenses resulting from:
 - a decrease of 0.8% (RUB -0.8 bln) in transportation volume as measured in gross tkm in electric traction;
 - growth of 7.7% (RUB +8.1 bln) in the average electricity tariff for train traction;

- optimisation measures that aim to cut electricity consumption by reducing specific electricity consumption rates for train traction in electric traction by 1.2%, which resulted in cost-cutting of RUB 1.2 bln;
- expenses on other needs increased 2.2% (RUB +0.3 bln) with the change in expenses due to:
 - growth in the average electricity tariff by 8.4% (RUB 1.3 bln);

- a decrease in electricity consumption due to optimisation measures and the transition to full after-sales service of the locomotive fleet transition starting from 1 July 2014 and other measures (RUB -1.0 bln).

All other material expenses (materials and other material expenses) amounted to RUB 221.6 bln in 2015, an increase of 18.4%, or RUB 34.4 bln, from the 2014 level. The change in expenses was caused by the following factors:

- growth in expenses of RUB 27.3 bln due to price increases on consumed

products. At the same time, the work being carried out to restrict price growth on the consumed products made it possible to reduce these expenses by RUB 10.5 bln;

- growth in expenses of RUB 17.6 bln due to the outsourcing of non-core operations as well as the transition to

full after-sales service of the locomotive fleet starting from 1 July 2014 through the redistribution of expenses among cost components within the limits of total expenditures.

Depreciation amounted to RUB 189.8 bln in 2015, or 0.8% (RUB +1.5 bln) more than in 2014. The change in expenses is due to both the commissioning of new fixed assets as part of the Russian Railways Investment

Programme as well as the retirement of a number of facilities and ongoing work to preserve fixed assets not involved in the transportation process.

Other expenses amounted to RUB 137.7 bln, an increase of 15.1%, or RUB 18.1 bln, compared with 2014. The main factors affecting the changes in other expenses were:

- growth in property tax expenses by RUB 9.0 bln, including due to an increase in the tax rate (from 0.7% to 1%) for public railways as well as structures that constitute an integral part of such facilities and amendments made to the Tax Code of the Russian Federation after 1 January 2015;
- growth in expenses by RUB 5.2 bln to fund a programme to lease advanced track maintenance equipment for a wide range of track repair work in order to ensure the efficient operation of railway infrastructure;
- growth in expenses by RUB 1.3 bln due to amendments to the Labour Code of the Russian Federation as of 1 January 2015 as regards employees retaining the average salary at their main place of work when being sent for professional training or additional professional education (stipend previously paid);
- growth in expenses for facility security services, fire safety, etc. (RUB +3.1 bln);

- a decrease in expenses by RUB 0.5 bln due to the outsourcing of non-core operations, the transition to full after-sales service of the locomotive fleet starting from 1 July 2014 and other measures.

7.1 %

growth in transportation costs versus the 2014 level despite 15.5% average annual inflation

Major repairs of fixed assets

Russian Railways spent RUB 57.9 bln on major repairs to its fixed assets in 2015 as part of expenses on transportation activities, including RUB 29.9 bln in subsidies from the federal budget.

Subsidies were used to repair 2,147 km of tracks, 129 engineering structures, 27 km of roadbed, 846 automatic blocking devices and 1,223 interlocking switches, 2,402 km of

contact network, 1,435 km of overhead and cable electricity transmission lines and 73 traction substations in 2015.

Cost optimisation

The macroeconomic situation within Russia continued to deteriorate in 2015, and the forecast parameters for the nation's socioeconomic development predict even more negative trends. In particular, the GDP growth rate has been lowered from +1.2% to -3.7%, which directly impacted the dynamics of our Company's volume indicators and led to losses in revenue receipts.

In order to minimise risks from decreased income as well as increased negative exchange rate differences and interest payments, Russian Railways has taken timely measures to optimise the cost of transportation activities.

Total cost optimisation for transportation activities in 2015 versus the initial plan approved by the Russian Railways Board of Directors and the Russian Government

27 November 2014 (RUB 1,305.9 bln) amounted to RUB 39.7 bln.

This effect was above all achieved through improving energy efficiency, introducing resource-saving technologies, containing price growth as well as implementing organisational and technical measures. The main optimisation measures included:

- a 1.3% downsizing of personnel, restricting salary indexation to 5.1% in average annual terms despite actual consumer price growth of 15.5% (12.9% December vs. December) as well as the use of part-time work schedules;
- continued work to further enhance internal efficiency, including through the consistent improvement of the pricing policy and the sustainable use of materials;
- stricter specific fuel and energy consumption rates for train traction and a decrease in the consumption of fuel and energy resources for other production needs (through the increased efficiency of regenerative braking and the use of regenerative power return, the introduction of resource-saving technologies, the use of energy efficient bulbs and lighting systems, process equipment, the optimisation of heating and air conditioning, and more);
- the preservation of fixed assets due to reduced transportation volumes (primarily locomotives), the revision of Russian fixed asset classification (OKOF) codes, updates to the commissioning dates of fixed assets and the revision of the useful life period will lead to a reduction depreciation charges;

- other measures – enhancing operating technologies, including by improving locomotive performance indicators, modifying the operating mode on sections with low intensity traffic, merging professions and expanding the service area, among other things.

The Company continues work to optimise material expenses while observing the required product quality levels and supply deadlines as well as guaranteeing the sustainability of their production volume.

Based on a continuous analysis of current prices, the Company monitors the situation

on industry-related markets, arranges negotiations with existing and potential product suppliers concerning the ability to lower prices, searches for alternative supply sources and studies the feasibility of obtaining additional discounts for products delivered as part of long-term contracts under which Russian Railways provides counterparties guaranteed supply volumes for a long period.

Timely amendments to regulatory documents of a technological nature that describe the use of labour resources reduce the labour intensity of technological processes and significantly decrease the estimated (required) number of employees.

As a result of the measures adopted by the Company and despite significant price pressure, the cost of transportation activities only increased by 7.1% versus 2014, which is significantly lower than the industry price growth (12.4%) and average annual inflation (15.5%).

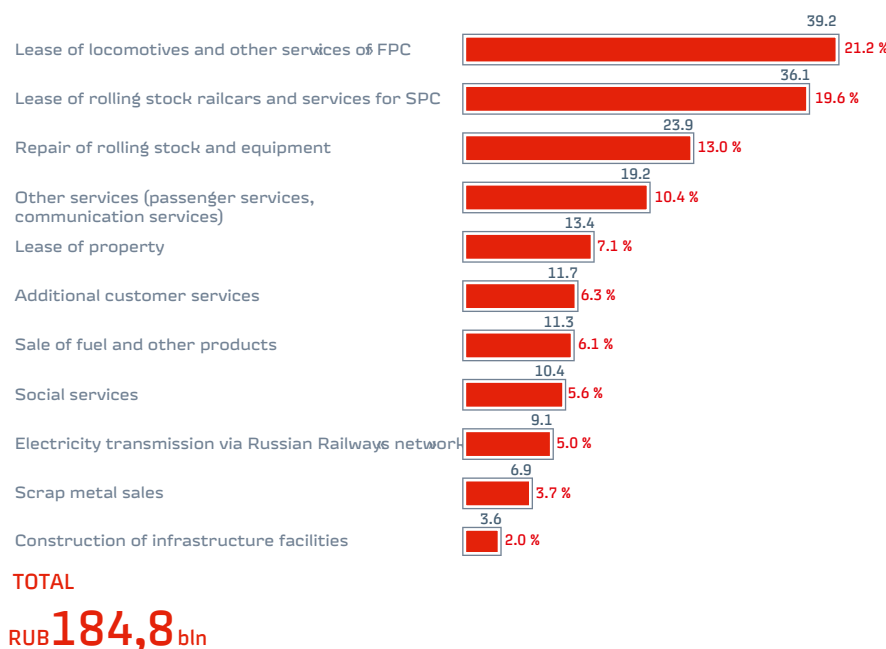
Other types of activities

Profit from other types of activities totalled RUB 23.8 bln in 2015, an increase of RUB 4.7 bln, or 24.4%, from 2014.

In 2015, the Company's income from other types of activities totalled RUB 184.8 bln, an increase of RUB 8 bln, or 5%, from the previous year.

Given the limited growth in income due to the reduction in the volume of work performed and the ongoing policy to contain growth in the cost of rolling stock leasing services for suburban passenger companies and Federal Passenger Company, the measures taken by the Company to reduce the cost of the services proved to be key factors behind the positive dynamics seen in profit from other activities. Despite a significant decline in the volume of suburban transportation operations, the Company managed to ensure a minimal positive financial result from the provision of services by suburban passenger companies. In addition, increased efficiency of rolling stock management, a reduction in maintenance and routine repairs costs and growth in labour productivity contributed to improvements in the financial result versus the previous year by RUB 1.4 bln.

Structure of income from other types of activities, RUB bln



The Company continued work to contain growth in long-haul passenger transportation expenses through a balanced tariff policy for the lease and management of passenger locomotives based on measures that aim to improve the efficient management of the passenger locomotive fleet given its changing age structure and support the transportation process with new traction passenger rolling stock. As a result of this work, the financial result

from locomotive leasing and management services was improved by RUB 1 bln compared to the previous year.

Russian Railways successfully implemented projects to lease passenger facilities with Central Suburban Passenger Company and outsourced road transportation services, which contributed to growth in profit taking into account the additional commercial utilisation of leasable space.

Further work was carried out to reincorporate inefficiently used utility facilities into civil circulation (heating facilities put under municipal ownership in the Republic of Buryatia, Udmurtia and other regions), which helped the Company improve its financial result as regards the provision of utility services by 21% versus the previous year (RUB +0.2 bln).

Other income and expenses

In 2015, other income totalled RUB 384.0 bln and other expenses amounted to RUB 442.6 bln for a financial result of RUB (-58.6) bln.

Change in other income and expenses in 2014–2015, RUB bln

Indicator	2014	2015	Change	
			+ / -	%
Result from other income and expenses	-97.7	-58.6	39.1	60
Including:				
sale of assets	2.9	7.1	4.2	245
sale of shares	1.4	5.7	4.3	407
dividends	16.7	2.9	-13.8	17
property contribution to charter capital	31.4	0.7	-30.7	2
interest receivable	2.9	11.8	8.9	407
exchange rate differences	-142.5	-22.1	120.4	16
change in provisions	44.4	7.6	-36.8	17
budget funding	27.6	32.2	4.6	117
interest payable excluding capitalised interest	-34.7	-64.5	-29.8	186
Guarantees under the collective bargaining agreement for Company employees and their families as well as retirees	-26.8	-26.8	0	100

Profit from the sale of stakes in subsidiaries

Income from the sale of stakes in subsidiaries in 2015 totalled RUB 19.3 bln and profit was RUB 5.7 bln. The following stakes were sold in the reporting year:

- Saransk Railcar Repair Plant – 100% minus 1 share;
- Roszheldorproekt – 25% plus 1 share;
- JSCB Absolut Bank – 5.2951%;
- Moscow Ring Railway – 50%;
- Breakers Investments BV – 25 % plus 1 share.

The increase in income from the sale of stakes in subsidiaries totalled RUB 7.9 bln, while profit increased by RUB 4.3 bln versus 2014.

The sale of share in Breakers Investments BV (25% plus 1 share) had the biggest effect on the result with income from the transaction totalling RUB 12.6 bln and profit amounting to RUB 3.3 bln.

Profit from the sale of shares in subsidiaries, RUB bln.



Contribution of property to the charter capital of subsidiaries

The Company generated a positive financial result not underpinned by cash flow in the amount of RUB 0.7 bln from an additional share issue by Sakhalin Passenger Company during the reporting year.

In 2014, the positive financial result not underpinned by cash flow totalled RUB 31.4 bln, which was primarily generated by the establishment of UTLC through the contribution of shares in TransContainer (50% plus two shares) and Russian Railways Logistics (100%) to the UTLC charter capital.

Financial result from transactions with the shares of subsidiaries, RUB bln



Dividend income from Russian Railways subsidiaries

Dividend income from subsidiaries totalled RUB 2.9 bln in 2015. GEFCO accounted for most of the dividend payments (RUB 1.0 bln).

In 2014, dividend income amounted to RUB 16.7 bln in 2014 with the bulk of dividend payments (RUB 10.9 bln) coming from the additional capitalisation of Federal Freight Company and Federal

Passenger Company through the receipt of a proportionate amount of dividends from these S&A from the retained earnings of previous years.

Exchange rate differences

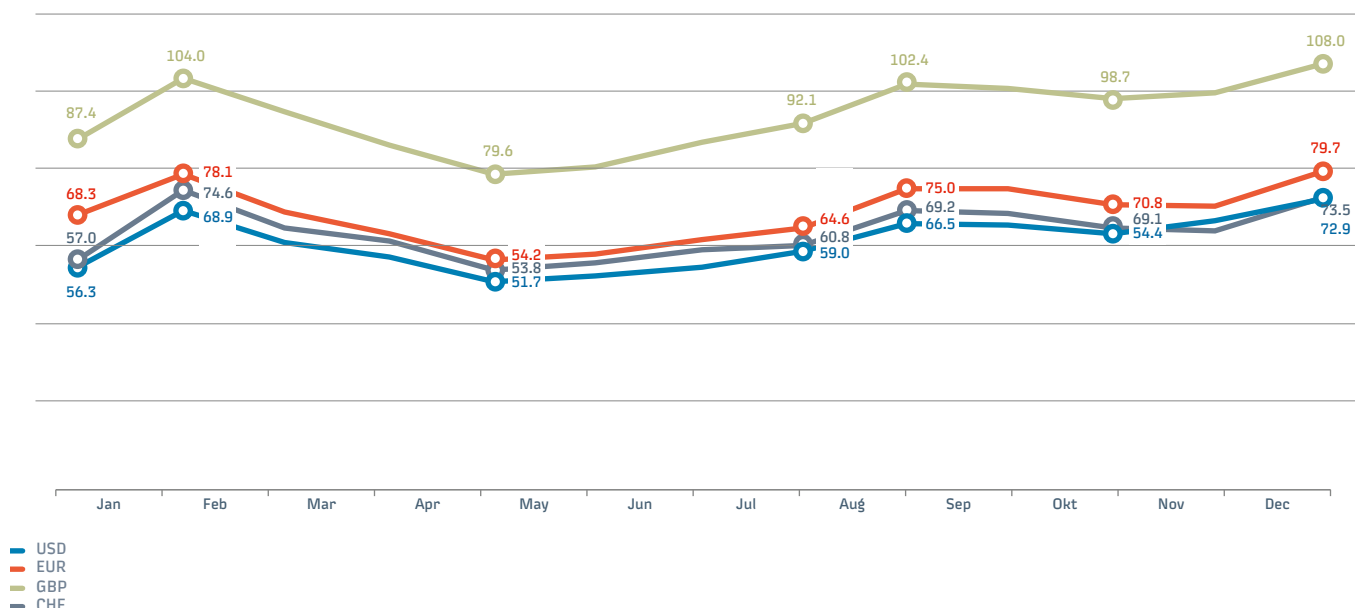
Total foreign exchange losses amounted to RUB -91.8 bln in 2015 with most of the losses (RUB -69.7 bln) classified as additional capital as part of the Company's use of hedge accounting starting from 16 July 2015.

According to this procedure and the currency risk management policy, the exchange rate difference generated from

converting a foreign currency-denominated liability that is a hedging instrument into roubles must be paid to additional capital. Based on the recognition of the revenue/sale of an asset that is a hedging instrument, the corresponding portion of the exchange rate difference accumulated in additional capital must be recognised in the income statement.

Exchange rate losses totalled RUB 142.5 bln in 2014.

Exchange rate dynamics of main currencies in 2015, RUB per unit



Debt servicing costs

Russian Railways had total interest payable of RUB 64.5 bln in 2015, excluding capitalised interest (total accrued interest for 2015 – RUB 76.1 bln).

In 2014, interest payable amounted to RUB 34.7 bln, excluding capitalised interest (total accrued interest for 2014 – RUB 45.7 bln).

The growth in costs with respect to 2014 totalled RUB 30.4 bln and was caused by an increase in the weighted average rate under the loan portfolio due to the fact that the portfolio contains borrowings on which the rate is tied to inflation, which reached 16.9% last year, and also due to an increase in the average annual volume

of the credit portfolio, primarily as a result of the revaluation of foreign currency-denominated borrowings over the course of the year (RUB +10.2 bln) as well as because of new borrowings (the influence of these factors was: RUB +16.3 / +10.2 / +3.9 bln).

Social expenditures

Expenses associated with guarantees under the collective bargaining agreement totalled RUB 26.8 bln in 2015, which is consistent with the previous year's level.

The Russian Railways collective bargaining agreement is concluded for a period of

three years and serves as the unconditional motivational tool for recruiting and retaining personnel in the regions where the Company operates.

Despite the actual level of inflation in 2015, the optimisation of social expenditures

totalled RUB 3.5 bln versus the 2014 level, which was the result of activities carried out to manage social expenditures.

Changes in provisions

The actual positive result from changes in provisions totalled RUB 7.6 bln in 2015.

Based on the results of claims filed by the Company, RUB 10.9 bln in previous

provisions were restored for doubtful debts based on the accounts receivable of the Ministry of Health and Social Development of the Russian Federation.

Management of working capital

In accordance with its approved financial strategy, Russian Railways employs an aggressive model for the management of working capital, which involves reducing the financial cycle as much as possible in order to quickly release and spend funds to finance its current and investment activities.

This model features is characterised by negative net working capital and means that the Company utilises its current liabilities as a source of investment activities.

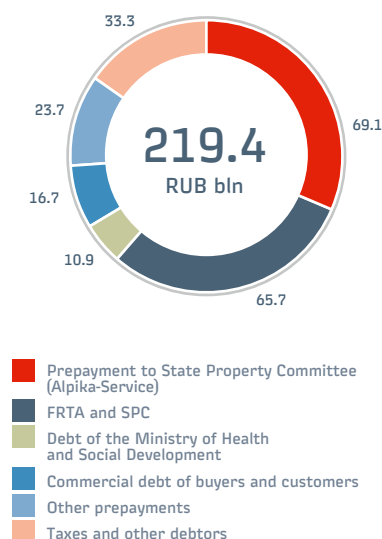
In 2015, the Company's negative net working capital totalled RUB (-148.6) bln. As a result of changes to the net working capital, a positive cash flow was generated in 2015 in the amount of RUB 15.6 bln.

Accounts receivable

Structure and dynamics of accounts receivable, RUB bln

Item	actual 31/12/2014	actual 31/12/2015	+/- vs. start of year	% vs. start of year
Suburban passenger companies (SPC)	38.9	39.5	0.6	102
Federal Railway Transportation Agency (FRTA)	27.2	26.2	-0.9	97
Ministry of Health and Social Development of the Russian Federation	0.0	10.9	10.9	—
Commercial (trade) debt of buyers and customers	16.7	16.7	0.0	100
Prepayments, including:	29.6	92.8	63.2	314
prepayments under exchange contracts for the Alpika-Service motorway	0.0	69.1	69.1	—
prepayments under business contracts	29.6	23.7	-5.9	80
for operating activities	5.7	4.3	-1.4	75
for investment activities	23.9	19.4	-4.5	81
Taxes and fees to extra-budgetary funds	14.8	15.1	0.3	102
Other debtors (including contributions to charter capital)	30.1	18.2	-11.9	60
Total	157.2	219.4	62.2	140
accounts receivable in current assets	122.7	135.3	12.6	110
accounts receivable in non-current assets	34.5	84.1	49.6	244

Accounts receivable as
of 31 December 2015, RUB bln



As of the end of 2015, total accounts receivable amounted to RUB 219.4 bln (an increase of 40% versus the start of 2015, or RUB 62.2 bln).

