

Federal Passenger  
Company



# LEADER



**IN PASSENGER  
MOBILITY**

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2017 was a good year. Strong performance demonstrated by the Holding was a product of cohesive and efficient efforts by almost one million employees. Russian Railways is a global leader by key performance metrics, freight density, passenger traffic, schedule speed, energy efficiency, and environmental friendliness.



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Passengers can enjoy our new routes and services, high speeds, modern carriages, and mobile apps. IT solutions were rapidly integrated into our day-to-day operations. E-tickets for long-distance rail services now make up over 45% of our total ticket sales. We expanded our international passenger route network, with services to Berlin, Nice, Paris, and Helsinki being highly popular among passengers. We are committed to making rail transportation considerate of each person and their needs. Major efforts were taken to provide more accessible and inclusive environments at stations, stops, and aboard trains, and we have significantly streamlined the online ticket purchasing process for passengers with reduced mobility.





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Oleg  
**BELOZEROV**

CEO – Chairman of  
the Management Board,  
Russian Railways

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# GOOMP

## PROFILE

**77**

**of 85 Russian regions**  
are covered with rail  
passenger services

**850**

**trains**  
operated  
across  
the network

**63,000**

**employees**  
working  
at the Company





# COMPANY

## PROFILE

### OUR HISTORY

#### CARRIAGE OPERATOR

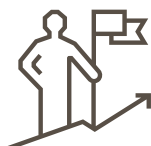
2010

2011

2012

2013

#### KEY MILESTONES



FPC was included in the Register of Natural Monopolies.

FPC was officially admitted to the international Organisation for Cooperation of Railways (OSJD) and was made a member of the International Union of Railways (UIC).

FPC was awarded with the Company of the Year 2012 National Award by Ros Business Consulting (RBC) information agency.

FPC was assigned observer status at the OSJD, enabling the Company to represent itself at meetings of the OSJD working bodies, thereby strengthening the Company's position in the international transport market.

#### STATE AND RESTRUCTURING



Restructuring of long-distance rail passenger services was completed under Stage III of the Railway Restructuring Programme.

Regulatory and legal framework for calculating revenue shortfall was finalised.

Cooperative Agreements were signed with the governments of the Republic of Karelia, the Komi Republic, and the Republic of Ingushetia.

The Plan to Develop and Implement a Mechanism for Long-Term Subsidising of Long-Distance Rail Passenger Transportation was approved by instruction of the Russian Deputy Prime Minister Arkady Dvorkovich.

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## INTEGRATED MOBILITY PROVIDER

### 2014

Credit ratings were assigned to FPC by leading rating agencies.

FPC's Annual Report was awarded in the Best Presentation of a Business Model for Non-Public Companies category at the Annual Report Competition by the Moscow Exchange.

Third-class sleeping and sitting carriage fares were reduced following a resolution by the Federal Tariff Service (FTS of Russia).

In accordance with the Resolutions of the Russian Government No. 1223 dated 19 November 2014 and No. 1044 dated 11 October 2014, FPC was entitled to subsidies covering part of its interest expenses under loans granted to purchase rolling stock (double-decker carriages) and included as a beneficiary of the Programme to Support Investment Projects in Russia Based on Project Financing Arrangements.

### 2015

Awarded at the national loyalty marketing competition Loyalty Awards Russia 2015 in the Best Loyalty Programme by a Transportation Company category.

A double-decker train seating 1,320 from Moscow to Voronezh was entered into the Russian Book of Records as "the year-round scheduled long-distance train with the most passenger seats".

The Moscow Exchange awarded FPC's Annual Report for the Best Presentation of a Business Model for Non-Public Companies category for the second time at the Annual Report Competition.

The Russian Government resolved to reduce the VAT rate from 18% to 10% for long-distance rail passenger services from 1 January 2016 to 31 December 2017.

### 2016

FPC's 2015 Annual Report was awarded the Best Annual Report of a Non-Public Company by the Moscow Exchange.

FPC won the Best Employer for Young People 2016 award in the Reliable Partnerships category.

The Year of the Passenger Programme was successfully implemented: in 2016, FPC reversed its declining passenger rates for the first time in five years, achieving a growth of 4%.

The Russian Government resolved to reduce the VAT rate for long-distance rail passenger services from 10% to 0% between 2017 and 2030.

The Federal Antimonopoly Service (FAS) of Russia agreed to reduce infrastructure tariffs for higher-speed trains travelling at 91 to 140 km/h.

### 2017

In 2017, FPC won the Moscow government's Best Employer for Young People 2017 award for Efficient Fulfilment of Student Team Potential.

The new JSC FPC's 2030 Development Strategy was developed.

The VAT rate applicable to long-distance rail passenger services was reduced from 10% to 0% until 2030.

## OUR HISTORY

### 2010

### 2011

### 2012

### 2013

#### BUSINESS DEVELOPMENT



FPC began independent operations.

Online registration was made available on all FPC's domestic trains.

The RZD website was modified to enable sale of e-tickets for FPC's trains via mobile devices.

A controlling share of LLC RZD Travel was acquired to expand FPC's presence in the rail travel market.

JSC FPC's 2030 Development Strategy was approved.

Ticket sales on credit were launched.

Technology for including trains in the general turnaround schedule was expanded.

FPC-Logistics, a logistics subsidiary focused on unaccompanied baggage and mail transportation, was established.

Revenue Management System and RZD Bonus Loyalty Programme were launched.

Car transporters were put into service.

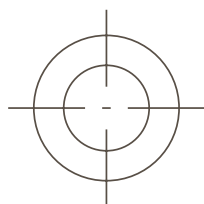
A double-decker train was launched on the Moscow – Adler route.

A co-branded card was launched with Bank VTB 24 (PJSC).

A unified maintenance facility for double-decker rolling stock was launched at the Mineralnye Vody depot.

The procedure for e-ticket purchases and cancellations was simplified, and the English version of the website for ticket purchase was launched.

The High-Speed Traffic Improvement Programme was implemented.





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**2014**

A pilot project on multimodal transportation was implemented (Moscow – Valuyki).

FPC fully adopted technology for transporting baggage in a dedicated compartment.

Lastochka electric trains were launched.

The Cost Optimisation Programme was implemented, bringing RUB 15 billion in savings.

Total effect in 2010–2014 reached RUB 39 billion.

**2015**

The high-speed Strizh train made up of Talgo carriages was launched on the Moscow – Nizhny Novgorod route.

A double-decker train made up of carriages with open-plan seating was launched between Moscow and Voronezh.

Sales of e-tickets for multimodal routes were launched.

The Cost Optimisation Programme was implemented, bringing RUB 15.7 billion in savings.

**2016**

The new international Strizh train embarked on its first passenger journey from Moscow to Berlin with a travel time of 20 hours – a 4.5-hour reduction.

Booking dates for domestic trains were increased to 60 days.

Trains to resort destinations were accelerated.

Passengers were provided the option to use bank cards to pay for goods purchased on board all FPC trains.

Shower units were made available on 93 trains operated by FPC.

**2017**

Over 3 million customers registered to the RZD Bonus Loyalty Programme of RZD Holding.

Booking dates for domestic trains were increased to 90 days.

The RZD website launched sales of e-tickets for wheelchair users and their accompanying persons.

Sales of e-tickets for trains going to and from the Kaliningrad Region via Lithuania were launched on the RZD website.

During the FIFA Confederations Cup 2017, 42 additional trains for 262 journeys were added to the schedule.

Free transportation totalling 33% of all passenger seating was provided for 52,900 football fans, and additional stops were introduced at Vladimir and Tver.

Customer loyalty monitoring through NPS (Net Promoter Score) has been conducted since 2017, with an overall score registered at 4.1 on a five-level scale.

# GEOGRAPHY

## Russian Railways rail infrastructure

Federal Passenger Company is a national rail passenger carrier of the Russian Federation, and an entity subject to antimonopoly regulation.

Russian Railways rail infrastructure forms the basis of FPC's route network (over 85,500 km as at the end of 2017) – the world's third-longest rail network.

The Company's organisational structure includes administration, 15 regional branches, and one central carriage site.

The branches comprise 22 passenger carriage depots, 32 carriage sites, 11 railway agencies, and the Vehicle Transportation Centre.

**FPC operates international long-distance passenger services to**

**22**

**countries**

**on 40**

**international routes**

providing direct and transit passenger services



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# 77/85

## Russian regions

### covered by FPC

ensuring transport accessibility  
and connectivity between regions

# 85,500

## km

### of track

# 63,000

## people

the Company's total  
headcount

# 19,000

## carriages

rolling stock fleet

# 850

## trains

# 19

## years

average fleet age

The Company's route network includes several routes within Russia for which no other alternative modes of transport are available, such as Tynda – Komsomolsk, Petrozavodsk – Kostomuksha, Kamyshin – Moscow, and Tomsk – Bely Yar.

Norilsk

Novy Urengoy

Nizhnevartovsk

Tomsk

Krasnoyarsk

Novosibirsk

Chita

Irkutsk

Ulan-Ude

Khabarovsk

Blagoveshchensk

Vladivostok



# TYPES

## OF ACTIVITIES

**FPC engages in:**

---

### **Rail passenger transportation on domestic routes in the regulated sector using**

- third-class sleeping carriages
- third-class sitting carriages
- multiple unit trains.

### **Rail passenger transportation on domestic routes in the deregulated sector using**

- luxury and saloon carriages
- first-class carriages
- compartment carriages
- carriages with open-plan seating
- passenger transportation “by special order” and regular tourist trips
- movement of third-party carriages on FPC trains on domestic routes.

### **International long-distance passenger services**

- Passenger transportation on international routes
- Movement of third-party carriages on FPC trains running on international routes

### **Baggage, unaccompanied baggage, and mail transportation**

- Baggage transportation
- Unaccompanied baggage transportation
- Movement of carriages for freight forwarders on FPC trains

### **Other lines of business**

- Repair and maintenance of clients’ rolling stock
- Providing additional services on trains
- Other types of activities:
  - Leasing rolling stock
  - Leasing real estate and equipment

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## COMPETITIVE ADVANTAGES OF LONG DISTANCE TRAINS



### ENVIRONMENTAL FRIENDLINESS AND SAFETY

The most environmentally-friendly and safe mode of transport



### BAGGAGE ALLOWANCE

Compartment – up to 36 kg  
Luxury carriage – up to 50 kg



### RAILWAY STATION PROXIMITY TO CITY CENTRES

Departures and arrivals in city centres, avoiding traffic jams



### TRAVELLING WITH A CAR

The option to transport one's car



### COMFORTABLE TRAVEL

Proper rest throughout the trip



### PASSENGER SERVICES FOR CHILDREN

Children up to five years old travel free of charge



### WEATHER CONDITIONS

Travelling in any weather condition



### AFFORDABLE TICKET FARES

Benefits, relatively low prices, regular special offers



### QUICK BOARDING

No lengthy check-in procedure



### CANCELLATION AND REFUND TERMS AND CONDITIONS

Minimum commission charged for ticket cancellation and reissue; cancellations and refunds can be processed via the website



### CATERING

Dining carriage, meals à la carte, room service



### TRANSPORTATION FOR SPECIAL NEEDS PASSENGERS

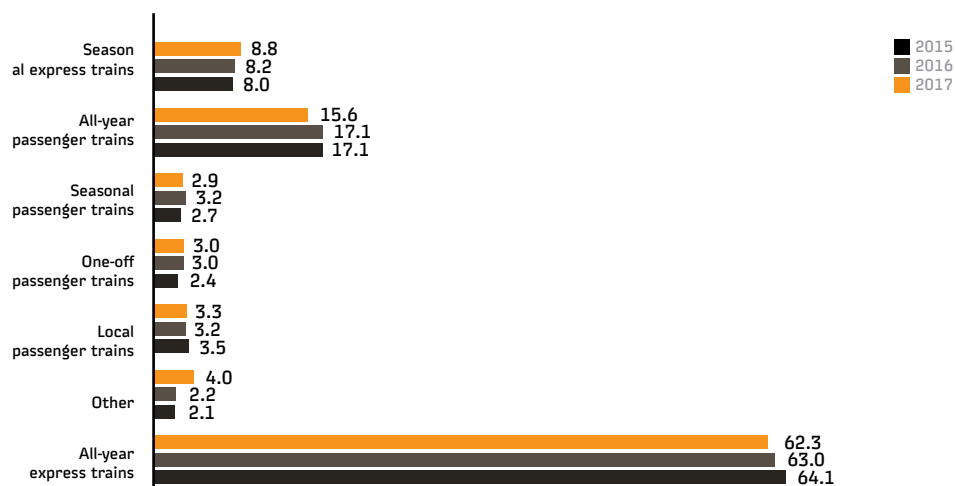
Suitably-equipped compartments and special assistance throughout the trip

# KEY METRICS

## Operating highlights

Metrics	2015	2016	2017	Change 2017/2016, %
<b>Passenger turnover, billion passenger km,</b>	<b>86.1</b>	<b>89.5</b>	<b>87.0</b>	<b>97.2</b>
on trains made up by FPC	81.1	85.1	82.8	97.3
deregulated segment	24.2	26.0	28.1	108.4
domestic traffic	22.7	24.3	26.5	109.1
interstate traffic	1.6	1.7	1.7	98.1
regulated segment	56.9	59.1	54.6	92.4
on trains made up in the CIS and Baltic states	4.9	4.4	4.2	95.5
<b>Passengers carried, million people</b>	<b>91.3</b>	<b>93.8</b>	<b>95.1</b>	<b>101.4</b>
deregulated segment	30.3	31.1	35.2	113.3
regulated segment	60.9	62.7	59.9	95.6
<b>Average number of carriages in a train, carriages</b>	<b>12.7</b>	<b>12.7</b>	<b>12.8</b>	<b>100.8</b>

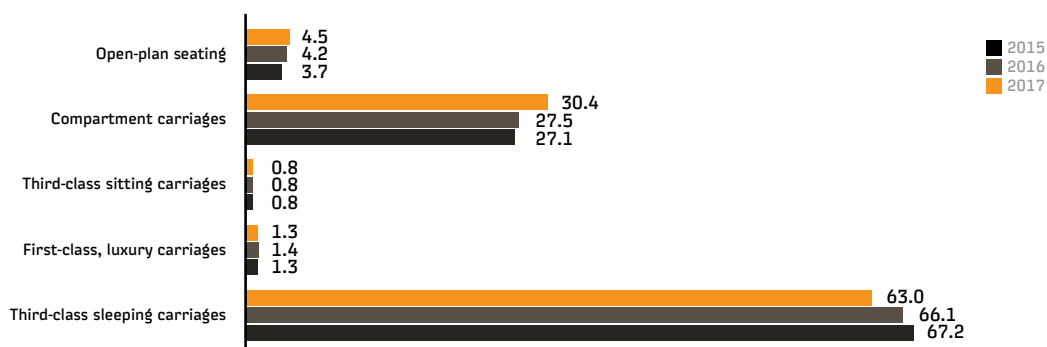
## Passenger turnover by train type, %



**62.3 %**

Share of passenger turnover in fast carriages year-round circulation

## Passenger turnover by carriage type, %





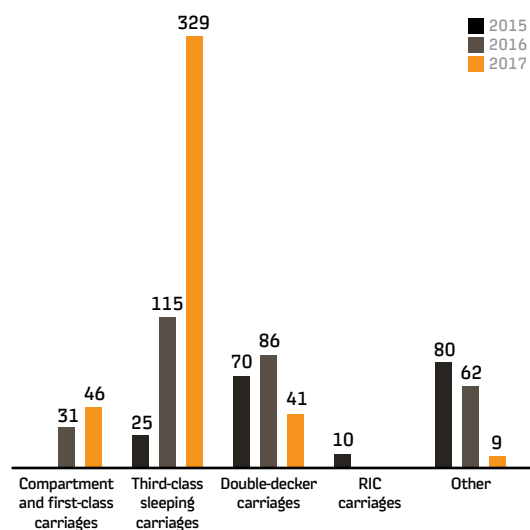
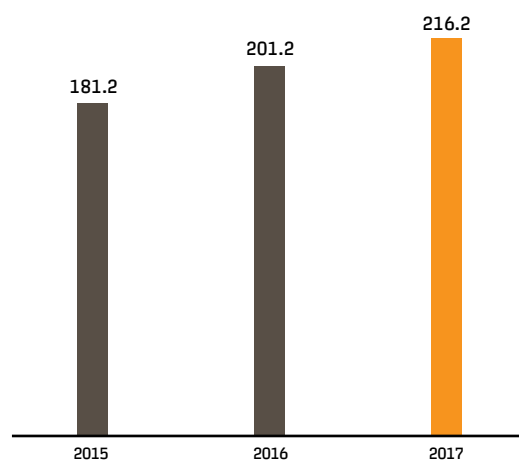
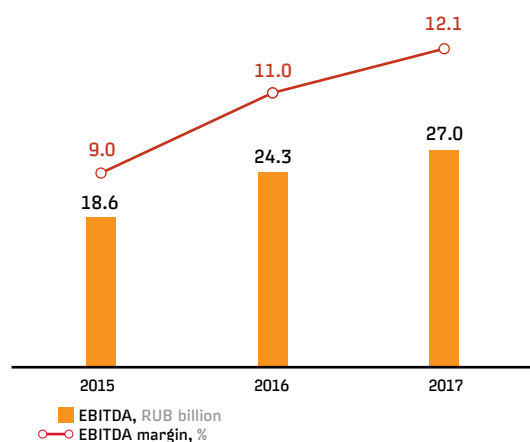
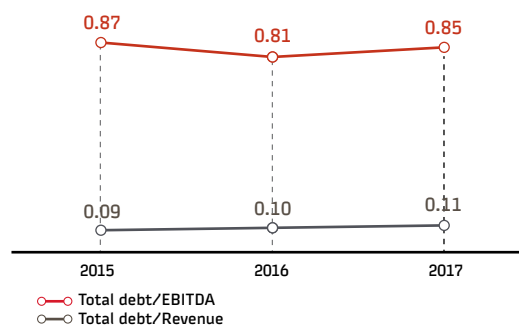
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Rolling stock acquisition, **carriages**Operating revenues, **RUB billion**EBITDA and EBITDA margin  
(including subsidies)Total debt/EBITDA (including subsidies)  
ratio and total debt/revenue ratio

## FPC PEER COMPANIES

<sup>1</sup> FPC's data

<sup>2</sup> Deutsche Bahn – Deutsche Bahn Fact & Figures 2017

<sup>3</sup> SNCF – SNCF Mobilités Financial Report 2017

<sup>4</sup> FPC's revenue is expressed in EUR using the weighted average exchange rate of EUR 1 = RUB 68.866.

INDICATORS	JSC FPC <sup>1</sup>		DB Bahn Long Distance (Germany) <sup>2</sup>		SNCF Voyages (France) <sup>3</sup>	
	2016	2017	2016	2017	2016	2017
Passengers carried, million people	93.8	95.1	139.0	142.2	110.0	120.0
Revenue, EUR billion <sup>4</sup>	2.9	3.1	4.2	4.3	6.8	7.4

DB Bahn Long Distance is a Deutsche Bahn Group business unit providing national and cross-border long-distance rail services and road transport services, and comprising several carriers with a wide geography of operations across a range of business segments.

Rolling stock repair, maintenance, and management, as well as communications and IT technology services are provided by specialist companies within DB Services, another Deutsche Bahn Group business unit.

Voyages is a business unit of SNCF Holding, which comprises several companies offering rail and bus services in Europe, as well as specialist companies engaged in sales, customer relations, IT, and rolling stock management.

Repair operations are not part of the unit's activities and are provided by Masteris, a company within the Holding that provides services to SNCF Holding and third-party customers across Europe.

Unlike the cited peer companies, FPC's activities cover the majority of significant business processes: acquisition, maintenance, and repair of rolling stock, sales organisation, revenue collection, as well as management and administration, IT, and communications. FPC has 15 regional branches and an extensive network of depots and carriage sites, as well as ample amount of highly skilled personnel to support all business processes. JSC FPC's draft development strategy until 2030 aims at expanding the Company's business processes, including the development of its multimodal transportation segment.



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## FPC'S INVESTMENT APPEAL

Key drivers of FPC's investment appeal:

- A monopolistic position in the long-distance rail passenger transportation market in Russia.
- FPC is vital both socially and strategically to Russia as the main transport operator for long- and medium-distance travel spanning most of the country, including travel to regions with extreme natural and climatic conditions and lacking road infrastructure.
- Significant growth potential of population mobility.
- Railway services to support major passenger flows in Russia.
- A conservative financial policy and low debt level.
- State-regulated fares for long-distance rail passenger transportation and compensation of revenue shortfall paid by the Russian Government.
- Low competition from international companies in the domestic rail passenger services market due to high entry barriers for new players entering the Russian market.
- Strategic importance in achieving the long-term objectives of the state-owned RZD Holding.

## CREDIT RATINGS

In December 2017, the Russian national rating agency ACRA assigned FPC its "AA+" (RU) high credit quality rating with a stable outlook.

In January 2018, Moody's upgraded FPC's rating to an investment grade "Baa3" with a positive outlook. FPC's current rating from Moody's is one notch higher than Russia's sovereign rating.

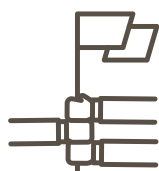
In February 2018, Standard & Poor's upgraded FPC's rating to "BBB-", the same level as Russia's sovereign rating, changing its outlook to negative in March 2018.

In March 2018, Fitch Ratings confirmed FPC's rating at "BB+" with a positive outlook.

### FPC's credit ratings

Agency	Rating	Outlook	Rating action date
Moody's	Baa3	positive	29 January 2018
Standard & Poor's	BBB-	negative	29 March 2018
Fitch Ratings	BB+	positive	29 March 2018
AKPA	AA+(RU)	stable	7 December 2017

## KEY EVENTS IN 2017



### 180th anniversary of the Russian railway network

The railway community celebrated an important milestone in 2017 – the 180th anniversary of Russia's railway network. The industry dates its history back to October 1837, when the first passenger train embarked on its first journey.

Since that time, Russian railways have witnessed sweeping changes, with hundreds of our trains now connecting cities and countries 24/7 throughout any weather condition.

<sup>1</sup> Pursuant to Resolution of the Russian Government No. 1772 On Subsidising Railway Transport Organisation to Compensate for Revenue Shortfalls Caused by Lower Fares for School Students of 10 Years or Older Travelling by Public Rail Transport in Third-Class Sitting or Sleeping Carriages on Long-Distance Trains dated 30 December 2009, travel privileges are available to school students in third-class sleeping and sitting carriages on long-distance trains (both passenger and express) from 1 January to 31 May and 1 September to 31 December.

<sup>2</sup> When booking an e-ticket, the discount is granted automatically when the "full" fare is checked and details of children aged 10 to 17 are entered.

### Expanding the route network of double-decker trains, car transporters, and daytime and high-speed trains

Two double-decker train pairs were introduced in 2017: No. 3/4 Kislovodsk – Moscow (from August 02) and No. 641/642 Rostov – Adler (from September 13). Currently, 10 pairs of double-decker trains are operating on eight routes over the entire Russian railway network.

The number of daytime express and high-speed trains was also increased.

New routes were introduced for car and motorcycle transportation in car transporters (Moscow – Kazan and Moscow – Rostov-on-Don).

### Contributing to the celebration of Victory in the Great Patriotic War

The Company made every effort to provide journeys as comfortable and festive as possible for each veteran.

Over 1,500 free tickets were issued to disabled veterans and participants of the Great Patriotic War and their travelling companions during the May holidays.

Vintage trains from the WWII period and special trains were also running in a number of regions.

### Children of summer

To promote domestic tourism and leisure, FPC initiated a 50% fare discount for children aged 10 through 17 (irrespective of nationality) from 1 June to 31 August in 2016 and 2017<sup>1</sup> in third-class sleeping and sitting carriages, carriages with open-plan seating on domestic long-distance trains, and 2nd and 3rd class carriages on multiple unit trains<sup>2</sup>.

The Company decided to continue this practice in 2018.

The Company also grants discounts for children aged 10 to 17 during the summer period at its own expense.

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## Transportation for fans visiting the 2017 FIFA Confederations Cup

A dedicated schedule was prepared for trains running between host cities. A total 42 trains with comfortable and modern carriages were made up to facilitate the additional 262 scheduled journeys.

## Day of the Railway Worker 2017

The Achieving the Goal! charity run was held across Russia on August 06 as part of the celebrations for the Day of the Railway Worker. The greatest number of participants gathered in Moscow, at over 7,000. About 300 people represented FPC in the Moscow's charity run, where both adults and children toed the starting line. All funds raised through the event were donated to assist severely ill children. Sports facilities were also available for the festival's visitors to compete in chess, football, triathlon, volleyball, hockey, table tennis, and other sports.



