

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	Measurement 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	Measurement 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