

Strategy



Mission

The mission of the Russian Railways Group is to develop an efficient transportation business that will be competitive on the Russian and international markets and focus on effectively meeting the Group's objectives as a national freight and passenger carrier and owner of the public railway infrastructure.



Development Strategy until 2030

The Russian Railways Group's 2030 Development Strategy ("Russian Railways' Strategy") sets out the Group's goals and objectives, defines its key priorities and describes long-term development projects. The Strategy was approved by the Russian Railways' Board of Directors in December 2013. Accomplishment of the Group's mission will rely on the achievement of the 2030 strategic goals in five focus areas.

STRATEGIC PRIORITIES AND GOALS ACROSS FOCUS AREAS



- TRANSPORTATION AND LOGISTICS SERVICES
- PASSENGER TRANSPORTATION
- RAILWAY TRANSPORTATION AND INFRASTRUCTURE
- INTERNATIONAL OPERATIONS
- SOCIAL POLICY

Transportation and logistics services

The strategic priority for development in this focus area is to build a diversified product portfolio shifting the focus from transportation services to comprehensive door-to-door solutions, consistent expansion of the offering to include 2PL, 3PL and 4PL services, and creation of global logistics chains.

- Maintain leadership in Europe's rail freight transportation, enhance the appeal of rail transport to customers, and grow freight shipments by 500–800 mt by 2030
- Become one of Europe's top five companies in terms of logistics volumes and increase the share of transportation and logistics services in the Group's portfolio to 25%
- Improve customer satisfaction by enhancing the quality of services while also maintaining competitive transportation costs
- Provide high-quality services for the global supply chains of major Russian and international customers and expand the transportation and logistics business in Eurasia

Passenger transportation

The strategic priorities for development in this focus area are to streamline the route network and train schedules, increase speeds, use cutting-edge rolling stock, improve the product offering, digitalise customer services and business processes, and enhance the quality of traditional on-train and other related services. Another key objective is to expand the operating domain of high-speed and ultra high-speed transportation between the country's largest metropolitan areas leveraging efficient state-of-the-art solutions.

- ◉ Maintain the existing share in Russia's overall passenger turnover; increase passenger turnover by 1.8–2.2 times on suburban routes and by 1.3–1.7 times on long-haul and interregional routes by 2030
- ◉ Develop high-speed and ultra high-speed transportation and increase the share of passengers using high-speed services to 20% of total passenger turnover by 2030

Railway transportation and infrastructure

In addition to the railway infrastructure, this focus area covers transportation management, operating and traction maintenance units. The Company's strategic priorities in developing infrastructure are defined by its natural monopoly status and include cost cutting, unlocking of the potential to create new transportation and logistics products, upgrade of the existing network, and construction of additional profitable main tracks to meet the growing transportation needs. The need to maintain service availability to the general public, comply with government regulations on natural monopolies and provide equal opportunities to consumers distinguishes this focus area from the others.

- ◉ Maintain global leadership in efficiency, safety and the quality of infrastructure operation
- ◉ Ensure consistent asset upgrade through cutting-edge technologies and solutions relying on the efficient life cycle cost management and availability/reliability of fixed assets

International operations

The strategic priorities in this focus area are to consolidate and enhance the Group's presence in the international railway engineering and infrastructure construction market, and set the stage for expansion of the Group's other businesses in the markets where it operates as a contractor for the construction of infrastructure facilities. Growth in this area is expected to rely on unique competencies in the design and construction of railway facilities, development of sophisticated infrastructure and transportation management systems, transportation management, and railway economics and finances.

- ◉ Become one of the leading global infrastructure construction companies
- ◉ Build a long-term order portfolio and ensure implementation excellence

Social policy

Russian Railways' employees are the Company's key asset instrumental in achieving its long-term growth objectives and securing a strong competitive edge. Development in this focus area builds on the unbiased assessment of added value created through employee support initiatives and efficient management of resources to provide market services. This focus area also covers social and public policies of the Group stretching beyond the workforce matters.

- ◉ Make it to the top five of Russia's most attractive employers
- ◉ Engage the top talent by offering competitive salaries, better working conditions and best-in-class social benefits

Long-Term Development Programme until 2025

The Long-Term Development Programme of the Russian Railways Group and its subsidiaries and affiliates running until 2020 was drafted as required under Directives of the Government of the Russian Federation issued for the official representatives of the Russian Federation to provide guidance on participation in meetings of the boards of directors (supervisory boards) of joint-stock companies included in a special list approved by the Government, with Russian Railways' Board of Directors giving the Programme a preliminary go-ahead in October 2014. The Programme was then revised in accordance with Plan No. 747 for Interaction between the Government of the Russian Federation Expert Council and Russian Railways dated 01 June 2017 and new directives of the Russian Government.

On 12 October 2017, the draft Long-Term Development Programme was submitted for review by the federal executive authorities, the Consumer Council on Operations of Russian Railways and other expert organisations. Currently, the received comments and suggestions are being analysed to draft Russian Railways Group's Long-Term Development Programme until 2025 (the "LDP").

Russian Railways' Board of Directors approved the LDP Audit Standard setting out the relevant audit procedure (Minutes No. 25 dated 08 December 2014). As the LDP has not been duly approved as yet, no LDP audit was conducted in 2017.

Key performance indicators

On 30 June 2014, Russian Railways' Board of Directors approved (Minutes No. 15) the Regulation on Key Performance Indicators of Russian Railways (the "Regulation") as prescribed by Directive No. 2579p-P13 of 25 April 2014 issued by the Russian Government and Guidelines for KPI Application (approved by Order of the Russian Government No. ISh-P13-2043 of 27 March 2014).

In accordance with the Regulation, Russian Railways' KPIs are broken down into financial and industrial ones. Moreover, in line with separate instructions given by the President and the Government of the Russian Federation, Russian Railways' KPIs

were expanded to include such items as Reduction of Operating Costs (Expenses) and Russian Railways Group's ROIC (Return on Invested Capital) for Unregulated Types of Activities.

Russian Railways' KPIs were approved by the Company's Board of Directors on 30 June 2014 (Minutes No. 15) and were made part of the incentive system for the Company's Management Board.

Russian Railways' KPI targets for 2017 were approved by the Company's Board of Directors on 14 November 2017 (Minutes No. 12).

Russian Railways' key performance indicators – progress in 2017

Indicator	Measurement unit	Actual for 2016	Target for 2017	Actual for 2017	+/- performance against the target
Dividend amount	RUB bn	0.3	5.147	5.147	100%
Russian Railways' EBITDA	RUB bn	315.7	353	353.9	100%
Reduction of operating costs (expenses)	%	10.1	≥2	3.0	–
Russian Railways Group's ROIC for unregulated types of activities	%	10	10	18.2	+8.2 pp
Traffic safety across the Group	accidents per million train kilometres	1.328	≤1.30	1.174	–
Virtual performance of Russian Railways' infrastructure	bn virtual tkm	3,122.2	3,274.7	3,299.6	101%