## Year of the Environment

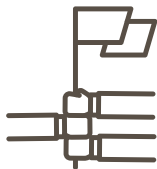
As part of the Year of the Environment, held in Russia in 2017, train No. 35/36 Severnaya Palmira (Northern Palmyra) was decorated to showcase Russia's unique ecosystem, environmental care initiatives, Russian Railways' contribution to the preservation of the environment, and the environmental friendliness of railway transport. The Severnaya Palmira was chosen for its double-decker carriages and modern environmentally friendly technologies, equipment, and materials.

## 130th anniversary of Samuil Marshak

On 14 June 2017, the double-decker train between Moscow and Voronezh was named in honour of Samuil Marshak, a famous poet and author of popular children's books born in the capital of the Central Black Earth Economic Region.

The Marshak-themed train was in operation throughout the poet's 130th anniversary celebrations in 2017. The rest area for passengers with children in one of the train's carriages was decorated with vibrant illustrations and quotations from the author's works. Adult passengers could read Marshak's books, while children listened to audio records of his poems.





### Third Railway Congress

Vladimir Putin, President of the Russian Federation, visited FPC's train service depot at the Moscow Kievskaya station as part of the Congress Programme.

During his visit, the President met the FPC team and viewed sample carriages of high-speed and passenger trains traversing the Russian railway network.

### Advance booking period extended to 90 days

On 10 December 2017, the Company opened ticket booking for all domestic long-distance trains and through coaches on domestic routes 90 days prior to the departure date, which can now be booked both at railway ticket offices and through Russian Railways' official website.

### E-tickets reached 45.7% of the total number of seats booked

A 5.5% year-on-year increase in e-ticket sales brought their share in FPC's total seats booked to 45.7%.

### Better service quality

The Company increased the number of branded trains offering access to the train's multimedia portal (Wi-Fi) – the service is available on 51% of branded trains.

All branded trains, including dining carriages, are provided with bank card terminals.

Over 2,000 carriages have extra sockets for device charging.

### E-tickets to Kaliningrad

Since 19 December 2017, web portals have been offering e-ticket booking and online registration for FPC's trains on routes to the Kaliningrad Region via Belarus and Lithuania.

### Three millionth customer registered with RZD Bonus Loyalty Programme

Fedor Babushkin joined the RZD Bonus Programme during a dedicated promotion targeting passengers at the Moscow Kursky railway station. To celebrate the event, FPC and Alfa-Bank (loyalty programme partner) congratulated the lucky passenger and awarded him commemorative gifts.

The RZD Bonus Family Programme was launched, providing the opportunity to accumulate bonus points of all family members on a joint account.

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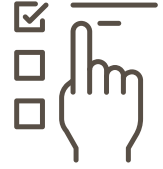
## Increased care of reduced mobility passengers

Remote booking of dedicated seats for wheelchair users has been available since 28 February 2017, and the option to book long-distance e-tickets for wheelchair users through the Russian Railways website has been available since 11 April 2017.

A 50% discount off ticket prices has been available to reduced mobility passengers as of August 2017.

Every year, FPC increases its number of carriages with dedicated compartments for reduced mobility passengers, which totalled 645 carriages as at the end of 2017.

The Company also increased the number of branded trains equipped with ramps for passengers' convenience, totalling approximately 1,500 carriages.



# DEVELOPMENT



**5**

**strategic**

focus areas

**8**

**target performance indicators**

by 2020

# LEGY



4

**key objectives**  
for 2018

# MESSAGE FROM THE CHAIRMAN OF FPC'S BOARD OF DIRECTORS

Dear Shareholders and Colleagues,

Throughout 2017, FPC's key focus was on further developing a customer-centric approach to our passenger service, including active railcar fleet replacement and upgrades, expanding our service offering, and improving rail service affordability. FPC is a high-performing business unit of Russian Railways. The Company's net profit for the year grew by 49% to RUB 7.9 billion.

**49 %**

FPC's net profit  
growth in 2017

We are pleased to see that Russia's residents and visitors recognise our enhanced services and increasingly choose to travel by long-distance trains. Throughout 2017, FPC carried over 95 million passengers while its domestic passenger traffic grew by 1.4%.

In 2017, FPC implemented a strategy to reduce its transport fares. Last year, 75% of tickets subject to dynamic pricing were sold at prices lower than, or comparable to basic fares, and the Company ran various marketing campaigns to offer attractively-priced travelling experiences to its customers.

We are improving quality of the passenger service and comfort on our trains, reducing travel times, and expanding the double-decker train route network. Rolling stock replacement accounts for approximately 90% of FPC's CAPEX. Reduction of the VAT rate for passenger services to 0% allowed us to increase carriage purchases 1.5-fold to 425 carriages, including 41 double-decker carriages. We plan to purchase 600 new carriages in 2018 and continue upgrading FPC's passenger rolling stock. Far from being complacent, we are constantly working towards providing even greater comfort aboard our trains. Equipping the rest of its rolling stock with environmentally friendly toilet facilities and air conditioning units is the Company's priority at present, and consistent efforts have been made to complete these tasks by 2025.

Environmental care and mitigating negative impacts are among FPC's priorities. Air pollutant emissions were reduced by 6.65% in 2017, and FPC joined Russian Railways in supporting the Year of the Environment, held in Russia in 2017. Last year, the Severnaya Palmira (Northern Palmyra) double-decker train operated on the Saint Petersburg – Adler route, its exterior showcasing Russia's unique ecosystem, environmental care initiatives, and the environmentally friendly nature of railway transport.

We also updated JSC FPC's 2030 Development Strategy in 2017 to lay the foundations for furthering the Company's development.

Increasing train speeds, developing comprehensive combined transport operations (such as multimodal

**> 95**  
**million passengers**

carried in 2017



Company Profile

**Company Strategy**

Business Model and Assets

Market Overview

Marketing Policy

Government Relations

Risk Management

Passenger Service

Quality and Safety

Operating Performance Review

Investment Management

Procurement

International Activities

Corporate Governance

Sustainable Development

transportation), increasing passenger traffic, and improving the competitiveness of our existing services will become the key focus areas of FPC's business development.

We believe that achieving our goals will drive further positive changes and sharpen FPC's competitive edge in both the domestic and international transportation industry.

Dmitry  
PEGOV



# COMPANY

## STRATEGY

In 2017, FPC updated its Development Strategy until 2030. At the end of the year, the Strategy's draft was approved by FPC's Board of Directors and submitted for approval to Russian Railways.

## MISSION

To ensure the highest level of safety, comfort, and convenience in long-distance rail passenger services in Russia.

## VISION

FPC is Russia's leader in passenger mobility, being a highly efficient, financially sound, and customer-focused company that strives to enhance value while ensuring sustainable development in passenger mobility across travel classes and regions of Russia as it transitions to franchise contracts for regular railway passenger services.

### Russia's leader in passenger mobility:

- A national carrier providing traditional and high-speed long-distance rail passenger services both in Russia and abroad
- The leader by passenger traffic in long-distance transportation in Russia
- The leader in long-distance ticket aggregation services offering single multimodal tickets connecting rail passenger services across Russia's regions with bus and air transportation services at complementary destinations, as well as providing the most convenient range of multimodal route options covering the most popular, key long-distance destinations

**89.9**  
**billion**

passenger km  
travelled by 2020

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International Activities

Corporate Governance

Sustainable Development

## Highly efficient and financially sound

Maximising financial results  
and ensuring self-sufficiency in  
operations

**RUB 242**  
**billion**

target revenue  
by 2020

## Customer-oriented

Leader in service quality in  
long- distance land transportation  
providing high-quality value  
proposition and a comfortable  
long- distance travel experience,  
including transit connections with  
other modes of transport and  
multimodal transportation

**RUB 141.2**  
**billion**

in investments  
by 2020, including  
new rolling stock  
purchases

## A socially responsible business

Sustainably developing mobility  
across travel classes and regions  
of Russia including operating  
less technically profitable routes  
through franchise contracts for  
regular rail passenger services

**RUB 8.5**  
**billion**

in subsidies in 2020  
to finance socially  
significant services

# STRATEGIC GOALS

## OF THE COMPANY

According to JSC FPC's draft 2030 development strategy, the Company's main focus will be on significantly increasing the average train speeds, developing comprehensive combined transport operations (such as multimodal transportation), increasing passenger traffic on the busiest routes in Russia, and improving competitiveness of our existing services. The Company will also continue to act as a public carrier, which means servicing single or socially significant routes. At the end of 2017, the Draft Strategy was approved by the FPC's Board of Directors and submitted to Russian Railways for approval.

2017

### Rail carrier

- Reliance on subsidies
- Insufficient customer focus
- Ageing railcar fleet
- Complex value proposition
- Network optimisation potential
- Limited multimodal offering



Passenger km  
travelled  
**billion**

87



Number  
of passengers  
carried  
**million passengers**

95



Average  
speed<sup>1</sup>  
**km/h**

57



Capacity  
utilisation  
**%**

69



Net profit  
**RUB billion**

8



Market share  
**%**

28

<sup>1</sup> Growth in average speed is mostly from key routes (e.g., the average speed on the Centre – South route is to increase from 68 to 99 km/h by 2025).

The Strategy's key targets address changes in the transportation market, the competitive situation, customer demands, and development trends in the passenger transportation regulatory environment. JSC FPC's Strategy assumes the Company's current role is retained in the long-term strategic development programme of RZD Holding.

# 2025

LDP

# 2030

# 104

# 108

# 114

# 119

# 61

# 65

# 69

# 69

# 24

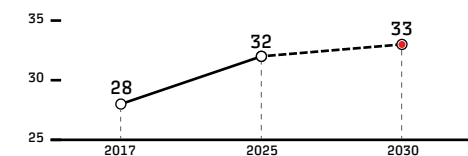
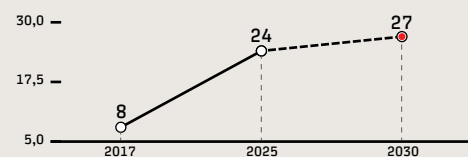
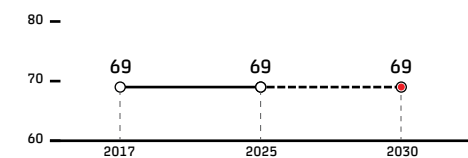
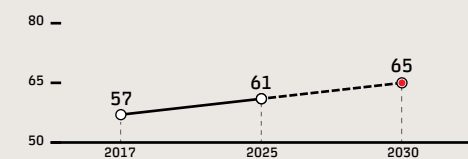
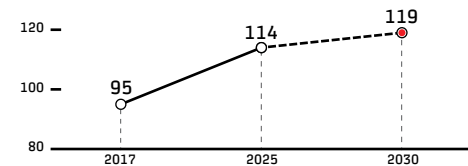
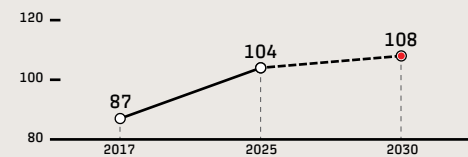
# 27

# 32

# 33

## Russia's leader in passenger mobility

A highly efficient, financially sound, and customer-focused company that strives to enhance value while ensuring sustainable development in passenger mobility across travel classes and regions of Russia as it transitions to franchise contracts for regular railway passenger services.





A list of performance indicators has been set out for the Company until 2020.

#### FPC performance indicators

1 2018–2020 indicators are target indicators approved by JSC FPC Board of Directors.

INDICATORS <sup>1</sup>	2018	2019	2020
Investment volume net of VAT, RUB billion	44.9	52.9	43.4
Revenue, RUB billion	217.4	226.3	242.0
EBITDA margin (incl. subsidies), RUB billion	21.8	27.7	33.4
Subsidies, RUB billion	8.5	8.5	8.5
Traffic safety, incidents per thousand train km	8.80	8.69	8.51
Labour productivity growth rate, %	105.0	105.0	105.0
Passenger km travelled, billion	87.7	88.2	89.9
Net profit, RUB billion	2.2	4.8	8.3

## STRATEGIC AREAS OF DEVELOPMENT

### Network

Fundamental rail network optimisation is planned:

- In the under 1,500 km route segment:
  - increase speeds
  - increase capacity
- In the over 1,500 km route segment:
  - improve efficiency
  - implement a hub-based model
  - develop high speed lines.

### Transitioning to innovative rolling stock

The railcar fleet will be timely and fully renewed, with gradual transition to innovative rolling stock, which will constitute approximately 35% of the total rolling stock by 2025. Almost 7,000 carriages will be replaced between 2018 and 2025.

The Company also plans to replace its traditional carriages with double-decker carriages, for which over 1,000 carriages will be purchased by 2025.

### Current condition of the passenger railcar fleet

The size of FPC's passenger railcar fleet as at 31 December 2017 was 19,386 carriages. The age of more than 10,300 carriages is over 20 years.

The average carriage age is a key metric showing the technical condition of a railcar fleet. As at 31 December 2017, the average age of FPC's carriages was 19.1 years.

## Rolling stock average age and wear

Carriage type	Description	Average age, years	Average wear, %
Luxury	(soft-seated) carriages (M) – compartment carriages equipped with showers and toilets in each compartment	10.1	36.3
First-class	First-class (double berth compartments)	19.2	65.0
RIC	Compartment carriages, European standard size	16.2	46.3
MIXED	Carriages with 50/50 Luxury and First-class compartments	4.0	12.1
K	Compartment carriages	18.9	67.6
KB	Compartment carriages with a buffet	22.6	82.3
KR	Administrative compartment carriages	20.4	65.9
O	Third-class sleeping carriages	18.3	58.9
MO	Interregional carriages	14.2	50.7
MOR	Interregional carriages with a radio compartment	11.5	43.8
B	Baggage carriages	20.2	73.4
BP	Baggage and mail carriages	34.0	100.0
PT	Dining carriages equipped with a coal stove	26.5	89.0
RZh	Dining carriages equipped with a gas stove	27.7	94.9
RE	Dining carriages equipped with an electric stove	26.4	70.7
Total		18.9	63.5

Over 5,000 carriages will be retired from FPC's passenger fleet by December 2020, and the Company has significantly increased

the previously planned investment into rolling stock replacement and upgrades to compensate for the railcar fleet shortage.



## Objectives and stages of the fleet replacement programme

The programme to develop innovative long-distance rolling stock up to 2025 has been adopted to meet the demand for long-distance rail passenger services with modern carriages that ensure safe and comfortable passenger travel. The Programme aims to:

- improve passenger travel comfort
- offer a wider range of passenger services
- decrease the passenger rolling stock's average age
- drive innovation
- adopt modern passenger service technologies
- improve rolling stock utilisation
- wider passenger service geography

- streamlined operating expenses
- introduction of a fundamentally new maintenance and repair system for the innovative rolling stock.

The programme's objectives will be implemented in three main stages:

- Stage I (2017–2019) – upgrading the purchased single-decker rolling stock
- Stage II (2019–2020) – upgrading the purchased double-decker rolling stock
- Stage III (2020–2025) – expanding the range of the rolling stock in operation.

## Fleet replacement principles

The innovative rolling stock will feature an improved carriage design that is characterised by:

- personal space and privacy during rest
- spacious accommodation and freedom of movement
- low floors for easy boarding and barrier-free environment
- dedicated baggage areas
- advanced technical equipment
- IT-driven development (Digital Railway).

Power outlets for mobile devices, uninterrupted high-speed Internet access, local train-hosted multimedia content portal, a climate control system in each compartment, and environmentally friendly toilet facilities will be available in all new carriages.

The following standards form the basis of FPC's long-term fleet optimisation programme:

- Conventional compartment and third-class sleeping carriages will not be purchased after 2020
- Third-class sleeping carriages will be replaced with carriages equipped with seats for short routes and double-decker compartment carriages for long routes
- Compartment carriages will be replaced with innovative (double-decker) carriages
- Innovative carriages will be purchased in increasingly larger volumes as their efficiency is confirmed through use.

## Expected outcomes

Stages I and II of the Programme will result in:

- adoption of state-of-the-art technical solutions
- next level of the passenger travel comfort
- achieving a balance between passenger capacity and comfort
- adopting semi-automated passenger service technologies
- improved cost and energy efficiency.

Programme Stage III will result in:

- utilisation of the same rolling stock on railway sections with different electrification systems
- lower locomotive traction requirements
- less time spent on locomotive change operations
- end-to-end passenger service provided at non-electrified sections

- option to split trains and reroute train sections to different destinations
- a wider passenger service geography with minimal extra costs
- end-to-end travel without the need for locomotive replacement, equipping, or inspection of technical condition
- high-tech solutions supporting the range of scheduled maintenance and repair services
- reduced expenditures on manned locomotive lease due trains having own traction units
- reduced traffic at rail yard and passenger station necks through fewer locomotive transfers to and from locomotive depots
- reduced expenditures through servicing innovative trains in shared depots
- eliminating the need for shunters.



## Product

The Company is preparing for transition to a new unified high-quality product offering that includes:

- three train types: daytime express trains, night trains, and traditional trains
- three service classes: economy, comfort, business

The older carriages lacking air conditioning units and composting toilets will be utilised under a separate, provisional “economy budget” brand until their eventual decommissioning.

### VALUE PROPOSITION TYPE

### SERVICE CLASS

#### Daytime express trains

Quick travel within a business day.  
Travel time up to 6 hours, target distances under 600 km

#### Business



free



180°

Premium comfort and hotel-grade service for productive use of travel time

#### Comfort



140°  
160°

Comfort and an adequate range of services for affordable and comfortable travel during the day

#### Night trains

Comfortable travel conditions for a proper night's rest.  
Travel time up to 12 hours, target distances under 1,200–1,500 km



180°

First-class, luxury carriages<sup>1</sup>



140°  
160°

Compartment carriages<sup>1</sup>

#### Traditional trains

Low-cost relocation and tourist travel option.  
Travel time over 12 hours, long distances

Premium comfort and a full range of hotel-grade services for a proper night's rest during business and tourist trips

An adequate level of comfort and services for a proper night's rest at an affordable price for business and tourist trips



## Multimodality

Integrated multimodal solutions are to be developed utilising bus and air ticket aggregation (via code sharing).

The rail network will provide a platform for developing multimodal passenger transport chains comprising all modes of transport.

- 1 Selective use of long trains at short distances. Limited for this type of train.
- 2 Upgraded third-class sleeping carriages in the near future.
- 3 No air conditioning or environmentally friendly toilet facilities.

## Other types of activities and adjacent businesses

The Company's sustainability will be further enhanced by the Strategy, which encompasses diversification of activities as well as business development which improve profitability of the passenger services through value-added service offerings:

- On-train passenger services
- Services for passengers using any means of transport
- Logistics services (cargo, mail, etc.).

### Economy



An affordable and comfortable travel choice with access to value-added services

### Economy budget (separate provisional brand on FPC trains)



A low-cost travel choice with no value-added services



Open-plan carriages with high-density seating<sup>2</sup>



A third-class sleeping carriage that does not meet passenger needs<sup>1</sup>

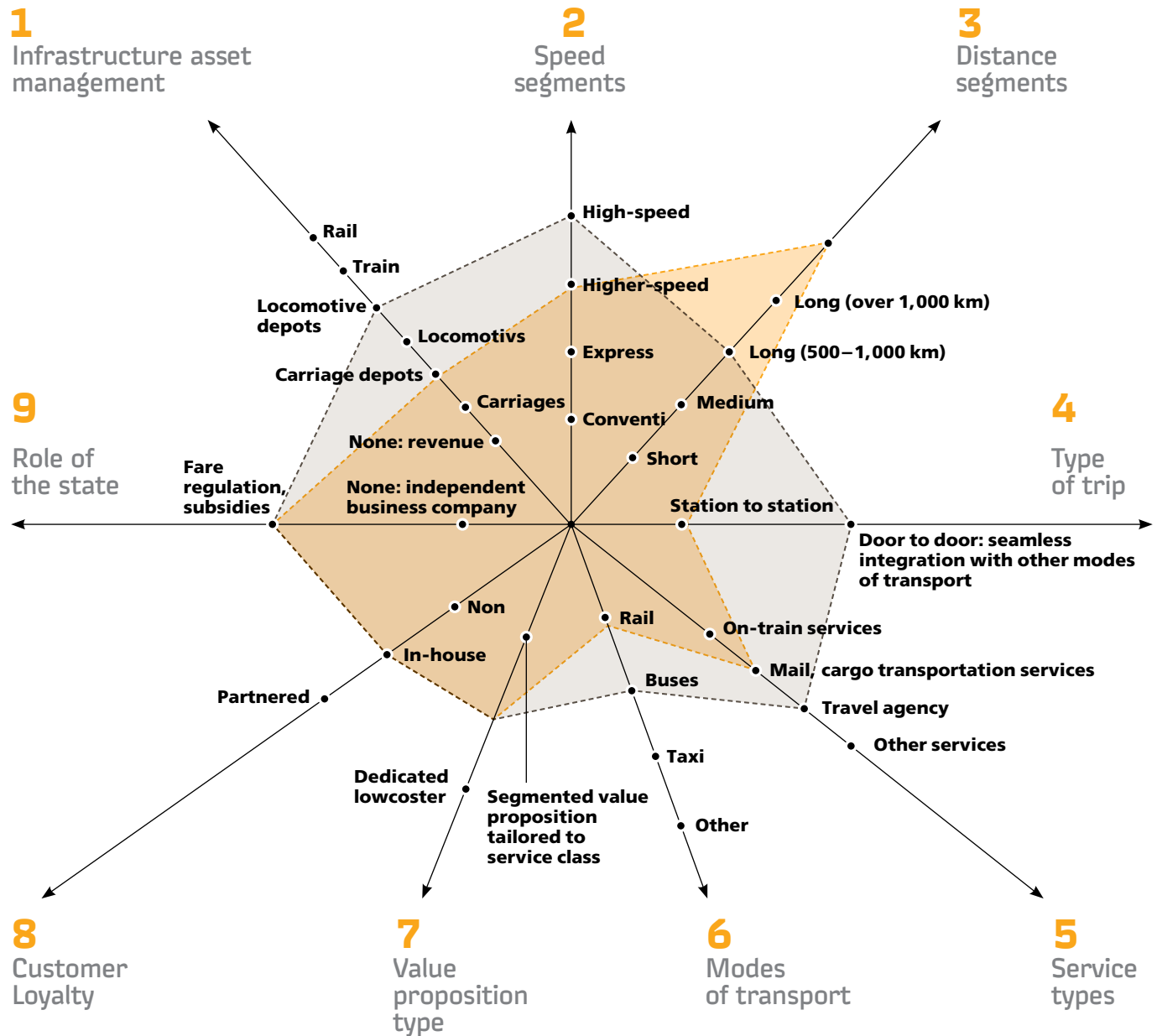
An affordable and comfortable travel choice with access to value-added services

An extra low-cost travel choice that allows for a full night's rest

### APPROACH:

- Taking stock of, and separating, insufficiently equipped<sup>3</sup> carriages that do not meet passenger needs into a dedicated brand within FPC
- Utilising in existing FPC trains at the reduced fares due to lack of services

# TARGET BUSINESS MODEL<sup>1</sup>



<sup>1</sup> Draft target business model underlying JSC FPC's 2030 Development Strategy Elements may be adjusted following review by the Board of Directors.