Of total accounts receivable:

- commercial debt (short-term outstanding trade debt on sales according to signed contracts) amounted to RUB 16.7 bln. The turnover period for this debt was 3.5 days (the same level as in 2014);
- prepayments under business (commercial) contracts – RUB 23.7 bln;
- non-commercial activities – RUB 179.0 bln (primarily related to decisions adopted at the government level):
 - current debt restructured for 10 years that originated as a result suburban passenger transportation by suburban passenger companies (RUB 39.5 bln) and the FRTA (RUB 26.2 bln). Debt decreased by RUB 0.3 bln in the current year,
 - debt of the Ministry of Health and Social Development of the Russian Federation to compensate for expenses on the suburban transportation of federal benefit recipients (RUB 10.9 bln),
 - long-term debt of the Russian State Property Committee under an exchange contract for the motorway component of the Olympic project Alpika-Service (RUB 69.1 bln), which is to be paid for using state property on the basis of decisions adopted by the executive authorities. The Company received property in 2015 to offset more than RUB 24 bln in accounts receivable,
 - actual overpayment of taxes generated according to the provisions of legislation (RUB 15.1 bln),
 - other debtors, including transit settlements under agency and commission contracts and penalties, among other items (RUB 18.2 bln).

The RUB 62.2-bln increase in accounts receivable as of the end of 2015 is mainly attributable to the conclusion of an exchange contract for the motorway component of the combined motorway-railway from Adler to Alpika-Service mountain resort and the transfer of immoveable property (RUB +69.1 bln).

At the same time, there was a decrease in the debt of other buyers and customers (RUB -1.9 bln), prepayments for other counterparties (RUB -5.9 bln) and debt on contributions to charter capital (RUB -13.6 bln).

The proportion of overdue accounts receivable totalled 0.8% in 2015, or the same level as the previous year.

Accounts payable

The Company's accounts payable increased by RUB 36.7 bln (or 12%) in 2015 to RUB 342.3 bln.

Structure and dynamics of accounts payable, RUB bln

Item	actual 31/12/2014	actual 31/12/2015	+/- vs. start of year	% vs. start of year
Debt to suppliers and contractors	148.1	182.0	33.9	123
for investment activities	78.9	98.4	19.5	125
for operating activities	69.2	83.6	14.4	121
Debt to personnel on wages and transactions with accountable persons	13.6	14.5	+0.9	107
Debt for social insurance and security	8.4	9.2	0.8	110
Debt to budget for taxes and fees	24.6	17.8	-6.8	72
Prepayments received, including:	100.4	104.9	+4.5	104
for shipments	78.1	83.7	5.6	107
other prepayments	22.3	21.2	-1.1	95
Other debt	10.6	13.9	3.3	131
Total accounts payable	305.6	342.3	+36.7	112

Turnover period of accounts payable, days

Indicator	2014	2015	+/- vs. 2014	+/- vs. 2014, %
Turnover period	34.5	40.8	+6.3	118
for operating activities	29.2	33.4	+4.2	114
for investment activities	42.1	53.4	+11.3	127

Accounts payable to suppliers and contractors totalled RUB 182.0 bln as of the end of 2015, including RUB 98.4 bln for investment activities and RUB 83.6 bln for current activities.

One of the main principles Russian Railways utilises in managing its working capital is the use of accounts payable to suppliers and contractors as a source of funding for the Investment Programme (the volume of the

Company's contractual obligations directly depend on the deadlines for the payment of work, services and supplies).

In order to maintain the planned contractual volume in 2015, the Company's standard settlement terms and conditions were amended to extend the deadlines for final settlement under investment contracts to 60 days and for other contracts on supply, work or services to 45 days.

In this connection, the turnover period for accounts payable to suppliers and contractors was 40.8 days for the Company as a whole in 2015, which is 6.3 days more than in 2014, but is consistent with the standard settlement conditions for contracts of Russian Railways.

Overdue accounts payable to suppliers and contractors makes up less than 1% of total debt.

Inventory management

The Company's inventory decreased 10.3% in 2015.

The Company's inventory was valued at RUB 61.9 bln as of 31 December 2015, down by RUB 7.1 bln from the start of the year.

Production process inventory (raw commodities and materials) was 2.7 months for materials and spare parts in 2015 and 0.85 months for fuel.

In order to optimise the Company's inventory and align it with the volume of work, measures were drafted and implemented in 2015 to involve surplus inventory in the production process:

- the sale of 640,900 tonnes of scrap metal;

- the involvement of surplus material and technical resources in business turnover.

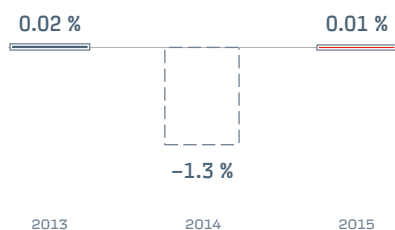
This made it possible to generate additional income of RUB 6.9 bln from the sale of scrap metal and save RUB 1.5 bln in funds for the purchase of new material and technical resources.

Availability of inventories, RUB bln

Item	Balance as of 31/12/2014	Balance as of 31/12/2015	Deviation +/–
Total inventory	69.0	61.9	–7.1
Including			
raw materials and supplies, similar assets	67.0	60.7	–6.3
work in progress costs	1.0	0.7	–0.3
finished products and goods for resale	0.4	0.1	–0.3
shipped goods	0.0	0	0
prepaid expenses	0.6	0.5	–0.1

Factor analysis of profit margin

Return on equity



Operating profit margin, %



Return on equity amounted to 0.01% in 2015. The following factors affected the return on equity level: net profit margin, asset turnover and financial leverage. Given the lack of growth in transportation operations, the return on sales was 5.5% in 2015, an increase of 1.3 p.p.

from 2014, primarily due to the effect of the Company's cost optimisation measures and improvements in the quality of work.

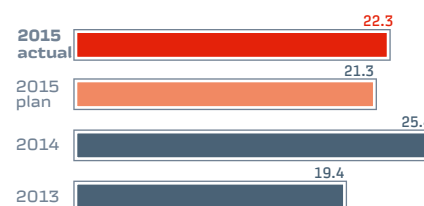
The positive net profit margin in 2015 compared with 2014 resulted from growth in

sales profit as well as non-operating effects due to hedge accounting and the a decrease in exchange rate losses categorised as profit, which enabled the Company to break even in 2015 after generating a loss in 2014.

The target for EBITDA margin approved by the Company's Board of Directors was exceeded by 1 p.p. primarily due to growth in sales profit of RUB 15.4 bln versus the plan. Compared with the previous year, the EBITDA margin declined by 3.1 p.p. due to the reflection of a significant number of non-operating factors in the 2014 financial statement (restoration of accounts receivable from the doubtful loan provisions for infrastructure and rolling stock lease

services provided to suburban passenger companies (RUB +41.1 bln) as well as the revaluation of financial investments and an additional share issue by subsidiaries (RUB 31.4 bln, including RUB 23.1 bln from the establishment of UTLC). No proportionate measures were carried out in 2015.

EBITDA margin, %



Financial leverage (assets/equity), %



Use (turnover) of assets (income/assets), %



Growth of 4 p.p. in financial leverage primarily resulted from an increase in the share of financial liabilities in the Company's assets due to the revaluation of the foreign currency-denominated portion of the loan portfolio.

Despite the current macroeconomic conditions and tariff policy, asset turnover increased by 1 p.p. versus the 2014 level. This indicates that the Company is generating the same volume of income per rouble of established assets.

At the same time, the Company's assets that were formed from contributions to the Company's charter capital are not generating significant effects from the investments made due to the long-term nature of investments in such assets. Thus, the Company only expects new assets to generate significant economic benefits after the range of investment projects is fully completed.

Government support for Russian Railways

Government support for Russian Railways from all budgets totalled RUB 157.9 bln in 2015, including federal budget subsidies of RUB 105.8 bln.

In 2015, the Russian Government continued its regulation of tariffs for Russian Railways services to use the infrastructure of public railway transportation for suburban traffic. Subsidies earmarked in the 2015 federal budget to compensate for losses by Russian Railways associated with the regulation of the tariffs on infrastructure services for suburban transportation totalled RUB 33.7 bln.

In addition, in accordance with Resolution No. 8 of the Russian Government dated 5 January 2015 "On Amendments to Resolution No. 844 of the Russian Government dated 17 October 2011", subsidies are earmarked for Russian Railways to compensate for losses in income that occurred in 2011-2014 as a result of the government regulation of tariffs for services to use railway infrastructure for suburban passenger transportation. Subsidies totalling RUB 0.1 bln were received in 2015.

Thus, Russian Railways received a total of RUB 33.8 bln in subsidies in 2015 to compensate for losses in income as a result of the government regulation of tariffs for services to use railway infrastructure for suburban passenger transportation.

Russian Railways received the following subsidies from the federal budget in 2015:

- to compensate for maintenance expenses on the road from Adler to the Alpika-Service mountain resort in the amount of RUB 0.6 bln;
- to compensate for losses from the transportation of certain freight – RUB 0.3 bln;
- to compensate for losses in income related to the provision of free transportation for World War II veterans and disabled veterans in connection with the commemoration of the 70th anniversary of victory – RUB 0.001 bln.

Government projects continued in the reporting year to develop railway transportation infrastructure funded by the Russian Railways budget through contributions to the Company's charter capital. Total contributions to Russian Railways charter capital amounted to RUB 71.2 bln in 2015, including:

- for measures to develop the transport

industry of the Moscow Region – RUB 29.5 bln (including RUB 4.4 bln from the Moscow budget);

- for the development of public railway infrastructure on the Mezhdurechensk-Tayshet section – RUB 11.05 bln;
- for the development and renovation of the Baikal-Amur and Trans-Siberian Mainlines – RUB 16.9 bln;
- to build the Moscow-Kazan High-Speed Railway – RUB 3.7 bln;
- for the comprehensive reconstruction of the M. Gorky-Kotelnikovo-Tikhoretskaya-Krymskaya section with a bypass of the Krasnodar hub – RUB 3.6 bln;
- for the construction of the Prokhorovka-Zhuravka-Chertkovo-Bataysk railway line – RUB 6.5 bln.

In addition, Russian Railways received RUB 50 bln from the National Wealth Fund in 2015 under a contract for the transfer of preferred shares to fund the development

programme for the Baikal-Amur and Trans-Siberian Mainlines.

The Company also received public support from regional budgets and extra-budgetary funds in 2015 in the amount of RUB 2.1 bln, including:

- RUB 1.5 bln under an agreement with the City of Moscow for work to clear territory falling within the zone of the reconstruction and construction of

Moscow Little Ring Railway facilities;

- RUB 0.02 bln in subsidies from the Krasnodar Region budget to reimburse lost revenue from the state regulation of tariffs for suburban railway passenger transportation;
- RUB 0.09 bln in subsidies provided in connection with the regulation of electricity and heat tariffs;

- RUB 0.02 bln in subsidies for maintenance on low-density railway sections;
- RUB 0.3 bln in funding from the Social Insurance Fund for preventive occupational injury measures.

Government support for Russian Railways in 2015, RUB bln

Areas of government support	Volume
1. Direct support	34.6
Subsidies to compensate for income losses resulting from the government regulation of tariffs for services to use the infrastructure of public railway transportation for suburban traffic	33.8
Subsidies to compensate for maintenance expenses on the road from Adler to the Alpika-Service mountain resort	0.55
Subsidies to compensate for losses from the transportation of certain freight	0.3
Subsidies to compensate for losses in income related to the provision of free transportation for World War II veterans and disabled veterans in connection with the commemoration of the 70th anniversary of victory	0.001
2. Implementation of government projects via the Russian Railways budget	121.2
Development of public railway infrastructure on the Mezhdurechensk-Tayshet section	11.05
Development of the Moscow Transport Hub, including:	29.5
from the federal budget	25.1
from the Moscow budget	4.4
Development and renovation of the Baikal-Amur and Trans-Siberian Mainlines, including :	56.9
from the federal budget	16.9
from the Moscow budget	50.0
Construction of the Prokhorovka-Zhuravka-Chertkovo-Bataysk railway line	6.5
Rapid-transit and high-speed traffic	3.7
Comprehensive reconstruction of the M. Gorky-Kotelnikovo-Tikhoretskaya-Krymskaya section with a bypass of the Krasnodar hub	3.6
3. Government support from regional budgets and extra-budgetary funds	2.1
Total government support	157.9

Payment of taxes and fees

Total payable taxes and fees in 2015 amounted to RUB 283.0 bln.

Payment and taxes and fees

According to accounting data, total payable taxes and insurance premiums for 2015 amounted to RUB 283.0 bln, an increase of 4.6% compared with 2014, including:

- to the federal budget – RUB 54.9 bln, or 5.3% less than in 2014;
- to extra-budgetary funds – RUB 127.7 bln, or 3.9% more than in 2014.
- to regional and local budgets – RUB 100.4 bln, or 11.9% more than in 2014;

Tax payments accrued for taxes and insurance premiums reflected in Russian Railways accounting, RUB bln

	2014	2015	+/-	%
Total taxes and fees	270.6	283.0	+12.4	104.6
Federal budget	58.0	54.9	-3.1	94.7
VAT	57.68	54.69	-2.99	94.8
Profit tax	0.16	0.00	-0.16	—
Profit tax charged as a tax agent on income generated by a foreign organisation from sources in the Russian Federation	0.06	0.04	-0.02	66.7
Other taxes to the federal budget	0.11	0.14	+0.03	127.3
Regional and local budgets	89.7	100.4	+10.7	111.9
Profit tax	0.00	0.00	0.00	—
Personal income tax	54.24	55.67	+1.43	102.6
Property tax	33.50	42.78	+9.28	127.7
Land tax	1.68	1.61	-0.07	95.8
Transportation tax	0.19	0.20	+0.01	105.3
Mineral extraction tax	0.008	0.009	+0.001	112.5
Water tax	0.03	0.03	0.00	100
Other taxes to regional and local budgets	0.07	0.10	+0.03	142.9
Extra-budgetary funds	122.9	127.7	+4.8	103.9
Pension Fund	91.75	93.39	+1.64	101.8
Social Insurance Fund	10.69	10.89	+0.20	101.9
Health Insurance Fund	18.88	21.81	+2.93	115.5
Accident Insurance Fund	1.59	1.66	+0.07	104.4

A total of RUB 280.5 bln were spent on the payment of current taxes and insurance premiums (including offsets and refunds) in 2015, including:

- to the federal budget – RUB 64.5;
- to the budgets of the constituent regions of the Russian Federation and municipalities – RUB 97.9 bln;

- to extra-budgetary funds – RUB 118.1 bln.

The amount of taxes paid in 2015 increased by RUB 27.2 bln, or 10.7%, compared with the amount of tax payments made in 2014.

The amount of taxes paid to the federal budget grew by RUB 20.6 bln, or 46.9%, compared with 2014, taxes paid to regional

and local budgets increased by RUB 2.1 bln, or 2.2%, and taxes paid to extra-budgetary funds increased by RUB 4.5 bln, or 4.0%.

Payment of taxes and insurance premiums (including offsets and refunds) by Russian Railways, RUB bln

	2014	2015	+/-	%
Total taxes and fees	253.3	280.5	+27.2	110.7
Federal budget	43.9	64.5	+20.6	146.9
Value-added tax	43.3	64.9	+21.6	149.9
Profit tax	0.5	-0.5	-1.0	2 times
Regional and local budgets	95.8	97.9	+2.1	102.2
Profit tax	7.5	0.0	-7.5	—
Personal income tax	54.5	55.4	+0.9	101.7
Property tax	31.7	40.5	+8.8	127.8
Land tax	1.7	1.6	-0.1	94.1
Extra-budgetary funds	113.6	118.1	+4.5	104.0
Insurance premiums	112.2	116.7	+4.5	104.0
Accident Insurance Fund	1.4	1.4	0.0	100

VAT

Russian Railways paid RUB 64.9 bln in VAT in 2015. The increase in VAT payments by RUB 21.6 bln (49.9%) was primarily due to the payment of RUB 14.2 bln in VAT as part of the transaction to transfer the motorway section of the Joint Adler Road project to Alpika-Service under an exchange agreement with the Federal Railway Transportation Agency.

Corporate profit tax

Due to the Company's losses, it had no profit tax payable to the federal budget or the budgets of the constituent regions of the Russian Federation.

RUB 64,9 bln
spent on VAT in 2015

Regional and local taxes

Russian Railways paid a total of RUB 97.9 bln to the budgets of the constituent entities of the Russian Federation and municipalities in 2015, or 2.2% more than the 2014 level.

The increase in tax payments to regional and local budgets compared with 2014 resulted from growth in property tax payments to the budgets of the constituent entities of the Russian Federation.

The amount of property taxes charged in 2015 totalled RUB 42.8 bln, an increase of RUB 9.3 bln, or 27.7%, compared with 2014 due to an increase in the tax rate (from 0.7% to 1%) for railway transportation infrastructure facilities starting from 1 January 2015.

The Company spent a total of RUB 40.5 bln on the payment of property taxes in 2015,

an increase of RUB 8.8 bln, or 27.8%, compared with the previous year.

Personal income tax grew by RUB 0.9 bln, or 1.7%, compared with 2014 due to the salary indexation of Russian Railways employees.

Insurance premiums

Total insurance premiums paid to extra-budgetary funds amounted to RUB 127.7 bln in 2015, an increase of RUB 4.8 bln, or 3.9%, compared with 2014.

Insurance premium tariffs for payers making pay-outs to individuals in 2015 amounted to: 22% to the Russian Pension Fund, 2.9% to the Social Insurance Fund and 5.1% to the Federal Mandatory Medical Insurance Fund.

Starting from 1 January 2015, mandatory medical insurance premiums are paid at a tariff of 5.1% of all payments and other remuneration paid to an individual for the corresponding fiscal year with no restriction on the maximum amount (Federal Law No. 519-FZ dated 31 December 2014).

Additional insurance premiums for mandatory medical insurance due to the 5.1% tariff introduced in 2015 on all payments with no restriction on the maximum amount totalled RUB 2.5 bln.

In accordance with Resolution No. 1316 of the Russian Government dated 4 December 2014, the maximum amount of insurance premiums to be paid for mandatory medical insurance is RUB 711,000, while the maximum amount of insurance premiums to be paid for mandatory social insurance in the event of temporary disability or in connection with maternity is RUB 670,000 per individual.

In 2014, the maximum amount of insurance premiums to be paid for mandatory pension

insurance and mandatory social insurance was unified for each individual taking into account indexation and totalled RUB 624,000 per individual per year.

The increase in the maximum amount of insurance premiums to be paid from RUB 624,000 in 2014 to RUB 711,000 for pension insurance and to RUB 670,000 for social insurance in the event of temporary disability or in connection with maternity in 2015 led to growth of RUB 0.5 bln in the amount of insurance premiums paid.

The effective rate on insurance premiums (ratio of accrued insurance premiums versus the amount of payments and other remuneration to individuals) was 27.2% in 2015 (26.8% in 2014).

Share capital and dividends

Share capital

The Russian Federation is the founder of and sole shareholder in Russian Railways. The Russian Government exercises shareholder powers on behalf of the Russian Federation.

The charter capital of Russian Railways was formed by the founder through the contribution of the property and assets of federal railway transportation organisations.

As of the end of 2015, Russian Railways had total charter capital of RUB 2,091.21318 bln split into 2,041,213,180 common registered shares in uncertificated form with par value of RUB 1,000 each and 50,000,000 preferred registered shares with par value of RUB 1,000 each.

The Company's charter capital was increased by a total of RUB 73,238,838,000 in 2015, including:

- by RUB 64,280,838,000 through the placement of common shares with par value of RUB 1,000 each in accordance with Order No. 995-r of the Russian Government dated 29 May 2015;
- by RUB 8.95 bln through the placement of common shares with par value of RUB 1,000 each in accordance with Order No. 2666-r of the Russian Government dated 24 December 2015.

