

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



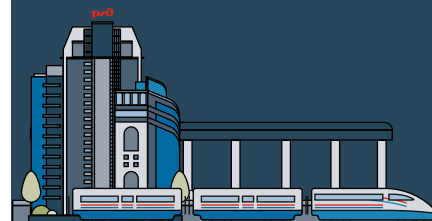
Vadim Mikhailov
Senior Vice President
of Russian Railways

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