■ FPC's current state

■ Target state

## KEY OBJECTIVES FOR 2018

### FPC's Key Objectives for 2018:

2017

2018



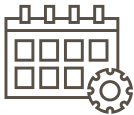
Stabilisation of the rail transport's share of the passenger services market

FIFA WORLD CUP  
**RUSSIA 2018**

Provision of quality transportation services to the 2018 FIFA World Cup participants and guests



Implementation of initiatives outlined in JSC FPC's 2030 Development Strategy



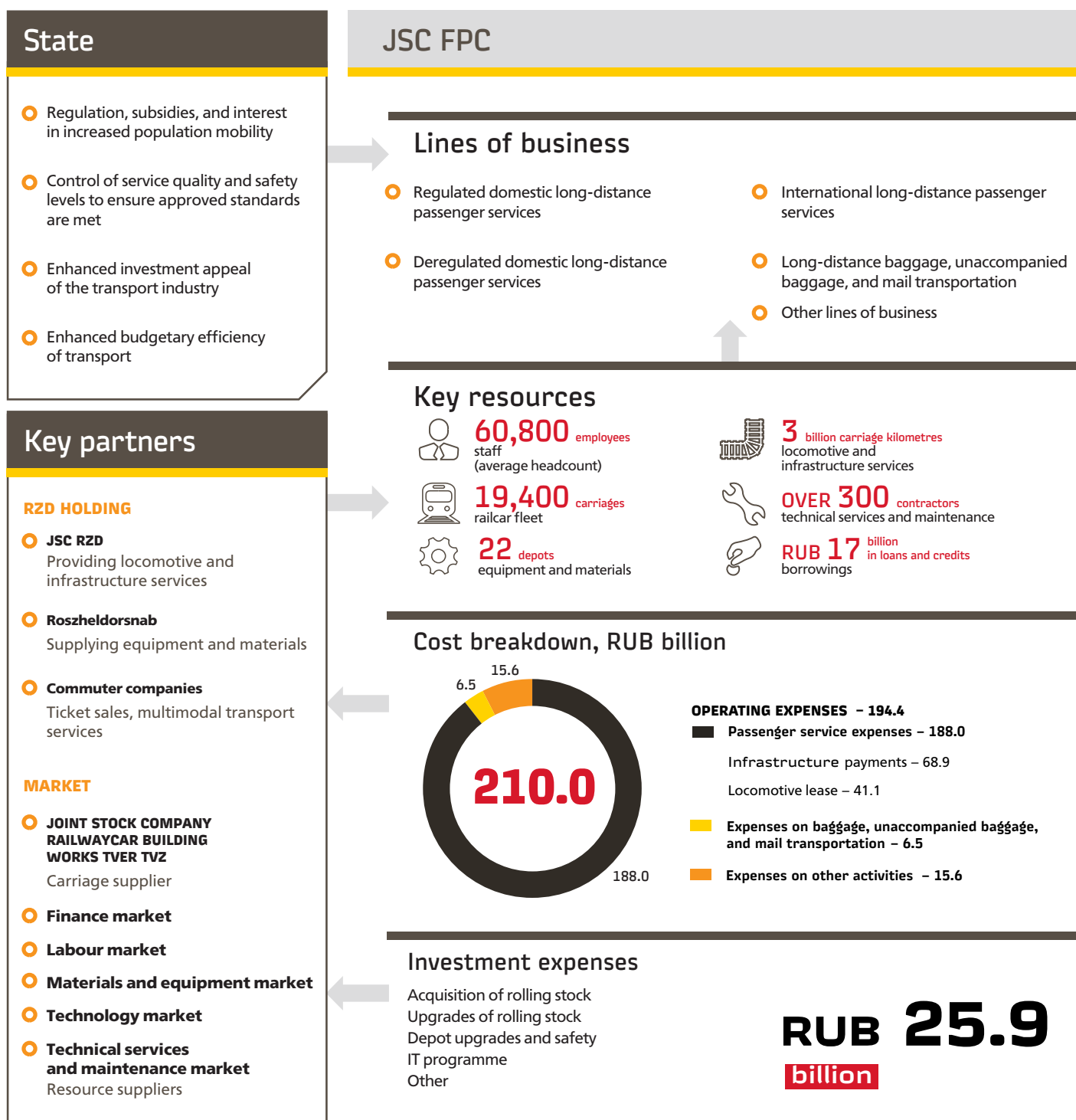
Implementation of measures aimed at reducing the rolling stock shortage



# BUSINESS MODEL

## AND ASSETS

### BUSINESS MODEL



## Product range

### Transport services

- **Regional branded trains:** luxury, first-class, compartment, third-class sleeping, multiple unit, open-plan seating carriages
- **Standard trains:** luxury, first-class, compartment, third-class sleeping, multiple unit, open-plan seating carriages
- **International services:** luxury, RIC, open-plan seating carriages
- **Tourist trains**

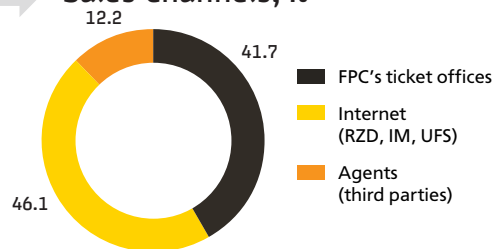
### Other

- **Baggage, unaccompanied baggage, and mail transportation**
- **Value-added services on trains**
- **Repair and maintenance of clients' rolling stock**
- **Other services**

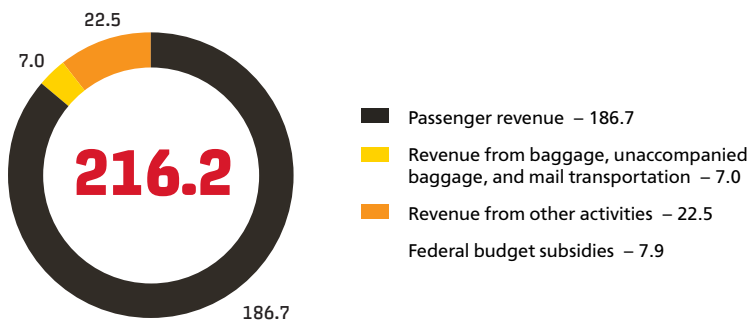
## Promotion

- Recognisable RZD brand
- RZD Bonus Loyalty Programme Marketing
- Promotions Internet presence
- Advertising campaigns

## Sales channels, %



## Revenue breakdown, RUB billion



## Profit

Net profit



**RUB 7.9**  
billion

## Key value proposition for customers

### VALUE FOR PASSENGERS

- Safe, accessible, and comfortable transportation
- Great travel experience
- Saves time

### VALUE FOR THE STATE

- Transport mobility of population and efficient use of budget funds

### VALUE FOR CORPORATE AND OTHER CUSTOMERS

- High quality of service at affordable prices within a reasonable amount of time

## Customers

- Passengers
- Corporate
- Other
- Governmental authorities and agencies



# COMPANY

## ASSETS

### Assets map

#### 1 Northwest Branch

223,800 sq m  
6,800 sq m  
2,400 units  
RUB 0.9 billion

#### 2 Moscow Branch

415,600 sq m  
6,200 sq m  
2,900 units  
RUB 2.5 billion

#### 3 Gorky Branch

106,400 sq m  
1,600 sq m  
1,600 units  
RUB 0.2 billion

#### 4 Northern Branch

110,900 sq m  
13,600 sq m  
1,200 units  
RUB 0.2 billion

#### 5 North Caucasus Branch

215,900 sq m  
14,400 sq m  
2,100 units  
RUB 0.9 billion

#### 6 South East Branch (Voronezh passenger carriage depot)

70,700 sq m  
100 sq m  
700 units  
RUB 0.1 billion

#### 7 Volga Branch

182,400 sq m  
900 units  
RUB 0.2 billion

#### 8 Kuybyshev Branch

121,700 sq m  
5,700 sq m  
1,300 sq m  
RUB 0.3 billion

#### 9 Ural Branch

101,100 sq m  
1,600 sq m  
1,300 units  
RUB 0.2 billion



#### 10 South Urals Branch

105,300 sq m  
1,000 units  
RUB 0.3 billion

#### 11 West Siberian Branch

211,100 sq m  
16,700 sq m  
1,500 units  
RUB 0.4 billion

#### 12 Yenisey Branch (Krasnoyarsk passenger carriage depot)

46,900 sq m  
2,200 sq m  
500 units  
RUB 0.1 billion

#### 13 East Siberian Branch (Irkutsk passenger carriage depot)

96,600 sq m  
600 units  
RUB 0.1 billion

#### 14 Zabaikalie Branch (Chita carriage site)

85,900 sq m  
1,400 sq m  
400 units  
RUB 0.1 billion

#### 15 Far East Branch

63,500 sq m  
1,000 units  
RUB 0.2 billion

### FPC branch locations

1. Northwest Branch: Saint Petersburg
2. Moscow Branch: Moscow
3. Gorky Branch: Nizhny Novgorod
4. Northern Branch: Yaroslavl
5. North Caucasus Branch: Rostov-on-Don
6. South East Branch: Voronezh
7. Volga Branch: Saratov
8. Kuybyshev Branch: Samara
9. Ural Branch: Yekaterinburg
10. South Urals Branch: Chelyabinsk
11. West Siberian Branch: Novosibirsk
12. Yenisey Branch: Krasnoyarsk
13. East Siberian Branch: Irkutsk
14. Zabaikalie Branch: Chita
15. Far East Branch: Khabarovsk



## Assets structure and changes in the assets structure

Passenger rolling stock is FPC's key asset, making up 80% of total assets. As at the end of 2017, the Company's inventory railcar fleet totalled approximately 19,000 carriages.

- By wear (average wear: approximately 65%)
- Approximately 60% of carriages are equipped with air conditioning units
- Approximately 40% of carriages are equipped with environmentally friendly toilet facilities.

FPC's rolling stock is currently highly diverse:

- By carriage type and age (average age: 19 years)

Asset structure as at 31 December 2017, RUB billion

Assets	
Carriages	178.0
Real estate	28.2
Other movable property	6.7
Intangible assets	0.04
Land	0.2
Total	213.2

Changes in railcar fleet structure, carriages

Carriage Type	Description	Fleet as at 31 December 2016	Acquired	Retired	Fleet as at 31 December 2017	Average age of carriages as at 31 December 2016, years	Average age of carriages as at 31 December 2017, years
Luxury	Soft-seated carriages (M) – compartment carriages equipped with showers and toilets	117	–	–	117	9.7	10.4
First-class	First-class (double berth compartments)	878	7	37	848	18.8	19.1
RIC	Compartment carriages, European standard size	368	–	1	367	15.7	16.6
MIXED	Carriages with 50/50 Luxury and First-class compartments	13	–	–	13	4	5
K	Compartment carriages	7,998	63	193	7,868	18.7	19.3
KB	Compartment carriages with a buffet	111	–	7	104	22.6	23.2
KR	Administrative compartment carriages	1,140	13	14	1,139	20.1	20.7
O	Third-class sleeping carriages	7,085	329	318	7,096	18.7	18.4
MO	Interregional carriages	702	–	8	694	14.0	14.8
MOR	Interregional carriages with a radio compartment	4	–	–	4	17	17.3
B	Baggage carriages	290	–	57	233	19.7	20.1
BP	Baggage and mail carriages	1	–	–	1	34	35
RT	Dining carriages equipped with a coal stove	53	–	5	48	26.4	26.9
RE	Dining carriages equipped with an electric stove	677	13	–	690	26.1	26.7
RZh	Dining carriages equipped with a gas stove	124	–	9	115	27.2	28
Other	Soft-seated carriages (M) – compartment carriages equipped with showers and toilets	49	–	–	49	21	22
Total		19,610	425	649	19,386	18.9	19.1





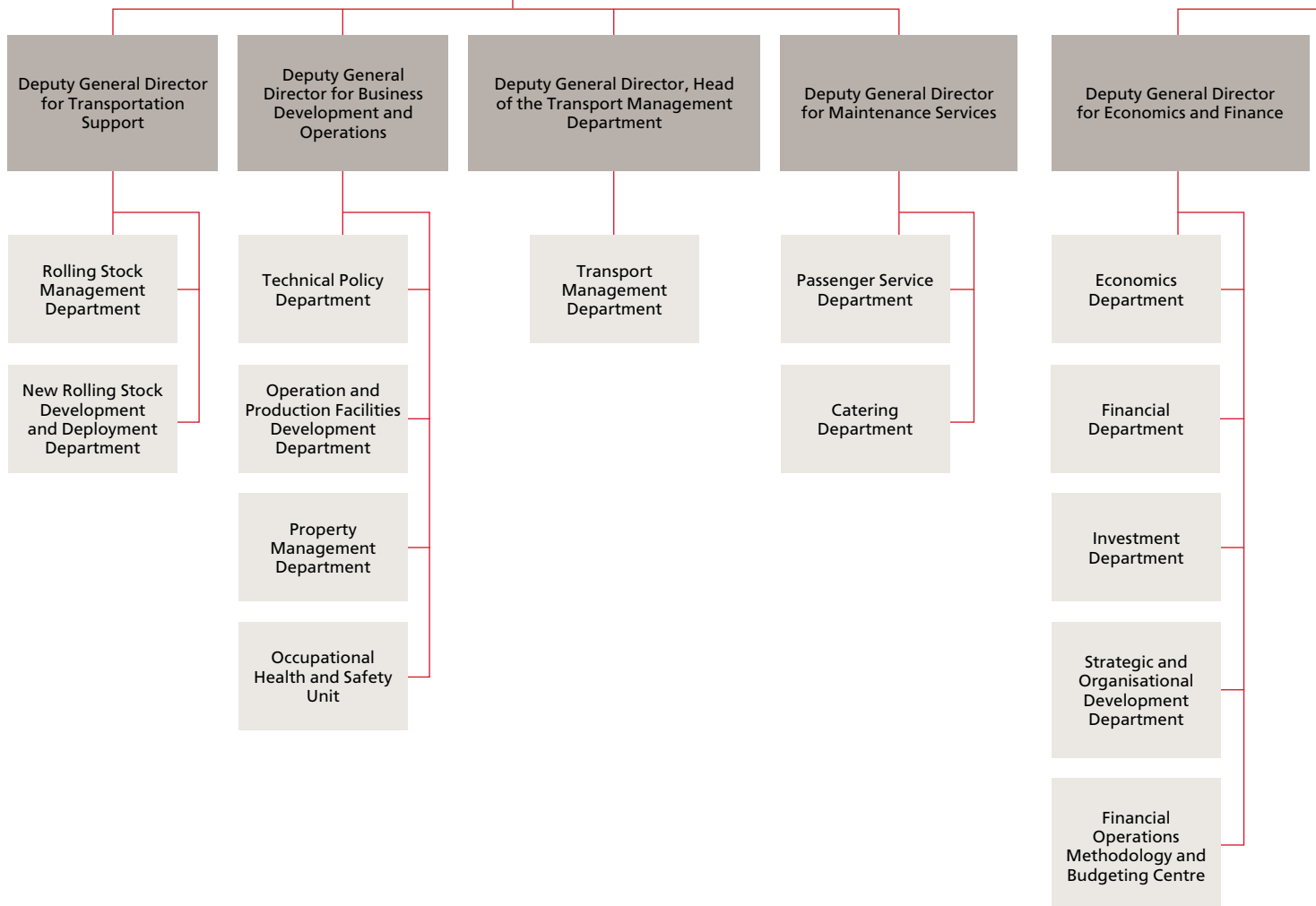
## Organisational structure

FPC's organisational structure includes administration, 15 regional branches, three subsidiaries, and one central carriage site.

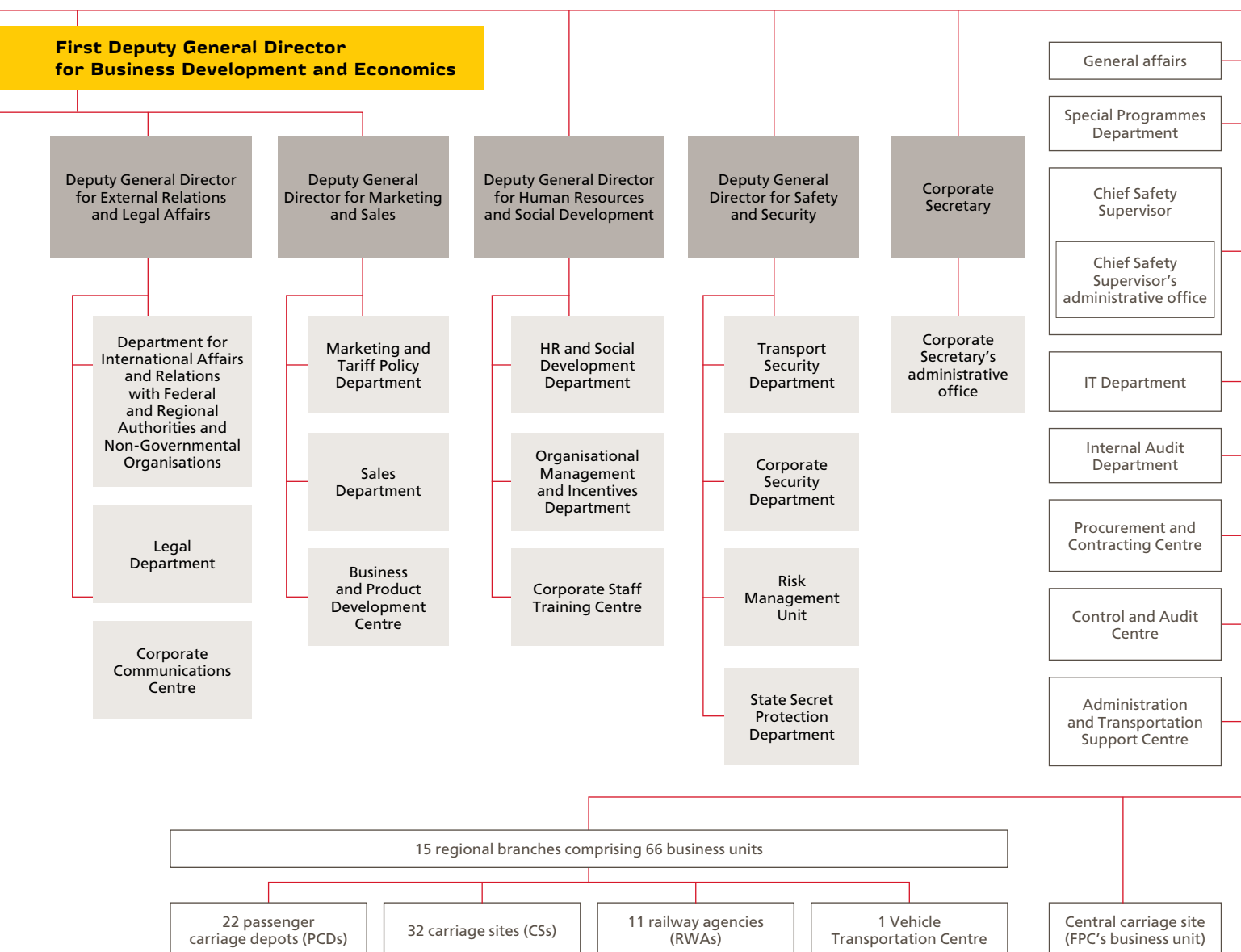
The branches comprise 22 passenger carriage depots, 32 carriage sites, 11 railway agencies, and the Vehicle Transportation Centre.

### General Director

#### First Deputy General Director for Operations



## FPC's organisational structure (as at 31 December 2017)



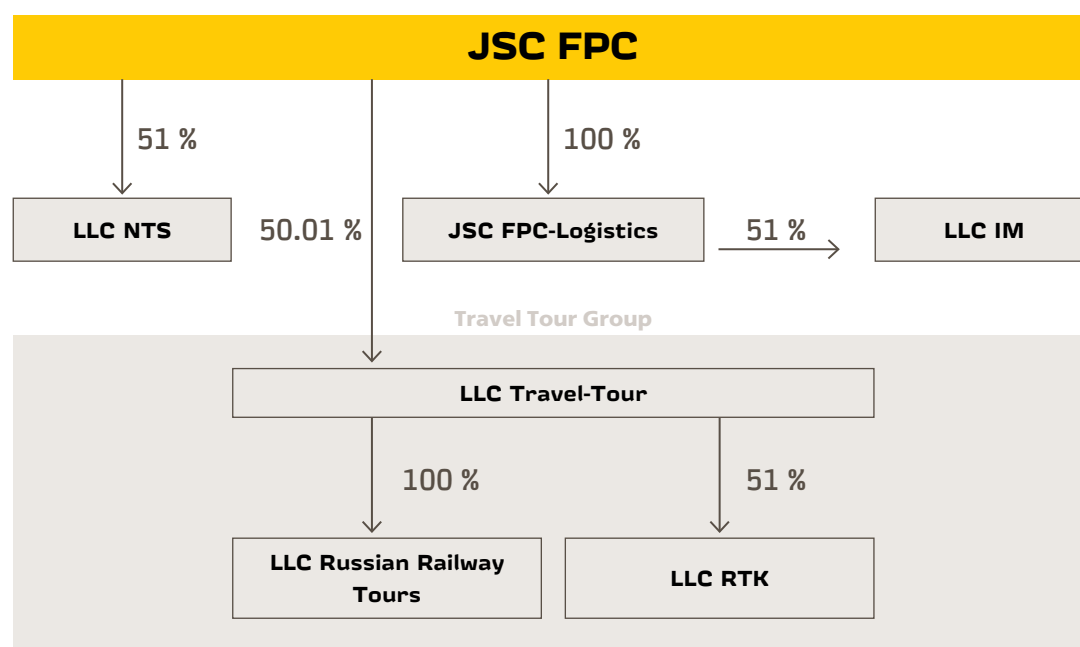


## Subsidiaries and Affiliates

The following subsidiaries and affiliates are covered by FPC's corporate governance system: LLC NTS,

LLC Travel-Tour, LLC Russian Railway Tours, LLC RTK, JSC FPC-Logistics, and LLC IM.

FPC's sub-holding structure



### LLC NTS

LLC NTS's key areas of activity:

- Delivering drinks, food, and non-food products to FPC's trains for sale to passengers via train attendants and independent operators on board
- Small- and large-scale wholesale trade in beverages and food products from warehouses leased by the Company to any company selling such goods in Russia
- Operating dining carriages in simple partnership with LLC KTA

## LLC NTS

Indicator	2016	2017	2017/2016 change	
			RUB million	%
Net profit	64.7	76.3	11.6	118

## Changes in sales volume by channel

Indicators	2016	2017	2017/2016 change	
			RUB million	%
Sales of merchandise to passengers (via train attendants)	917	891	-26	97.2
Independent operators	69	39	-30	56.5
Other buyers	279	228	-51	81.7
Total	1,265	1,158	-107	91.5

As at the end of 2017, sales volumes across all channels were down year-on-year by 8.5%. Lower sales in the Independent Operator channel were due to a reduced interaction with dining car operators. Lower sales in the Train Attendant

channel were due to a 3% fall in passenger traffic. 3% Sales in the Other Buyers channel also fell, as prices for procured goods grew in 2017. The Company therefore increased sale prices, which led to a drop in sales volume.

## Travel Tour Group

FPC bought into the Travel Tour Group's business to:

- develop rail tourism by building up new tourist- oriented rail routes
- increase the volume of rail services provided to organised passenger groups

- develop the middle-class rail travel segment
- meet foreign and domestic demand for visiting Russia's cultural and historic centres.

## LLC Travel-Tour

LLC Travel-Tour provides legal services to its subsidiary LLC Russian Railway Tours and conducts virtually no other kinds of business.

The tourist business is concentrated in its subsidiary LLC Russian Railway Tours.

## LLC Russian Railway Tours

LLC Russian Railway Tours' key activities include organising own rail tours and providing rail services, chartered railway VIP transportation services, tourist travel services for RZD Holding employees,

and servicing tourist groups organised by travel agencies as well as corporate clients in rented trailing carriages or special trains.

### LLC Russian Railway Tours

Indicator	2016	2017	2017/2016 change	
			RUB million	%
Net profit	39	42	3	107.5

### Passengers serviced by LLC Russian Railways Tours, by segment

Segment	2016	2017	2017/2016 change	
			passengers	%
Tourism	187,693	185,183	-2,510	98.7
Comprehensive services	9,236	11,880	2,644	128.6
Rail services	33,504	48,326	14,822	144.2
Total	230,433	245,389	14,956	106.5

The Company serviced 245,000 passengers in 2017, up by 6.5% year-on-year. In absolute terms, the year-on-year increase was 15,000 passengers.

## LLC RTK

LLC RTK ceased commercial operations since 1 July 2017.

## JSC FPC-Logistics

JSC FPC-Logistics was established to improve the competitiveness of unaccompanied baggage transportation services within FPC Group, achieve profitability in the segment, and regain a leading position in the unaccompanied baggage transportation market.

The Company's core operations:

- Providing forwarding services for transportation of unaccompanied baggage via baggage carriages in Russia
- Leasing baggage carriages.

## JSC FPC-Logistics

Indicator	2016	2017	2017/2016 change	
			RUB million	%
Net profit	2.4	48.9	46.5	2,037.5

## FPC-Logistics' operating results

Показатели	2016	2017	2017/2016 change	
			carriages	%
Number of carriages	513	1,291	778	251.7
carried Operating fleet	34	40	6	117.6

In 2017, the number of carriages carried grew by 51.7% year-on-year, driven by the addition of six units to the operating fleet following the transfer

of 55 carriages from FPC under the share purchase agreement for FPC-Logistics' new shares.

## LLC IM

LLC IM acts as the operator for RZD Group's Innovative Mobility project aimed at building a modern e-ticket sales infrastructure encompassing all modes of transport and offering passengers a door-to-door travel experience.

The project aims to launch and develop a fully functional "innovative mobility" platform in Russia, which utilises a unified interface to offer passengers tools for planning, booking, and purchasing

of tickets for trips involving various modes of transport, as well as value-added related services.

As the Company was registered in 2016 and pursuant to Federal Law On Accounting, the period between the registration date of the Company and 31 December of the calendar year, or 20 October 2016 to 31 December 2017, will be the Company's first reporting period.

## LLC IM

Indicator	20.10.2016 – 31.12.2017
Net profit, RUB million	4.9

## LLC IM's operating results

Indicator	20.10.2016 – 31.12.2017
Number of e-tickets sold, '000 tickets	3,063



## OVERVIEW

**95.1**

**million passengers**

carried in 2017

**RUB 216.2**

**billion**

operating  
revenues

**RUB 210.0**

**billion**

operating  
expenses





# MESSAGE FROM FPC'S GENERAL DIRECTOR

Dear Shareholders, Partners, and Colleagues,

The railway community celebrated a milestone in 2017 – the 180th anniversary of Russia's railway network. The industry's origin dates back to October 1837, when the first passenger train journey was made. Nowadays, hundreds of trains run daily along the tracks, connecting cities within the vast territory of Russia. FPC moves forward at a confident pace while maintaining the best traditions of the Russian passenger railway industry. Our key objectives include boosting the Company's performance and meeting the passengers' expectations at the highest quality level.