Report on the distribution of net profit earned in 2014

Russian Railways generated a loss of RUB 44.1 bln in 2014.

The Company's approved financial plan for 2014 envisaged net profit of RUB 182 mln.

Dividends were paid as part of previously planned parameters in the amount of RUB 45 mln, which amounts to 25% of the Company's planned profit for 2014 (Order No. 1233-r of the Russian Government dated 30 June 2015).

Projected distribution of the Company's net profit earned in 2015. Dividends.

Russian Railways had net profit of RUB 317.9 mln in 2015.

In accordance with clause 42 of Section 6 of the Russian Railways Charter, the Company must establish a reserve fund amounting to 5% of the net profit of the reporting year (RUB 15.8 mln).

Dividends on Russian Railways common shares for 2015 will be paid in accordance with a directive of the Russian Government.

The Company will spend RUB 5,000,000, or 0.01% of the par value of preferred shares, which amounts to RUB 50,000,000,000.

The dividend policy of Russian Railways is based on the balance of the interests of the Company and its shareholders as it relates to determining the amount of dividend payments, specifically:

- enhancing the Company's investment appeal;
- strict observance of shareholder rights as envisaged by the legislation of the Russian Federation.

Indicator	2011	2012	2013	2014
Net profit	16.8	14.1	0.7	-44.5
Reserve Fund	0.8	0.7	0.03	0
Accrued dividends	4.2	0.0	0.185	0.045
Accrued dividends, % of revenue	25.0	0	25	—

DEBT POLICY AND RELATIONS WITH INVESTORS AND ANALYSTS

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Debt policy and relations with investors and analysts

As of the end of 2015, the key performance indicators of the Russian Railways Group's loan portfolio featured the following values:

Average maturity	Proportion of short-term debt	Proportion of public debt instruments
Approximately 10 years	Approximately 7 %	100 %
The Company undertakes consistent steps to increase and maintain the average repayment period in its loan portfolio. In 2015, the average borrowing period increased by 1 year compared with the previous period.	Russian Railways maintains the level of short-term borrowing in the loan portfolio at 15% or less to minimise risks associated with the need for refinancing. In 2015, the short-term debt level decreased 8% versus the previous year.	Russian Railways primarily borrows using debt capital market tools: bonds, Eurobonds and infrastructure bonds that offer an optimal price/maturity ratio.

Debt portfolio structure

The Company takes a balanced approach to managing its loan portfolio and attracting debt capital while also ensuring the necessary funding for strategically important infrastructure projects with a long payback period and flexibility in the management of current liquidity taking into account the specifics of business.

Russian Railways borrowed a total of RUB 158.3 bln in credit funds in 2015, including:

- RUB 97.2 bln from infrastructure bonds;
- RUB 45 bln in form of exchange bonds;
- RUB 16.1 bln as part of a second placement of Russian Railways bonds previously purchased in an offer.

Russian Railways repaid RUB 122.8 bln in loan obligations in the reporting year.

The Company attracted bilateral bank loans throughout 2015 for the day-to-day management of liquidity in the amount of RUB 128.8 bln, which it had fully repaid as of 31 December 2015.

The overall debt portfolio (including exchange rate fluctuations) exceeded the 2014 level by RUB 132.7 bln as of the end of 2015 and amounted to RUB 988.9 bln (the debt portfolio amounted to RUB 969.2 bln excluding accrued interest payable).

The growth in the loan portfolio is mainly attributable to the significant depreciation of the rouble throughout 2015, which led to the revaluation of foreign currency-denominated obligations (influence: RUB 91 bln).

The long-term portion of the loan portfolio (maturity of more than 3 years) increased to 74% as of the end of 2015. The 7.5% increase (year-on-year) in the portion of long-term obligations in the loan portfolio is related to funding acquired for investment projects with long payback periods (over 20 years) that are typical for the industry, as well as the repayment of short-term borrowings the Company received in late 2014.

The share of medium-term borrowings with repayment periods ranging from 1 year to 3 years remained unchanged compared with 2014 at 19%, while the share of borrowings with repayment periods of less than 1 year declined significantly to 7%.

The average maturity of liabilities in the loan portfolio was approximately 10 years as of the end of 2015. The debt repayment schedule ensures the even distribution of payments over the long term and minimises risks associated with refinancing. The largest single debt maturity denominated in foreign currency is planned for the early second quarter of 2017.

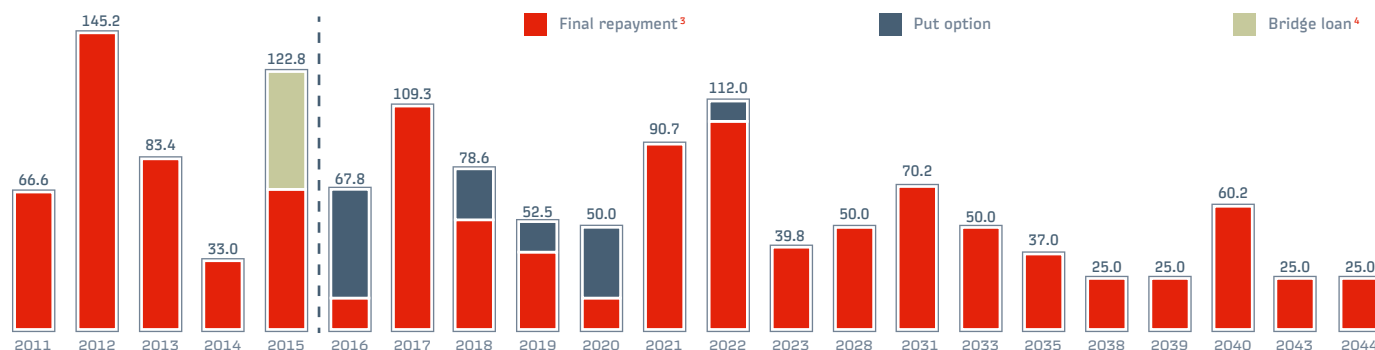
In terms of instruments, the Company maintained the diversified structure of its

loan portfolio in 2015 with a focus on public instruments. The share of infrastructure bonds increased from 24% to 31%, which is attributable to the placement of 6 additional issues of these bonds for a total of RUB 97.2 bln for a period ranging from 15 to 30 years at a rate tied to the inflation level.

In the past, Vnesheconombank had been the sole investor in this type of security, however in 2015 the infrastructure bonds were also purchased using money from the National Wealth Fund, which bought RUB 60.2 bln worth of bonds.

The proportion of rouble-denominated borrowings in the Russian Railways loan portfolio decreased in 2015 due to the significant impact from the revaluation of borrowings denominated in foreign currency and stood at approximately 54% as of the end of 2015, which is 6% lower than the target set by the Company. However, the long-term debt portfolio management policy remains unchanged in terms of maintaining the rouble-denominated portion of the portfolio at a level close to 60%. In this regard, Russian Railways management is taking steps to reduce the proportion of foreign currency-denominated borrowings, including through their partial refinancing using rouble-denominated instruments. In particular, foreign currency-denominated obligations for a total of EUR 125 mln were repaid in late 2015.

Debt repayment schedule of Russian Railways as of 31 December 2015, RUB bln²



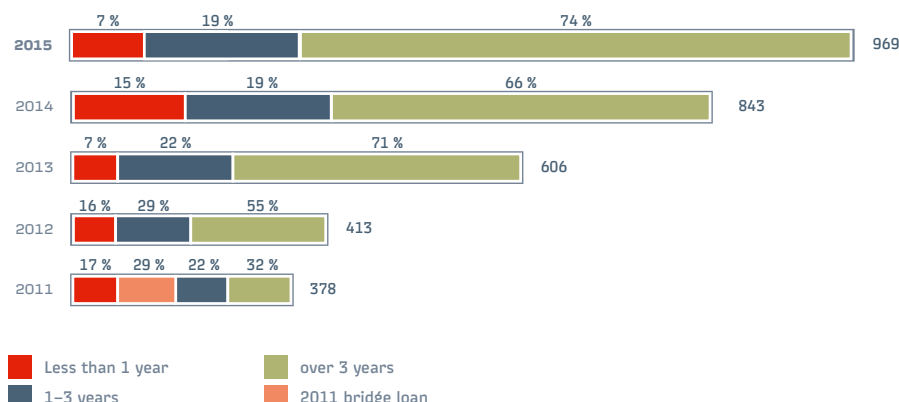
¹ According to the last reporting dates and exchange rates of 2011-2015.

² The repayment of foreign currency-denominated borrowings prior to 2015 (inclusive) is given based on the actual exchange rate and after 2015 based on the exchange rate as of 31 December 2015.

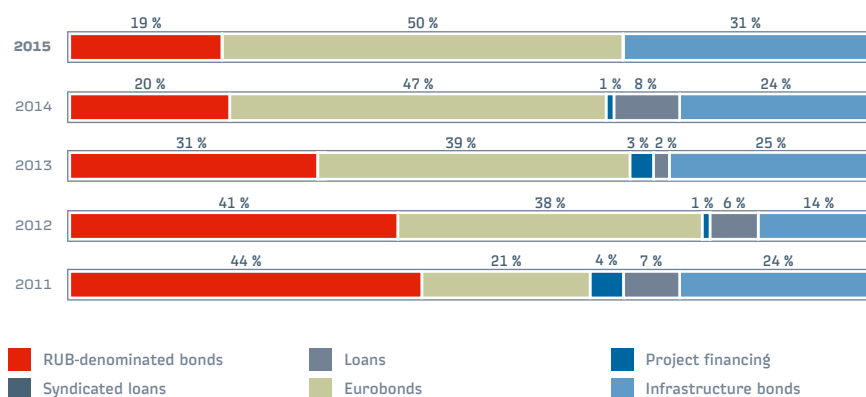
³ Final repayment for previous periods does not include short-term borrowings made within the year as part of open bank credit facilities and are repaid with the same period. Such instruments are used for the short-term management of liquidity – the lending period is generally less than 30 days..

⁴ Repayments in 2015 include RUB 55 bln in loan funds attracted in December 2014 for day-to-day liquidity management.

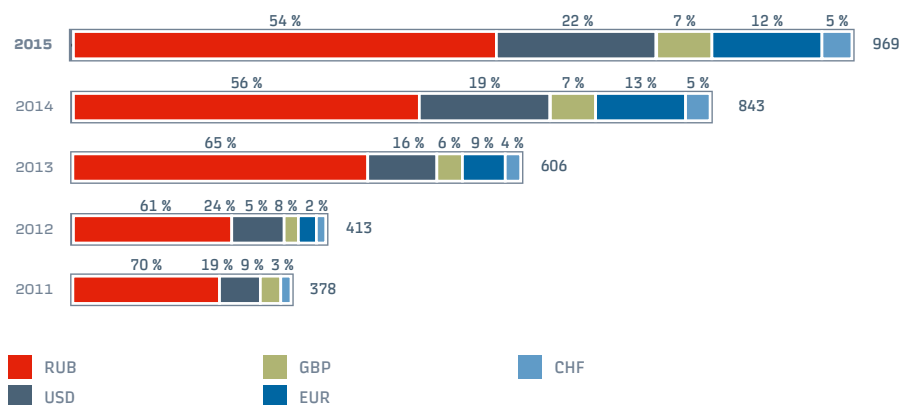
Debt portfolio structure of Russian Railways by maturity¹



Debt portfolio structure of Russian Railways by instrument¹



Debt portfolio structure of Russian Railways by currency¹



On the path to change



Vadim Mikhailov
Senior Vice President
of Russian Railways

All our borrowings are free of collateral or other security, which is a sign of the high level of trust investors have in the Company. The share of public debt instruments stood at 100% at the end of the year.

The total amount of debt is contained within the limits of the debt policy. The share of short-term borrowing was only 7% at the end of the year, a decrease of 8 p.p. from the previous year's level. The repayment schedule is balanced for the long term, which minimises refinancing risks.

The debt load of the Russian Railways Group is at a comfortable level: the net debt/EBITDA ratio was 2.32x as of 31 December 2015 (per IFRS) compared with 2.37x on 31 December 2014.

Based on materials from the final meeting of the Russian Railways Management Board

Landmark transactions of 2015

Russian Railways conducts assessments of the market environment on a regular basis, which makes it possible to choose the best time and tools to conclude transactions on the Russian and international capital markets. The borrowing requirements of Russian Railways are largely determined by the investment costs of the Company's projects that are financed using borrowed funds.

Infrastructure bonds

Infrastructure bonds were the primary borrowing tool used by Russian Railways in 2015 (61% of borrowings).

Given the Company's target of maintaining a moderate debt position, Russian Railways continued the practice that it began in 2013 of implementing projects that are significant for the national economy through the placement of infrastructure bonds with the participation of government financial institutions.

Infrastructure bonds, which Russian Railways first placed in 2013, are intended for long-term investors who are interested in diversifying their portfolios and obtaining highly reliable securities that guarantee the funds are safe against inflationary risks (infrastructure bonds have a floating interest

rate that is tied to the inflation level).

Based on a decision adopted by the Russian Government in 2014, work was continued to fund the Company's priority infrastructure projects with money from the National Wealth Fund (NWF) in the form of debt capital.

In 2015, Russian Railways placed infrastructure bonds for a total of RUB 62 bln using money from the NWF to fund a project for the purchase of traction rolling stock. The bonds have a maturity date that corresponds to the project's payback period of 25 years.

Russian Railways also placed 20-year infrastructure bonds for a total of RUB 37 bln in favour of Vnesheconombank, the

authorised administrator of the Russian Pension Fund, and in doing so continued a programme approved by the Russian Government for investing money from the funded part of the Russian Pension Fund in infrastructure projects.

Thus, the total amount of infrastructure bonds placed over the period from 2013-2015 was RUB 297.2 bln. Russian Railways spent the funds earned from the placement of the infrastructure bonds on investment projects with payback periods ranging from 15 to 30 years, including the purchase of new locomotives, an increase in the network's carrying capacity on a number of routes as well as partial funding for the project to rebuild the Baikal-Amur and Trans-Siberian Mainlines.

Market placements

Russian Railways made the decision in 2015 to not increase liabilities denominated in foreign currency and to focus on the rouble-denominated capital market in order to implement its policy to manage the foreign currency-denominated structure of the loan portfolio.

The Company placed RUB 30 bln worth of market issues of bond series BO-03 and BO-04 (RUB 15 bln for each issue) in the second quarter of 2015 with coupon rates of 11.75% and 11.65% p.a. and offers in 5.5 and 4.5 years. The borrowing instruments

include a call-option that grants Russian Railways the right to the early redemption of the bonds in 2.5 and 2 years, respectively.

These issues were positioned as financial instruments for the investment of pension savings from private pension funds provided by the Russian Pension Fund to the financial system after the Russian Government decides to cancel the 'freezing' of pension savings.

The BO-03 and BO-04 bond series placed in May 2015 were all-time records for the

Russian corporate bonds market in terms of the borrowing cost – 0.75-0.85% lower than the base interest rate of the Central Bank at the time of placement, respectively.

Russian Railways borrowed from the market again in the fourth quarter of 2015 with the placement of RUB 15 bln worth of bond series BO-02 with a coupon rate of 11.20% p.a. and an offer in 4.5 years.

Work with ratings agencies, investors and analysts

For the year, Russian Railways' rating corresponded to the sovereign rating of the Russian Federation and stood at 'BB+'/'Ba1'/'BBB'– from Standard & Poor's, Moody's and Fitch, respectively.

The ratings agencies Standard & Poor's, Moody's and Fitch downgraded the sovereign credit rating of the Russian Federation by one notch at the start of the year due to worsening forecasts concerning the macroeconomic situation in Russia. Moody's then downgraded the sovereign rating by another notch over the course of the year. In accordance with the agencies' methodologies, such actions automatically result in similar decisions on the ratings of a number of quasi-sovereign Russian issuers with the highest credit rating, including Russian Railways.

Thus, at the end of the year Russian Railways' rating corresponded to the sovereign rating of the Russian Federation and stood at 'BB+'/'Ba1'/'BBB' according to Standard & Poor's, Moody's and Fitch, respectively, with a Stable outlook from Moody's and a negative outlook from the other two agencies. At the same time, in their reports the agencies maintained a positive assessment of the quality of work performed by Russian Railways to manage the structure of its loan portfolio, including its diversification, long-term maturity dates and moderate debt burden.

In addition to the main credit ratings, the agencies also assign quasi-sovereign issuers a standalone rating that reflects the assessment of the issuer's creditworthiness separately from the possible impact of any risks at the government level. In 2015, Standard & Poor's maintained its standalone rating of Russian Railways at 'BBB-' despite the downgrade in the Company's overall rating caused by the corresponding actions with respect to the rating of the Russian Federation, i.e. one notch higher than the Company's overall rating and sovereign rating.

Credit ratings of the Russian Federation and Russian Railways as of the end of 2015

Issuer	Agency	Rating	Outlook
Russian Federation	Standard & Poor's	BB+	negative
	Moody's	Ba1	stable
	Fitch	BBB–	negative
Russian Railways	Standard & Poor's	BB+	negative
	Moody's	Ba1	stable
	Fitch	BBB–	negative
Russian Railways standalone rating	Standard & Poor's	BBB–	n/a
	Moody's	Ba1	n/a
	Fitch	BBB–	n/a

Russian Railways did not borrow any debt capital on the international market in 2015.

Nevertheless, the Company maintains a constant dialogue with existing and potential investors in the Company's securities, which is a prerequisite for effective work on financial markets in the future.

One of the key events in interaction with the investor community in 2015 was the Company's Investor Day held in London on 10 December 2015.

The event was one of the largest in the history of Investor Day with investors from more than 20 international investment funds attending the Company's presentation, which was held with

Russian Railways President Oleg Belozеров attending in person.

Investors highly appreciated the Company president's participation and the ability to hold a direct dialogue with him.

Participation in investment meetings and conferences

Month	Organiser	Organiser
January	Euromoney	The Central and Eastern European Forum (Vienna)
March	Global Financial Conferences	Bonds & Loans Russia & CIS (Moscow)
April	Sberbank CIB	'Russia: the Inside Track' conference (Moscow)
June	Gazprombank	'Russian Capital Market: New Opportunities' seminar (Moscow)
June	Ministry of Economic Development of the Russian Federation	St Petersburg International Economic Forum (St Petersburg)
October	VTB Capital	'Russia Calling!' annual investment forum (Moscow)
December	Russian Railways	Investor Day (London)

Leasing

Russian Railways makes decisions to attract lease financing based on the general principles of the debt policy taking into account IFRS approaches for assessing the level of financial debt.

The Company is currently implementing a programme called 'Renovation of track maintenance equipment in 2012–2016' using the leasing mechanism.

Following an open competition in 2012, a long-term lease agreement was concluded with VEB Leasing for the supply of track maintenance equipment manufactured by

the Rempumash plant in Kaluga worth a total of RUB 90.6 bln including VAT in 2012–2016. The financing rate under the lease agreement was 11.4% p.a.

The track maintenance equipment supplied under the leasing agreement is being used for routine railway infrastructure maintenance work.

Track maintenance equipment worth a total of RUB 68.4 bln including VAT was leased in 2012–2015, including track machinery worth a total of RUB 19.7 bln including VAT in 2015.

As of 1 January 2015, Russian Railways had total lease obligations of RUB 42.3 bln including VAT.

A total of RUB 20.5 bln including VAT was spent on lease payments in the reporting year.

Total lease obligations with maturity prior to 2024 amounted to RUB 47.1 bln including VAT as of 31 December 2015.

