

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.