**>40**  
marketing  
campaigns

in 2017

All our initiatives are based on customer feedback collected through our feedback channels. The Company adopted this approach during the Year of the Passenger in 2016, and continues to apply it on a permanent basis.

As a result, the amount of negative feedback has reduced considerably over the last two years, while the share of positive comments about the Company and its employees has exceeded 90%. We measured our Net Promoter Score for the first time in 2017, using the internationally accepted NPS methodology.

Modern rolling stock is a key component of high-quality service. Last year, the Company increased its purchases of new rolling stock; carriages are upgraded at a vigorous pace, in which environmentally friendly toilet facilities, air conditioning units, and additional power outlets are installed.

**>3**  
million people

registered with  
the RZD Bonus  
Programme

We strive to make each journey affordable as well as comfortable. Last year, over 40 marketing campaigns were carried out across all our segments, and millions of passengers benefited from our special offers. More and more customers take advantage of the RZD Bonus Loyalty Programme, which currently has over 3 million members.

In the reporting year, the advance booking period for domestic services was extended from 60 days to 90 days, enabling passengers to save on fares, as well as plan their journey ahead. Tickets now feature special infographics detailing the services offered on board.

Improvements are being made to the e-ticket sales system. For example, tickets to Kaliningrad via Lithuania can now be purchased on the website. Tickets for wheelchair-friendly cabins for reduced mobility passengers are also sold online. A new service has also been introduced: meals on board can now be pre-ordered upon ticket purchase. Almost half of all FPC passengers are purchasing train tickets via e-ticket services following our successful innovations.

The Company is engaged in an ongoing effort to develop the route network, including through the addition of double-decker trains and reducing travel times. New routes were launched, on which cars and motorcycles can be transported by car transporters.

The Company is proud to be involved in major sporting events held in Russia. In 2017, FPC successfully completed its task of carrying football fans during the Confederations Cup, and additional

trains will run for the spectators and volunteers of the FIFA World Cup in 2018.

We are confident that long-distance trains today are not just a popular means of transportation, but also mobile cultural venues. In 2017, FPC implemented a number of educational initiatives and supported Russia's major cultural events. In particular, Strizh train passengers took part in large-scale educational initiatives – the Total Dictation and the Geographical Dictation. Traveller's Libraries were launched on both international and domestic trains for passengers of all ages, and the initiative was further developed in 2018.

FPC's successful growth largely depends on the highly-skilled specialists currently working at the Company. Our team is our most valuable asset. Together, we will continue working to make rail transport even more affordable, comfortable, and modern.

Petr  
IVANOV



# MARKET

## OVERVIEW<sup>1</sup>

Over 2017, FPC's domestic passenger traffic grew by 1.4%.

## MACROECONOMIC ENVIRONMENT

Key economic growth indicators, (% year-on-year)

Indicators	2017
GDP	101.5
Consumer Price Index	103.7
Investment in fixed assets (9M 2017)	104.2
Real household disposable income	98.3
Real wages	103.4
Unemployment (% as at the end of December)	5.1
Retail sales	101.2
Sales of paid retail services	100.2

In 2017, the inflation rate dropped considerably as the consumer price index decreased to 3.7% (vs a 7.1% inflation rate in the previous year), while GDP grew by 1.5%.

Investment in fixed assets resumed growth (+4.2%). Investments by large- and medium-size businesses in commerce, social facilities, and transport (except for pipeline) were also growing, with companies still relying mostly on own financial resources to finance their investments.

Real wages grew by 3.4% driven by improvements in nominal wages, and helped by record low inflation. Real household disposable income declined by 1.7%.

Improvements in the labour market contributed to higher wages as unemployment declined from 5.6% in January to 5.1% in December 2017.

## RUSSIAN TRANSPORT MARKET

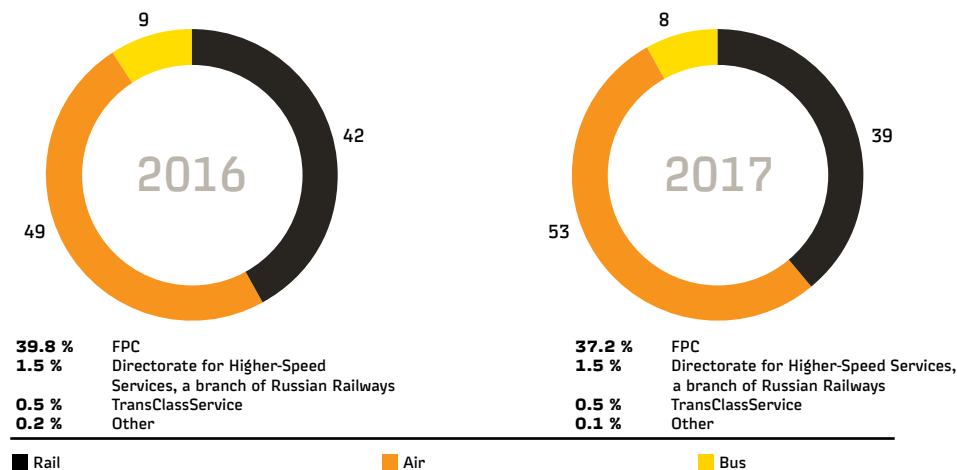
In 2017, the Russian transport market saw an emerging trend of airlines penetrating the segment of routes under 1,000 km by streamlining fleet operation, cutting costs, and reducing journey times.

At the same time, intercity bus services expanded on routes under 700 km, which are largely not covered by regular trains.

The railway industry is under a mounting pressure from rival modes. To mitigate potential negative effects and stay competitive, the industry assigns trains to routes under 500 km and between 500 km and 1,000 km while upgrading its rolling stock, and increasing train speeds.

<sup>1</sup> This section is based on data of the Federal State Statistics Service (Rosstat): <http://www.gks.ru>.

### Domestic passenger turnover, (passenger km)



Source: Statistical Reporting Form TsO-33 for rail transport, Federal Agency for Air Transport (Rosaviatsiya) (<http://www.favt.ru>) for air transport, expert estimates based on Rosstat's data (<http://www.gks.ru>) for road transport. Пассажиры (<http://www.gks.ru>).

In 2017, the share of rail in the total number of passenger km travelled was down 2.7 p.p. year-on-year. The decrease was caused by an accelerated absolute growth in domestic air traffic facilitated by aggressive pricing policies of airlines, fleet renewals, increased numbers of available seats and flights, and increasingly shorter flight distances.

In 2017, the number of passengers carried by FPC on domestic routes increased by 1.4% year-on-year – down 4.4% in the regulated segment and up 16.2% in the deregulated one.

In 2017, FPC's passenger km travelled on domestic routes were down 2.7% year-on-year, including down 7.6% in the regulated segment and up 9.1% in the deregulated segment.

For example, in 2017, the average distance travelled by FPC's trains on domestic routes decreased by 4.1% year-on-year.

Key reasons for the declines in passenger km travelled:

- Shorter average distances travelled
- Shifted holidays and travelling dates from the previous year
- Shortage of third-class sleeping carriages during the peak seasons (in January and in summer)
- Leap-year effect
- Overall declines in passenger mobility among the rail transport's target customers

To address negative trends and retain its competitive edge in the passenger services market, FPC works to improve customer experience while focusing on the Dynamic Pricing Programme, RZD Bonus Loyalty Programme (including for corporate customers), and launching marketing promotions for both the regulated and deregulated segments.

According to the Federal Agency for Air Transport (Rosaviatsiya), the total number of air passenger km grew by 20.3% to 259.4 billion passenger km.

The year-on-year increase in passenger km was 29.9% for international destinations, and 10.4% for domestic services.

Seeking to capture the opportunities offered by the rail transport's competitive advantages in the market for interregional services between

large urban agglomerations, FPC has pursued projects for assigning trains to routes under 500 km and between 500 km and 1,000 km.

Long-distance services (on routes over 1,000 km) can be stimulated by considerably reducing fares.

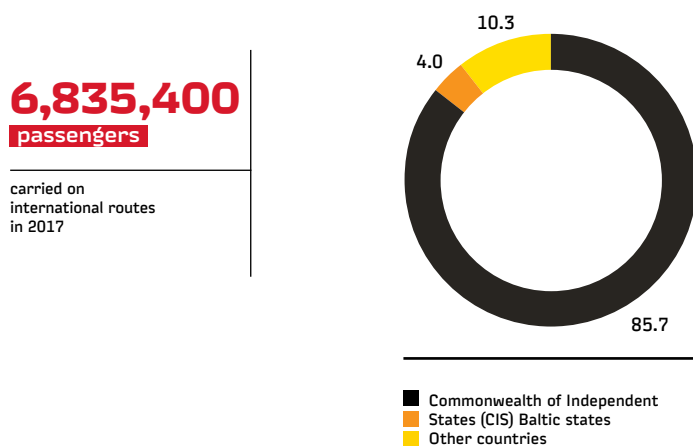
## INTERNATIONAL TRANSPORT MARKET

### International long-distance passenger services

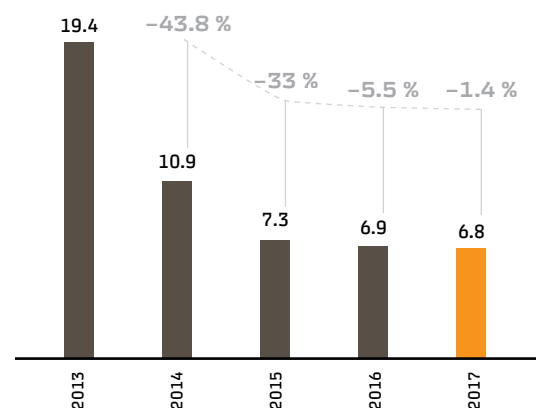
In 2017, FPC operated 15 international routes, providing direct and transit passenger services to and from 11 European and Asian countries, including Germany, France, Monaco, Poland, Austria, the Czech Republic, Italy, Finland, China, Mongolia, and North Korea.

FPC also provided rail services on routes between Russia and the CIS and Baltic states, including Ukraine, Moldova, Belarus, Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, Azerbaijan, Latvia, Lithuania, and Estonia.

International passenger services in 2017, %



International passenger traffic, million passengers



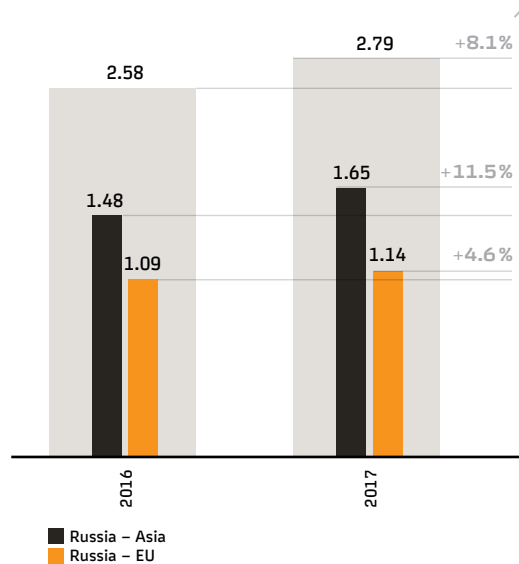
In 2017, we managed to slow down the decline in international passenger traffic to 1.4%. During the year, the passenger traffic between Russia and EU countries, and between Russia and Central and East Asia was up 4.6% and 11.5%, respectively.

The largest growth was reported in traffic between Russia and Tajikistan (66.3%), Uzbekistan (14.1%), and Kazakhstan (7.4%).

In the reporting period, we carried 6,835,400 passengers, including:

- 6,129,200 passengers between Russia and the CIS and Baltic states (down 2.7% year-on-year)
- 706,200 passengers between Russia and other countries (9.7% year-on-year).

Passenger traffic between Russia and Asia, and Russia and the EU, million passengers



## PRICING POLICIES

### Regulated segment

Under the regulatory documents (Tariff Guidelines approved by Decree No. 156-т/1 of the Federal Tariff Service (FTS of Russia) dated 27 July 2010), domestic fares for third-class sleeping and sitting carriages were regulated by the government through the FTS of Russia.

Fares for domestic long-distance passenger services vary by age (adult and children fares, based on rate components) depending on:

- the train category (branded express; express; branded passenger; passenger)
- carriage type (third-class sleeping, open-plan seating), and travelling distance
- seasonal coefficients set out in the Flexible Tariff Regulation Schedule, and are consistent throughout the Russian railway network.

Before 2015, pricing flexibility in the regulated segment was only provided under the Flexible Tariff Regulation Schedule set by the FTS of Russia on an annual basis. Since 2015, FPC has been allowed to run marketing promotions for third-class sleeping and sitting carriages depending on the location of seats/berths and the booking date.

In 2016, pursuant to subparagraphs 1 and 2 of Executive Order of the Russian President No. 373 On Certain Issues of Government Management and Control in Antimonopoly and Tariff Regulation dated 21 July 2015, the functions of the disbanded FTS of Russia were assigned to the Federal Antimonopoly Service of the Russian Federation (FAS Russia).



In line with FAS Russia's Order No. 1835/16 dated 23 December 2016, passenger fares in the regulated segment were increased in 2017 by 3.9% vs 2016.

In 2017, FPC continued to run marketing promotions for third-class sleeping carriages with offers driven by the location of berths. The price differentiation of tickets for various seat categories in third-class

sleeping carriages has made train fares more affordable to various passenger categories.

The Company did not increase fares in this segment as the upper limit of the tariff range is set in the Tariff Guidelines and the Flexible Tariff Regulation Schedule, and is adjusted for a service category coefficient<sup>1</sup> (applied to branded trains only).

## Deregulated segment

In the deregulated segment, FPC provides passenger services in compartment, first-class, and luxury carriages, and in all carriages of higher-speed trains.

FPC may set the prices of fares for first-class and compartment carriages at its own discretion<sup>2</sup>.

The deregulated segment also covers tourist and commercial services.

In this segment, FPC also may set the prices of passenger fares at its own discretion.

Key pricing mechanisms in the deregulated system include the dynamic pricing system, and a range of marketing promotions and ticketing initiatives.

<sup>1</sup> Service category coefficient – an increasing coefficient to tariffs approved by Decree No. 156-т/1 of the FTS of Russia dated 27 July 2010, subject to annual indexation (for the regulated segment), or to tariffs set by FPC's Order No. 818-r dated 20 September 2010, subject to annual indexation (for the deregulated segment outside the dynamic pricing system) set for the trains certified as branded trains.

<sup>2</sup> According to item 5 of the List of Services of Natural Rail Monopolies with Regulated Fares, Fees and Charges, as approved by Resolution of the Russian Government No. 643 On Government Regulation of, and Control Over, Fares, Fees and Charges for Services of Natural Rail Monopolies dated 5 August 2009.



# MARKETING

## POLICY

In 2017, the dynamic pricing system was extended to the entire commercial segment of FPC's domestic services.

## DYNAMIC PRICING SYSTEM

In 2017, FPC completed phase six of its project for phasing in a dynamic pricing system.

On 14 January 2017, FPC launched close to 250 scheduled trains, the first to apply flexible pricing.

As a result, the dynamic pricing system was extended to the entire commercial segment of FPC's domestic services (the deregulated segment of trains outside socially necessary train services).

The revenue management system was rolled out between 2013 and 2017 in six phases:

- Phase 1: from 1 March 2013 – 42 trains
- Phase 2: from 26 May 2013 – 76 trains
- Phase 3: from 1 June 2014 – 48 trains
- Phase 4: from 1 June 2015 – 90 trains
- Phase 5: from 14 January 2016 – 144 trains
- Phase 6: from 14 January 2017 – 100% coverage of the commercial segment



The dynamic pricing system is a multifactor pricing tool that combines most approaches previously used as marketing promotion tools: pricing depending on seat/berth category (upper or lower berth); day of the week; booking date, etc.

Unlike static marketing promotions which offer the rates set in advance for an extended period of time, the dynamic pricing system implies flexible ticketing reflecting internal dynamics and various external trends as at the sale date.

The dynamic pricing system helps identify the balance between the supply of and demand for services, ultimately driving the demand for rail services.

In 2017, approximately 75% of tickets covered by dynamic pricing were sold at prices below or comparable to basic fares (fares that would have been applied without dynamic pricing).

# LOYALTY PROGRAMME



RZD Holding's RZD Bonus Loyalty Programme (the "Programme") for FPC's long-distance passengers was launched on 1 July 2012.

RZD Holding's RZD Bonus Loyalty Programme allows passengers to collect points for travelling on trains and carriages operated by FPC (acting as a Russian Railways subsidiary) or on Sapsan and Allegro trains. The earned points can be exchanged for premium tickets or donated to Charitable Foundations to cover the fares of children and adult patients travelling to treatment centres.

Since 17 December 2013, loyalty points are awarded based on the ticket cost using the following conversion rate: three points per every ten roubles spent to purchase the ticket.

The programme provides for two membership levels: basic and golden.

- The basic level is assigned once the registration is completed and allows a customer to earn points and exchange them for premium tickets.
- The golden membership is the elite level of participation in the programme, which can be achieved by a member through earning 35,000 qualifying points or making 50 trips within a calendar year in a carriage not lower than compartment class The golden level needs to be validated on an annual basis.

Special projects were also implemented as part of the Programme:

- A student programme offering full-time undergraduate and postgraduate students of Russian universities a 25% discount on fares in compartment carriages and carriages with open-plan seating equivalent to compartment carriages (higher-speed trains, including Strizh, Lastochka, Nevsky Express, etc.) in FPC's domestic trains
- A family programme offering a family account to collect all loyalty points earned by the family members in a single account.

Over the duration of the Programme (2012–2017), its members made a total 15,112,000 trips, and were issued 650,000 premium tickets.

The Programme's partners include: Bank VTB 24, ALFA-BANK, Bank Otkritie Financial Corporation, ROSBANK, OPL, GOL-Tsentr, Azimut Hotels Company, and Okko.

Over 888,000 members registered with the Programme in 2017. The number of registered members grew by 57.2% year-on-year. Over 88.7% of tickets were purchased by members via the corporate website of Russian Railways.

In 2017, premium tickets were issued to 135,200 programme members, up 37% year-on-year. A total of 259,000 premium tickets were issued over the period.

In 2017, the following projects were run under the RZD Bonus Loyalty Programme jointly with the Programme's partners:

- Since September 2017, holders of RZD – Alfa- Bank co-branded cards automatically receive a free insurance certificate for international travel. Over 115,000 cards have been issued since the launch of the co-branded card project
- Two partner banks joined the programme in April 2017: Otkritie Bank and ROSBANK, issuing co- branded bank cards under the RZD Bonus Loyalty Programme, which also offer additional premium points for purchases made and premium tickets that can be exchanged for points earned. Over 6,000 Otkritie Bank cards and over 26,000 Rosbank cards were issued in 2017
- The co-branded cards support contactless payment solutions such as PayPass, Apple Pay, Android Pay, and Samsung Pay, and offer the privileges of international payment systems
- Full-time undergraduate and postgraduate students are offered a 25% discount on fares

**> 888,000**  
members

registered with the  
RZD Bonus Loyalty  
Programme in 2017

**57.2 %**

increase in the number  
of registered members

in compartment carriages of FPC's trains.

The discount is only available to those registered with the RZD Bonus Loyalty Programme and is valid for one calendar year. Under the RZD Bonus Loyalty Programme, students can also earn points exchangeable for premium tickets

- The Programme's partners offer special terms and additional discounts to RZD Bonus Loyalty Programme members. Information on co-branded offerings are available on the Programme's website<sup>1</sup> in the Partners section
- The Charity project was launched in October. The loyalty programme members can donate their points to charitable foundations such as Life Line, Dr. Liza's Fair Care, and Connection to help seriously ill children and adults in a difficult life situation. The charitable foundations can use the points to get premium tickets for their patients and their travelling companions.

Activities planned under the Programme for 2018 include:

- increasing the membership to 3.6 million
- migrating the website of RZD Holding's RZD Bonus Loyalty Programme to the Russian Railways website and launching a single personal account service
- adding new sources for earning points by increasing the number of partners
- expanding the list of privileges
- issuing premium tickets for international destinations
- sending text confirmations for premium tickets booked.

<sup>1</sup> <http://www.rzd-bonus.ru>



## KEY MARKETING INITIATIVES IN 2017

During the reporting year, we extensively used ticketing promotions to retain the existing and attract new customers, driven by:

- the growing impact of external economic factors
- changing consumer behaviours
- changes in leisure flows.

### In the deregulated segment

the following marketing initiatives were run in 2017: promotions on certain routes/trains; fare discounts for certain categories of passengers (school students, free travel for the Great Patriotic War veterans); discounts for early booking; off-season promotions (e.g. Indian Summer), promotional and PR campaigns (e.g. Discover Russia with Russian Railways), and holiday promotions.

A total of 30 marketing initiatives were delivered in the reporting year to enhance transport mobility among our customers.

The most notable initiatives included:

- Discover Russia with Russian Railways, offering passengers tickets for compartment carriages in 44 branded trains at RUB 100 a piece for departure dates between 1 and 31 October 2017. The offer covered four berths per train. The main purpose of the initiative was to promote the Company's services and create a news story. 4,444 passengers took advantage of this promotion during the month, or 0.4% of the total passengers carried in compartment carriages

- The marketing promotion, Day of Older Persons, was run on 1 October 2017. On that day, we offered all passengers above 60 years a 50% discount on fares for compartment carriages. 9,600 passengers took advantage of the promotion, or 6,500 passengers more than a year before. The revenue generated by the promotion grew by RUB 7.1 million year-on-year

Additionally, to boost the passenger traffic and maintain a competitive edge, we offered a number of special fare offers for FPC's trains: New Year Night, Travel on the New Year Night, and Passenger Day.

To improve the travel experience for our passengers, we offered a 40% discount on buying out all berths in a first-class carriage cabin by one passenger in 20 trains from 1 December 2017 to 14 January 2018. In December, 108 passengers took advantage of the offer, generating additional revenue of RUB 108,600.

RZD Bonus Loyalty Programme members were offered an opportunity to book premium tickets for first-class carriages at the cost of a premium ticket in a compartment carriage, and for luxury carriages at the cost of a ticket in a first-class carriage between 25 November and 31 December 2017. The offer was used by 7,034 passengers of compartment carriages, and 390 passengers of luxury carriages, up 4.8 times and 3.3 times year-on-year, respectively.

**4,400**  
passengers

benefited from  
the Discover Russia  
with Russian Railways  
programme

**9,600**  
passengers

benefited from the Day  
of Older Persons  
promotion

**In the regulated segment**, key groups of promotions run in 2017 included flexible ticketing depending on the location of berths in third-class sleeping carriages; promotions targeting certain categories of passengers (e.g. for school students in summer); early booking discounts; offers covering certain destinations; off-season discounts; promotional and PR campaigns; and holiday promotions.

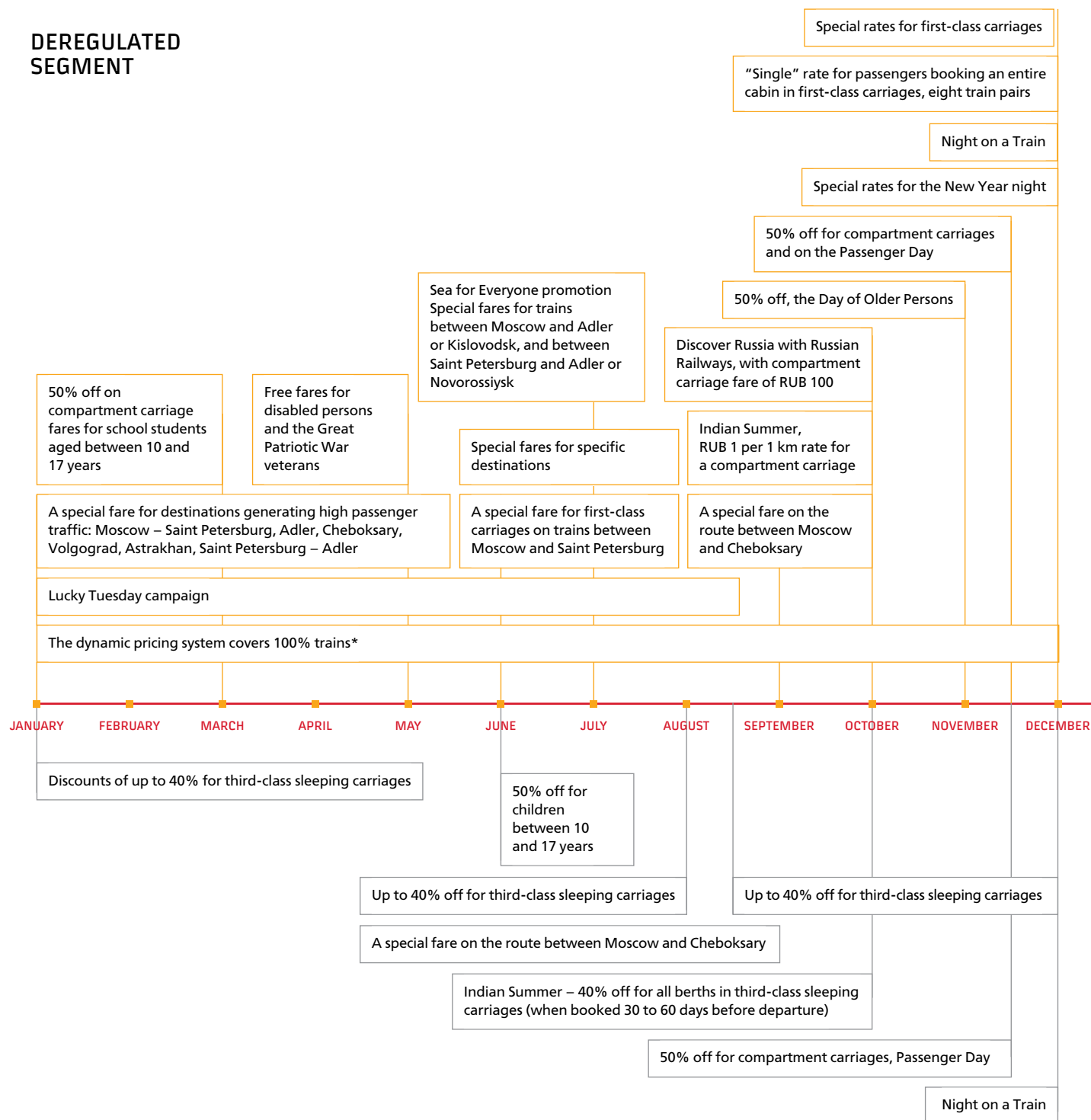
Twelve varied-scale global promotional campaigns were run in the regulated segment across different seasons and channels to maintain passenger traffic and make FPC's services more affordable to customers.