Dynamics of the leasing portfolio in 2014-2015, RUB bln including VAT

Indicator	2014	2015
Balance at start of year	27.3	42.3
Incurrence of obligations	29.2	25.3
Repayment of obligations	14.3	20.5
Balance at end of year	42.3	47.1

Information disclosure and reporting policy

The Russian Railways Board of Directors has approved the Regulation on the Information Policy. All the Company's internal and reporting documents are available on Russian Railways website at www.rzd.ru and the authorised distributor of information Interfax at www.e-disclosure.ru.

Russian Railways has issued bonds that trade on the MICEX Stock Exchange and discloses information online in accordance with the requirements of the legislation of the Russian Federation concerning securities. Part of the essential information on Russian Railways activities is disclosed in English.

The Company discloses financial and accounting statements in accordance with Russian (RAS) and international (IFRS) standards based on the requirements of legislation.

IFRS reporting

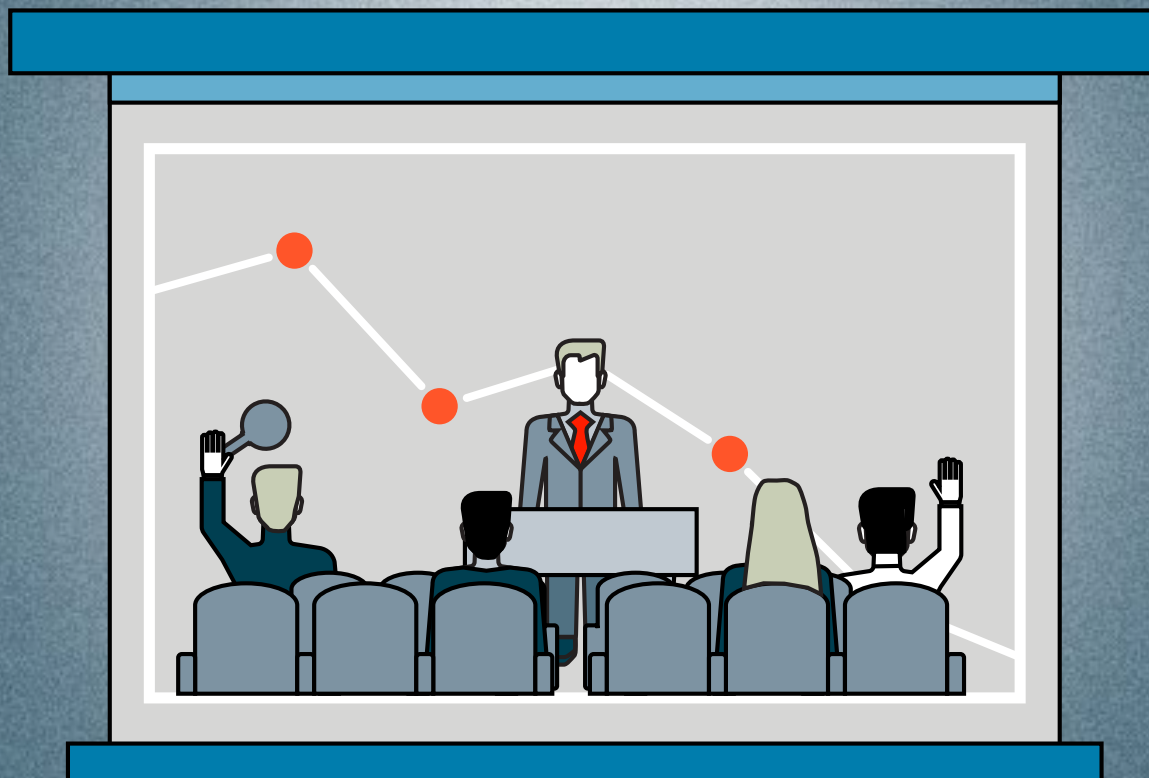
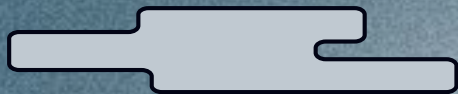
Russian Railways prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and conducts audits twice a year: in the form of a review for the first half of the reporting year and in the form of an audit for the entire

reporting year. Since 2014, the deadline for preparing and auditing the consolidated annual statement must not exceed 120 days from the reporting date.

PROCUREMENT ACTIVITIES



Total procurements by Russian Railways amounted to RUB 1,144.5 bln in 2015. Procurements from a single supplier accounted for 37.0%, or roughly the same level as last year. Over 53% of contracts (by volume) were concluded on a competitive basis using electronic procedures.

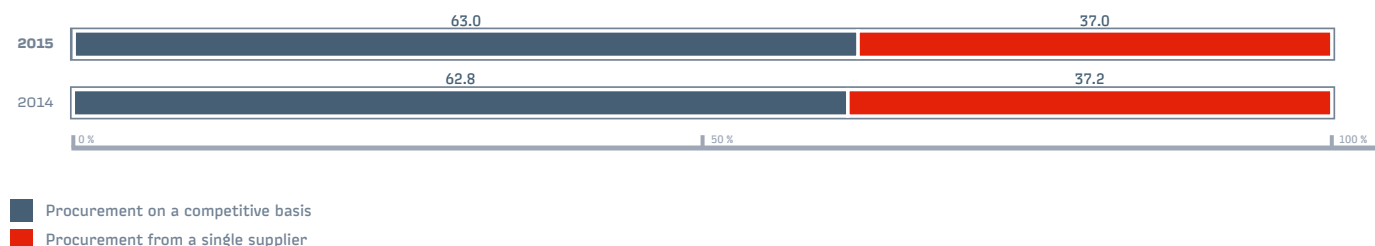


Procurement activities

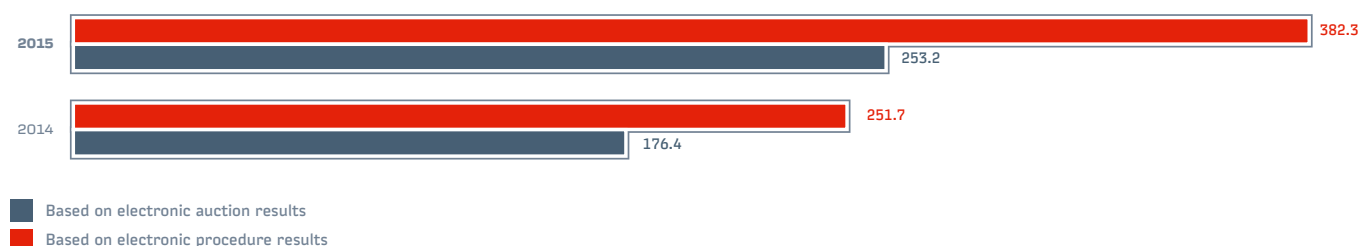
Russian Railways performs procurement activities in accordance with the Regulation on the Procurement of Goods, Work and Services for the Needs of Russian Railways, which was drafted based on the requirements of the legislation of the Russian Federation, in particular:

- Federal Law No. 223-FZ dated 18 July 2011 “On the Procurement of Goods, Work and Services by Certain Types of Legal Entities”;
- Resolutions of the Russian Government and other documents adopted pursuant to the requirements of Federal Law No. 223-FZ dated 18 July 2011.

Changes to procurement structure, %



Changes to procurement volumes based on electronic procedures and auctions, RUB bln



Procurements by Russian Railways totalled RUB 1,144.5 bln in 2015. Procurements resulting from competitive procedures amounted to RUB 720.9 bln in 2015, or 63.0% of the total procurement volume, with procurements based on Russian Railways administrative documents making up RUB 228.6 bln, or 20.0%, and procurements on other legitimate grounds accounting for RUB 195.0 bln, or 17% (purchase of electricity, utility services and medical services, among other things).

The proportion of procurements from a single supplier (contractor) was 37.0% in 2015, or RUB 423.6 bln, and is roughly the same level as the previous year (37.2 %).

Stable growth has been seen in the number of electronic procurements. More than half of the contracts resulting from the competitive procedures were concluded on the basis of electronic procedures (RUB 382.2 bln, or 53% of the total volume), which is 50% higher than the previous year.

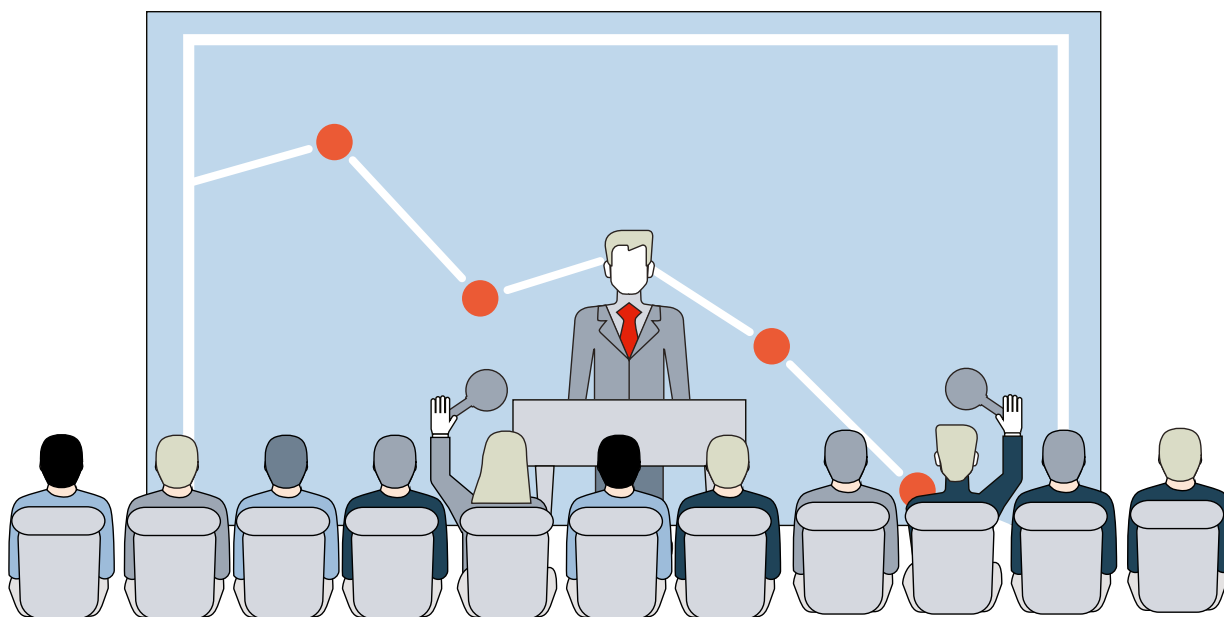
The main focus of the Company's policy on procurement activities in 2015 was the organisation of an integrated procurement process that handles everything – from determining to satisfying the Company's needs.

The Company has drafted and introduced regulatory documents to govern competitive procedures, including:

standard documentation forms for organising and conducting procurement procedures; unified qualification requirements, including documentation about procurements; standard methods for evaluating and comparing the proposals of participants in the procurement procedures.

Work to improve the regulatory framework made it possible to implement the principle of 'no plan – no procurement' under which any procurement must be promptly reflected in the procurement plan.

For the purpose of informing potential procurement participants, including small-



and medium-sized businesses (SME), about procurement activities, Russian Railways in 2015:

- held conferences and training seminars;
- provided information support for procurement activities on the Russian Railways website, including organising a unified process for the Company's consumables contracts;
- launched a hotline for matters concerning the organisation and holding of procurements from which procurement participants may obtain the necessary explanations.

Cooperation agreements on information exchanges to support procurement activities

were signed with the trading platforms of Sberbank-ATS, OTC and ETP GPB in order to expand opportunities for electronic trading. As part of the agreements, information exchanges about electronic trading were organised among electronic platforms.

In accordance with the legislative requirements of the Russian Federation, Russian Railways has organised a process to plan, implement and record procurements from SME and compiled a list of goods, work and services that the Company purchases from SME.

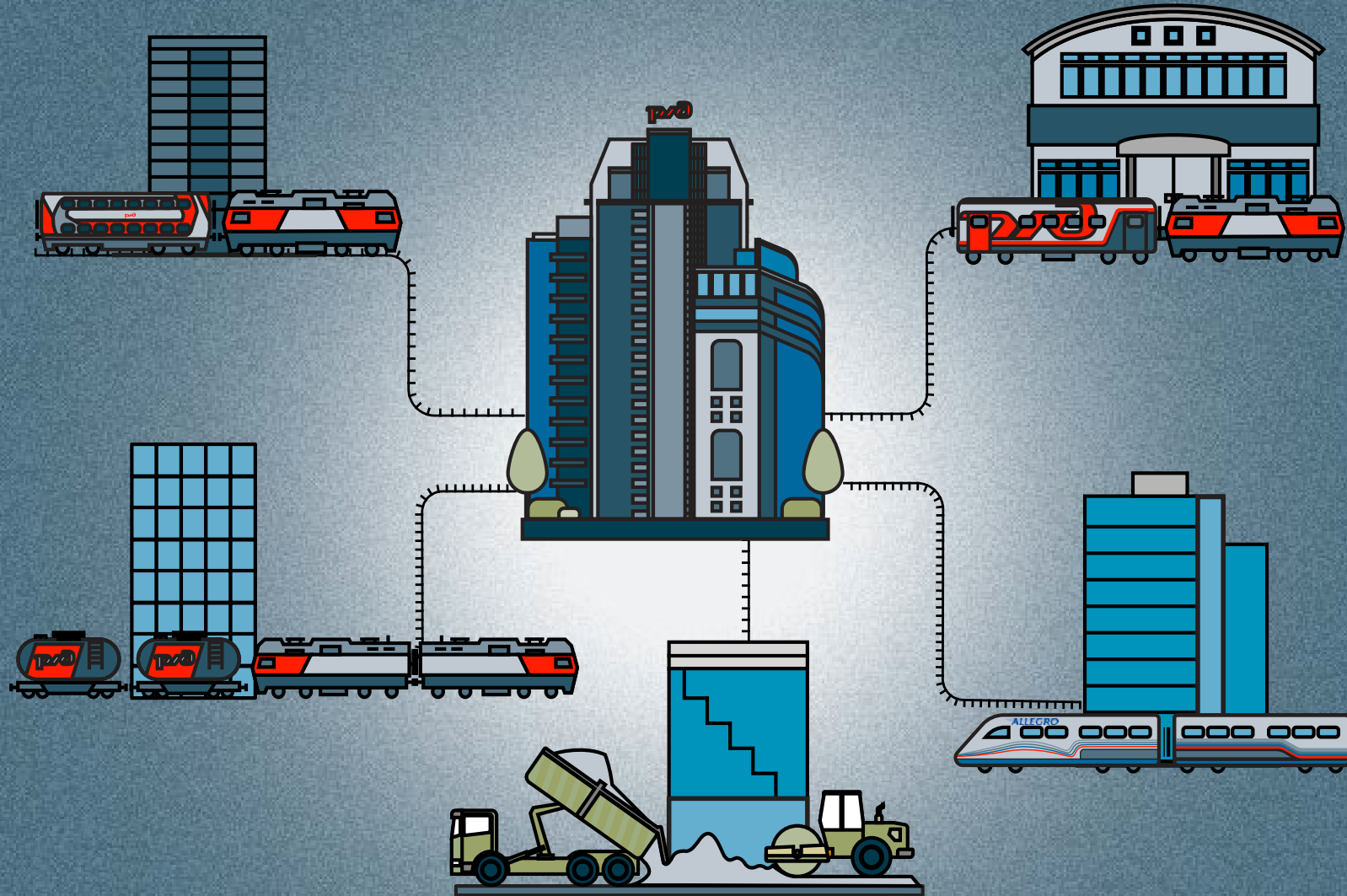
These measures enabled the Company to meet the required standards for

procurements from SME, in particular the volume of procurements for which the participants may only be SME, which were awarded procurements for RUB 19.7 bln in the second half of 2015, or 9.8% of the entire volume.

CORPORATE GOVERNANCE

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The corporate governance system in place at the Russian Railways Group allows for:

- implementing the policy of Russian Railways, including the dividend policy, with respect to subsidiaries;
- establishing the management and supervisory bodies of subsidiaries;
- monitoring the business planning process and financial and economic activities of S&A;
- interacting with shareholders and investors while observing the rights of minority shareholders, including when arranging transactions associated with the purchase and sale of stakes in S&A;
- balancing the goals of the Russian Railways Group and the strategic activities of the Group's companies.

The following best practices are employed as part of the corporate governance system established at the Russian Railways Group:

- the involvement of independent directors in the work of the Russian Railways Board of Directors and the boards of directors of subsidiaries. The Russian Railways Board of Directors includes four independent directors;
- based on the annual general meetings of shareholders held in 2015, independent directors were involved in

the work of the boards of directors of the 20 largest subsidiaries;

- the committees under the boards of directors consider agenda items on a tentative basis. Three committees operate under the Russian Railways Board of Directors: the Audit and Risk Committee, the Personnel and Remuneration Committee and the Strategic Planning Committee. Committees under the boards of directors functioned at 33 major companies that are part of the Russian Railways Group;

- Russian Railways and its subsidiaries began introducing the key provisions of the Code of Corporate Governance in 2015;

- A treasury control system has been established for the Group's largest subsidiaries.

Management structure of Russian Railways



General Meeting of Shareholders

The supreme governing body of Russian Railways is the General Meeting of Shareholders. In accordance with Article 47 of the Federal Law 'On Joint-Stock Companies', the resolutions of the General Meeting of Shareholders shall be adopted unanimously by the sole shareholder – the Russian Government – and documented in writing in the form of resolutions and orders.

The resolutions of the Annual General Meeting of Shareholders of Russian Railways in 2015 were documented by Order No. 1233-r of the Russian Government dated 30 June 2015.

Agenda items:

- approval of the annual report and balance sheet for 2014, including the profit and loss statement for 2014;
- spending on dividend payments for Russian Railways common shares for 2014;
- spending on remuneration for members of the Company's Board of Directors;
- spending on remuneration for members of the Company's Audit Commission;
- determining the number of members of the Board of Directors;
- the appointment of members of the Board of Directors;
- determining the number of members of the Audit Commission;
- the appointment of members of the Audit Commission;
- approval of the auditor for 2015;
- the establishment of a special fund at Russian Railways to pay dividends on the Company's preferred shares;
- contribution of RUB 70 mln to the special fund for dividend payments on preferred shares from retained earnings of previous years.

In addition to the Annual General Meeting of Shareholders, there were seven Extraordinary General Meetings of Shareholders in the reporting year on matters concerning an increase in the Company's charter capital, amendments to the Charter and the early termination of the powers and election of the Company's management bodies for which the resolutions are documented in Orders of the Russian Government No. 995-r dated 29 May 2015, No. 1014-r dated 3 June 2015, No. 1605-r dated 20 August 2015, No. 1606-r dated 20 August 2015 and No. 2666-r dated 24 December 2015 as well as Resolutions of the Russian Government No. 516 dated 29 May 2015 and No. 1422 dated 24 December 2015.

Board of Directors

The Board of Directors is the key component in the corporate governance of Russian Railways and acts on the basis of the legislation of the Russian Federation, the Charter of Russian Railways approved by Resolution No. 585 of the Russian Government dated 18 September 2003 and the Regulation on the Russian Railways Board of Directors approved by Order No. 265-r of the Russian Government dated 25 February 2004.

The main objective of the Board of Directors is to pursue a policy that supports the

Company's dynamic development, improves the sustainability of its operations and also increases profitability.

Independent directors have been elected to the Russian Railways Board of Directors since 2008 in accordance with international corporate governance practices.

In 2015, changes were made to the Russian Railways Board of Directors: in accordance with the resolution of an Extraordinary General Meeting of Shareholders (Order No. 1014-r of the Russian Government

dated 3 June 2015), Kirill Androsov and Dmitry Peskov resigned from the Board of Directors, the number of Board members was reduced to ten people, and a new member of the Board of Directors was elected – Deputy Chairman of the Russian Government Arkady Dvorkovich, who was elected Chairman of the Russian Railways Board of Directors by the resolution of the Board of Directors dated 22 June 2015.

