

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.

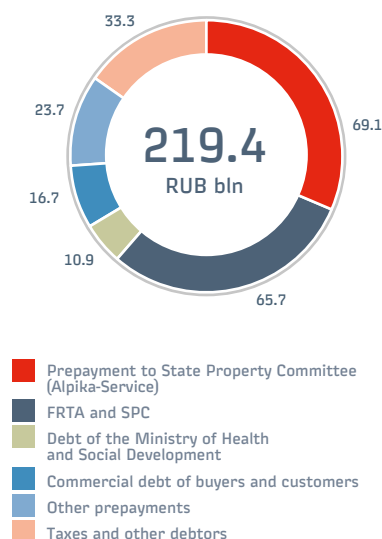
In 2015, the Company's negative net working capital totalled RUB (-148.6) bln. As a result of changes to the net working capital, a positive cash flow was generated in 2015 in the amount of RUB 15.6 bln.

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.

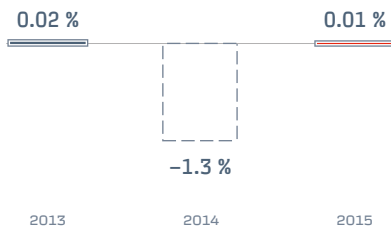
This made it possible to generate additional income of RUB 6.9 bln from the sale of scrap metal and save RUB 1.5 bln in funds for the purchase of new material and technical resources.

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



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.

Operating profit margin, %



from 2014, primarily due to the effect of the Company's cost optimisation measures and improvements in the quality of work.

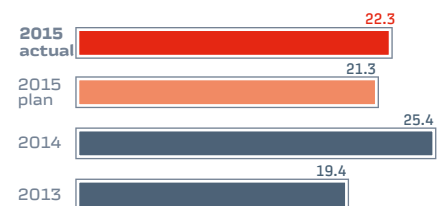
The positive net profit margin in 2015 compared with 2014 resulted from growth in

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.

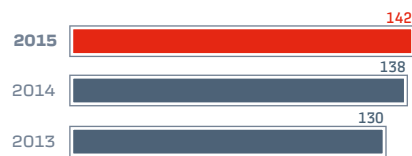
The target for EBITDA margin approved by the Company's Board of Directors was exceeded by 1 p.p. primarily due to growth in sales profit of RUB 15.4 bln versus the plan. Compared with the previous year, the EBITDA margin declined by 3.1 p.p. due to the reflection of a significant number of non-operating 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.

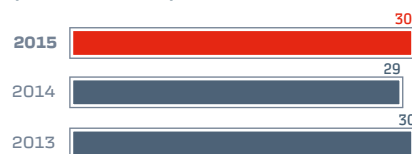
EBITDA margin, %



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