

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	
			+/-	%
<b>Result from other income and expenses</b>	-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

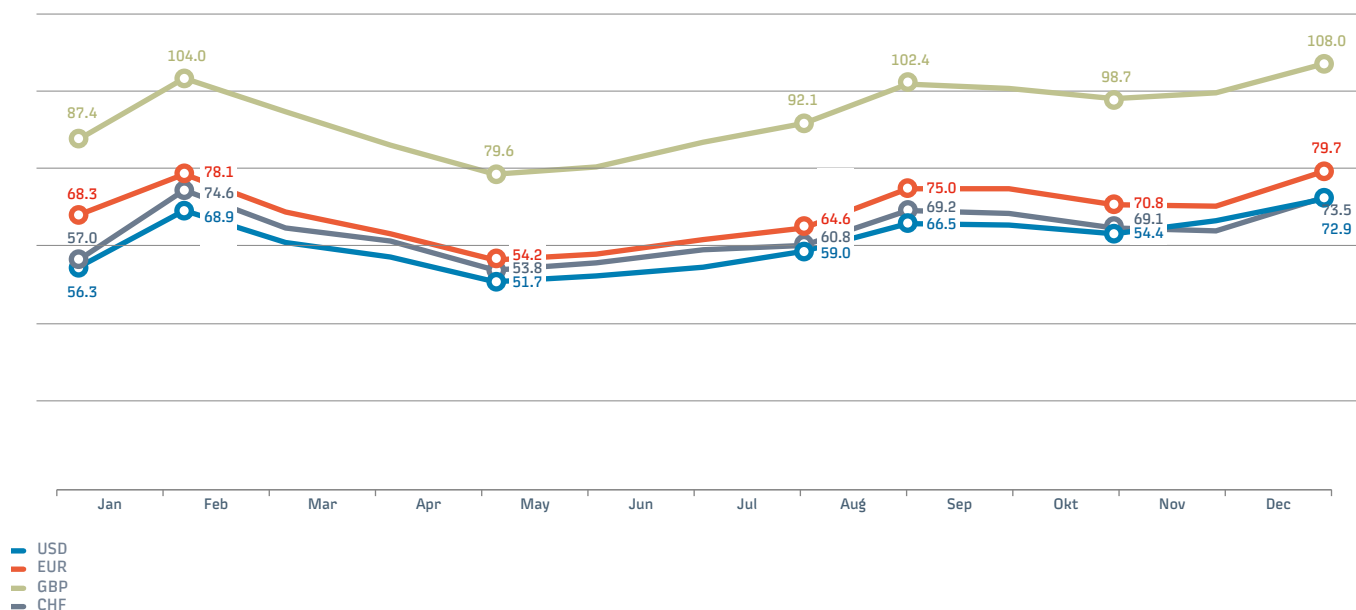
Total foreign exchange losses amounted to RUB -91.8 bln in 2015 with most of the losses (RUB -69.7 bln) classified as additional capital as part of the Company's use of hedge accounting starting from 16 July 2015.

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.