Key promotional campaigns:

1. 20%–40% discounts were offered for upper berths in third-class sleeping carriages in 380 trains for departure dates between 16 August and 24 September 2017. Over the campaign period, the number of passengers carried was up 6% year-on-year, while the revenue generated declined by 1% year-on-year. As a result, 160,000 more passengers were carried in third-class sleeping carriages on trains covered by the promotion
2. Special rates were set for trains serving the Moscow – Cheboksary route for departure dates between 4 September and 31 October 2017. An additional 24,100 passengers used the offer, including 20,900 passengers in the deregulated segment, and 3,200 passengers in the regulated segment. Overall, fares on this route were reduced by 30% on average in the deregulated segment, and by 50% on average in the regulated segment
3. A 40% discount on fares in third-class sleeping carriages (upper side berths and berths at the end of the carriage) was offered in October and November 2017. The number of passengers carried in October and November 2017 in third-class sleeping carriages was up 1% year-on-year
4. The Indian Summer promotion covered 84 trains running to and from Adler, Anapa, and Novorossiysk. Over the two months of the promotion (October and November 2017), the participating trains carried 122,500 passengers (or 10%) more year-on-year. Additional revenue generated by the promotion was RUB 62.5 million (up 3% year-on-year).



## DEREGULATED SEGMENT



## REGULATED SEGMENT

## Results of marketing promotions

### In the regulated segment:

Close to 12 million passengers used discount offers for third-class sleeping carriages in 2017, up 20% year-on-year.

By scaling up our marketing promotions, we were able to mitigate the implications of the 3.9% price indexation as the average fare in the regulated segment only increased by 2.6%.

**12**  
million passengers

used discount offers  
for third-class sleeping  
carriages

### In the deregulated segment:

In 2017, the average fare for compartment carriages decreased by 1.8% following the roll-out of the dynamic pricing system and a range of marketing promotions run to target all passenger groups.

Over 8.5 million passengers used the discounted and special fare offers for compartment carriages in 2017, up 6% year-on-year.

## Marketing policy plans for 2018

In 2018, FPC plans to improve its revenue management system, optimise ticketing algorithms, and introduce a pricing policy with predictable rules of changes in fares.

We will continue to run marketing campaigns in 2018 to generate additional passenger traffic.

The planned marketing promotions are grouped by calendar low season, destination, train type, sales channel, and passenger category.

The following promotions will be run during May holidays in Russia:

- free travel for disabled persons and the Great Patriotic War veterans plus a free fare for one travelling companion in luxury, first-class, and compartment carriages, or carriages with open-plan seating on all domestic trains (departing between 1 and 31 May 2018)

- Hero Cities promotion with a special fare of RUB 1,945 (for departure dates between 7 and 12 May 2018).

FPC offers the following special fares for children between 10 and 17 years:

- A 50% discount for compartment carriages in FPC's domestic long-distance trains between 25 May and 1 June 2018 and between 25 August and 1 September 2018
- A 50% discount for tickets booked for third-class sleeping, third-class sitting carriages, and carriages with open-plan seating and second- and third-class carriages in multiple unit trains between 1 June and 31 August 2018

Another highlight of our marketing policy in 2018 will be preliminary notifications of passengers about promotions, with promotion tickets made available by the promotion sales start.

**8.5**  
million passengers

used discount offers  
for compartment  
carriages

# GOVERNMENT RELATIONS

FPC's main focus areas in government relations during 2017:

- Preparation for providing transport to football fans during the 2017 FIFA Confederations Cup and 2018 FIFA World Cup
  - Adopting mutually acceptable tariff solutions in the regulated segment
  - Promoting the Company's interests in the expected deregulation of the passenger services market
- 

Transportation of fans visiting the 2017 FIFA Confederations Cup and 2018 FIFA World Cup was approved under the Transport Strategy for the 2017 FIFA Confederations Cup and the 2018 FIFA World Cup in Russia (approved by Decree of the Russian Government No. 2858-r dated 27 December 2016) as part of FPC's commitments.

During the reporting year, working closely with the Transport Directorate of the 2018 FIFA World Cup Russia, FPC transported 52,000 fans between host cities of the 2017 FIFA Confederations Cup in July 2017, and preparations are currently underway for the World Cup in June and July 2018.

A number of regulations were adopted to provide a legal framework for rail passenger transportation, most notably:

- Resolution of the Russian Government No. 1486 On Amending Rules of Tickets Issue to Passengers and Their Boarding Trains when Travelling to the Kaliningrad Region from the Rest of the Russian Territory via the Republic of Lithuania and back by Rail dated 7 December 2017, making return e-ticket purchases possible for the Moscow – Kaliningrad route
- Decree of the Russian Ministry of Transport No. 295 On Approval of E-Receipt in the Rail Transport dated 10 August 2017, enabling electronic baggage check-in
- Decree of the Federal Antimonopoly Service of the Russian Federation (FAS Russia) No. 1487/17 on tariffs in the regulated segment of long-distance passenger services, dated 10 November 2017. By FAS decision, tariffs for 2018 were fixed at the 2017 levels.

In 2017, FPC also continued its collaboration with the State Duma in preparing a draft of Federal Law On Amendments to Article 83 of the Federal Law – Railway Transport Statute of the Russian Federation, aiming to facilitate lower ticket prices for long- distance rail passenger services throughout Russia.

The draft law introduces amendments authorising a carrier to sell non-refundable tickets, such as those which are not refunded if the trip is cancelled by the passenger, and its second reading is expected at the State Duma spring session 2018.

Importantly, ongoing efforts have been made to create new and favourable conditions for the passenger services market's deregulation. The main operating principles in the new environment are outlined in Draft Federal Law On Regular Rail Passenger Services in the Russian Federation and Amending Certain Legislative Acts of the Russian Federation.

As the draft law has a high degree of completion and the Russian Government intends to introduce it to the State Duma in 1H 2018, Petr Ivanov, FPC General Director, held a number of working meetings with the Governors of the Voronezh, Rostov, Astrakhan, Saratov, and Samara Regions, as well as the Khabarovsk Territory, Republics of Ingushetia and Buryatia, Udmurt Republic, and the President of the Republic of Tatarstan.

The meetings discussed improvements to public mobility across the regions and service quality, railway tourism development, and involving the Company's property assets into civil and legal circulation.

These efforts are intended to create favourable conditions for collaboration with territorial entities of the Russian Federation in anticipation of the rail passenger sector's transitioning to a new operating framework.



# RISK MANAGEMENT, INTERNAL CONTROL, AND INTERNAL AUDIT

During the year, FPC continued to develop and formalise its risk management, internal control, and audit system procedures as recommended by the Bank of Russia's Corporate Governance Code.

In August 2017, FPC's Board of Directors made a resolution approving a new organisational and HR model of the Company's administration, which, for the purpose of delimitation of control and audit functions, established a stand-alone Internal Audit Unit, with administrative reporting to the General Director of the Company and functional reporting to the Board of Directors.

The previously established Internal Audit Centre was renamed the Control and Audit Centre in accordance with its functions. The Risk Management and Internal Control Unit was renamed the Risk Management Unit.

The above bodies are governed both by applicable regulations and the local regulations of FPC.

## Roles allocation

Role	Risk Management and Internal Control	Internal Audit
Allocated to a separate structural unit	Risk Management Unit	Internal Audit Unit
Reporting to	PC's Deputy General Director for Safety and Security with responsibility for the risk management system	Administrative reporting to FPC General Director of and functional reporting to FPC's Board of Directors The unit leader was approved by the Board of Directors on 22 December 2017 (Minutes No. 14)
The unit's key objectives	Organise FPC's risk management Coordinating and improving risk management processes, developing internal control framework Performing day-to-day monitoring of the risk management process in FPC and its subsidiaries, as prescribed Monitoring and supervising the risk management process at FPC	Evaluating performance of the internal control system of FPC and its subsidiaries Evaluating performance of the risk management system of FPC and its subsidiaries Evaluating performance of the corporate governance practice at FPC
The unit's activities regulated by (key documents)	Regulations on Risk Management approved by General Director's Order No. FPC-557 dated 10 December 2017 JSC FPC's Risk Management Policy approved by Resolution of the Board of Directors dated 14 December 2015 (Minutes No. 8)	Regulations on JSC FPC's Internal Audit Unit approved by Resolution of the Board of Directors dated 30 March 2018 (Minutes No. 22) Regulations on JSC FPC's Internal Audit Organisation, approved by Resolution of the Board of Directors dated 30 March 2018 (Minutes No. 22)
Full name of the unit leader	Sergey Selishchev, born 1972	Pavel Frolov, born 1968

## RISK MANAGEMENT AND INTERNAL CONTROL

The purpose of risk management in FPC is to provide reasonable assurance on the achievement of the Company's strategic, tactical, and operational goals in an uncertain environment by effectively taking advantage of attractive opportunities while mitigating risks.

FPC's risk management process is governed by the Company's Risk Management Policy as approved by its Board of Directors.

A new version of FPC's Risk Management Policy was prepared in 2017 and will be submitted to FPC's Board of Directors.

The Risk Management Committee established in 2016 is the central decision-making body for risk management at FPC.

FPC has a stand-alone risk management unit. Its primary objective is to coordinate and improve risk management processes, and develop an internal control framework. The risk management unit is also responsible for setting up FPC's risk management process and functioning of FPC's Risk Management Committee.

Drafts of FPC's risk maps, matrix models, and matrices were developed in 2017 and are awaiting approval by FPC's Board of Directors in 2018.

In 2017, FPC continued its efforts to build a risk management framework at its branches and subsidiaries.

FPC is governed by the following key risk management principles:

1. Comprehensive approach to risk management
2. Continuity of the risk management process

3. Involvement of all employees in risk management as part of their duties
4. The risk management framework covers all FPC's activities
5. The risk management process is based on uniform principles and approaches
6. Segregation of duties among participants of the risk management system
7. Making management decisions with due regard to risks
8. Balanced criteria for making decisions on risk handling – striking the right balance between potential losses and opportunities, as well as between risk management costs and potential damages if the risk occurs.

The FPC's Risk Management System aims to address the following tasks:

- Development and maintenance of a uniform, methodology-based approach to risk management across FPC
- Identification, analysis, assessment, selection, preparation, and implementation of risk mitigation plans with consideration of the cost vs benefit balance
- Ensuring integrity, reliability, and effectiveness of risk management at FPC



- Allocation of risk management responsibilities among FPC's personnel and inclusion of these in corporate regulations
- Development of FPC employees' skills to ensure successful performance of risk management roles and responsibilities
- Integration of the risk management process into FPC's management and operational processes and regulation of interactions between the risk management process participants
- Allocation of required and sufficient resources to support risk management
- Creation and maintenance of effective communication channels to support engaging internal and external stakeholders in risk management
- Development of risk management reporting mechanisms, ensuring the completeness, reliability, and timeliness of reporting
- Continuous improvement of the risk management infrastructure and process.

## Risk mitigation approaches

Risk avoidance is an approach that implies discontinuing a particular activity (such as abandoning a project, exiting a market, etc.).

One method of risk avoidance involves changing strategic, tactical, or operational goals.

Risk acceptance (conscious risk retention) means risk monitoring without any active treatment of such risks, where the risks are at an acceptable level or where risk treatment is impossible or makes no economic sense.

This approach is also used where all risk mitigation methods available are economically unviable compared to the potential damage of the risk occurrence.

Eliminating the source of risk means addressing the risk source through actions that mitigate its adverse effects.

Mitigating the possibility (likelihood) of risk occurrence (reducing the likelihood of risk occurrence) means actions to reduce the likelihood of risk occurring.

Mitigating risk consequences (reducing the severity of risk consequences) means loss minimisation through appropriate actions.

Risk sharing with another party (parties) means reducing the likelihood and/or effect of risk through risk transfer or any other partial risk reallocation. Conventional risk sharing methods are as follows: insurance, liability sharing, outsourcing, and hedging.

## Stages of the risk management process



FPC's internal control system aims to provide reasonable assurance on the achievement of FPC's goals.

FPC's internal control is governed by the Company's Internal Control Policy as approved by its Board of Directors.

The primary objectives of FPC's internal control system:

- Assuring the efficiency and performance of financial and business operations
- Safeguarding the assets and ensuring the cost effective use of resources
- Risk identification and management
- Ensuring the reliability and completeness of accounting (financial) statements and other types of reporting
- Ensuring compliance with laws and regulations of the Russian Federation as well as FPC's corporate regulations.

The organisation and operation of FPC's internal control system are based on the following components:

- Control environment
- Risk assessment
- Internal control procedures
- Information and communication
- Monitoring.

The following requirements apply to FPC's internal control system and are essential for its effective operation:

Key risks factors associated with FPC's operations are:

- significant fluctuation of inventory and fuel and energy prices
- increased competition (adjustments to pricing policy and dumping by FPC's competitors, expansion of air transport infrastructure)
- lower or no price indexation

- Integration
- Comprehensiveness
- Continuity
- Timely information sharing
- Accountability
- Focus on risks
- Delineation of responsibilities
- Agility.

In its operations, FPC uses the approach driven by the three lines of defence model based on roles and responsibilities sharing. Each of the three lines is crucial in defining the conceptual framework for FPC management and increases the probability of FPC successfully achieving its goals.

The first line of defence is comprised by business units that are risk owners managing risks, such as those exercising operational control and internal control procedures.

The second line of defence are business units responsible for the effective functioning of control procedures and risk management processes used by the first line of defence. Business units in the second line of defence are independent from those in the first line, but are reporting to the executive management of FPC.

Internal audit, as an independent assurance function, is the third line of defence, whose main responsibility is assessing the performance of the internal control system.

- change of economic and political environment in Russia
- more challenging social and demographic environment in urban and rural areas
- lower spending capacity and real household disposable income
- FX rate fluctuations
- increased governmental support for air transport.

# PASSENGER SERVICE

The successful implementation of the Year of the Passenger Programme in 2016 did not make FPC complacent.

In 2017, FPC contributed to the development and implementation of the Action Plan for improving passenger service quality in 2017–2019 and the Passenger Service Improvement Programme for 2017–2019.

The Programme and the Plan aim to increase passenger satisfaction levels throughout all stages of their journey:

- Selecting the mode of transport
- Purchasing a ticket
- Waiting for the train
- Service throughout the journey
- Improving the passenger feedback process.

RUB 17.8 billion were invested in the initiatives.

FPC identified the key categories of passenger requests and focused most of its activities on:

- on-board services
- the technical condition of trains
- ticket booking services
- catering.

FPC's efforts helped reduce the number of complaints for all categories. Ticket booking services and the technical condition of trains demonstrated the best results, with complaints down by 49% and 23%, respectively.

**RUB 17.8**  
**billion**

budget of service  
quality improvement  
initiatives

## BOOKING BAGGAGE TRANSPORTATION E-TICKETS ONLINE AND FOR DISABLED PERSONS

Information accessibility and easy-to-use electronic services, which form part of a modern person's life, drive the appeal of our services to passengers and are our focus.

During the year, a service was implemented for booking electronic carriage documents for special luggage and pets through the Russian Railways website.

Passengers can now book an e-ticket with electronic carriage documents for transporting:

- small pets in carriers
- electronics, consumer video and audio equipment, sports and camping equipment beyond the regular standards.

Electronic carriage documents for baggage are generated and paid upon booking a ticket.

Since 11 April 2017, disabled persons can book dedicated seats in long-distance trains on the Russian Railways website.

## SUPPORTING SPECIAL NEEDS PASSENGERS

**50 %**  
**discount**

for passengers with  
reduced mobility

For unimpeded passenger, baggage, and wheelchair access from platform to carriage and back, FPC provided removable ramps for 41 branded trains, 6 international trains, and 7 express trains (1,403 carriages in total), which depart from and arrive at high platforms.

To support reduced mobility passengers, FPC introduced a 50% discount off the prices specified in the Tariff Guidelines for the deregulated transportation segment. Over 69,000 tickets were sold within this initiative in 2017.

## SELLING TICKETS FOR TRAVEL TO THE KALININGRAD REGION

Pursuant to Resolution of the Russian Government No. 1486 On Amending Rules of Tickets Issue to Passengers and Their Boarding Trains when Travelling to the Kaliningrad Region from the Rest of the Russian Territory via the Republic of Lithuania

and back by Rail dated 7 December 2017, e-ticket booking and online registration for FPC's trains on routes to the Kaliningrad Region via Belarus and Lithuania has been possible since 19 December 2017 on web portals.



## MEAL FREQUENCY SELECTION, FPC MARKET

Since 2017, 48 trains have been offering a diversified menu of extra meals throughout the journey at an affordable price when booking at a ticket office or on the Russian Railways website. In December 2017, [www.pass.rzd.ru](http://www.pass.rzd.ru) launched the pilot testing of FPC Market, a web service for selling merchandise to passengers.

When booking a ticket, a passenger may also purchase children's goods, printed media, souvenirs, travel goods, hot and cold beverages, desserts, and snacks. Goods purchased by the passenger form a separate order which is paid at the time of ticket booking, and the order is then issued by the train crew.

**on 48**  
**trains**

extra meals are  
available

## CARE FOR CHILDREN

From 1 June to 30 November 2017, all children travelling in FPC's compartment, first-class, and luxury carriages of branded trains and in premium carriages received one of two types of travel kit depending on age group. Children from 0 to 5 years old received a small daypack with a picture

of a train, a table-top game, a puzzle, wax pencils, and a book with creative tasks; while children from 5 to 10 years old received a small bag with a game of skill, a paper construction kit, pencils, and a colouring book. Over 260,000 travel kits were handed out to FPC's little passengers.

## INFOTAINMENT PORTAL

Poputchik (Fellow Passenger) infotainment portal was implemented on 45 branded trains and non-branded Strizh trains, train No. 45/50

Moscow – Samara, and express trains running between Bryansk and Moscow.



**16,000**  
cars

carried since 2012

## CAR TRANSPORTERS

New routes were introduced for car transporters: Moscow – Rostov-on-Don, Moscow – Kazan, and Rostov – Adler.

The number of cars carried increased by 10.5% year-on-year, with a total 16,000 cars transported by FPC since 2012.

## RZD BONUS LOYALTY PROGRAMME

RZD Holding launched RZD Bonus Loyalty Programme for families in 2017.

All family members can now accumulate bonus points on a joint account.

## UNIFORM SERVICE STANDARDS

STO FPC 1.05.001-2017 Corporate Standard "Passenger Services on Trains Made up by Joint Stock Company Federal Passenger Company. Service Quality Requirements for Carriages with Luxury Compartments" was introduced on 1 July 2017 to establish uniform service standards.

Service quality requirements applicable to carriages with luxury compartments.

The Standard was prepared to reflect international practice of VIP customer services. It sets forth requirements for services rendered, carriage equipment, and service staff.



## PREMIUM LOUNGES

In 2017, FPC and the Directorate of Railway Stations introduced a project providing luxury carriage passengers with free access to premium lounges at railway stations.

Such passengers are provided with services of personal hygiene rooms, mobile and portable device charging, wi-fi, and hot beverages.

The service is available to those with a luxury carriage ticket when entering the premium lounge at 18 railway stations.

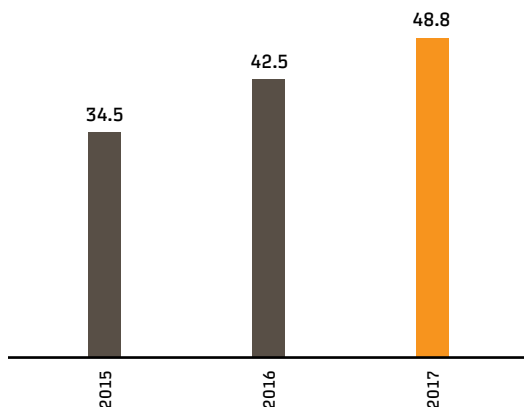
## CARRIAGE EQUIPMENT

All new rolling stock is equipped with environmentally friendly toilet facilities (composting toilets) and air conditioning units.

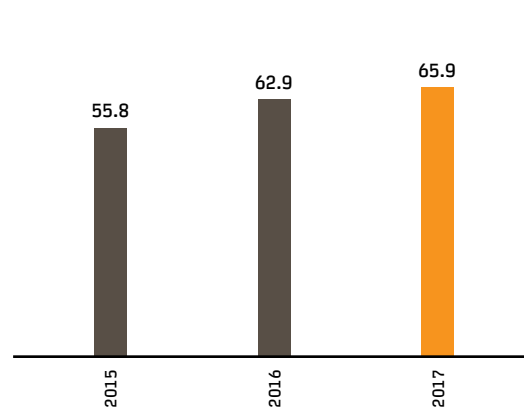
In 2017, the percentage of carriages equipped with air conditioning units increased by 3%, and the number of carriages with environmentally friendly toilet facilities increased by 6.3 % of the assigned fleet.

Availability of carriages equipped with air conditioning units and environmentally friendly toilet facilities

% of the assigned fleet equipped with composting toilets



% of the assigned fleet equipped with air conditioning units




To provide its passengers with maximum comfort during a long-distance journey, FPC provides its carriages with innovative removable mattresses. Most carriages of FPC's Northwest Branch have already been provided with synthetic mattresses, which have an internal case with fire and biological protection and are moisture and odour resistant, providing extra comfort and improving the hygienic conditions of passenger travel.

PC provided another 2,321 carriages with extra sockets for device charging.

All branded trains, including dining carriages, accept bank cards as of 2017.