The current Russian Railways Board of Directors was elected at the Annual General Meeting of Shareholders in 2015 with ten members, four of whom are independent directors:

- | | |
|---|-------------------------|
| ■ representatives of the Russian Federation | ■ independent directors |
| • Oleg Belozеров | • Grigory Berezkin |
| • Arkady Dvorkovich | • Hartmut Mehdorn |
| • Andrey Ivanov | • Alexander Ryazanov |
| • Dmitry Komissarov | • Vasily Sidorov |
| • Sergey Stepashin | |
| • Vladimir Yakunin | |

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

Biographical information about members of the Board of Directors



Arkady Dvorkovich

Chairman of the Russian Railways Board of Directors.

Born in 1972.

Mr Dvorkovich graduated from the Economics Faculty of Lomonosov Moscow State University with a degree in economic cybernetics and the New Economic School with a Masters in Economics in 1994.

He graduated from Duke University in North Carolina with a Masters in Economics in 1997.

Professional experience

- | | |
|--|--|
| ■ 1994 – Consultant, Senior Expert, Chief Executive and Scientific Director, Economic Expert Group, Ministry of Finance of the Russian Federation; | ■ 2004-2008 – Director of the Experts' Directorate of the President of the Russian Federation; |
| ■ 2000 – Expert at the Centre for Strategic Research; | ■ 2008-May 2012 – Aide to the President of the Russian Federation; |
| ■ August 2000 – Adviser to the Minister for Economic Development and Trade of the Russian Federation; | ■ 21 May 2012 – Appointed Deputy Chairman of the Government of the Russian Federation under a decree of the President of the Russian Federation; |
| ■ 2001 – Deputy Minister for Economic Development and Trade of the Russian Federation; | ■ 2015 – Chairman, Russian Railways Board of Directors. |

Government and industry awards:

Medal 'For Contribution to the Establishment of the Eurasian Economic Union (1st class)'; Order of Honour; Order 'For Services to the Fatherland (4th class)'; Medal 'For Service to the Motherland (2nd class)'; Medal 'In Commemoration of the 1,000th Anniversary of Kazan'; Gratitude of the President of the Russian Federation; Order 'For Service to the Italian Republic' (Italy); Order of Friendship of Peoples (Belarus).



Oleg Belozеров

President of Russian Railways

Born in 1969.

Mr Belozеров graduated from St Petersburg State University of Economics and Finance with a major in economics and industrial planning in 1992.

He is a candidate of economic sciences.

Professional experience

- 1998-2000 – Commercial Director, Lenenergo;
- 2000 – Deputy Director, Freight Motor Transport Enterprise No. 21;
- 2000-2001 – Office of the Plenipotentiary Representative of the Russian President to the North-West Federal District;
- 2001-2002 – Deputy Director, Corporate Property Management, LOMO;
- 2002-2004 – CEO, Russian Fuel Company;
- July-November 2004 – Deputy Director, Federal Road Agency;
- 2004-2009 – Director, Federal Road Agency;
- March 2009 – Deputy Minister of Transportation of the Russian Federation;
- 2014 – Member of the Russian Railways Board of Directors;
- 2015 – First Deputy Minister of Transportation of the Russian Federation;
- August 2015 – President, Russian Railways.

Government and industry awards:

Order 'For Merit to the Fatherland (4th Class)'; Order of Honour; Medal of the Order 'For Merit to the Fatherland (1st Class)'; Honorary Certificate of the Russian President; Gratitude of the Russian President; Honorary Certificate of the Government Staff of the Russian Federation; Medal of Pavel Melnikov; Badge 'Honoured Transport Worker of Russia'; Lapel Pin 'Honoured Road Builder of Russia'.



Andrey Ivanov

Born in 1975.

Mr Ivanov graduated from Krasnoyarsk State University in 1997 with a major in law. His postgraduate studies include the Russian Academy of Public Service under the Russian President (Moscow) in 2009 with a focus on management and the Russian Academy of Public Service under the Russian President (Moscow) in 2010 with a focus on business.

Professional experience

- 1997-1998 – Research Assistant, Krasnoyarsk State University;
- 1998-2004 – Leading Specialist and Chief Specialist, Administration of the Krasnoyarsk Region; Advisor to the Krasnoyarsk Region Governor on Legal Matters and Local Self-government; 29 December 2001 – Advisor to the Krasnoyarsk Region Governor on Legal Matters and Local Self-government; Department Director;
- 2004-2008 – Vice President, Siberian Engineering Holding; First Vice President, Siberian Engineering Holding as of 14 August 2006;
- 2008 – Chairman of the Board of Directors, SM.art Investment Company;
- 2008-2012 – Deputy Director and Director, Department for Budget Policy in Innovation, Civilian Industry, Energy, Communications and Public-Private Partnership, Ministry of Finance of the Russian Federation;
- 2011 – Member of the Board of the Ministry of Finance of the Russian Federation;
- 2012-present – Deputy Minister of Finance of the Russian Federation;
- 2014 – Member of the Board of Directors, Russian Railways.

Government and industry awards:

Gratitude of the Ministry of Agriculture of the Russian Federation; Medal of the Russian Prosecutor General's Office '290th Anniversary of the Russian Prosecutor General's Office'; Gratitude of the Ministry of Telecom and Mass Communications of the Russian Federation; Medal of the Order 'For Merit to the Fatherland (2nd Class)'; Silver Medal 'For Contribution to the Development of the Russian Agribusiness Industry' of the Ministry of Agriculture of the Russian Federation.



Dmitry Komissarov

Born in 1970.

Mr Komissarov graduated from Moscow Finance Institute in 1992 with a major in international currency and credit relations.

Professional experience

- 1992-1994 – Worked in various commercial structures;
- 1994-2000 – CEO, SPC Soyuz-Integration;
- 2000-2001 – Advisor to the CEO of Tyumenenergo;
- 2002-2003 – CEO, Transmashholding;
- 2003-2008 – Chairman of the Board of Directors, Transmashholding;
- 2006 – Member of the Management Board, Russian Union of Industrialists and Entrepreneurs (RUIE);
- 2007 – Member of the Administrative Office, Russian Engineering Union National Industrial Association of Employers;
- June 2008 – Chairman of the Board of Directors, Technological Company;
- 2008 – Member of the Board of Directors, Russian Railways;
- February 2015 – Member of the Board of Directors, Future National Pension Fund.



Sergey Stepashin

Born in 1952.

Mr Stepashin graduated from the Higher Political School of the USSR Ministry of Internal Affairs in 1973, the Military and Political Academy in 1981 and the Finance Academy under the Russian Government in 2002.

He is a candidate of historical sciences, a doctor of legal sciences, professor, State Advisor on Justice of the Russian Federation and an Honorary Doctor of the Diplomatic Academy of the Ministry of Foreign Affairs.

Professional experience

- 1990-1993 – People’s Deputy of the RSFSR, Chairman of the Committee of the Supreme Soviet of the Russian Federation on Defence and Security Affairs;
- 1993-1999 – First Deputy Minister of Security; Director, Federal Counterintelligence Service; Director, Federal Security Service; Minister of Justice; Minister of Internal Affairs of Russia;
- 1999 – First Deputy Prime Minister; Minister of Internal Affairs; Prime Minister of the Russian Federation;
- After being elected to the State Duma in December 2009, Mr Stepashin chaired the Anti-Corruption Committee;
- 2000–2013 – Chairman, Audit Chamber of the Russian Federation;
- 2014 – Member of the Board of Directors, Russian Railways;
- 2015 – Member of the Board of Directors, SoyuzNefteGaz Intergovernmental Oil Company.

Government and industry awards:

Order ‘For Merit to the Fatherland (2nd, 3rd and 4th Class)’; Order of Courage; Medal ‘For Impeccable Service in the USSR Armed Forces (1st, 2nd and 3rd Class)’, Medal ‘For Distinction in Military Service (1st and 2nd Class)’, Order of Alexander Nevsky, Order of Andropov, Lapel Pin “Honoured Worker of the Audit Chamber of the Russian Federation, Commander of the Order of the Legion of Honour (France) and the Order ‘For Merit in Diplomatic Service (Republic of Korea)’.



Vladimir Yakunin

Born in 1948.

Mr Yakunin graduated from Leningrad Mechanical Institute in 1972. He holds a PhD in political science.

Professional experience

- October 2000 – Deputy Minister of Transport of the Russian Federation;
- February 2002 – First Deputy Minister of Railways;
- October 2003 – First Vice President, Russian Railways;
- June 2005-August 2015 – President, Russian Railways.

Government and industry awards:

Medal of Pyotr Stolypin; Medal 'For Impeccable Service and Distinction (1st Class)'; Badge 'For Merit in the Development of Russian Railways (1st Class)'; Order of Alexander Nevsky; Order of Friendship; Laureate of the Prize of the Russian Government in Science and Technology; Medal '90 Years of Transportation Police'; Honorary Certificate of the Russian Government; Order 'For Merit to the Fatherland (4th Class)'; Medal 'For the Development of Railways'; Badge 'Honorary Railwayman of Russian Railways'; Order of Honour; Medal of Pavel Melnikov.



Grigory Berezkin

Born in 1966.

Mr Berezkin graduated from the Faculty of Chemistry of Moscow State University in 1988. He defended his candidacy thesis for a major in petrochemicals in 1993.

Professional experience

- 2000-2003 – CEO, ESN Energo, which manages the company Kolenergo; Member of the Board of Directors, Kolenergo;
- 2004-2007 – Member of the Board of Directors, UES of Russia;
- 2006 – Chairman of the Board of Directors, ESN;
- 2007-2010 – Member of the Board of Directors, Freight One;
- 2008-2011 – Member of the Board of Directors, SG-trans;
- Member, Management Bureau, Russian Union of Industrialists and Entrepreneurs (RUIE); Chairman, RUIE Commission for Electricity; Chairman, RUIE Commission for Independent Directors;
- Member of the General Council, All-Russia Public Organization Delovaya Rossiya;
- 2010 – Member of the Board of Directors, Russian Railways.



Hartmut Mehdorn

Born in 1942.

Mr Mehdorn graduated from the Faculty of Engineering of Berlin Technical University (diploma in engineering).

Professional experience

- 1999-April 2009 – Chairman of the Management Board, Deutsche Bahn AG in Berlin;
- 2009-January 2013 – Chairman of the Management Board and Chairman of the Board of Directors, Air Berlin;
- 2011 – Member of the Board of Directors, Russian Railways;
- 2013-March 2015 – Chairman of the Management Board, Berlin Brandenburg Airport;
- Member of the advisory boards of a number of companies;
- Honorary Doctor of Engineering Sciences.



Alexander Ryazanov

Born in 1953.

Mr Ryazanov graduated from Gubkin Russian State University of Oil and Gas in 1979 and from the All-Russian State Distance-Learning Institute of Finance and Economics in 1993.

Professional experience

- 2001-2006 – Deputy Chairman and Member of the Management Board, Gazprom;
- 2007 – Chairman of the Board of Directors, Russian Holding Company (Moscow);
- 2007 – Member of the Board of Directors, BIOtechnologies;
- 2008 – Member of the Board of Directors, Russian Railways;
- March 2009-February 2010 – Chairman of the Management Board, Sroytransgaz;
- 2010 – Member of the Board of Trustees, Moscow State Institute (University) of International Relations under the Russian Ministry of Internal Affairs (public activities);
- 2011 – CEO, Plyushchikha Management Company;
- 2012 – Member of the Management Board and Member of the Committee for the National Register of Independent Directors under the Russian Union of Industrialists and Entrepreneurs (public activities);
- 2013 – Member of the Board of Directors, Petroltool.



Vasily Sidorov

Born in 1971.

Mr Sidorov graduated from Moscow State Institute of International Relations under the Russian Ministry of Foreign Affairs in 1993 with a major in international public law and the Wharton School of Business of the University of Pennsylvania with a major in finance.

Professional experience

- 2000-2003 – First Vice President, Sistema-Telecom;
- 2003-2006 – President, MobileTeleSystems (MTS);
- 2006-2010 – Co-owner, Telecom-Express Group;
- 2010 – Managing Partner, Euroatlantic Investments Ltd;
- 2012 – CEO, ARIDA;
- 2012 – Member of the Board of Directors, Russian Railways;
- 2013 – Member of the Board of Directors, Aeroflot; 2014 – Director, Audit Commission under the Aeroflot Board of Directors;
- Member, Expert Council under the Russian Government; Member, Shareholder Advisory Council, VTB Bank.

Information about meetings of the Russian Railways Board of Directors in 2015

Meetings of the Board of Directors are held in accordance with its work plan, which is compiled based on proposals from the chairman of the Board of Directors, the president, members of Management Board, members of the Audit Commission and the auditor of Russian Railways. The work plan is prepared for six months and approved by the Board of Directors. Extraordinary meetings of the Board of Directors may also be convened if necessary.

In 2015, the Board of Directors met twice a month on average. A total of 24 meetings were held (7 in person and 17 with absentee voting) at which matters were considered and more than 129 resolutions were adopted on various matters concerning the Company's activities. The most important issues are considered at meetings held in person.

Attendance of meetings of the Russian Railways Board of Directors by Board members

Board member	Number of meetings that a Board member could have attended/attended
Arkady Dvorkovich ¹	18/18
Kirill Androsov ²	6/6
Oleg Belozerov	24/23
Grigory Berezkin	24/24
Andrey Ivanov	24/20
Dmitry Komissarov	24/23
Hartmut Mehdorn	24/23
Dmitry Peskov ¹	6/6
Alexander Ryazanov	24/24
Vasily Sidorov	24/23
Sergey Stepashin	24/24
Vladimir Yakunin	24/13

¹ Joined the Russian Railways Board of Directors on 3 June 2015.

² Resigned from the Russian Railways Board of Directors on 3 June 2015.

Performance report of the Board of Directors in 2015

The Board of Directors determines the Company's business priorities and approves its long-term plans and core programmes, including the budgets and investment programme. The main objective of the Board of Directors is to pursue a policy that supports the Company's dynamic development, improves the sustainability of its operations and also increases profitability.

In order to implement these functions, the Russian Railways Board of Directors in 2015:

- made amendments to the Company's Long-term Development Programme taking into account Directive No. 1346p-P13 of the Russian Government dated 5 March 2015 (as part of the Russian Railways Group's Development Strategy until 2030);
- approved the terms of reference for an audit of the implementation of the Long-term Development Programme of Russian Railways and its S&A for 2014;
- approved an adjustment to the Russian Railways Investment Programme and Financial Plan for 2015 based on the results of the first half of 2015;
- approved the Russian Railways Investment Programme and Financial Plan for 2016;
- considered the principles for forming the Investment Programme of Russian Railways and the Company's Investment Programme for 2012-2014, which was reclassified based on the criteria for the designated purpose, payback period and sources of funding of projects taking into account the decisions

adopted at a meeting of the Russian Government on 26 November 2015 and the recommendations of the Strategic Planning Committee of the Russian Railways Board of Directors;

- approved the Russian Railways Investment Programme and Financial Plan for 2016;
- approved a report on the implementation in 2014 of the Russian Railways Innovative Development Programme for the period until 2015;
- considered an analysis of the core risks facing Russian Railways in 2015 with a probability assessment of adverse events and their impact on production, financial and business performance as well as options for actions to take if such adverse events occur;
- approved the Regulation on the Russian Railways Quality Management System, the Regulation on the Russian Railways Risk Management System, a new version of the Regulation on the Internal Audit of the Russian Railways Group and the Regulation on the Procedure for Developing and Implementing the Innovative Development Programme of the Russian Railways Group taking into account Directive No. 3984p-P13 of the Russian Government dated 24 June 2015;
- tentatively approved the Russian Railways annual report for 2014 and prepared recommendations for the Company's Annual General Meeting of Shareholders on the approval of the report.

As part of updates to the Company's Innovative Development Programme, clarifications were made to its efficiency indicators and a medium-term plan was compiled for its implementation that includes measures for R&D, the development of new technologies (modernisation), improvements to the organisation of innovative development and business processes, international scientific and engineering cooperation and the development of cooperation with entities working in innovative environments, including with universities and scientific institutions. The Programme is linked to the Russian Railways Group's Development Strategy until 2030 and identifies the key performance indicators for innovative development and measures that aim to develop and introduce new technologies, innovative products and services that meet international standards. The programme is being implemented based on the medium-term plan the Company prepared and may be adjusted. The updates are made taking into account the requirements of the Russian Ministry of Economic Development for the preparation of innovative development programmes for companies with government participation and for reporting on their implementation.

In addition, the Russian Railways Board of Directors approved a list of KPI for quarterly bonuses to the Russian Railways president as well as a list and target values for general corporate KPI for annual bonuses to Russian Railways executives for 2015.

The Board of Directors determines the Company's policy for the remuneration of members of the Board of Directors, executive bodies as well as other key executives of the Company.

As part of performing these functions, the Russian Railways Board of Directors prepared recommendations for the Company's Annual General Meeting of Shareholders on matters concerning the payment of remuneration to members of the Board of Directors and Audit Commission.

As regards remuneration for the executive bodies, the Russian Railways Board of Directors in 2015 decided to pay a bonus to the Company's president and assess his work performed in the fourth quarter of 2014 and approved a draft regulation on remuneration and compensation paid to members of Russian Railways Board of Directors Management Board.

In accordance with the Company's Charter, the Board of Directors plays a key role in decision-making with respect to S&A.

In 2015, the Russian Railways Board of Directors approved a list of S&A for which the Board of Directors adopts decisions in accordance with sub-clause 23 of clause 71 of the Russian Railways Charter. The Board of Directors considered reports on budget execution by key S&A of the Russian Railways Group and determined the position of Russian Railways (Company representatives) at meetings of the boards of directors of the Russian Railways Group's S&A on the following agenda items: on the execution of the 2014 budget, the approval of the budget for 2015-2017 and the election of the sole executive body.

The Russian Railways Board of Directors monitors the corporate governance practice at the Company.

In 2015, the Russian Railways Board of Directors approved a new version of the Business Ethics Code, approved the Regulation on the Internal Control System at the Russian Railways Group, approved the Russian Railways Anti-Corruption Policy and amended the Regulation on the Strategic Planning Committee and the Regulation on the Audit and Risk Committee. The Board of Directors approved the Regulation on the Priority Investment Project Committee of the Russian Railways Board of Directors and the members of the Committee.

Meetings of the Board of Directors, high-quality preparations for such meetings and active participation in such meetings by members of the Board of Directors ensure the Board of Directors functions effectively.

Remuneration for members of the Board of Directors

Shareholders decided at the Annual General Meeting in 2015 to pay remuneration to the Board of Directors for the period from 4 July 2014 to 30 June 2015 in the amount and manner prescribed by the Regulation on Remuneration and Compensation Paid to Members of the Russian Railways Board of Directors (approved by the decision of the Russian Railways Board of Directors on 18 May 2015).

Under the Regulation developed in accordance with the recommendations of the Russian Federal Property Management Agency and the Code of Corporate Governance, remuneration is calculated using a formula based on the main component of remuneration, which is equal to RUB 2,000,000 and depends on the participation of members of the Board of Directors in Board meetings. Board members are paid additional remuneration for performing additional functions that is calculated according to the base portion of

remuneration and increased by the following ratio:

- 3 for the Chairman of the Board of Directors (excluding individuals who perform the functions of the Chairman of the Board of Directors in his absence);
- 2 for a member of the Board of Directors who performs the functions of Chairman of the Board of Directors;
- 1.5 for a member of the Board of Directors who performs the functions of a member of a committee under the Board of Directors.

Additional remuneration shall be paid for participation in the work of committees, provided that the member of the Board of Directors personally attended (submitted a written opinion for) at least 75% of the in-person 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 committee under the Board of Directors on more than one committee, additional remuneration shall be paid for the functions performed on each committee.

