

MESSAGES FROM MANAGEMENT

Management Board Chairman Letter

Dear Partners and Colleagues,

The year of 2017 was a special year for Russian Railways. 180 years ago, in 1837, Russia's first railway connecting St Petersburg and Tsarskoye Selo became operational.

Throughout its history, the industry has been consistently accumulating the latest engineering solutions, innovative management and operational approaches, and professional competencies. Dedication to servicing the country and its people is what makes railway professionals stand out. These fine traditions carry on today, with Russian Railways ranking among the world's leaders by key operational metrics, including traffic density, transportation volume, service speed, energy efficiency, and environmental performance.

The commitment and performance of many thousands of the Company's employees helped deliver a successful year of 2017 and solid financial results. Russian Railways generated close to RUB 1.7 trillion in income, and net profit under the Russian Accounting Standards reached RUB 17.5 bn, a 2.7x increase y-o-y.

On the back of positive developments in the national economy, Russian Railways transported 1,261.3 mt of freight, up 3.2% y-o-y. Loaded freight turnover demonstrated an even more pronounced rise of 6.4%. This is a record-high growth in the recent history of Russia – 26.7% compared to 1992. Transit and container-based transportation also grew considerably: by 16.1% and 17.4%, respectively.

With the new quality of services on offer, we managed to greatly improve our passenger transportation. With 1,117.9 million passengers served, we not only surpassed our 2016 results by 7.8%, but also delivered the best performance over the last eight years.

In response to passenger demand, we increased the advance booking horizon for our tickets. Tickets can now be purchased 90 days ahead of the travel date, which gives passengers more time to plan their journeys and vacations.

We saw a marked rise in demand for our day and high-speed trains, with Sapsan, Allegro, Strizh, and Lastochka all increasingly popular. We continue to make consistent efforts to provide multimodal solutions, launching over 70 routes with combined train & bus service.

Digital technologies are rapidly becoming an integral part of the railway experience. WiFi in trains and at train stations, mobile apps, new methods of payment, e-tickets, multimedia portals in trains, and reward programmes are all a reality today.

We also remain focused on making the train experience more comfortable for people with mobility impairments. Special help desks were established at 81 train stations and are extremely popular with our passengers.

One of the major contributors to our strong performance were large-scale initiatives to upgrade the infrastructure. The Russian Railways 2017 investment programme exceeded RUB 470 bn, and the Company was fully on track with its priority projects to improve railway infrastructure that serve the ports of the Azov and Black Sea basin, develop the Moscow Transport Hub, and upgrade the Baikal–Amur and Trans-Siberian main lines.



Oleg Belozеров

CEO and Chairman
of the Management Board

The service on the new Zhuravka–Millerovo line was launched one year ahead of schedule. These initiatives are all part of our work to enhance Russia's transportation backbone as an impetus for the country's development going forward.

The resolutions made by the Government to introduce a 2% target investment surcharge to clear infrastructure restrictions enabled us to expand our infrastructure overhaul programme by 25%. The surcharge was secured by our commitment to improve the key technological metrics – and this is precisely what we did.

Throughout 2017, we remained focused on sustainable cost management while also improving efficiency across the board. As a result, we managed to cut costs by RUB 67 bn and curb the growth in transportation costs at just 0.9%.

We are proud to report our achievements in labour productivity, which improved by more than 9% in 2017 and by a stunning 45% over the last six years. In 2017, we also introduced two rounds of salary rises for our employees in line with the inflation rate. The Company fully honoured its commitments under the Collective Bargaining Agreement, one of the best ones in Russia.

2017 was a Year of the Environment in Russia, and as the largest infrastructure company, we were actively involved, allocating more than RUB 5 bn to the preservation and restoration of the environment. Our efforts received strong public

recognition: Russian Railways won the 13th All-Russia Environmental Leader Award 2017 in the Environmental Responsibility category.

Dear Partners and Colleagues,

Russian Railways, guided by the principle of social responsibility, professionalism and best practices, stays committed to ongoing development to remain at the core of Russia's drive towards a future of sustained success.