# SERVICE CLASSES FOR FPC'S CARRIAGES

Carriage type	Service class	Consumer properties and value-added services				
		On-train services	A/C	Composting toilet	Transporting animals	
Luxury	1A (4 compartments)	+	+	+	Small animals transported free of charge. No large dogs allowed.	
	1I (5 compartments)	+	+	+		
	1M (6 compartments)	+	+	+		
First-class	1E	+	+	+	Transporting small animals. Small animals transported free of charge. An entire compartment must be booked for transporting large dogs. Only one large dog may be transported at a time. Large dogs transported free of charge.	
	1B	+	+	+	Small animals transported free of charge. Only one large dog may be transported at a time. Large dogs transported free of charge.	
	1E	+	+	+	Small animals transported free of charge. No large dogs allowed.	
	1U	-	+	+	An entire compartment must be booked for transporting small animals. Small animals transported free of charge. An entire compartment must be booked for transporting large dogs.	
	1L	-	+	-	Only one large dog may be transported at a time. Large dogs transported free of charge.	
	1D (tourist)	-	+	-	No	
Compartment	2E	+	+	+	An entire compartment must be booked for transporting small animals. Small animals transported free of charge. An entire compartment must be booked for transporting large dogs.	
	2B	+	+	-	Only one large dog may be transported at a time. Large dogs transported free of charge.	
	2K	-	+	+	No entire compartment booking required for transporting small animals. Extra charge for transporting animals. Several large dogs may be transported.	
	2Y	-	+	-	Large dogs may be transported subject to paying the full fare for all seats in the compartment without extra charge for the transportation; the number of dogs and their owners or accompanying persons travelling in the compartment must not exceed the number of seats.	
	2L	-	-	-	Large dogs transported free of charge.	
	2D (tourist)	-	-	-	No	

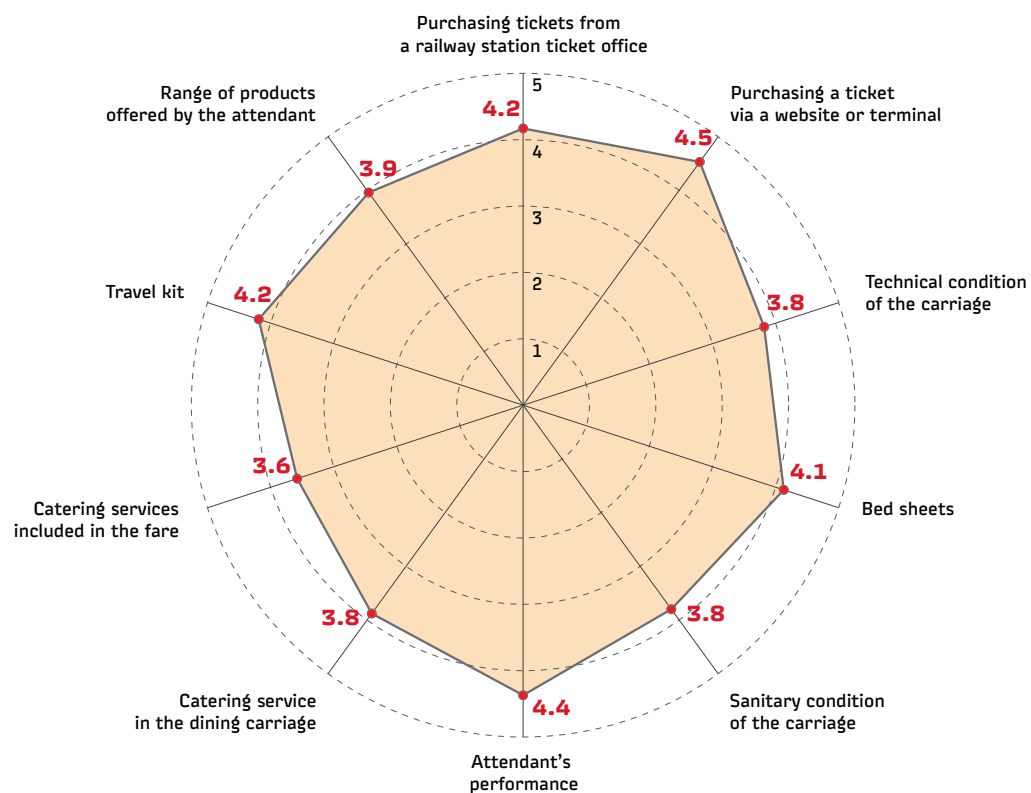
Carriage type	Service class	Consumer properties and value-added services			
		On-train services	A/C	Composting toilet	Transporting animals
Third-class sleeping	3E	–	+	+	No
	3T	–	+	–	No
	3D	–	+	–	No extra seat booking required for transporting small animals. Extra charge for transporting animals.
	3U	–	–	–	
	3L	–	–	–	No
	3P (for organised groups of children)	–	+	+	No
With seats (locomotive-hauled)	1R (improved seat arrangement)	+	+	+	No
	2R (standard arrangement)	+	+	+	No
	3R (seating carriage based on a compartment carriage)	+	+	+	No
	1V (seating carriage, separate compartment)	+	+	+	Small animals transported free of charge. No large dogs allowed.
	2S	–	+	+	No
	2V	–	+	–	No extra seat booking required for transporting small animals. Extra charge for transporting animals. No large dogs allowed.
	3Zh	–	–	–	
	2E	–	+	–	No
	3S	–	–	–	No
With seats (multiple-unit trains)	1S (improved seat arrangement)	–	+	+	No
	2S (standard arrangement)	–	+	+	No
	2V	–	+	+	No extra seat booking required for transporting small animals. Extra charge for transporting animals. No large dogs allowed.
	3Zh	–	–	–	
	2M (improved seat arrangement)	–	–	–	No
	3S (standard arrangement)	–	–	–	No
Open-plan carriage with seats	3O	–	–	–	No
	3V	–	–	–	No

## Online survey for assessing service quality

Service quality assessment

(on a scale from 1 to 5, where 5 stands for “excellent” and 1 – for “very poor”)

FPC will continue to monitor passenger service quality assessments in 2018.



Online survey on the website:

**OPROS.FPC.RU**



January – December 2017



Number of respondents:

**25,948**  
people

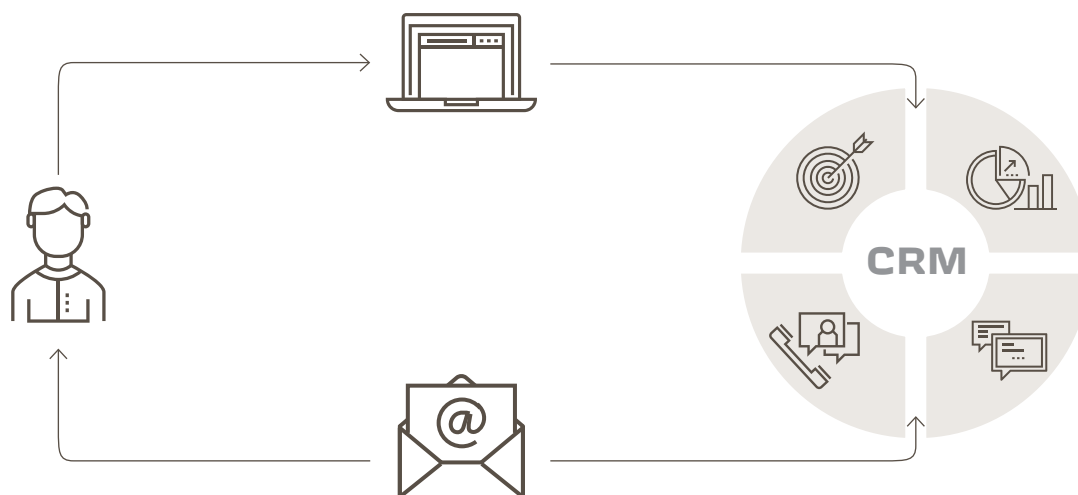


Overall service quality score

**4.1**  
points

## Introducing a system for assessing service quality after travel for passengers who have purchased an e-ticket

### Set-up of the FPC – passenger communication channel



Personalised messages thanking passengers for travelling with FPC's trains and prompting a service quality assessment

Targeted personalised offers based on a RTDM retrospective analysis of each specific passenger's mobility RTDM

### Impact:

- Better customer focus and image of FPC
- Higher passenger loyalty (higher NPS)
- Attracting new customers to RZD Bonus Loyalty Programme
- Establishing a passenger mobility database as an extra analytics tool





# CORPORATE

## QUALITY MANAGEMENT SYSTEM

FPC's corporate quality management system ("FPC's QMS") is built in line with Russian Railways' Quality Management Strategy and the Regulations on Russian Railways' Quality Management System. Measures set out in Russian Railways' Quality Management Strategy and the Regulations

on Russian Railways' Quality Management System are implemented in accordance with the Passenger Service Improvement Programme for 2017–2019.

Quality management activities in the Company are governed by JSC FPC's Quality Policy.



JSC Federal Passenger Company is a customer-focused, national carrier providing long-distance rail passenger services across Europe and Asia.

**In managing the quality of its services, FPC strives to:**

- fully meet customer requirements and expectations by continuously improving service quality and ensuring high levels of service, comfort, and safety
- continuously improve the Company's operational efficiency and performance by enhancing its corporate quality management system and business processes and introducing new technologies for lean production, rolling stock maintenance and passenger service.

**To achieve these goals and ensure sustainable development, FPC's management undertakes to:**

- follow the Management's Leadership principle, foster collaboration between employees in achieving goals, enhance their competence, motivation, and corporate relations culture
- support and develop mutually beneficial long-term relations with suppliers, improve the satisfaction levels among the Company's customers and all its stakeholders
- manage potential corporate risks, prevent recurring and potential inconsistencies, and make decisions based on objective evidence and stakeholder requirements
- keep the corporate quality management system compliant with ISO 9001:2015 international standard and stakeholder requirements
- continuously improve the corporate quality management system, enhance operational efficiency and performance through process improvement, innovation and cost optimisation.

FPC's management assumes responsibility for taking steps to implement the Quality Policy and provide relevant resources.

FPC's QMS processes are defined and described in accordance with Russian Railways' Guidelines for Process Quality Management Modelling.

In November 2017, five branches of the Company passed a QMS inspection for compliance with GOST R ISO 9001-2015 "Quality management systems – Requirements":

- Northern Branch, including 7 business units
- Northwest Branch, including 8 business units
- Ural Branch, including 5 business units
- South Urals Branch, including 4 business units
- Kuybyshev Branch, including 5 business units.

Following the inspection, LLC DQS (a subsidiary of the DQS Group, head-quartered in Frankfurt, Germany) issued Compliance Certificate No. 31101056 QM15 dated 1 December 2017 and valid until 28 November 2019 for the following business processes:

- Transportation of passengers, baggage and unaccompanied baggage
- Passenger assistance and services on long-distance trains
- Carriage servicing and maintenance in transit
- Issuance and sales of travel and carriage tickets and documents
- Carriage servicing before journey

- Carriage overhauls with service life extension (KVR)
- Depot repairs (DR)
- Carriage overhauls (KR-1)
- Carriage overhauls (KR-2)
- Current repairs of coupled/uncoupled carriages
- Wheelset repairs
- Repairs of carriage components and assemblies
- Carriage maintenance (TO-1, TO-2 and TO-3).

All the processes are annually inspected by a certifying body in no less than 33% of branches and relevant business units.

Compliance of FPC's QMS with GOST R ISO 9001-2015 is checked through internal audits. In 2017, the Company developed an internal audit programme for the corporate quality management system.

Internal audits of FPC's QMS were conducted in accordance with the Company's corporate Standard for Internal Audits of the Quality Management System, FPC STO 1.006.1-2.

To assess the effectiveness of FPC's QMS, the Company developed a list of FPC's Quality Targets for 2017. The internal audit results suggest that all corporate targets for 2017 have been fully achieved.

## FPC's Quality Targets for 2018

No.	Target	Measures of success	Responsibility
1	Year-on-year reduction in carriages uncoupled for current repairs	$\geq 5.0\%$ – target achieved $4.9\% - 3.0\%$ (inclusive) – target partially achieved $< 3.0\%$ – target not achieved	Rolling Stock Management Department
2	Year-on-year reduction in train delays due to improper repairs or maintenance of passenger carriages	$\geq 5.0\%$ – target achieved $4.9\% - 3.0\%$ (inclusive) – target partially achieved $< 3.0\%$ – target not achieved	Rolling Stock Management Department
3	No irregularities in supplying carriages with solid fuel and water	$\leq 3.0\%$ – target achieved $3.1\% - 5.0\%$ (inclusive) – target partially achieved $\geq 3.0\%$ – target not achieved	Rolling Stock Management Department
4	Proper fit-out of compartments/seats	$95.0\%$ – target achieved $94.9\% - 90.0\%$ (inclusive) – target partially achieved $< 90.0\%$ – target not achieved	Passenger Service Department
5	Year-on-year reduction in ticketing-related complaints by passengers at FPC's ticket offices	$\geq 5.0\%$ – target achieved $4.9\% - 3.0\%$ (inclusive) – target partially achieved $< 3.0\%$ – target not achieved	Sales Department
6	Meeting the passenger carriage maintenance and repair budget under the Inventory Supply Plan	$\geq 97.0\%$ – target achieved $96.9\% - 95.0\%$ (inclusive) – target partially achieved $< 95.0\%$ – target not achieved	Procurement and Contracting Centre
7	Implementation of the Action Plan for Training, Re-training and Professional Development of FPC's Employees	$100.0\%$ – target achieved $99.9\% - 97.0\%$ (inclusive) – target partially achieved $< 97.0\%$ – target not achieved	HR and Social Development Department
8	Certification of QMS compliance with GOST R ISO 9001-2015 (Quality Management Systems – Requirements)	Compliance with GOST R ISO 9001-2015 certified before 30 November 2018 – target achieved Compliance with GOST R ISO 9001-2015 not certified by 30 December 2018 – target not achieved	Technical Policy Department

# SAFETY AND SECURITY

Operation safety of FPC's passenger trains is a top priority for the Company.

## TRAIN OPERATION SAFETY

Over the years since the Company was established, no traffic incidents (derailments or accidents) have happened through FPC's fault.

Consistent efforts to reduce the number of incidents resulting from violation of traffic or railway safety rules are an integral part of the Transport Strategy<sup>1</sup> for Guaranteed Security and Reliability of Transportation Process in the Russian Federation for the Period until 2030.

The Company maintains traffic safety through:

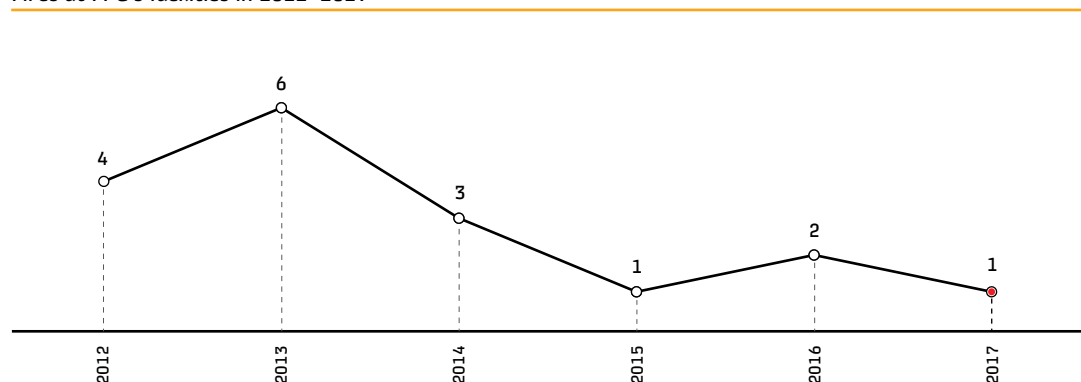
- implementation of the Action Plan to Improve Traffic Safety Measures and Achieve Accident Reduction Targets at JSC FPC
- on-schedule delivery under the Action Plan to Ensure Functional Traffic Safety on the Infrastructure of JSC RZD
- technical audits and inspections conducted in FPC's branches and their structural units to ensure traffic safety, monitor elimination of identified gaps, and develop corrective actions
- technical audits of repair and maintenance processes in structural units of FPC's branches.

<sup>1</sup> Decree of the Russian Government No. 1734-r On the Transport Strategy of the Russian Federation dated 22 November 2008.

## FIRE SAFETY

One fire incident took place during 2017 (vs two incidents in 2016), with no damage to property.

Fires at FPC's facilities in 2012–2017



<sup>1</sup> fire broke out at a mothballed facility of the South Eastern Branch. It was caused by a combustion source brought in by an unidentified person. No damage was caused to the property.

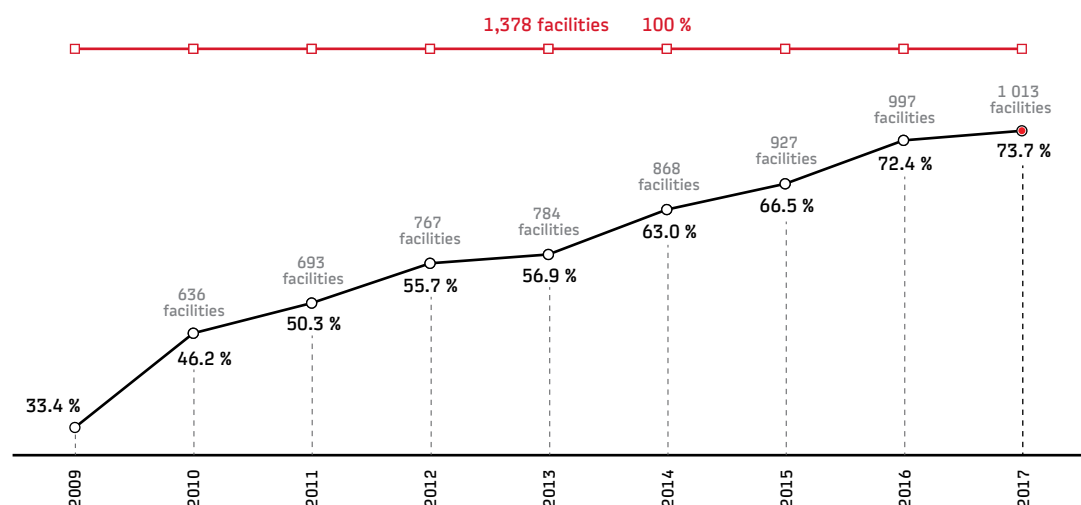
**> RUB 180**  
million

invested in fire safety

As part of its Investment Programme, the Company installed and commissioned 18 fire protection

systems, or in 73.7% of the facilities in need of such systems (1,378).

#### FPC facilities with fire safety systems installed



As part of the Operational Programme for Fire Safety in 2017, FPC spent over RUB 180 million on fire safety measures, with:

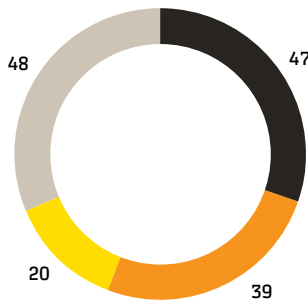
- fire safety systems serviced
- over 14,000 fire extinguishers, over 9,000 eye and respiratory PPE units, and
- over 9,000 units of fire-fighting equipment (cabinets, hoses, racks, nozzles, posters and spades) purchased and put into service.

Over RUB 20 million were invested in measures to meet fire safety regulatory requirements, in particular to:

- service over 76,000 fire extinguishers
- fireproof 98,000 sq m of premises
- test over 250 escape ladders and roof railings
- test capacity of over 3,500 fire valves and hydrants on external and internal fire mains
- assign explosive and fire hazard classes to 345 premises in accordance with the Electric Installation Guidelines
- install over 200 fire-rated doors.

Over RUB 48 million were spent on daily fire prevention measures for FPC's rolling stock and facilities under the contract with FGP VO ZDT of Russia.

### Implementation of the Operational Programme for Fire Safety in 2017, RUB million



In 2017, FPC spent over RUB 180 million on fire safety.

- Over 780 fire safety systems (including emergency alerting, evacuation management, fire alarm, fire suppression and smoke removal systems) serviced at FPC's facilities
- Fire safety materials and equipment (fire extinguishers, Strazhnik-3 fire extinguishing aerosol generators, eye and respiratory personal protective equipment (PPE), and fire-fighting equipment) purchased
- Fire safety services provided to provide maintenance for fire extinguishers, to fireproof facilities, and test the fire mains capacity.
- Fire prevention services for FPC's rolling stock and stationary facilities (under a contract with FGP VO ZDT of Russia).

In 2017, the Company developed and introduced JSC FPC's Regulations on Interaction with Fire System Maintenance Service Providers.

In accordance with the repairs plan for 2017, 31 passenger carriages were upgraded to meet fire safety requirements.

## INDUSTRIAL SAFETY

In 2017, FPC implemented a Centralised Industrial Safety Programme. The Company invested RUB 42.0 million to implement 506 activities at its hazardous facilities and organize expert assessments, inspections and certifications of machinery and engineering structures.

RUB 141.9 million were spent on FPC's Investment Programme to Upgrade Hazardous Production Facilities.

As part of the Programme, the Company replaced and upgraded hoisting equipment, replaced pressure equipment, and prepared design documents to upgrade boiler plants operated by business units of FPC's branches.

**141.9**  
million

invested in upgrading  
hazardous production  
facilities



## TRANSPORTATION SAFETY AND SECURITY

FPC's arrangements for transportation safety and security are governed by Federal Law No. 16-FZ On Transportation Safety dated 9 February 2007, and other regulations.

Pursuant to Resolution of the Russian Government No. 495 On Approval of Transportation Safety Requirements, Including Requirements for Anti-Terrorism Protection of Facilities (Zones) by Safety Class of Rail Transport Infrastructure Facilities and Rolling Stock dated 26 April 2017, adopted on 1 July 2017, FPC carried out an additional vulnerability assessment of the Company's transport infrastructure facilities and vehicles.

Results of an additional vulnerability assessment were approved by the Federal Agency for Railway Transport (Roszheldor).

All international passenger trains made up in foreign countries and travelling in the territory of the Russian Federation were escorted by train crew safety instructors, resulting in a significant reduction in the number of technical failures in carriages, on-board equipment, electrical equipment and fire-fighting systems on such trains.

The Company's prevention efforts in 2017 resulted in zero unlawful interferences<sup>1</sup> at transport infrastructure facilities and in passenger trains.

<sup>1</sup> Unlawful interference is an unlawful action (omission), including a terror attack, such as to jeopardise the safety of the transport system, resulting in damage to life and health of individuals, financial damage or posing a threat of such consequences; unlawful and illegal actions, etc.

## ADDITIONAL SAFETY AND SECURITY MEASURES DURING FIFA CONFEDERATIONS CUP

For the 2017 FIFA Confederations Cup period, the Company signed additional agreements and contracts with security service providers to escort and monitor 1,355 relevant trains.

FPC also signed contracts with security providers in the FIFA Confederations Cup host cities to increase the number of security lodges to manage external and internal access at the guarded facilities.

The Company maintained full functionality of security and transportation safety systems.

No instances of unlawful interference or offences at the facilities or rolling stock involved in servicing

football fans and visitors to the international sporting event held in the Russian Federation were registered during the period of the event.

Based on the experience of maintaining security at the Company's facilities and on passenger trains during the 2017 FIFA Confederations Cup and due to amendments to the Russian laws covering transportation safety and security on long-distance trains, FPC decided to engage certified providers of transportation security services during the 2018 FIFA World Cup.

## CORPORATE, ECONOMIC, AND INFORMATION SECURITY

In 2017, the Company arranged for the escort of 10,992 passenger trains by private security companies, up 18.0% year-on-year.

The Company strongly focused on providing security for children travelling in groups.

As part of the government-sponsored Integrated Programme to Ensure Public Safety on Transport, FPC's facilities located in the cities hosting the 2018 FIFA World Cup were fully furnished with lodges for security providers.

Due to FPC's economic security initiatives, the amount of unjustified losses recovered as a result of inspections in 2017 exceeded RUB 92 million, and prevented losses totalled over RUB 5,172 million.

The Company's information security is ensured in accordance with the requirements of the Information Security Concept approved by FPC's General Director.

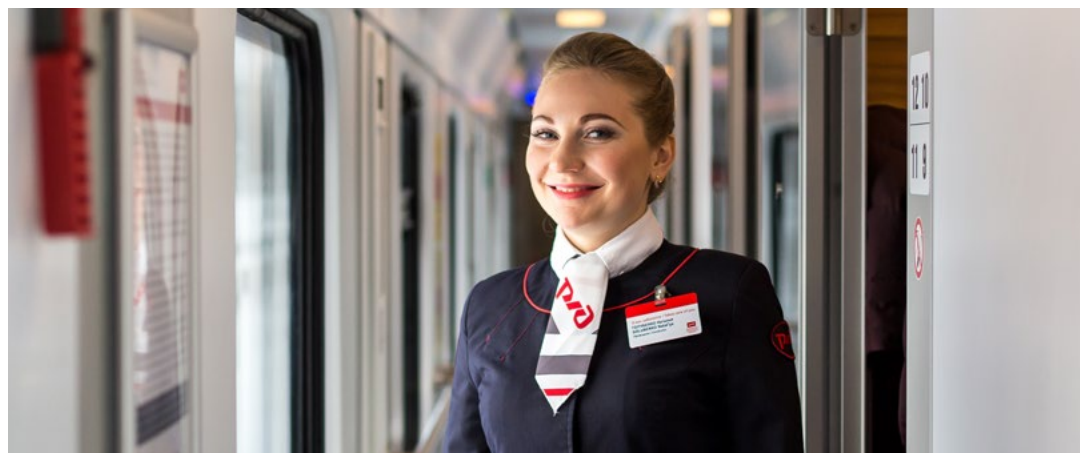
**> RUB 5,172**  
**million**

in losses prevented  
due to economic  
security initiatives

## OCCUPATIONAL HEALTH AND SAFETY

In 2017, FPC's occupational health and safety management system was fully compliant with the requirements of GOST R 54934-2012 / OHSAS 18001:2007 Occupational Health and Safety Management Systems – Requirements). A relevant validity document for the compliance certificate was issued in 2016.

In 2017, the safe working environment provided by the Company to employees of FPC's administration and branches allowed the Company to secure special rates from the Social Insurance Fund for the compulsory insurance policies covering industrial accidents and occupational diseases.



# OPERATING PERFORMANCE

## REVIEW

The year 2017 was more favourable for FPC than 2016.

In 2017, the number of passengers carried was up 1.4% year-on-year, including a decline of 4.4% in the regulated segment and an increase of 13.3% in the deregulated segment.

FPC drove the demand for passenger services while retaining the 2016 fares

- in July – down 4.1% year-on-year
- in August – down 3.9% year-on-year..

