

RUSSIAN RAILWAYS' PERFORMANCE IN 2017

In 2017, the Company delivered a strong performance in terms of volumes, quality and financial metrics, with cost reduction and cost management posited as key priorities of the reporting year. Operating growth was achieved on the back of both the country's economic recovery and higher quality of railway transport operation.

Thanks to the stronger customer focus, effects of prior infrastructure and rolling stock investments, and closer cooperation between the operating and financial functions, the Company's volume growth outpaced the national average.

In 2017, Russian Railways met its volume and financial targets. The increase in freight shipments came as a sign of improvements in Russia's economic situation.

While Russia's GDP grew by 1.5% and industrial production was up by 1.0%, the Company increased its freight shipment volumes by 3.2% having transported a total of 1,261.3 mt. Loaded freight turnover rose by 6.4% reaching the highest level in Russia's modern history (26.7% growth 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, the Company managed to greatly improve its passenger transportation. Having served some 1,117.9 million passengers, Russian Railways surpassed its 2016 results by 7.8% and hit a record-high over the last eight years.

The multiplier effect Russian Railways' operations had on the generation of added value in the economy was over RUB 2.5 per RUB 1 of costs.

The income from core operations totalled RUB 1,697.6 bn, up 7.6% y-o-y.

Freight transportation yielded 7.8% more income compared to 2016.

Amid changes in the freight transportation structure, the revenue rate growth stood at 1.8%.

Income from passenger transportation increased by 28.6% y-o-y.

With ongoing cost controls and targeted increases in repairs, payroll and fixed asset revaluation budgets, the Company improved its cost structure and curbed cost growth.

As consumer prices grew by 3.7% and producer prices by 7.6% per annum, transportation costs increased by 0.9%.

In 2017, the Company indexed its staff salaries twice, with workers enjoying a higher-than-average indexation. To enhance the impact of its social policies on workforce and manage growing transportation volumes, the Company transferred some of its part-time employees to full-time schedules while also increasing their minimum wages. As a result, employees' real salaries increased by 3.9%. The growth of salaries in 2017 was accompanied by a 9.2% rise in labour productivity.

Income from other operations amounted to RUB 28.2 bn (up RUB 1.8 bn y-o-y).

Sales profit for the year increased by 19.5% and amounted to RUB 140 bn.

Dividends from subsidiaries and affiliates stood at RUB 21.2 bn (up RUB 17.3 bn y-o-y), while sales of their shares amounted to RUB 1.8 bn with a profit of RUB 0.8 bn.

The amount of interest payable went down by RUB 8.7 bn

compared to 2016.

As a result of the Company's push to improve service quality, streamline profitability management and optimise costs, RAS net profit increased to RUB 17.5 bn compared to RUB 6.5 bn in 2016 (target – RUB 3 bn).

Outstanding loan debt at the end of 2017 stood at RUB 1,075.5 bn. Net debt / EBITDA (under RAS) was 2.8x.

ANALYSIS OF INCOME FROM TRANSPORTATION OPERATIONS

In 2017, income from transportation operations increased by 7.7% to RUB 1,493.6 bn, exceeding the target by RUB 16.1 bn (up 1.1%).

Income from freight transportation

In 2017, income from freight transportation grew 7.8% and reached RUB 1,352.8 bn.

An additional RUB 74.9 bn came from a 6% increase in freight turnover, while 6% freight tariff indexation yielded another RUB 73.9 bn.

The following trends in freight shipment structure persisted in 2017:

- increased share of low-margin cargoes;
- increased share of export volumes;
- higher share of gondola cars (with a low revenue rate) and lower share of tanks (with a high revenue rate) on the empty runs.

These freight shipment structure changes triggered a slowdown in the growth of the average revenue rate, with Russian Railways' 2017 revenue rate increasing by 1.8% y-o-y. Weak revenue rate growth led to a decline in the tariff revenue of Russian Railways and reduced the general economic impact of the tariff burden.

In 2017, income from freight transportation was 1.2% (or RUB 15.6 bn) ahead of the target.

Income from long-haul passenger transportation

Income from long-haul passenger transportation in the high-speed and ultra high-speed segment (Sapsan, Lastochka and Allegro) increased by 15.5% to RUB 17.2 bn in the reporting year. Additional trains on the St Petersburg – Moscow route brought about a passenger turnover increase of 3.3%, helping the Company to exceed its income target by 5.8%. Other income drivers in the long-haul passenger transportation segment included the Company's successful marketing and tariff strategy for Sapsan trains and higher ticket accessibility. By the end of 2017, eight in ten Sapsan tickets were being bought online, while the overall number of Sapsan passengers had grown by 6.1% y-o-y.

Income from suburban passenger transportation

In 2017, income from transportation services provided by Russian Railways within the Moscow Central Circle amounted to RUB 4.6 bn.

Income from infrastructure operation

Income from infrastructure operation grew by 3% to RUB 107.8 bn. The infrastructure operation target for 2017 was exceeded by 0.2%, or by RUB 0.2 bn.

Income from infrastructure operation in the freight transportation segment went down by RUB 0.1 bn y-o-y due to a decrease in servicing of idle cars coming on the back of a 0.5% y-o-y reduction (50,600 cars) in the working railcar fleet.

Income from infrastructure operation in the passenger transportation segment increased by RUB 3.3 bn y-o-y.

Income from provision of locomotive traction

Income from provision of locomotive traction grew by 2.3% to RUB 11.2 bn, missing the target by RUB 0.4 bn (-3.1%) due to a reduced volume of provided services.

TRANSPORTATION EXPENSES

In 2017, transportation expenses amounted to RUB 1,381.8 bn, 0.7% (or RUB 9.7 bn) below the target and 6.6% above the 2016 level.

Breakdown of transportation expenses

COST OPTIMISATION

To ensure a balanced financial performance, Russian Railways strives to enhance its internal efficiency.

In 2017, the Company implemented a number of important optimisation initiatives that brought about cost savings of RUB 67 bn, including RUB 36 bn in the Company's branches.

Savings from the use of tender procedures in the reporting year amounted to RUB 7.3 bn.

In addition, in 2017, the Company achieved success in its negotiations with the federal authorities and reduced its property tax costs by approximately RUB 12.8 bn by agreeing an unchanged 1% property tax rate on the railway infrastructure as opposed to the previously planned rate of 1.6%. On top of that, lease payments for maintenance vehicles were reduced as a result of their early buyout in the amount of RUB 18.6 bn.

INCOME FROM OTHER OPERATIONS

In 2017, profit from other operations increased by 6.7% to RUB 28.2 bn, while income from other operations rose by 7.1% to RUB 204.0 bn.



Breakdown of income from other operations, RUB bn

RUB **204.0** bn

income from other operations in 2017

OTHER INCOME AND EXPENSES

In 2017, other income totalled RUB 163.2 bn, while other expenses amounted to RUB 250.8 bn, with the financial result coming in at – RUB 87.6 bn.

Changes in other income and expenses in 2016-2017, RUB bn

TAXES AND INSURANCE FEES

The total amount of taxes and insurance fees accrued for 2017 stood at RUB 311.3 bn.