The Regulation does not apply to members of the Board of Directors who are members of the executive bodies of Russian Railways or who are restricted or prohibited from receiving any payments from commercial organisations by the legislation of the Russian Federation.

According to the decision of the Russian Railways Annual General Meeting of Shareholders, a total of RUB 42,090,909 were spent on remuneration paid to members of the Russian Railways Board of Directors.

Committees of the Russian Railways Board of Directors

In order to tentatively consider the most important issues and prepare the relevant recommendations for the Russian Railways Board of Directors, the Company has the following committees:

- Strategic Planning Committee of the Russian Railways Board of Directors;
- Audit and Risk Committee of the Russian Railways Board of Directors;
- Personnel and Remuneration Committee of the Russian Railways Board of Directors;
- Priority Investment Projects Committee of the Russian Railways Board of Directors.

Strategic Planning Committee

The Strategic Planning Committee under the Russian Railways Board of Directors (hereinafter the Committee) held 11 meetings during the reporting year. The Committee prepared recommendations for the Russian Railways Board of Directors to adopt decisions, including on the following matters:

- The Company's implementation in 2014 of structural reform measures and a Target Model of the Freight Railway Transportation Market until 2015;
- An analysis of the core risks facing Russian Railways in 2015 with a probability assessment of adverse events and their impact on production, financial and business performance as well as options for actions to take if such adverse events occur;
- The drafting and introduction of a network contract:
 - the establishment of an economic model for the network contract for the maintenance of public railway transportation infrastructure;
 - work to change the classification of public tracks and adjust infrastructure maintenance standards;
 - work to identify low-intensity lines with the determination of the target condition, the required amount of funding for their maintenance and the primary individuals/government authorities interested in their maintenance.

- The implementation of the development strategies of key Russian Railways S&A.
- The approval of the budgets of key Russian Railways S&A.
- The approval of an analysis of the Russian Railways programme to dispose of core assets.
- The termination of Russian Railways in S&A.
- Drafts of the financial plan and investment programme of Russian Railways for 2016 and the planned period of 2016 and 2017 and the main approaches to preparing the financial plan and investment programme of Russian Railways for 2016-2018 taking into account the actual execution of the Russian Railways financial plan, the budgets of S&A and budget restrictions in 2015.
- The integration of GEFCO into the Russian Railways Group.

Members of the Strategic Planning Committee under the Russian Railways Board of Directors as of 31 December 2015

No.	Name	Position
1.	Dmitry Komissarov	Committee Chairman Member of the Russian Railways Board of Directors
2.	Grigory Berezkin	Member of the Russian Railways Board of Directors
3.	Alexander Ryazanov	Member of the Russian Railways Board of Directors
4.	Vasily Sidorov	Member of the Russian Railways Board of Directors
5.	Vadim Mikhailov	Senior Vice President of Russian Railways
6.	Sergey Maltsev	Senior Vice President of Russian Railways
7.	Alan Lushnikov	Assistant to the Deputy Chairman of the Government of the Russian Federation
8.	Vasily Gorev	Russian Railways corporate secretary

Audit and Risk Committee

The Audit and Risk Committee under the Russian Railways Board of Directors (hereinafter the Committee) held eight meetings during the reporting year.

The Committee prepared recommendations for the Russian Railways Board of Directors to adopt decisions, including on the following matters:

- The Company's work plan.
- The work plan, the nomination of the chairman and the adoption of the budget of the Zheldoraudit Internal Audit Centre of Russian Railways for 2015.
- The results of an audit by the Audit Chamber of the Russian Federation to substantiate the amount of losses in income as a result of services provided by Russian Railways for the use of public railway transportation infrastructure subsidised from the budget system of the Russian Federation.
- The anti-corruption measures taken by Russian Railways as part of the implementation of Decree No. 266 of the Russian President dated 11 April 2014 'On the National Anti-Corruption Plan for 2014-2015' (pursuant to clauses 5-6 of the National Plan for 2014-2016).
- The approval of a new version of the Russian Railways Business Ethics Code.
- The results of the Company's procurement activities in 2014.
- The approval of Russian Railways internal documents: on the internal audit system, the internal control system and the Anti-Corruption Policy.
- Recommendations for the Annual General Meeting of Shareholders on agenda items (approval of the Company's auditor, approval of the Company's annual report and annual accounting (financial) statement, including the profit and loss statement, as well as the distribution of the Company's net profit for the year and the payment of dividends).
- The preparation of proposals to identify the principles and approaches to organising the risk management and internal control system at the Company and the preparation of a draft Company Policy on Risk Management and Internal Control as well as proposals on establishing an acceptable level of risk for the Company (risk appetite).
- Recommendations to the Russian Railways General Meeting of Shareholders on the establishment of a fund to pay dividends on the Company's preferred shares using the retained earnings of previous years.
- The approval of related transactions that aim to implement a project to incorporate a right of way into freight yard property of the Moscow-Rizhskaya station and the adjacent section of the land plot as a major transaction.
- An update to the Regulation on the Audit and Risk Committee of the Russian Railways Board of Directors.
- The execution of the instructions of the Audit and Risk Committee dated 16 January 2015.
- The preliminary consideration of the draft interim condensed consolidated financial statement of the Russian Railways Group as of 30 June 2015 and for the six-month period ending on the date specified in accordance with IFRS.
- The determination of the position of Russian Railways (representatives of Russian Railways) at meetings of the boards of directors of Russian Railways S&A on matters concerning the budgets of Russian Railways S&A.
- Reports on the performance results of Russian Railways S&A.
- The approval of the procedure for calculating the indicator 'decrease in the operating expenses of Russian Railways' by no less than two per cent.
- The determination of the price (valuation) of property contributed as payment for a stake in the charter capital of Russian Railways S&A.

Members of the Risk and Audit Commission under the Russian Railways Board of Directors as of 31 December 2015

No.	Name	Position
1.	Sergey Stepashin	Committee Chairman Member of the Russian Railways Board of Directors
2.	Dmitry Komissarov	Member of the Russian Railways Board of Directors
3.	Vasily Sidorov	Member of the Russian Railways Board of Directors
4.	Anatoly Chabunin	Russian Railways Vice President
5.	Alan Lushnikov	Assistant to the Deputy Chairman of the Government of the Russian Federation
6.	Vasily Gorev	Russian Railways Corporate Secretary

Russian Railways Internal Control and Audit Director Oleg Ivanov and Russian Railways Corporate Finance Department Director Olga Gnedkova take part in the work of the Audit and Risk Committee under the Russian Railways Board of Directors as permanent invitees with the right to provide advice on agenda items in accordance with the Regulation on the Committee.

In addition, the Strategic Planning Committee and the Audit and Risk Committee under the Russian Railways Board of Directors held three joint meetings in the reporting year. The committees

prepared recommendations for the Russian Railways Board of Directors to adopt decisions, including on the following matters:

- The approval of the budgets of key Russian Railways S&A.
- The procedure for considering reports on the valuation of assets (property, shares) by the Russian Railways Board of Directors and the sale of stakes in S&A.
- The approach to the procedure for determining the list of non-core assets

and types of activities and on the effective use of the non-core assets of Russian Railways and its S&A.

- The use of methodological guidelines for the drafting of internal regulatory documents governing the Company's activities (taking into account Directive No. 3984p-P13 of the Russian Government dated 24 June 2015).
- Export contracts (taking into account Directive No. 4807p-P13 of the Russian Government dated 23 July 2015).

Personnel and Remuneration Committee

The Personnel and Remuneration Committee under the Russian Railways Board of Directors (hereinafter the Committee) held five meetings during the reporting year.

The Committee prepared recommendations for the Russian Railways Board of Directors to adopt decisions, including on the following matters:

- The consideration of the revised draft of the Regulation on Remuneration and Compensation for Members of the Russian Railways Board of Directors.
- Recommendations on the payment of remuneration to members of the Russian Railways Board of Directors for its work in the 2014-2015 corporate year.
- Recommendations on the payment of remuneration to members of the Russian Railways Audit Commission for its work in the 2014-2015 corporate year.
- The approval of the general corporate KPI targets for 2015 used in the bonus system for members of the Russian Railways Management Board and the list of KPI for the purposes of paying a quarterly bonus to the Russian Railways President.

- Nominations for the Company's management and control bodies.
- The determination of the position of Russian Railways (representatives of Russian Railways) on the agenda items of the general meeting of shareholders and meetings of the board of directors of Federal Freight, Federal Passenger Company and TransTelecom Company, which are included in the list of S&A approved by the Russian Railways Board of Directors for which the Russian Railways Board of Directors adopted decisions in accordance with paragraph 1 of sub-clause 23 of clause 71 of the Russian Railways Charter.

Russian Railways Vice President Dmitry Shakhanov, Russian Railways Economics Department Director Irina Kostenets and Russian Railways Corporate Secretary Vasily Gorev take part in the work of the Personnel and Remuneration Committee under the Russian Railways Board of Directors as permanent invitees with the right to provide advice on agenda items in accordance with the Regulation on the Committee.

Members of the Personnel and Remuneration Committee under the Russian Railways Board of Directors as of 31 December 2015

No.	Name	Position
1.	Alexander Ryazanov	Committee Chairman Member of the Russian Railways Board of Directors
2.	Dmitry Komissarov	Member of the Russian Railways Board of Directors
3.	Vasily Sidorov	Member of the Russian Railways Board of Directors

Priority Investment Projects Committee

The Priority Investment Projects Committee under the Russian Railways Board of Directors (hereinafter the Committee) was established under a resolution of the Russian Railways Board of Directors dated 9 November 2015 and held one meeting during the reporting year.

The Committee prepared recommendations for the Russian Railways Board of Directors to adopt decisions, including on the following matters:

- The implementation of the investment project 'Development of the Moscow Railway Transport Hub, including the Moscow Little Ring Road and radial routes' and an adjustment to the detailed action plan for implementing this project.
- The implementation of the investment project 'Modernisation of the railway infrastructure of the Baikal-Amur and Trans-Siberian Mainlines with the development of traffic and carrying capacity' and an adjustment to the detailed action plan for implementing measures as part of this project.

Members of the Priority Investment Projects Committee under the Russian Railways Board of Directors as of 31 December 2015

No.	Name	Position
1.	Arkady Dvorkovich	Committee Chairman Chairman of the Russian Railways Board of Directors Deputy Chairman of the Russian Government
2.	Mikhail Abyzov	Minister of the Russian Federation (by agreement)
3.	Maxim Sokolov	Minister of Transport of the Russian Federation (by agreement)
4.	Anton Siluanov	Minister of Finance of the Russian Federation (by agreement)
5.	Alexey Ulyukayev	Minister of Economic Development of the Russian Federation (by agreement)
6.	Oleg Belozеров	Russian Railways President
7.	Alan Lushnikov	Assistant to the Deputy Chairman of the Government of the Russian Federation

Permanent members of the Priority Investment Projects Committee under the Russian Railways Board of Directors

No.	Name	Position
1.	Anatoly Krasnoshchek	Russian Railways First Vice President
2.	Sergey Maltsev	Russian Railways Senior Vice President
3.	Vadim Mikhailov	Russian Railways Senior Vice President
4.	Oleg Toni	Russian Railways Vice President
5.	Fyodor Pekhteryev	CEO of the Transportation Economics and Development Institute
6.	Vasily Gorev	Russian Railways corporate secretary

The following projects being implemented by the Company have been included in the list of priority investment projects of Russian Railways:

- 'Modernisation of the railway infrastructure of the Baikal-Amur and Trans-Siberian Mainlines with the development of traffic and carrying capacity';
- 'Development of the Moscow Railway Transport Hub, including the Moscow

Little Ring Road and radial routes';

- 'Development of railway infrastructure at approaches to ports in the Azov and Black Seas, including the bypass of the Krasnodar Railway Hub';
- 'Development of railway infrastructure at approaches to ports in northwest Russia until 2020';
- 'Comprehensive development of the Mezhdurechensk-Tayshet section of

Krasnoyarsk Railway';

- Construction of the Prokhorovka-Zhuravka-Chertkovo-Bataysk railway line;
- measures implemented or planned for implementation by Russian Railways and its S&A as part of the Northern Latitudinal Railway project.

Corporate secretary

The corporate secretary of Russian Railways is a special official whose tasks include ensuring that the Company's bodies and officials comply with the requirements of the legislation of the Russian Federation, the Charter and internal documents guaranteeing the rights and legitimate interests of shareholders, organising measures to settle conflicts involving the

violation of shareholder rights as well as arranging interaction between the Company and its shareholders and between the Company's management bodies.

The corporate secretary is appointed and dismissed by the decision of the Board of Directors based on a majority of votes by Board members. The corporate secretary's

duties are described in the Regulation on the Russian Railways Corporate Secretary and the Administrative Office of the Corporate Secretary.

Vasily Gorev has been the corporate secretary of Russian Railways since September 2015.

Management Board of Russian Railways

The Company's Management Board handles the general management of business operations as the collective executive body (except for the resolution of matters that fall within the purview of the General Meeting of Shareholders and the president according to the Federal Law 'On Joint-Stock Companies' and the Company Charter unless otherwise specified by the Charter).

The main tasks of the Company's Management Board include preparing proposals on the Company's business strategy, implementing its financial and business policy, developing decisions on the most important issues concerning its current business operations and coordinating the work of its divisions, improving the efficiency of the internal control and risk monitoring systems and ensuring the observance of the rights and legitimate interests of shareholders.

The Company's Management Board carries out its activities in accordance with the legislation of the Russian Federation, the Charter, the 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 acts in the Company's interests and is accountable to the Company's General Meeting of Shareholders and the Board of Directors.

The purview of the Company's Management Board includes the following matters:

- the preparation and submission to the Board of Directors of the Company's business priorities and long-term plans for their implementation, including the Company's annual budgets and Investment Programme, the preparation of reports on their implementation for the Board of Directors as well as preparing and approving the current business plans;
- the approval of internal estimated tariffs, fees and payments for work (services) performed (rendered) by the Company that are not related to natural monopolies;

- the approval of rules that ensure the proper organisation and reliability of accounting at the Company and the timely submission of the annual report and other financial reporting to the relevant bodies as well as information about the Company's operations to shareholders, creditors and the media;

- the submission to the Board of Directors of prospectuses for the issuance of securities and other documents related to the issuance of the Company's securities;
- organising the fulfilment of the Company's long-term and current plans and implementing the Company's investment, financial and other projects;
- establishing the procedure for taking into account the Company's affiliates;
- considering and coordinating draft collective bargaining agreements at the Company and regulations on industry-wide private pension support, mandatory pension insurance,

- professional pension insurance and an industry-wide tariff agreement on railway transportation as well as submitting them to the Company's president for signing;
- establishing the procedure for shareholders to review information about the Company;
- establishing a remuneration system and determining measures to motivate Company employees;
- issuing binding instructions to subsidiaries on matters specified in the charters of these companies or in agreements which the Company has concluded with them;
- approving the Company's internal documents on matters that fall within the purview of the Management Board;
- resolving other matters related to the Company's current operations that are submitted for consideration by the chairman of the Management Board, the Board of Directors or shareholders.

Members of the Russian Railways Management Board

No.	Name	Position
1.	Oleg Belozеров	President
2.	Anatoly Krasnoshchek	First Vice President
3.	Alexander Misharin	First Vice President
4.	Valentin Gapanovich	Senior Vice President
5.	Sergey Maltsev	Senior Vice President
6.	Vadim Mikhailov	Senior Vice President
7.	Anatoly Meshcheryakov	State Secretary – Vice President
8.	Mikhail Akulov	Vice President
9.	Salman Babayev	Vice President – CEO of the Centre for Corporate Transportation Service
10.	Gennady Verkhovyykh	Vice President – Director of the Central Infrastructure Directorate
11.	Alexey Vorotilkin	Vice President – Director of the Traction Directorate
12.	Pavel Ivanov	Vice President – Director of the Central Traffic Control Directorate
13.	Petr Katsyv	Vice President – Director of the Moscow Transport Hub Development Centre
14.	Alexander Saltanov	Vice President
15.	Viktor Stepov	Vice President
16.	Oleg Toni	Vice President
17.	Nikolay Fedoseyev	Vice President
18.	Anatoly Chabunin	Vice President – Director of Internal Control and Audit
19.	Shevket Shaydullin	Vice President – Director of the Traffic Safety Department
20.	Dmitry Shakhnov	Vice President
21.	Vadim Bynkov	Director of the Legal Department
22.	Olga Gnedkova	Director of the Corporate Finance Department
23.	Vadim Morozov	Senior Advisor to the Russian Railways President

Remuneration system for the Management Board and information about the amount of remuneration for the Management Board for the reporting year

The remuneration system for members of the Russian Railways Management Board, which was approved by the Russian Railways Board of Directors, was developed to improve the efficiency of the individual and collective work of Management Board members both in the short term and the long term as well as to provide incentives

for the successful performance of Russian Railways as a single economic entity.

Executives are given bonuses for annual results based on the fulfilment of key performance indicators (KPI) and a performance assessment of the Management Board and Russian Railways as a whole.

The KPI system, which includes general corporate and functional indicators, is approved by the Russian Railways Board of Directors.

The total income earned by members of the Russian Railways Management Board amounted to RUB 1,601.7 mln in the reporting year.

Biographical information about members of the Russian Railways Management Board



Oleġ Belozerov

President of Russian Railways.

Born in 1969.

Mr Belozerov graduated from St Petersburg State University of Economics and Finance with a major in economics and industrial planning in 1992. He is a candidate of economic sciences.

Professional experience

- 1998-2000 – Commercial Director, Lenenergo;
- 2000 – Deputy Director, Freight Motor Transport Enterprise No. 21;
- 2000-2001 – Office of the Plenipotentiary Representative of the Russian President to the North-West Federal District;
- 2001–2002 – Deputy Director, Corporate Property Management, LOMO;
- 2002-2004 – CEO, Russian Fuel Company;
- July-November 2004 – Deputy Director, Federal Road Agency;
- 2004-2009 – Director, Federal Road Agency;
- March 2009 – Deputy Minister of Transportation of the Russian Federation;
- 2014 – Member of the Russian Railways Board of Directors;
- 2015 – First Deputy Minister of Transportation of the Russian Federation;
- August 2015 – President, Russian Railways.

Government and industry awards:

Order 'For Merit to the Fatherland (4th Class)'; Order of Honour; Medal of the Order 'For Merit to the Fatherland (1st Class)'; Honorary Certificate of the Russian President; Gratitude of the Russian President; Honorary Certificate of the Government Staff of the Russian Federation; Medal of Pavel Melnikov; Badge 'Honoured Transport Worker of Russia'; Lapel Pin 'Honoured Road Builder of Russia'.



Anatoly Krasnoshchek

First Vice President of Russian Railways.

Born in 1959.

Mr Krasnoshchek graduated from Leningrad Institute of Railway Engineers in 1988 with a major in railway transportation process management and is a candidate of economic sciences.

Professional experience

Mr Krasnoshchek began his career in the railway industry as a track serviceman on the Petrozavodsky section of October Railway after graduating from a technical college in 1978. He then worked his way from an assistant shunting master to Director of the St Petersburg-Vibetsk railway branch. He served as Deputy Director of Transportation and First Director-Chief Train Safety Inspector at the railway and First Deputy Director of October Railway.

- July 2008 – Director, East Siberian Railway.
- March 2013 – Senior Vice President, Russian Railways.
- December 2011 – Vice President, Russian Railways.
- October 2015 – First Vice President, Russian Railways.



Alexander Misharin

First Vice President of Russian Railways.

Born in 1959.

Mr Misharin graduated from Ural State University of Railway Transport with a major in railway transportation electrification in 1981 and a major in economics and business management (railway transportation) in 1997. He is a candidate of economic sciences and a doctor of technical sciences.