## HIGHLIGHTS

In 2017, FPC carried over 90.5 million passengers (up 1.4 % year-on-year), with 4.7 million passengers

(up 2% year-on-year) carried on trains made up in the CIS and Baltic states.

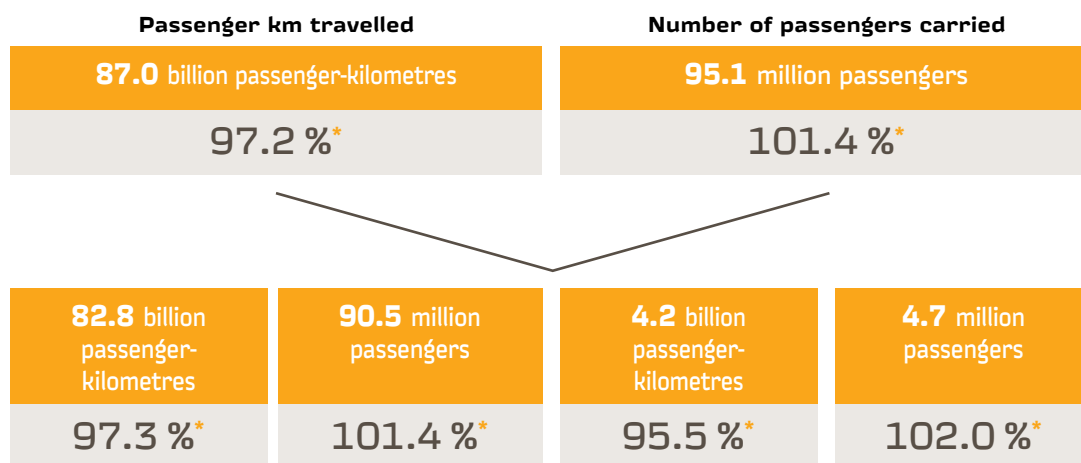
### Highlights

Indicator	2015	2016	2017	Growth rate 2017/2016, %
<b>Total passenger km travelled by rail, billion passenger km travelled</b>	<b>86.1</b>	<b>89.5</b>	<b>87.0</b>	<b>97.2</b>
<b>Passenger km travelled on FPC trains, billion passenger km travelled</b>	<b>81.1</b>	<b>85.1</b>	<b>82.8</b>	<b>97.3</b>
deregulated segment	24.2	26.0	28.1	108.4
domestic traffic	22.7	24.3	26.5	109.1
interstate traffic	1.6	1.7	1.7	98.1
regulated segment	56.9	59.1	54.6	92.4
<b>Passenger km travelled on trains made up in the CIS and Baltic states, billion passenger km</b>	<b>4.9</b>	<b>4.4</b>	<b>4.2</b>	<b>95.5</b>
<b>Passengers carried, million people</b>	<b>91.3</b>	<b>93.8</b>	<b>95.1</b>	<b>101.4</b>
deregulated segment	30.3	31.1	35.2	113.3
regulated segment	60.9	62.7	59.9	95.6
<b>Average number of carriages in a train, carriages</b>	<b>12.7</b>	<b>12.7</b>	<b>12.8</b>	<b>100.8</b>

Passenger km travelled totalled 87.0 billion, down 2.8% year-on-year, with trains made up by FPC accounting for 82.8 billion passenger km or down 2.7% year-on-year.

FPC's passenger traffic was down 7.6% year-on-year in the regulated segment and up 8.4% in the deregulated segment.

## Changes in key indicators over 2017



\* of the 2016 level

## FINANCIAL RESULTS

In 2017, operating revenues amounted to RUB 216.2 billion, up 7.5% year-on-year.

Operating expenses increased to RUB 210.0 billion, or by 1.4% year-on-year.

RUB 7.8 billion in subsidies were received from the federal budget, down RUB 11.1 billion year-on-year. This was caused by the reduction of VAT

applicable to long-distance passenger services from 10% to 0% to balance FPC's needs for subsidising long-distance passenger services in the regulated segment.

EBITDA, including subsidies, rose to RUB 27.0 billion, up RUB 2.7 billion year-on-year.

FY2017 net profit was RUB 7.9 billion, up 49%.

**49 %**

net profit growth  
in 2017

## Changes in net assets, RUB billion

Indicator	2015	2016	2017
Net assets	181.2	186.1	194.0

**7.5 %**

increase in operating  
revenues

The Company's non-current liabilities rose from RUB 19.4 billion to RUB 24 billion, or by 23.3%, driven by more long-term loans taken out to finance the Investment Programme for RUB 4.3 billion.

Short-term liabilities rose to RUB 32.5 billion or by RUB 2.3 billion year-on-year due to an increase in payables.

Financial results, RUB billion

Показатели	2015	2016	2017	Growth rate 2017/2016, %
<b>Revenue, total</b>	<b>181.2</b>	<b>201.2</b>	<b>216.2</b>	<b>107.4</b>
Revenue from passenger services	160.0	180.1	193.7	107.5
Revenue from other activities	21.2	21.1	22.5	106.7
<b>Expenses, total</b>	<b>199.0</b>	<b>207.1</b>	<b>210.0</b>	<b>101.4</b>
Passenger service expenses	183.6	191.8	194.4	101.3
Expenses on other activities	15.4	15.3	15.6	101.8
<b>Operating profit</b>	<b>-17.8</b>	<b>-5.9</b>	<b>6.2</b>	<b>-</b>
Operating profit from passenger services	-23.6	-11.7	-0.7	-
Operating profit from other activities	5.9	5.8	7.0	119.4
<b>Other revenue</b>	<b>28.8</b>	<b>23.0</b>	<b>14.0</b>	<b>60.9</b>
Subsidies from the federal budget	24.7	18.9	7.8	40.9
<b>Other expenses</b>	<b>8.6</b>	<b>8.7</b>	<b>9.3</b>	<b>107.3</b>
<b>Result from other revenue and expenses</b>	<b>20.2</b>	<b>14.3</b>	<b>4.7</b>	<b>32.8</b>
Profit (loss) before tax	2.4	8.5	10.9	129.2
<b>EBITDA, including subsidies</b>	<b>18.6</b>	<b>24.3</b>	<b>27.0</b>	<b>111.2</b>
EBITDA margin, including subsidies	9.0 %	11.0 %	13.0 %	-
Income tax and other similar liabilities	2.3	3.2	3.0	95.3
<b>Net profit/loss</b>	<b>0.1</b>	<b>5.3</b>	<b>7.9</b>	<b>149.6</b>
Net profit margin	0.08 %	2.63 %	3.66 %	1.03 p. p.

## Revenue

In 2017, FPC's operating revenues totalled RUB 216.2 billion, up 7.5% year-on-year, with passenger traffic down 2.8% year-on-year.

### Changes in operating revenues, RUB billion

Indicator	2015	2016	2017	Growth rate 2017/2016. %
<b>Operating revenues</b>	<b>181.2</b>	<b>201.2</b>	<b>216.2</b>	<b>107.5</b>
<b>Revenue from passenger services</b>	<b>160.0</b>	<b>180.1</b>	<b>193.7</b>	<b>107.5</b>
in the deregulated segment	73.9	85.6	95.1	111.1
in first-class and compartment carriages	58.5	70.2	81.0	115.4
international services	15.4	15.4	14.1	91.5
in the regulated segment	86.1	94.5	98.6	104.3
from passenger services	79.2	87.7	91.6	104.5
in third-class sleeping carriages	74.8	82.5	85.6	103.7
in third-class sitting carriages	4.5	5.2	6.0	116.1
from baggage, unaccompanied baggage, and mail transportation	6.9	6.8	7.0	102.8
<b>Revenue from other activities</b>	<b>21.2</b>	<b>21.1</b>	<b>22.5</b>	<b>106.7</b>
repair and maintenance of non-owned rolling stock	2.2	2.1	1.9	90.6
provision of additional on-train services	11.3	11.3	11.7	103.5
premium services	2.9	3.1	3.3	105.7
bed sheets on trains	7.7	8.2	8.4	103.1
other lines of business (property lease to third parties, agency contracts)	7.8	7.7	8.9	115.8

### Revenue from passenger services

In 2017, revenue from the passenger services was RUB 193.7 billion, up 7.5% year-on-year.

One of the key drivers behind this growth was an additional price indexation of 10.0% vs 2016, pursuant to the resolution of the Russian Government to set a zero VAT rate for long-distance public rail services for passengers and baggage (Federal Law No. 401-FZ On Amendments to Parts One and Two of the Tax Code of the Russian Federation and Certain Legislative Acts of the Russian Federation dated 30 November 2016).

None of these amendments have increased passenger prices.

Revenue from domestic services in first-class and compartment carriages was RUB 81.0 billion, up 15.4% year-on-year. This growth was driven by the zero VAT rate and an increase in the passenger km travelled by 9.1% year-on-year due to the implementation of marketing initiatives (discounted fares).

**RUB 193.7**  
billion

revenue from  
passenger services  
in 2017



In 2016, international traffic continued to decline, particularly on trains made up in the CIS and Baltic states (down 4.5% year-on-year), which negatively affected the related revenue. At RUB 14.1 billion, it was down 8.5% year-on-year.

Revenue from domestic rail passenger services in the regulated segment was RUB 91.6 billion. The increase of 4.5% year-on-year was driven by the price indexation (+ 3.9%) and zero VAT

rate, with the passenger km travelled down 7.6% year-on-year.

Revenue from baggage, unaccompanied baggage, and mail transportation rose to RUB 7.0 billion (up 2.8% year-on-year) due to the combined effect of the price indexation by 3.9% and an insignificant 2.8% decline in unaccompanied baggage turnover in the Company's own and leased baggage carriages.

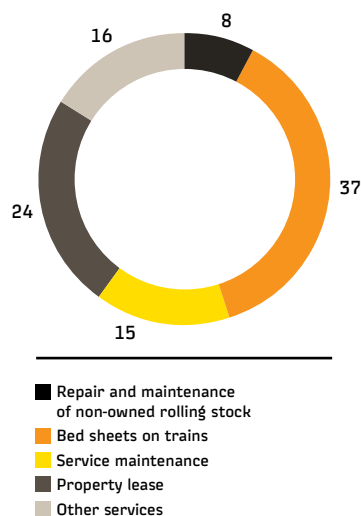
## Revenue from other activities

Other activities include:

- repairs of non-owned rolling stock
- additional on-train services

- lease of the rolling stock and property assets
- other services.

Breakdown of revenue from other activities, %



**RUB 22.5**  
billion

revenue from other activities in 2017

In 2017, revenue from other activities totalled RUB 22.5 billion, up 6.7% year-on-year.

At the same time, in 2017, the demand for carriages leased to third-party clients was up 37.0% year-on-year, and the demand for repairs of non-owned rolling stock was down 9.4% year-on-year.

In 2017, revenue from other activities accounted for about 10.4% of the total revenue, against 10.5% in 2016.

## Expenses

### Passenger service expenses

In 2017, passenger service expenses totalled RUB 194.4 billion, up 1.4% year-on-year.

#### Expenses breakdown, RUB billion

Indicator	2015	2016	2017	Growth rate 2017/2016, %
Payroll costs	28.2	29.9	30.4	101.5
Social contributions	7.7	8.1	8.4	103.6
Materials	5.0	5.5	5.5	99.0
Fuel	0.6	0.6	0.6	104.6
Electricity	0.3	0.4	0.4	107.6
Other material costs	18.7	19.2	18.5	96.2
Other	110.5	115.7	118.2	102.2
Expenses for infrastructure services and locomotive lease	101.6	106.9	110.0	102.9
Depreciation	12.5	12.5	12.6	100.9
Expenses, total	183.6	191.8	194.4	101.4

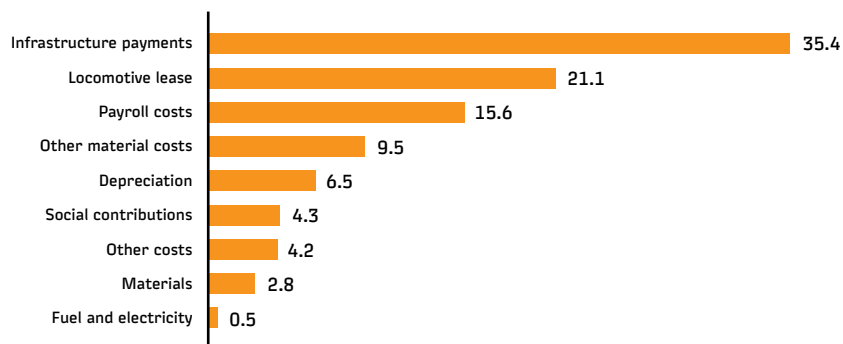
Expenses for materials were down 1%, other material costs declined by 3.8%.

The highest increase was in fuel costs – up 4.6% year-on-year.

Expenses for infrastructure services and locomotive lease rose by 2.9%.

Payroll costs went up by 1.5% and social contributions by 3.6%.

#### Breakdown of passenger service expenses in 2017, %



## Expenses on other activities

In 2017, expenses on other activities were RUB 15.6 billion, up 1.9% year-on-year.

The increase was caused by higher rolling stock lease costs driven by the growing number of passenger carriage lease requests as part of the FIFA Confederations Cup 2017 and to meet the demand of Russian national security ministries and agencies.

## OVERHAULS OF FIXED ASSETS

Fixed assets overhaul costs, RUB billion

Indicator	2015	2016	2017	Growth rate, %
Overhauls of fixed assets	5.4	5.7	5.2	91.0
outsourced	4.7	4.5	3.7	81.8
carriages	4.4	4.3	3.5	81.8
buildings and structures	0.3	0.2	0.2	82.1
by FPC (carriages)	0.7	1.2	1.5	125.8

Actual expenses on overhauls of fixed assets were RUB 5.2 billion (91.0% of the 2016 level), including:

- RUB 3.5 billion – outsourced passenger carriage overhauls (81.8% of the 2016 level)
- RUB 1.5 billion – passenger carriage overhauls by FPC (up 25.8% year-on-year)
- RUB 0.2 billion – overhauls of buildings, structures, and equipment (82.1% of the 2016 level).

## COST OPTIMISATION

Due to a decline in passenger traffic and for the purpose of efficiency improvement, the Company developed JSC FPC's Cost Optimisation Programme for 2017 (approved by the resolution of FPC's Board of Directors, hereinafter "the Programme") which provides

for reducing the costs under the approved budget by RUB 4.384 billion.

The Cost Cutting Programme performance totalled 106.1% of the target (RUB 4.652 billion).

**106,1 %**

implementation  
of the Cost Cutting  
Programme

### FPC's Cost Optimisation Programme in 2017, RUB billion

Activities	2016	2017	Growth rate 2017/2016, %
Change in regulations and processes	0.573	0.625	109.1
Route network optimisation	1.044	1.074	102.9
Headcount optimisation and labour productivity improvement	1.452	1.537	105.9
Energy efficiency improvement, fuel and electricity costs optimisation	0.031	0.034	106.7
Performance improvement, optimisation of fixed assets and production facilities	0.089	0.078	88.3
Lower cost inflation for services consumed	1.166	1.226	105.2
Fewer products/services purchased	0.029	0.079	272.1
<b>Total</b>	<b>4.384</b>	<b>4.652</b>	<b>106.1</b>

## AVERAGE HEADCOUNT AND OPTIMISATION PROGRAMME

Indicator	2016	2017	%, +/- to 2016
<b>Passenger km travelled on trains made up by FPC, billion passenger-kilometres</b>	<b>85.1</b>	<b>82.8</b>	<b>97.3</b>
<b>Total average headcount, FTEs, including:</b>	<b>63,109</b>	<b>60,724</b>	<b>-2,385</b>
in transport services	58,071	55,189	-2,882
in other activities	5,038	5,535	497
<b>Production headcount</b>	<b>55,702</b>	<b>53,664</b>	<b>-2,038</b>
in transport services	51,136	48,608	-2,528
in other activities	4,566	5,056	490
<b>Management headcount</b>	<b>7,407</b>	<b>7,060</b>	<b>-347</b>
in transport services	6,936	6,581	-354
in other activities	472	479	7
<b>Productivity of FTEs in transport services, thousand passenger km / FTE</b>	<b>1,465</b>	<b>1,500</b>	<b>102.4</b>
including production FTEs	1,664	1,703	102.4
in transport services			
<b>Productivity of operations FTEs, thousand RUB / FTE</b>	<b>3,188</b>	<b>3,348</b>	<b>105.0</b>
including in transport services	3,465	3,917	113.0

Efforts under the Programme helped free up 2,882 employees (5%) in 2017.

In other sales, the average headcount linked to high profitability of the performed tasks and the cost accounting policy for the FIFA Confederations Cup totalled 5,535 FTEs, up 497 FTEs (9.9%) year-on-year.

Overall, the production headcount was reduced by 2,038 FTEs (3.7%) and the management headcount by 347 FTEs (4.7%) for all business lines.

Workforce optimisation efforts increased labour productivity by 2.4% year-on-year in volume terms

despite the 2.7% decline in passenger km travelled year-on-year.

Labour productivity in terms of value which fairly reflects the link between payroll costs and the new terms of service across all business lines increased by 5% year-on-year, in line with the target for efficient transport services.

Following the 2% increase of passenger traffic in 2015–2017, the labour productivity in terms of volume was up 12.4%, providing for a 22.9% increase in transport services efficiency in terms of value vs 2015.

## OTHER INCOME AND EXPENSES

The financial result from other income and expenses amounted to RUB 4.7 billion.

Key revenues received as part of other income were government subsidies allocated as a compensation for the revenue shortfall caused by the government regulation of the prices of long-distance fares for third-class sitting and sleeping carriages. Government subsidies allocated with regard to the results of transport services in 2017 amounted to RUB 7.8 billion (down RUB 11.2 billion year-on-year).

A significant part of revenue from other budgeted income and expenses was interest on bank deposits and interest accrued on current account balances.

Through effective management of liquidity, FPC generated RUB 1.3 billion (138.4% of the 2016 level) in 2017.

The main items in other expenses are interest expenses on loans, amounting to RUB 2.3 billion (114.7% of the 2016 level), and acquiring, cash collection, and bank account management costs, which totalled RUB 1.9 billion for the year (103.9% of the 2016 level).

Due to insufficient budget allowance, FPC created a RUB 1.8 billion provision for doubtful accounts to compensate for the loss of income from rail services to school students older than 10 years in third-class sitting and sleeping carriages on long-distance trains.

## DEBT POLICY

The Company's key borrowing principles are described in the Regulations on JSC FPC's Debt Policy.

JSC FPC's Debt Policy is fully compliant with the Russian Railways' Unified Corporate Standard for debt transactions to provide sufficient funding for investing and operating activities.

The Regulations on JSC FPC's Debt Policy set out covenants as follows:

Covenant	Limit	2017
Debt structure (short-term loans to total borrowings)	Max 0.4	0.11
Debt coverage (net debt to EBITDA including subsidies)	Max 2.5	0.4
Interest coverage (EBITDA including subsidies to net interest expenses)	Min 4.0	26.2
Equity structure (total borrowings to equity)	Max 1.5	0.1

In 2017, FPC borrowed RUB 17 billion, of which RUB 7 billion were allocated to cover cash gaps due to high seasonality of passenger services, and RUB 10 billion to fund long-term

projects included in the investment programme and refinance the current loan portfolio.

As at 31 December 2017, the Company's loan portfolio was RUB 22.8 billion.



# BALANCE SHEET TOTAL

In 2017, FPC's balance sheet total increased by RUB 14.7 billion, or by 6.2%.

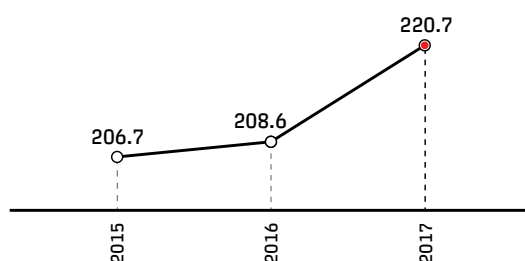
## Key balance sheet items, RUB billion

Indicator	2015	2016	2017	2017/2016	
				Change	Growth rate, %
Non-current assets	206.7	208.6	220.7	12.1	105.8
Current assets	23.4	26.7	29.3	2.6	109.8
<b>Assets</b>	<b>230.2</b>	<b>235.3</b>	<b>250.0</b>	<b>14.7</b>	<b>106.2</b>
Equity and reserves	180.6	185.6	193.5	7.9	104.2
Non-current liabilities	14.7	19.4	24.0	4.6	123.3
Current liabilities	34.9	30.2	32.5	2.3	107.5
<b>Liabilities</b>	<b>230.2</b>	<b>235.3</b>	<b>250.0</b>	<b>14.7</b>	<b>106.2</b>

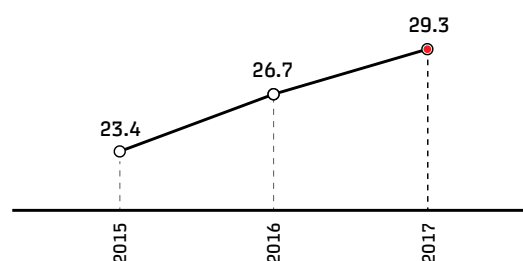
## Balance sheet changes, RUB billion

Indicator	2015	2016	2017
Equity and reserves	180.6	185.6	193.5
Non-current liabilities	14.7	19.4	24.0
Current liabilities	34.9	30.2	32.5
Non-current assets	206.7	208.6	220.7
Current assets	23.4	26.7	29.3

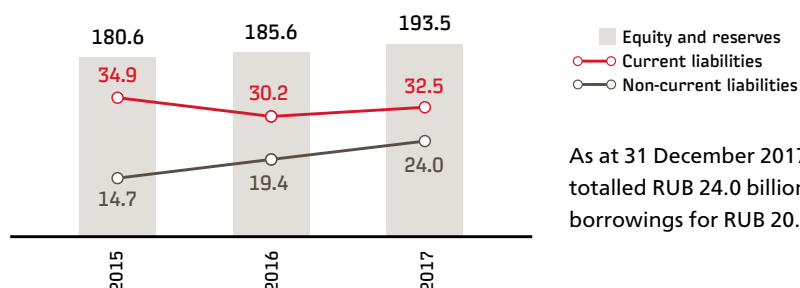
## Non-current assets, RUB billion



## Current assets, RUB billion



## Balance sheet changes, RUB billion



As at 31 December 2017, FPC's non-current liabilities totalled RUB 24.0 billion, including loans and borrowings for RUB 20.5 billion.



## SHARE CAPITAL

As at 31 December 2017, JSC FPC's authorised capital was RUB 165.5 billion, comprised of 165,461,040,539 ordinary registered uncertified shares with the same par value of RUB 1 each.

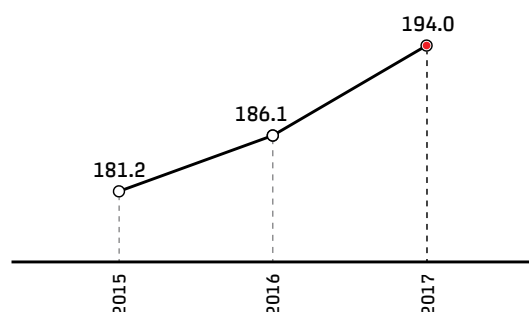
In 2017, FPC launched its scheduled issuance of 6,500,000 (six billion five hundred

million) additional shares with a par value of RUB 1 (one) each.

On 27 December 2017, a transaction was made in FPC's securities register to credit all ordinary registered uncertified shares from the additional issuance to Russian Railways' account.

## NET ASSETS

Changes in net assets, RUB billion



In the reporting year, the Company's net assets increased by 4.1% to RUB 194.0 billion

## PAYABLES AND RECEIVABLES

As at 31 December 2017, FPC's receivables totalled RUB 12.09 billion.

Taxes and charges receivable were 70.5%, or RUB 8.53 billion.

As at the end of 2017, trade receivables (except for transport services) made up RUB 0.82 billion, or 6.8% – a reduction by RUB 0.39 billion, or 31.9% year-on-year. The largest share of trade receivables was due for:

- repair and maintenance of the rolling stock – RUB 0.26 billion, or 31.7%
- lease of the rolling stock and property assets – RUB 0.28 billion, or 34.1%.

As at 31 December 2017, trade receivables due for passenger services made up RUB 1.15 billion, or 9.5%, in line with the terms of relevant contracts.

As at 31 December 2017, prepayments were RUB 0.45 billion, or 3.7%.

#### Receivables, RUB billion

Receivables	31 December 2015	31 December 2016	31 December 2017
Trade receivables (except for transport services)	0.91	1.21	0.82
Trade receivables (for transport services)	1.00	1.10	1.15
Prepayments	0.70	0.48	0.45
Taxes and charges	1.72	3.53	8.53
Other receivables	0.92	0.74	1.14
Total	5.25	7.06	12.09

As at 31 December 2017, payables increased by 10.6% year-on-year to RUB 24.43 billion.