Professional experience

Mr Misharin began his career in the railway industry in 1981 at Sverdlovsk Railway, working his way up from a power supply electrician to Chief Engineer of Sverdlovsk Railway.

- July 1997 – Deputy Minister and First Deputy Minister of Railways of the Russian Federation.
- March 2009 – Director, Industry and Infrastructure Development Department of the Russian Government.
- May 2002 – Director, Sverdlovsk Railway.
- November 2009 – Governor, Sverdlovsk Region.
- May 2004 – Director, Integrated Infrastructure Development Department, Ministry of Transportation of the Russian Federation.
- December 2012 – First Vice President, Russian Railways.
- June 2004 – Deputy Minister of Transportation of the Russian Federation.



Valentin Gapanovich

Senior Vice President of Russian Railways.

Born in 1955.

Mr Gapanovich graduated from Novosibirsk Institute of Railway Engineers in 1992 with a major in railway transportation process management. He is a candidate of technical sciences.

Professional experience

Mr Gapanovich began his career in the railway industry in 1974, working his way up from assistant locomotive driver to Deputy Chief Engineer of the Kuzbass branch of West Siberian Railway. He then served as Deputy Director of West Siberian Railway and Chief Engineer of October Railway.

- November 2003 – Vice President, Russian Railways.
- June 2008 – Senior Vice President, Russian Railways.



Sergey Maltsev

Senior Vice President of Russian Railways.

Born in 1963.

Mr Maltsev graduated from Leningrad Higher Command School of Railway Troops and Military Communications in 1983 with a major in tactical military communication command.

Professional experience

Mr Maltsev served in the armed forces from 1979 to 1992 and then held senior positions at various organisations.

- December 1999 – Executive Director, MMK-Trans.
- December 2007 – Advisor, New Transportation Company.
- November 2015 – Senior Vice President, Russian Railways.



Vadim Mikhailov

Senior Vice President of Russian Railways.

Born in 1969.

Mr Mikhailov graduated from the State Financial Academy in 1992 with a major in finance and credit.

Professional experience

Mr Mikhailov began his career after graduation at the audit company Arthur Andersen, where he worked his way up from an economist to Director of the Bank Audit Department.

- November 2003 – CEO, Ernst & Young – Business Consulting.
- September 2009 – Senior Vice President, Russian Railways.



Anatoly Meshcheryakov

State Secretary and Vice President of Russian Railways.

Born in 1966.

Mr Meshcheryakov graduated from Kiev Higher Military Aviation Engineering School in 1988 with a major in avionics and from the Institute of Modern Business in 1998 with a major in finance and credit. He is a candidate of technical sciences.

Professional experience

After serving in the armed forces, Mr Meshcheryakov began his career in 1997 as a leading specialist at Bank Menatep and then worked at other various organisation.

- January 2004 – Deputy General Director and Director of External Relations, Director of the External Relations Department, Director of Personnel Management and External Relations, Transmashholding.
- December 2011 – Senior Advisor to the Russian Railways President.
- February 2012 – State Secretary and Vice President, Russian Railways.
- October 2009 – First Deputy General Director, Transmashholding.



Mikhail Akulov

Vice President of Russian Railways.

Born in 1960.

Mr Akulov graduated from Moscow Institute of Railway Engineers in 1982 with a major in railway transportation electrification.

Professional experience

Mr Akulov began his career in the railway industry in 1982, working his way up from a locomotive workshop foreman to Deputy Director and Director of the Moscow-Kursk branch.

- May 1999 – First Deputy Director and Director, South Eastern Railway.
- May 2002 – Deputy Minister and First Deputy Minister of Railways of the Russian Federation.
- March 2004 – Director, Federal Railway Transportation Agency, Ministry of Transportation of the Russian Federation.
- December 2005 – Vice President, Russian Railways.
- July 2009 – Vice President, Russian Railways; General Director, Federal Passenger Directorate, Russian Railways.
- March 2013 – Vice President, Russian Railways.



Salman Babayev

Vice President and General Director of the Russian Railways Centre for Corporate Transportation Service.

Born in 1955.

Mr Babayev graduated from Khabarovsk Institute of Railway Engineers in 1978 with a major in railway operations.

Professional experience

Mr Babayev began his career in the railway industry in 1978 as an assistant shunting master. He worked his way up from station dispatcher attendant to Director of Baikal-Amur Railway. He then served as First Deputy Director of Far Eastern Railway, Deputy Director of North Caucasus Railway and Deputy Director of Moscow Railway.

- February 2002 – General Director, Centre for Corporate Transportation Service.
- November 2002 – Director, Volga Railway.
- November 2003 – Vice President, Russian Railways; General Director, Centre for Corporate Transportation Service.
- August 2005 – Vice President, Russian Railways.
- October 2007 – General Director, First Freight.
- March 2011 – Vice President, Russian Railways.
- December 2015 – Vice President, Russian Railways; General Director, Centre for Corporate Transportation Service.



Gennady Verkhoviykh

Vice President and Director of the Central Infrastructure Directorate of Russian Railways.

Born in 1959.

Mr Verkhoviykh graduated from Leningrad Institute of Railway Engineers in 1981 with a major in railway operation.

Professional experience

Mr Verkhoviykh began his career in the railway industry in 1981 as a station attendant. He worked his way up from station chief to Deputy Director of the Moscow branch of October Railway. He then served as Administration Head of the Bologovsky District of the Tver Region.

- July 1998 – Deputy Director and First Deputy Director, October Railway.
- February 2007 – Director, Russian Railways Passenger Transportation Department.
- October 2013 – Director, Russian Railways Passenger Transportation Business Unit Management Department.
- November 2015 – Vice President and Director, Central Infrastructure Directorate, Russian Railways.



Alexey Vorotilkin

Vice President and Director of the Traction Directorate of Russian Railways.

Born in 1961.

Mr Vorotilkin graduated from Irkutsk Institute of Railway Engineers in 1988 with a major in railway transportation electrification. He is a doctor of technical sciences.

Professional experience

Mr Vorotilkin began his career in the railway industry in 1978 as an apprentice to a communications switchman. He worked his way up from locomotive depot toolmaker to Deputy Director of East Siberian Railway.

- September 2005 – Director, East Siberian Railway.
- June 2008 – Vice President, Russian Railways.
- February 2011-January 2016 – Vice President and Director, Traction Directorate, Russian Railways.



Pavel Ivanov

Vice President and Director of the Central Traffic Control Directorate of Russian Railways.

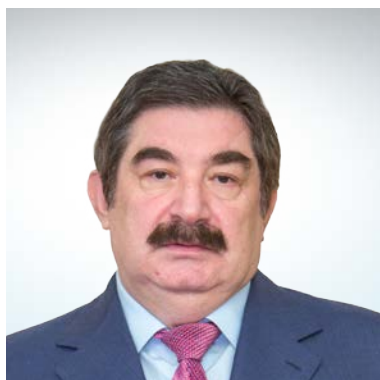
Born in 1964.

Mr Ivanov graduated from Moscow Institute of Railway Engineers in 1986 with a major in railway transportation process management.

Professional experience

Mr Ivanov began his career in the railway industry in 1983 as track serviceman. He worked his way up from a station switch tower attendant to Director of the Transportation Service of Moscow Railway.

- January 2004 – Deputy Director, Moscow Railway; Director, Moscow-Kursk branch.
- September 2004 – Deputy Director for Transportation, Moscow Railway.
- September 2008 – Deputy Director and First Deputy Director, Central Traffic Control Directorate, Russian Railways.
- April 2011 – Director, Central Traffic Control Directorate, Russian Railways.
- June 2015 – Director for Transportation Control and Director, Central Traffic Control Directorate, Russian Railways.
- November 2015 – Vice President and Director, Central Traffic Control Directorate, Russian Railways.



Petr Katsyv

Vice President and Director of the Moscow Transport Hub Development Centre of Russian Railways.

Born in 1953.

Mr Katsyv graduated from Moscow Automobile and Road Institute in 1975 with a major in automobiles and automotive fleet. He is a doctor of technical sciences.

Professional experience

Mr Katsyv began his career as a traffic safety engineer at Passenger Road Train No. 1786. He then worked his way up from Deputy Director of Safety at Passenger Road Train No. 1786 to General Director of MOSTRANSVTO Road Passenger Transportation of the Moscow Region.

- February 2001 – Minister of Transportation, Government of the Moscow Region.
- December 2003 – Deputy Chairman, Government of the Moscow Region.
- May 2004 – Deputy Chairman, Government of the Moscow Region; Minister of Transportation, Government of the Moscow Region.
- June 2012 – Director, Main Department of the Moscow Region for Relations with the Federal Authorities.
- September 2013 – Advisor to the Governor of the Moscow Region.
- October 2014 – Vice President and Director, Moscow Transport Hub Development Centre of Russian Railways.



Alexander Saltanov

Vice President of Russian Railways.

Born in 1946.

Mr Saltanov graduated from Moscow State Institute of International Relations in 1970 with a major in international relations.

Professional experience

- 1970 – Diplomatic work.
- December 1992 – Ambassador Extraordinary and Plenipotentiary of the Russian Federation in the Hashemite Kingdom of Jordan.
- February 1999 – Director, Middle East and Africa Department, Russian Ministry of Foreign Affairs.
- October 2011 – Deputy Minister of Foreign Affairs of the Russian Federation.
- May 2011 – Vice President, Russian Railways.



Viktor Stepov

Vice President of Russian Railways.

Born in 1957.

Mr Stepov graduated from Leningrad Institute of Railway Engineers in 1986 with a major in railway transportation electrification and from St Petersburg State University of Railways in 1994 with a major in economics and railway transportation organisation. He is a candidate of economic sciences.

Professional experience

Mr Stepov began his career as a turner and borer at the Podporozhsky Experimental Plant in the Leningrad Region. After graduating from a technical college and serving in the armed forces, he worked his way up from a repairman at the Petrozavodky locomotive depot to Director of the Economic Service of October Railway.

- September 1999 – Chief Economist and Deputy Director, October Railway.
- February 2004 – Director, October Railway, Russian Railways.
- October 2014-January 2016 – Vice President, Russian Railways.

**Oleg Toni****Vice President of Russian Railways.****Born in 1964.**

Mr Toni graduated from Voronezh Engineering and Construction Institute in 1986 with a major in industrial and civil construction and from Northwest Academy of Public Service in 2003 with a major in state and municipal management. He is a candidate of economic sciences.

Professional experience

Mr Toni began his career after graduating as a construction management foreman at Stroytrest in Voronezh. He worked his way up from a foreman to General Director of Stroymontazh-24 in St Petersburg.

- January 1997 – General Director, Baltic Construction Company No. 24, St Petersburg.
- March 2000 – General Director, Baltic Construction Company (BCC), Moscow.
- February 2001 – General Director, Baltic Construction Company (M), Moscow.
- March 2004 – First Deputy Director and Director, Capital Construction Department, Russian Railways.
- April 2006 – Vice President, Russian Railways.

**Nikolay Fedoseyev****Vice President of Russian Railways.****Born in 1966.**

Mr Fedoseyev graduated from Moscow Institute of Radio Engineering, Electronics and Automation in 1989 with a major in electronic devices and from the Academy of the Russian Ministry of Security in 1993 with the qualification of an officer with higher special education.

Professional experience

- January 1993 – service in agencies of the Russian Federal Security Service.
- December 2015 – Vice President, Russian Railways.



Anatoly Chabunin

Vice President and Internal Control and Audit Director of Russian Railways.

Born in 1960.

Mr Chabunin graduated from Novosibirsk Institute of Economy in 1990 with a major in finance and credit.

Professional experience

Mr Chabunin began his career in 1978 as a construction metal worker and then served in various government and commercial organisations.

- December 2004 – Financial Office Director and Deputy Director, Federal Road Agency.
- March 2009 – Director, Federal Road Agency.
- May 2013 – Deputy Director, Federal Financial and Budget Oversight Service.
- September 2015 – Internal Control and Audit Director, Russian Railways.
- October 2015 – Vice President, Russian Railways.
- November 2015 – Vice President and Internal Control and Audit Director, Russian Railways.



Shevket Shaydullin

Vice President and Director of the Traffic Safety Department of Russian Railways.

Born in 1961.

Mr Shaydullin graduated from Kuybyshev Institute of Railway Engineers in 1990 with a major in technical locomotive operation management. He is a candidate of technical sciences.

Professional experience

Mr Shaydullin began working in the railway industry in 1978 as a mechanic at the Ulyanovsk locomotive depot. He worked his way up from assistant locomotive driver to Deputy Director of Kuybyshev Railway.

- March 2001 – First Deputy Director and Director, Gorky Railway.
- May 2004 – Director, Sverdlovsk Railway.
- April 2007 – Advisor to the Russian Railways President.
- December 2008 – General Director, South Caucasus Railway.
- February 2012 – Director, Kuybyshev Railway, Russian Railways.
- December 2012 – Vice President and Director, Traffic Safety Department, Russian Railways.



Dmitry Shakhanov

Vice President of Russian Railways.

Born in 1961.

Mr Shakhanov graduated from the Academy of the USSR Ministry of Internal Affairs in 1988 with a major in law.

Professional experience

- 1979–1998 – Service in internal affairs agencies followed by employment in various government and commercial organisations.
- November 1999 – Deputy General Director, Lenenergo.
- October 2005 – Deputy General Director, Territorial Generating Company No. 1.
- October 2006 – Deputy Director and Director, Russian Railways Supply.
- April 2009 – Vice President, Russian Railways.



Vadim Bynkov

Head of the Legal Department of Russian Railways.

Born in 1962.

Mr Bynkov graduated from Kalinin State University in 1985 with a major in law.

Professional experience

Mr Bynkov began his career in 1987 as an instructor at the All-Union Leninist Young Communist League in the Zavolzhsy District of Tver. He worked in prosecutor offices in Tver from 1989 to 1993 and then held senior positions at commercial organisations.

- June 2002 – Director, Legal Department, ALROSA Investment Group.
- April 2004 – Attorney, V.I. Bynkov Law Office, Bar Association of the Tver Region.
- October 2005 – Director, Legal Department, Russian Railways.
- December 2007 – State Secretary and Director, Legal Department, Russian Railways.
- April 2009 – Director, Legal Department, Russian Railways.



Olga Gnedkova

Head of the Corporate Finance Department of Russian Railways

Born in 1960.

Ms Gnedkova graduated from Novosibirsk Institute of Railway Engineers in 1981 with a major in accounting. She is a candidate of economic sciences.

Professional experience

Ms Gnedkova began her career in the railway industry after graduation, working her way up from an accountant to Director of the Financial Service of West Siberian Railway.

- May 2002 – Deputy Director, Moscow Railway; Director, Financial Service.
- September 2004 – Deputy Director for Economics and Finance, Moscow Railway.
- November 2004 – Head of Financial Management Department, Russian Railways.
- September 2005 – Head of Corporate Finance Department, Russian Railways.



Vadim Morozov

Senior Advisor to the Russian Railways President.

Born in 1954.

Mr Morozov graduated from Leningrad Institute of Railway Engineers in 1977 with a major in railway operations. He is a doctor of technical sciences.

Professional experience

Mr Morozov began his career in 1971 as a mechanic at the Volkhov-Stroy-1 locomotive depot of October Railway. After graduation, he remained with the railway, working his way up from a shunting attendant to Director of October Railway. He was elected Deputy Chairman of the Legislative Assembly of the Leningrad Region in 1998.

- October 1998 – First Deputy Director, South Eastern Railway.
- May 1999 – Deputy Minister of Railways of the Russian Federation.
- June 2000 – First Deputy Director, Moscow Railway.
- February 2002 – First Deputy Minister of Railways of the Russian Federation.
- October 2003 – Minister of Railways of the Russian Federation.
- July 2004 – Executive Director, Blagosostoyanie Private Pension Fund.
- August 2005 – First Vice President, Russian Railways.
- October 2015 – Senior Advisor to the Russian Railways President.

Supervisory and audit bodies of Russian Railways

Audit Commission

The Audit Commission oversees the Company's financial and economic activities and acts on the basis of the legislation of the Russian Federation, the Charter of Russian Railways and the Regulation on the Russian Railways Audit Commission approved by Order No. 265-r of the Russian Government dated 25 February 2004.

The purview of the Audit Commission includes auditing the Company's financial and economic activities based on its

performance for the year and at any time based on its own initiative, a resolution of the Board of Directors or at the request of a shareholder; auditing and analysing the Company's financial condition, its ability to pay, the operation of the internal control system and the financial and operational risk management system, asset liquidity and the debt to equity ratio; confirmation of the accuracy of the data contained in the Company's annual report, the annual financial statement and other reports

as well as the Company's other financial documents; verifying the compliance of the decisions on financial and economic matters adopted by the Company's President, Board of Directors and Management Board with the Charter and the resolutions adopted by the General Meeting of Shareholders.

The Russian Railways Audit Commission elected in accordance with Order No. 1233-r of the Russian Government dated 30 June 2015 was approved with seven members:

Natalya Annikova

Chairman

Education: Moscow State University of Railway Engineering; Academy of National Economy under the Government of the Russian Federation.

Professional experience

- 2011-2013 – Advisor to the General Director of RZDstroy.
- 2013-present – First Deputy General Director for Economics and Finance, Construction Office No. 308.
- 2015-present – Chairman, Russian Railways Audit Commission.

Alexander Varvarin

Education: Griboedov Institute of International Law and Economics, Law, Lawyer.

Professional experience:

- 2005-2009 – Director, Legal Department; Director, Corporate Relations Department, Russian Union of Industrialists and Entrepreneurs.
- 2006 – General Director, Centre for the Development of Corporate Relations and the Resolution of Economic Disputes non-profit partnership.
- 2009 – Managing Director for Corporate Relations and Legal Support, Russian Union of Industrialists and Entrepreneurs. Member of the Board of Directors, VCIOM, IDGC of Volga, Kubanenergo, IDGC of North Caucasus and State Transportation Leasing Company; Chairman of the Board of Directors, Innovative Production Centre of Textiles and Light Industry, VNIPneft, Production Centre, Central Research Institute of the Leather Footwear Industry, Central Research Institute of the Technological Fitting of Textile Equipment, the Central Research Institute of Integrated Light Industry Automation and Central Research Institute of Film Materials and Artificial Leather.
- 2012 – Member of the Russian Railways Audit Commission.

Viktoria Semerikova

Education: Plekhanov Russian Academy of Economics.

Professional experience

- 2006-2013 – Lead Manager, Chief Manager and Director, Russian Banks Division, Office of Subsidiary Banks, Corporate Development and Financial Assets Department, VTB Bank.
- 2013-present – Advisor to the Director of the Russian Federal Property Agency; Director, Corporate Technologies Office, Russian Federal Property Agency.
- 2013 – Member of the Russian Railways Audit Commission.

Yevgeny Stolyarov

Education: Faculty of Economics of Lomonosov Moscow State University.

Professional experience

- 2009-2010 – Specialist, Share Trading Division, Troika Dialog Investment Company.
- 2010-2012 – Specialist, Share Sales Division, Renaissance Broker.
- 2012-2013 – Deputy Division Chief, Russian Federal Property Management Agency.
- 2015-present – Deputy Office Director, Russian Federal Property Management Agency.
- 2013 – Member of the Russian Railways Audit Commission.

Maxim Yeronin

Education: MISA National University of Science and Technology and Kutafin Moscow State Law University.

Professional experience

- 2009-present – Chief Specialist/Expert, Consultant and Deputy Director, Corporate Governance Division, Department of Property Relations and Regional Planning, Russian Ministry of Transportation.
- 2014-present – Member of the Russian Railways Audit Commission.

Vasily Shipilov

Education: Moscow State University of Railway Engineering.

Professional experience

- 2008-2010 – Specialist, Russian Ministry of Economic Development.
- 2013-present – Division Chief, Russian Ministry of Economic Development.
- 2010-2013 – Deputy Division Chief, Russian Railways.
- 2014-present – Member of the Russian Railways Audit Commission.

Boris Lyuboshits

Education: Bauman Moscow State Technical University; Academy of National Economy under the Government of the Russian Federation.

Professional experience

- 1999-present – General Director, AuditGroup.
- 2015-present – Member of the Russian Railways Audit Commission.

According to Order No. 1233-r of the Russian Government dated 30 June 2015, a total of RUB 1.5 mln were spent in 2015 on remuneration for members of the Russian Railways Audit Commission for work conducted in 2014.

Internal control and audit

Russian Railways works to improve and develop internal audit and control in accordance with the Organisational Development Programme of the Russian Railways Group until 2017, which was approved in 2014 and updated in December 2015.

Internal control and audit functions at Russian Railways are based on the current organisational and methodological framework prepared in accordance with the best international and national professional practices and meet the ethical standards in matters of internal audit and control adopted in the modern Russian and global business communities.

In 2015, Russian Railways updated and approved regulatory documents at the corporate and functional level that take into account the requirements of federal law and other regulatory legal acts as regards organising internal audit and control, including:

- the Regulation on the Internal Control System at the Russian Railways Group, which was drafted taking into account the recommendations of the Russian Ministry of Finance and using the provisions of the framework 'Internal Control. Integrated Model' of the Committee of Sponsoring Organisations. The document specifies

the purposes, objectives, functions, main requirements, operational structure and the distribution of responsibility among internal control entities.

The internal control system was established to provide reasonable assurance that the Russian Railways Group will achieve its goals.

The internal control system at Russian Railways is governed by a combination of subjects and objects. The objects of the internal control system are the financial and economic activities of Russian Railways divisions and business processes. The

subjects of the internal control system are determined by the organisational structure of Russian Railways.

The main objectives of the Russian Railways Group's internal control system are:

- to ensure the efficiency and effectiveness of financial and economic activities;
 - to safeguard assets and use resources in a cost effective manner;
 - to identify and manage risks;
 - to ensure the accuracy and completeness of accounting (financial) and other types of reporting;
 - to observe the law and regulatory legal acts of the Russian Federation and the regulatory documents of Russian Railways.
- the Regulation on the Organisation of Internal Audits at the Russian Railways Group, which was drafted in accordance with the Guidelines for the Preparation of Internal Regulatory Documents of the Russian Federal Property Management Agency, approved by the order of the Russian Government that establishes the internal audit status at the Company and specifies the purposes, powers, responsibility and work principles of internal audits as well as rights for access to documents, personnel and assets as part of preparing for and conducting audits.

The goals of the internal audit system are to provide independent and objective information to the Board of Directors and executive management bodies about the status of financial and business activities, the reliability and effectiveness of the risk management and internal control systems and the corporate governance practice at the Company and its subsidiaries in order to maintain financial stability, enhance the effectiveness and efficiency of business processes, improve performance and achieve the Company's goals.

The Russian Railways Group has updated its Internal Corporate Standards System for Auditing Activities in accordance with the requirements of the regulatory documents of the Russian Federation and international professional internal audit standards and also taking into account best practices, including for the introduction of the process approach, and amendments to the organisational and administrative documents of Russian Railways.

The Russian Railways Board of Directors and the Audit and Risk Committee under the Russian Railways Board of Directors determine the general focuses for organising the internal control and audit system, consider the assessment results of its effectiveness and analyse its actual condition taking into the nature, scale and conditions of the Russian Railways Group's activities.

The Vice President and Internal Audit and Control Director of Russian Railways handles matters related to internal control and audits at the Company's divisions.

A major role in the internal audit and control system at Russian Railways is played by the divisions that conduct an independent assessment of the activities of structural units and inform Company management about audit results – the Zheldorkontrol Internal Control Centre and Zheldoraudit Internal Audit Centre, which are directly subordinate to the Vice President and Internal Audit and Control Director of Russian Railways.

The Zheldorkontrol Internal Control Centre conducts audits of the financial and business activities of Russian Railways divisions, monitors compliance with measures to eliminate any violations or shortcomings that are found in the internal control system, coordinates the work of Russian Railways divisions as regards organising and carrying out internal control and provides Russian Railways management with reliable information about the financial and business activities of Russian Railways.

The Zheldoraudit Internal Audit Centre assesses the actual condition and

effectiveness of the internal control system, including monitoring the quality of the independent assessments conducted by Russian Railways divisions, drafts recommendations to improve the effectiveness of the internal control system and introduce additional internal control procedures, and prepares information for Russian Railways management about the reliability of internal control procedures at the Company's divisions.

The Zheldorkontrol and Zheldoraudit Centres have a total of 715 employees.

The Zheldorkontrol Centre includes regional offices located in the railway operating domains and has audit divisions.

The main objectives of internal audits and control are:

- to organise and conduct audits that aim to improve the efficiency and effectiveness of business processes at the Russian Railways Group and the reliability of reporting, safeguard assets and comply with the requirements of the laws of the Russian Federation and the regulatory documents of Russian Railways and its subsidiaries;
- a systematic and consistent assessment of the reliability and effectiveness of the internal control and risk management system as well as an assessment of corporate governance practices;
- to provide reliable information in a timely manner to Russian Railways management about the status of financial and economic activities, the effectiveness of business processes, the reliability of internal control and risk management procedures as well as corporate governance at Russian Railways divisions;
- to draft proposals and recommendations on ways to improve activities and enhance the reliability and effectiveness of the risk management and internal control systems as well as the corporate governance practices of

the entity being audited and/or the Company as a whole;

- to organise and carry out internal control that aims to achieve economic stability and financial transparency in the prescribed manner at the Company's divisions and subsidiaries.

Continuous development and improvements to the internal audit and control system allow the Company to respond in a timely and proper manner to changes in the external environment and enhance the effectiveness and efficiency of activities.

Complete information about the procedures used to monitor the financial and business activities of the Company's structural divisions and business processes enables management to adopt effective decisions and achieve the Company's goals while ensuring a high level of control.

Biographical information about internal control and audit executives

Oleġ Ivanov

Internal Control and Audit Director of Russian Railways.

Born in 1955.

Education: higher, Novosibirsk Institute of National Economy, Academy of National Economy under the Russian Government, Doctor of Economic Sciences and Professor.

Professional experience at Russian Railways

- 2003-2012 – Director, Zheldorkontrol Internal Control and Audit Centre, Russian Railways;
- 2012-2015 – Internal Control and Audit Director, Russian Railways.

Anatoly Chabunin

Vice President and Internal Control and Audit Director of Russian Railways.

Born in 1960.

Education: higher, Novosibirsk Institute of National Economy.

Professional experience at Russian Railways

- 2015 – Vice President and Internal Control and Audit Director, Russian Railways

Sergey Novoselov

Director of Zheldorkontrol Centre.

Born in 1957.

Education: higher, Khrulev Yaroslavl Higher Military Financial School, Military Financial and Economic Department at the Moscow Financial Institute.

Professional experience at Russian Railways

- 2003-2012 – First Deputy Director, Zheldorkontrol Internal Control and Audit Centre, Russian Railways;
- 2013-2015 – Director, Zheldorkontrol Internal Control Centre, Russian Railways.

Yury Podkopayev

Director of the Zheldoraudit Centre.

Born in 1963.

Education: higher, Moscow Institute of Railway Engineers and a Master's of Business Administration certificate of continuing professional education in corporate audit with in-depth foreign language study.

Professional experience at Russian Railways

- 2003–2012 – Deputy Director, Zheldorkontrol Internal Control and Audit Centre, Russian Railways; Director, Regional Management Centre in Moscow;
- 2013 – Director, Zheldorkontrol Internal Audit Centre, Russian Railways.

Auditor of statements according to international standards

The auditor of the Company's consolidated financial statements in accordance with IFRS is Ernst & Young.

Auditor of statements according to Russian accounting standards

In accordance with Order No. 1233-r of the Russian Government dated 30 June 2015, BDO Unicon was approved as the auditor of the accounting (financial) statements of Russian Railways for 2015 according to Russian Accounting Standards.

The amount of annual remuneration for BDO Unicon under Contract dated 1 July 2015 is RUB 33,612,300, including VAT of RUB 5,127,300.

Development prospects for Russian Railways in 2016; goals and objectives of the Russian Railways Group for 2016

The plans and objectives of Russian Railways in 2015 are directly linked to the economic development prospects of the Russian Federation.

The Company's activities will focus on meeting the objectives set forth by the Russian President and Government and approved by the Russian Railways Board of Directors as well as ensuring the implementation of the Russian Railways

Group's Development Strategy until 2030 and the Long-term Development Programme of Russian Railways and its S&A until 2020 as a mechanism for implementing the first stage of the Strategy.

Priority objectives of the Russian Railways Group for 2016:

- 1** Ensuring a positive financial result in the activities of Russian Railways in 2016 given the tariff indexation parameters for freight and passenger transportation, including by:
 - increasing income and optimising operating costs;
 - enhancing the effective management of subsidiaries and affiliates;
 - improving the governance system at the Company;
 - implementing structural reform measures for railway transportation in accordance with the programme documents and decisions of the Russian Government.
- 2** The Company's commitment to the principle of continuous improvement in guaranteed traffic safety control and the reliability of the transportation process by implementing priority tasks in traffic safety.
- 3** Continuing work to introduce process approach principles and methods to evaluate the effective use of fixed assets, organise labour according to core operations and take effective measures on this basis to optimise the use of production capacity, and improve the technology, quality and cost of production processes.
- 4** Strengthening the positions and increasing the share of business on the transportation and logistics services market based on the principles of a customer-oriented focus and improvements to the tariff policy and quality of the services provided.
- 5** Efficient passenger transportation and interaction with federal and regional executive authorities as regards receiving full compensation for economically justified losses in income.

6 Improving the quality of interaction with suppliers of material resources to ensure an uninterrupted supply for the production process and reduce integral price pressure taking into account the compliance of product quality with regulatory requirements.

7 Improving procurement activities by making purchases based on sustainable demand for goods, work and services in accordance with production programmes, budget parameters and the procurement plan.

8 Utilising the competitive advantages of railway transportation by establishing quality parameters for services and above all increasing speeds and complying with the required freight delivery dates.

9 Implementing the measures of the Company's investment projects, including the modernisation of the Baikal-Amur and Trans-Siberian Mainlines and the Moscow Transport Hub and the development of approaches to ports in the south and northwest parts of the country, taking into account the volume of investment planned for 2016, including federal budget funds, as well as interaction with the federal executive authorities concerning the full allocation of the federal budget funds earmarked for these purposes.

10 Implementing measures that aim to establish an integrated network of rapid-transit and high-speed transportation in the Russian Federation, above all the construction of the Moscow-Nizhny Novgorod-Kazan High-Speed Railway.

11 Pursuing a unified personnel and social policy at the Russian Railways Group that aims to staff the Company with qualified personnel, continuously develop personnel, establish a reliable talent pool, enhance the efficiency of personnel, involve personnel in meeting corporate objectives and foster a stable social and psychological climate in the workforce.

12 Strengthening the Russian Railways Group's positions on foreign markets for logistics and railway infrastructure construction based on cooperation with foreign partners and specialised international organisations.

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Glossary

1520 mm – the official track gauge of railways within the Commonwealth of Independent States, Baltic countries, Mongolia and Finland. The total length of the tracks within the '1520 space' exceeds 150,000 km. It is referred to as the 'broad' gauge. The '1520 space' is the territory served by the 'broad' gauge railways.

2PL, 3PL and 4PL – levels of logistics service (PL-Party Logistics): partial logistics outsourcing, comprehensive logistics outsourcing and integrated logistics outsourcing.

Belarusian Railway – State Association Belarusian Railway.

Common Economic Space (CES) – the economic and political integration of three nations: Russia, Kazakhstan and Belarus.

Federal Freight Company (FFC) (Second Freight Company prior to 13 October 2012) – a subsidiary of Russian Railways established in accordance with the decision of the Russian Railways Board of Directors dated 26 August 2010 and one of the largest railway freight transportation operators in Russia.

Federal Passenger Company (FPC) – a subsidiary of Russian Railways that provides long-haul passenger and luggage transportation by railways.

Freight turnover – the volume of work to transport freight measured by tonne-kilometres. It is calculated by adding the multiplied value of the freight transported in tonnes by the distance travelled in kilometres.

Federal Tariffs Service (FTS) – The federal executive authority in charge of regulating natural monopolies; handles the government regulation of prices (tariffs), in particular on railway transportation, in accordance with the legislation of the Russian Federation.

GEFCO S.A. – a subsidiary of Russian Railways, which concluded a transaction on 20 December 2012 to purchase a 75% of shares in the French logistics operator GEFCO from PSA Peugeot Citroen for a cost of EUR 800 mln.

Handling (freight shipment) – the weight of freight in tonnes accepted for transportation via the railway network. The value is calculated as the sum of all shipments accepted during the reporting period for transportation within the country directly from shippers, from other types of transportation for further transportation and from foreign railways.

HSTD – High-Speed Transportation Directorate – branch of Russian Railways.

HSR – high-speed railway.

Intermodal transportation – sequential freight shipments using two or more types of transportation in the same transportation unit or vehicle without the trans-shipment of the actual freight when switching transportation modes.

International Union of Railways (UIC) – (French – Union Internationale des Chemins de fer) – an international organisation that unites national railway companies in order to jointly resolve problems involving the development of railway transportation.

IFRS – international financial reporting standards.

Logistics costs – expenses on logistics operations (warehousing, transportation, collection, storage and transmission of data about orders, inventories, supplies, etc.).

MLRR – Moscow Little Ring Railway.

Multimodal transportation – shipments using two or more types of transportation based on a single contract.

NPS (Net Promoter Score) loyalty index – the index used to determine a consumer's commitment to a product or company (index of how willing one is to recommend) to assess the willingness to repurchase a product.

NC Kazakhstan Temir Zholy – National Company Kazakhstan Railways.

Organisation for Cooperation between Railways (OSJD) – an international organisation whose objectives include developing international freight and passenger transportation, establishing a common railway transportation space in the Eurasian region, improving the competitiveness of transcontinental railway routes and promoting technological progress as well as scientific and technical cooperation in railway transportation.

Passenger turnover – the volume of work to transport passengers measured by passenger-kilometres. It is determined by adding the multiplied value of the number of passengers for each transportation category by the distance travelled in kilometres.

Passenger transportation (dispatch) – the volume of work performed to transport passengers as determined by the number of tickets sold and issued free of charge in a particular reporting period taking into account the passenger trips made attributable to this period based on group tickets, freight documents, commuter tickets and other tickets.

Process and price audit (PPA) – an expert assessment of the feasibility of an investment project, the selection of the projected technological and cost solutions for building facilities as part of an investment project, the compliance of the solutions with market practices and international analogues as well as the reliability of construction costs and operating expenses to implement the investment project during the process of its life cycle.

RAS – Russian Accounting Standards.

RasonKonTrans JV – a company established by RZD Trade House and the Rason port (North Korea). Registered on 16 July 2008 in North Korea in the Rason Special Economic Zone for a period of 49 years. The Russian side, which is the investor in the project, owns 70% of charter capital, while North Korea owns 30% (stake represented by the rights to use the Rason port).

RCGC – Regional Corporate Governance Centre.

ROR – the railway operating rules of the Russian Federation.

RRS – railcar rolling stock.

RZD International – a specialised engineering company set up within the Russian Railways Group to centralise the functions of strategic planning of foreign economic activities and to manage infrastructure projects abroad.

SMGS – Agreement on International Goods Transport by Rail. The CIM/SMGS is a unified consignment note.

SPC – suburban passenger companies.

S&A – subsidiary and affiliate companies of Russian Railways.

TEU (twenty-foot equivalent unit) – the standard unit used to measure the quantity of transport flows, the acceptance capacity of container terminals or the carrying capacity of freight vehicles. Equal to ISO container dimensions with length of 20 feet (6.1 metres).

Traffic routing – the system used to arrange freight shipments (entire trains) on routes from one or more destination railway stations to unloading points (station, berth, port) located in the same area.

TRMS – traction resource management centres.

UBR – Ulan Bator Railway.

United Transportation Logistics Company (UTLC) – a joint project by Russian Railways, Belarusian Railway and NC Kazakhstan Temir Zholy to establish a single logistics operator.

LEGAL DISCLAIMER

This annual report (hereinafter referred to as the Annual Report) has been produced based on the information available to Open Joint Stock Company "Russian Railways" (hereinafter referred to as JSC "RZD" or the Company) and its affiliates (hereinafter referred to as the Group or "RZD") as of the date of its publication.

The annual report of JSC "RZD" for 2015 discloses information to provide the shareholder represented by the Government of the Russian Federation, as well as government agencies, potential and actual investors, shippers, passengers and miscellaneous stakeholders and information users with comprehensive and relevant data on the operations of JSC "Russian Railways" in 2015 and the Company's development trends.

The report complies with the following standards and legal acts:

- Federal Law "On joint-stock companies";
- Federal Law "On the Securities Market" dated 22 April 1996 №39-FZ;
- Regulation on information disclosure by issuers of securities, approved by Order of FFMS of Russia dated 30 December 2014 № 454-p;
- Order No. 228 of the Administration of the Federal Agency for Federal Property Management dated 26 July 2005 "On the regulation of activities of the Federal Agency for Federal Property Management in the sphere of corporate management" (with recommendations on forming position of the Russian Federation on adoption of an annual report of the open joint stock company whose shares are held by the Russian Federation);
- Regulation No. 17/ps of FSC dated 31 May 2002 "On approval of the provision on additional requirements to the procedure of preparing, convening and holding a general shareholders' meeting";
- Corporate Governance Code approved by the Board of Directors of the Bank of Russia from 21 March 2014.
- Resolution of the Government of the Russian Federation of 31 December 2010 №1214 «On Improving the management of public joint stock companies, the shares of which are federal property and federal state unitary enterprises».
- Resolution of the Russian Government of 10 November 2015 №1211 «On Amending the rough structure of the annual report of the company, shares of which are federal property».

This report is an overview of the current situation of JSC "RZD" and its performance for the year ended 31 December 2015 as well as major trends that may have an impact on its future performance.

For the purposes of this document, the word "Company", pronoun "we" and its various forms refer to JSC "RZD".

This report contains forward-looking statements that reflect expectations of the Company's management.

These forward-looking statements are not based on actual circumstances and include all the statements with regard to the Company's intentions, opinions or current expectations concerning its performance, financial standing, liquidity, growth prospects, strategy and industry where JSC "RZD" operates. These forward-looking statements are inherently characterized by risks and uncertainty factors as they relate to the events and depend on the circumstances that may not occur in the future.

Such terms as "assume", "consider", "expect", "forecast", "intend", "plan", "project", "review", "could" and other similar expressions and negative phrases are normally indicative of a predictive nature of a statement. These assumptions contain risks and uncertainties either expected or unexpected by the Company. Thus, future performance may be different from current expectations and users of this information may not rely in the assumptions solely on the information provided in the Annual Report. Apart from the official information on JSC "RZD" activities, this Annual Report contains information obtained from third parties. This information has been obtained from the sources deemed reliable by JSC "RZD". However, we do not guarantee that this information is accurate as it may be incomplete. JSC "RZD" does not guarantee that its or its industry's actual performance, scale or operating rates will match the performance, scale or operating rates expressed or implied in any forward-looking statements contained in this Annual Report or elsewhere. JSC "RZD" shall not be liable for any losses that may be sustained by any person as a result of this person's reliance on forward-looking statements. Unless otherwise expressly provided for in applicable laws, the Company does not assume any obligations with regard to the distribution or publication of any updates or changes in forward-looking statements that reflect any changes in expectations or new information as well as further events, conditions or circumstances.

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