As at the end of 2017, prepayments for transport services were RUB 7.82 billion, or 35.4%.

The largest share of payables is attributed to trade payables totalling RUB 10.22 billion, or 46.3%.

#### Payables, RUB billion

Payables	31 December 2015	31 December 2016	31 December 2017
Trade payables	10.88	9.22	10.22
Payroll liabilities	1.36	1.42	1.46
Taxes and charges, social insurance	1.74	1.77	1.65
Prepayments for other activities	0.23	0.16	0.64
Prepayments for transport services	7.99	7.48	7.82
Other payables	2.17	2.04	2.64
Total	24.37	22.09	24.43

As payables are above the receivables, the Company can use payables as an additional source of financing.

Receivables to payables ratio was 0.49 as at the end of the reporting year.

## CASH FLOWS

As at 31 December 2016, FPC's balance of cash and cash equivalents (including short-term deposits) totalled RUB 15.4 billion.

### Cash flows from operating activities

In 2017, the cash flow from operating activities totalled RUB 254.2 billion, including RUB 7.8 billion from the federal budget.

Most income (77%) was received from passenger services totalling RUB 195.7 billion less transit charges.

Operating expenses amounted to RUB 250.0 billion. Expenses for infrastructure services and locomotives were RUB 129.7 billion, or 51.9% of the costs.

Net cash flows from operating activities totalled RUB 4.1 billion.

Cash flows from operating activities, RUB billion

Indicator	2015	2016	2017
<b>Net cash flow</b>	<b>15.4</b>	<b>17.0</b>	<b>4.1</b>
Cash inflow	258.0	262.8	254.2
Cash outflow	242.5	245.8	250.0

### Cash flows from investing activities

Expenses under investment activities (financing of the investment programme) were RUB 29.2 billion.

In the reporting period, RUB 27.5 billion (94.2% of investment) were allocated for passenger rolling stock replacement and upgrades, including:

- RUB 21.4 billion for acquisition of new passenger carriages
- RUB 6.1 billion for upgrades of passenger rolling stock.

Negative cash flow from investing activities amounted to RUB 27.5 billion.

### Cash flows from financing activities

Cash inflows from financing activities were RUB 43.9 billion for 2017, of which 38.8% were attributed to borrowings.

Cash outflows from financing activities totalled RUB 22.6 billion, including:

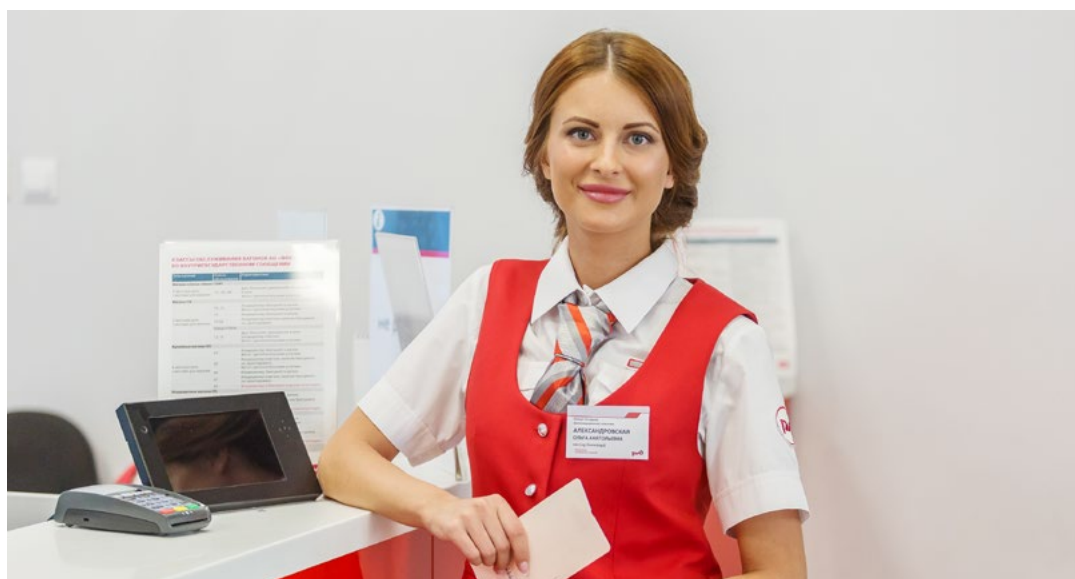
- interest payments on loans and borrowings – RUB 2.2 billion
- repayment of loans and borrowings – RUB 13.9 billion.

Net cash flows from financing activities totalled RUB 21.3 billion. FPC's negative cash flow for the year was RUB 2.2 billion.

As at 31 December 2017, FPC's balance of cash and cash equivalents (including short-term deposits) totalled RUB 13.3 billion.

## Financial Review

Indicator	2015	2016	2017
<b>Liquidity</b>			
Absolute liquidity ratio	0.32	0.51	0.41
Current liquidity ratio	0.67	0.88	0.90
Leverage ratio	0.78	0.79	0.77
<b>Margins, %</b>			
Sales margin (including subsidies)	3.35	5.94	6.25
Return on equity (ROE)	0.08	2.85	4.09
Return on assets, including subsidies (ROA)	0.06	2.25	3.16
<b>Liabilities</b>			
Liabilities in the balance sheet total	0.22	0.21	0.23
Financial leverage (interest-bearing borrowings/equity)	0.27	0.27	0.29
Total debt/EBITDA margin (including subsidies)	0.87	0.81	0.85
Total debt/revenue (including subsidies)	0.08	0.09	0.10



# INVESTMENT MANAGEMENT

As an integral component of the Development Strategy, the Company's Investment Policy establishes investment priorities, structure, criteria, areas, and sources.

## INVESTMENT RANKING

The Company's investment projects are ranked into five categories:

- Long-term projects
- Replacement of retired fixed assets, generating economic impact
- Cost-effective projects

- Replacement of retired fixed assets generating technological impact
- Technological and social projects.

Each project is ranked from 0 to 100.

The higher the score, the higher priority is given to the project within the investment programme.

### Investment programme structure by project category

Programme	Share in the overall investment programme, %	Score
Long-term projects: Renovation of the Orekhovo-Zuyevo passenger carriage depot, carriage-washing as well as blasting and painting facilities	18	63 to 100
Replacement of retired fixed assets with direct economic impact, including rolling stock replacement and upgrades for branded trains	23	46 to 100
Projects with a direct economic effect, including acquisition of double-decker carriages and e-ticket sales development	38	26 to 80
Replacement of retired fixed assets generating technological impact, including upgrading rolling stock and re-equipping depot facilities	15	18 to 45
Technological and social projects	6	0 to 25
Total	100	–

## INVESTMENT STRUCTURE

**RUB 25.9**  
billion

spent under the  
investment programme  
in 2017

Expenditures for FPC's investment programme totalled RUB 25.9 billion in 2017.

In the reporting period, RUB 22.5 billion (86.8% of investment) were allocated to rolling stock replacement and upgrades:

- RUB 17.8 billion for acquiring 425 new passenger carriages:
  - 329 third-class sleeping carriages
  - 37 compartment carriages
  - 9 administrative carriages
  - 9 dining carriages
  - 41 double-decker carriages
- RUB 4.7 billion were used to perform overhauls for 250 carriages with service life extension.

**RUB 22.5**  
billion

spent on rolling stock  
replacement and  
upgrades

The remaining capex, totalling RUB 1.5 billion or 6.1% of the programme, was used to support depot upgrades, IT projects, and other initiatives.

The new rolling stock was purchased to upgrade the fleet and replace retired carriages.

The Company's carriage procurement programme prioritises rolling stock acquisition to upgrade its trains. To achieve this goal, the Company purchased 384 carriages worth RUB 14.4 billion in 2017, including 329 third-class carriages.

Purchasing third-class sleeping carriages was a priority in 2017, in response to the forecasted shortage in the third-class sleeping carriage fleet during the summer peak season. Other carriage types will be purchased in 2018–2019.

For profitable, high-demand passenger destinations, the Company also purchased 41 double-decker carriages (worth RUB 3.4 billion) to introduce trains on the following routes:

- Kislovodsk – Moscow
- Saint Petersburg – Adler
- Adler – Rostov.

The type of rolling stock for each destination is selected based on economic factors such as profitability and return on investment, as well as technical limitations such as utilising particular carriages on certain routes.

Double-decker carriages have twice the capacity of single-decker carriages and are therefore more cost-effective. One double-decker carriage can replace two single-decker carriages, enabling a twofold reduction of passenger trains on destinations with limited infrastructure.

All passenger service comfort requirements are met by FPC's double-decker rolling stock.

As part of its 2017 investment programme, the Company financed a RUB 6.6 billion Passenger Rolling Stock Upgrade project. A large portion of the funds (RUB 4.7 billion) were used to perform overhauls with service life extension (KVRs) and upgrades for 250 carriages in order to improve their marketability. These measures primarily include installing environmentally friendly toilets and providing passengers with internet access on branded trains. RUB 0.8 billion were allocated in 2017 for equipping 534 carriages with environmentally friendly toilet facilities, and RUB 0.7 billion were spent on providing Wi-Fi internet access in 3,200 branded train carriages.

During KVRs, carriages are equipped with air conditioners and environmentally friendly toilet units, making them comparable in terms of comfort with newly built carriages. KVR costs 2.2–2.5 times less than a new carriage, which is critical when retiring rolling stock en masse due to expired service life.

The investment programme also provided for depot upgrade projects and IT projects.

RUB 0.9 billion were invested in depot upgrades.

Investments in depots were primarily used to:

- upgrade existing production facilities (RUB 0.7 billion)
- upgrade hazardous production facilities and purchase equipment to ensure uninterrupted depot operations (RUB 0.2 billion).

RUB 0.4 billion were spent on IT projects in 2017. Priority areas include developing electronic sales channels and automating the Company's operating processes.

Investments in other projects aimed at transport safety and security totalled RUB 0.2 billion.

Sources of financing for the 2017 Investment Programme:

- Equity: RUB 13.7 billion
- Borrowings: RUB 12.2 billion

#### Investment programme structure, RUB billion

Item	2016	2017	+/-
Rolling stock acquisition	14.7	17.8	3.1
Rolling stock upgrades	3.2	6.6	3.4
Depot upgrades	0.8	0.9	0.1
IT projects	0.3	0.4	0.1
Other projects	0.4	0.2	-0.2
Total	19.4	25.9	6.5

The key reason for the year-on-year change in the size of capital investments was the larger number of passenger carriages purchased in 2017,

at 425 carriages compared with 294 in 2016 – a year-on-year increase of 131 passenger carriages or RUB 3.1 billion



# PRIORITY INVESTMENT AREAS

## Customer-focused investment

FPC spent RUB 22.9 billion in 2017 to improve its customer experience through a number of initiatives:

- 425 new, highly efficient passenger carriages were purchased, with improved performance and passenger comfort totalling RUB 17.8 billion and aimed at reducing transit times and enhancing both transport safety and passenger experience

- RUB 4.7 billion were spent on overhauling 250 passenger carriages.

In addition, RUB 0.4 billion were spent on the implementation of information technology innovations.

## Investment in safety

RUB 0.4 billion were spent in 2017 on enhancing the safety and quality of passenger services.

Major investments in transport safety included:

- RUB 0.1 billion to implement the comprehensive transport safety & security programme
- RUB 0.2 billion to replace retired rolling stock
- RUB 0.1 billion to install new frames, bolsters, and 1,520 mm gauge bogies during scheduled carriage repairs.

## Upgrades

To maintain its existing carriage repair and maintenance facilities, FPC invested RUB 2.6 billion in rehabilitation and upgrades of its fixed assets in 2017.



## MID-TERM INVESTMENT

FPC's investment programme for 2018–2020 includes the purchase of 350 double-decker carriages worth a total of RUB 30.7 billion for use on profitable routes.

FPC's priority within its rolling stock investment is the purchase of carriages for branded trains. To this end, the Company plans to purchase 1,431 Russian-made single-deckers in 2018–2020. In order to expand the area covered by Daytime Express train services, FPC plans to purchase 90 carriages to launch Lastochka electric trains on the following routes: Moscow – Nizhny Novgorod, Moscow – Kursk, Moscow – Smolensk, Adler – Krasnodar, Moscow – Saransk.

The Passenger Rolling Stock Upgrade project for 2018–2020 outlines capex in the amount of RUB 32.5 billion, including RUB 31.2 billion for overhauling 1,564 carriages for service life extension.

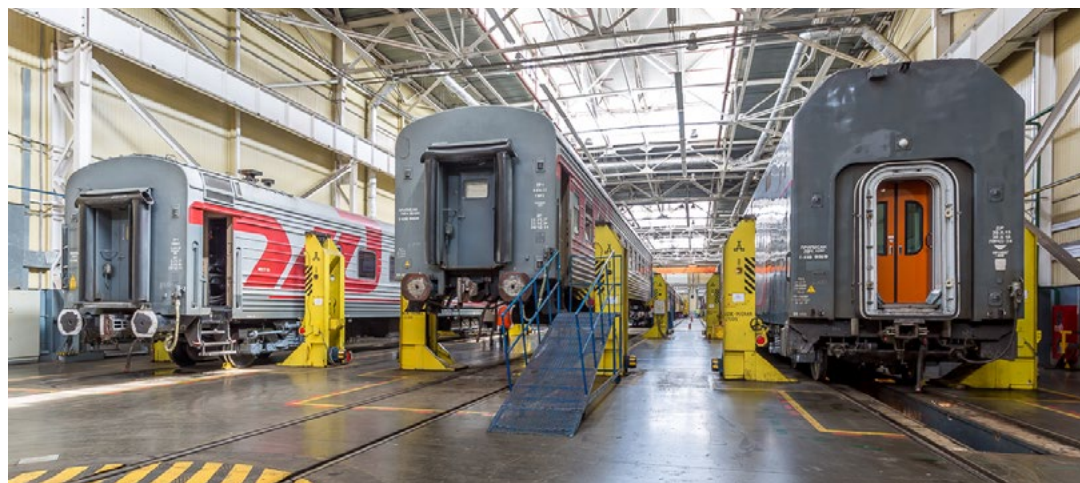
The programme also provides for depot upgrade projects and IT investment projects.

Overall, RUB 5.8 billion worth of investments is planned for depot upgrades in 2018–2020, while RUB 0.7 billion will be invested into IT projects during the same period. Priority projects in this area include development of electronic sales channels and automation of the Company's operating processes.

FPC plans to invest a total of RUB 1.2 billion into other projects in 2018–2020.

**RUB 32.5**  
billion

to be spent on rolling  
stock upgrades  
in 2018–2020



# PROCUREMENT

In 2017, the Company saved RUB 1,032.82 million including VAT by using a procurement register.

Procurement activities in FPC are governed by the corporate Regulations on Procurement of Goods, Works, and Services. The document is based on the following laws and regulations of the Russian Federation:

- Federal Law No. 223-FZ On Procurement of Goods, Works, and Services by Certain Types of Legal Entities dated 18 July 2011
- Resolutions by the Russian Government
- Other documents adopted pursuant to Federal Law No. 223-FZ.

In 2017, FPC entered into 4,017 contracts for the total of RUB 60,550.3 million including VAT:

- Contracts for the total of RUB 19,403.8 million including VAT, or 32.1% of the total price of contracts, were entered into through competitive bidding

- Contracts for the total of RUB 6,391.5 million including VAT, or 10.5% of the total price of contracts, were entered into with the single-source supplier (contractor, service provider)
- Contracts with JSC TVZ (as the only domestic rolling stock producer) totalled RUB 34,755.1 million including VAT, or 57.4% of the total price of contracts.

The ongoing collaboration between FPC and Russian Small and Medium Business Corporation (RSMB Corporation)<sup>1</sup> afforded favourable conditions for involvement of SMEs in the Company's procurement.

In the competitive bidding for procurement of goods, works or services organised by RSMB Corporation in 2017, with SME bidders only, 2,305 bids were filed.

<sup>1</sup> RSMB Corporation acts as a development institution to support small and medium-sized enterprises (SMEs).

<sup>2</sup> Resolution of the Russian Government No. 1352 On Specifics of Participation of Small and Medium-Sized Enterprises in the Procurement of Goods, Works, and Services by Certain Types of Legal Entities dated 11 December 2014.



For reference: annual procurement from SMEs shall be at least 18% of the aggregate annual price of contracts entered into by customers through bidding. The aggregate annual price of contracts entered into by and between customers and SMEs through bidding under paragraph 4b of the Regulations shall be at least 10% of the aggregate annual price of contracts entered into by customers through bidding<sup>2</sup>.



FPC's annual procurement from SMEs was 43.69% of the aggregate annual price of contracts.

FPC's annual procurement from SMEs through bidding or other procurement procedures permitted by the Regulation on Procurement, with SME bidders only, was 19.36% of the aggregate annual price of contracts.

FPC is aware of its key role in the development of Russian small and medium-sized businesses and is committed to growing their share of its procurement.



**4,017**  
contracts

entered into in 2017



**RUB 60,550.3**  
million

the total amount  
of the contacts

# INTERNATIONAL ACTIVITIES

In 2017, FPC provided direct and transit passenger services to 22 European and Asian countries, including Germany, France, Poland, Austria, the Czech Republic, Monaco, Italy, Finland, China, Mongolia, North Korea, Latvia, Lithuania, Estonia, Ukraine, Moldova, Belarus, Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Azerbaijan.

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In the reporting period, the Company saw a 1.5% decrease in passenger traffic on international routes (6.9 million passengers in 2016 vs 6.8 million in 2017). Notably, the passenger traffic between Russia and EU countries and between Russia and Central and East Asia grew by a total of 8.3%.

The increase in traffic on the above routes was driven by the Company's balanced marketing policy, efficient transportation processes, and a stronger customer focus.

This was also supported by a more extensive cooperation with other national operators within international industry associations (OSJD, UIC, CIS Railway Transport Council, and CIT).

In 2017, FPC's international activities followed corporate development plans and focused on strengthening its leading position in passenger services and improving the efficiency of passenger transportation.

## INTERNATIONAL COOPERATION IN EQUIPMENT AND TECHNOLOGY

In 2017, international cooperation in equipment and technology focused on the improvement of traffic safety, rolling stock servicing and online sales.

In October 2017, Svetlogorsk (Kaliningrad Region) hosted an annual international passenger train safety conference attended by representatives of the largest rail carriers from Central and Eastern Europe, including DB Fernverkehr AG (Germany), SNCF (France), PKP Intercity (Poland), ÖBB Personenverkehr (Austria), and FPC. European rolling stock experts discussed important aspects of traffic safety and passenger experience, among them technical condition of the rolling stock,

updating the International Coach Regulations (RIC), and further cooperation prospects.

One of the more significant outcomes of FPC's participation in such conferences is more than a tenfold reduction in the number of registered faults for FPC's rolling stock when travelling in Europe.

Starting from 29 June 2017, in a pilot project, passengers were provided with an opportunity to buy tickets for train No. 9/10 'Polonaise' via the website of PKP Intercity (earlier, such option was provided on the website of Belarusian Railway).

The operators involved signed an online ticketing cooperation agreement with plans for the online ticketing service to cover all international trains crossing Poland. Aiming to extend online ticketing cooperation with Asia Pacific countries in 2017, FPC initiated a research project, which was supported by most members of the UIC Asia-Pacific Regional

Assembly, to explore the possibility of integrating booking systems.

The research focuses on finding a uniform solution for national rail passenger carriers to improve interoperability of online booking systems used in Asia Pacific countries.

## IMPROVEMENT OF THE PRICING POLICY AND OPTIMISATION OF INTERNATIONAL RAIL SERVICES

In 2017, FPC continued its extensive cooperation on current pricing, discounts and surcharges with railway authorities and carriers from the CIS and Baltic states. The Company continued to pursue the pricing strategy introduced in 2017, which offered discounts and special prices for certain trains running to and from the CIS and Baltic states. Discounts were offered:

- Latvia / Estonia / Kazakhstan / Uzbekistan / Kyrgyzstan / Tajikistan)
- for side berths in third-class sleeping carriages (Russia – Belarus / Moldova)
- for round-trip tickets (Russia – Belarus)
- when purchasing tickets for an entire compartment in first-class and compartment carriages (Russia – Latvia).

Discounts ranged from 10% to 58% depending on the route and applicable tariff plan.

Another set of discounts was offered on all category tickets in international trains (13/14 Moscow – Berlin, 17/18 Moscow – Nice, 23/24 Moscow – Paris, 21/22 Moscow – Prague, and direct carriages Moscow – Vienna, Saint Petersburg – Vienna and Saint Petersburg – Prague).

The discounts were offered on upper berths depending on booking dates, passenger age

(children, young and senior people), to passengers travelling in groups (more than two or more than six passengers), to newly wedded couples, and on the passenger's birthday. The discounts ranged from 20% to 50%.

In improving the efficiency of international passenger services, the Company follows a flexible tariff policy and continues its cost-cutting efforts, including through optimisation of international train timetables. In 2016/2017, the Company reduced the number of journeys for train 23/24 Moscow – Paris from three to one a week and train No. 9/10 Moscow – Warsaw from daily to three a week. Significant cost reductions were also achieved for train No. 21/22 'Vltava' (Moscow – Prague) by reducing the number of journeys from two to one a week and the number of carriages from nine to six and by changing its route within the Czech Republic.

Additionally, a new schedule was introduced in 2017/2018 for the trains running between Russia and Mongolia:

- FPC's train No. 6/5 Moscow – Ulaanbaatar was cancelled
- New train No. 306/305 Irkutsk – Ulaanbaatar was launched to run twice a week.

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## COOPERATION WITH SNCF

The successful use of Russian carriages in SNCF's night trains running between Paris and Nice proved the high potential of this initiative.

The project participants noted high occupancy rates of the carriages (approximately 69% on average) and passengers welcoming the opportunity to travel across Europe in highly-comfortable Russian carriages.

The project was initially planned to be continued but was terminated in December 2017 at the initiative of the French side following the French Government's decision to cancel night trains on a number of routes, including Paris – Nice.

The cooperation with SNCF is now focused on improving the existing services – trains 17/18 Moscow – Nice and 23/24 Moscow – Paris.

## COOPERATION WITHIN INTERNATIONAL ORGANISATIONS

In the context of intense competition from other transport modes, growing costs of infrastructure services, and the resulting declines in traffic, FPC suggested and has vigorously promoted creating a competitive environment in the international rail passenger services market, with the national government support for railway carriers.

In February 2017, the UN Economic Commission for Europe (UNECE) adopted the Resolution on International Rail Passenger Traffic on The Route East-West (the "Resolution").

The document notes a significant growth potential for passenger traffic and formulates proposals for national governments and railway carriers to create necessary conditions for unlocking this potential.

Participants of industry conferences held in 2017, including the 32nd Conference of OSJD General Directors (17–21 April 2017, Minsk), 45th Session of the OSJD Ministerial Conference (5–8 June 2017, Sochi), and the International Passenger Forum of the CIS Railway Transport Council (7–8 September 2017, Astana), expressed their commitment to the Resolution and initiated the development of action plans to improve the competitiveness of international rail passenger services.

As specified in the Resolution, one of the areas to enhance the competitiveness is to optimise border crossing procedures for international passenger trains so as to avoid long stops at rail border crossing points.





During 2017, FPC's representatives continued working within the OSJD's informal Working Party tasked with the development of a draft convention on the facilitation of border crossing procedures for passengers, baggage, and unaccompanied baggage carried in international traffic by rail (the "Convention"), and promotion of the Convention at meetings of the Inland Transport Committee (ITC) Working Parties of the UN Economic Commission for Europe (UNECE).

### UNECE INLAND TRANSPORT COMMITTEE RESOLUTION ON INTERNATIONAL RAIL PASSENGER TRAFFIC ON THE ROUTE EAST-WEST

The Inland Transport Committee:

- invites Railway Undertakings along the East-West route to cooperate on a regular basis in order to envisage, design and establish rail passenger services by agreeing single services, time schedules, competitive and transparent tariffs and itineraries
- proposes that Governments of interested countries more actively attract mechanisms of Government support to preserve International rail passenger transport services by improving their regulatory framework conditions
- suggests to Governments on the basis of profound market analysis of passenger traffic to apply the principles of economic responsibility in carrying out international traffic
- following decision taken during the seventieth session of SC.2 on the road map towards finalization of the new convention concerning the facilitation of crossing of frontiers for passengers and baggage carried by rail, invites interested countries to take action and finalize the draft Convention as well as to inform the UNECE secretariat for their willingness to sign and ratify this new Convention when finalized
- invites the UNECE secretariat to provide its good offices to facilitate such endeavors in particular to address on a regular basis in SC.2 agenda the topic of international rail passenger traffic
- requests the UNECE Working Party on Rail Transport (SC.2) to report progress on the above-mentioned issues as well as to suggest possible next steps of the efforts on increasing international rail passenger traffic along the East-West route at the eighty-first session (2019) of the Inland Transport Committee for its consideration and approval.

The work followed the Road Map adopted at the 79th session of UNECE ITC.

The Convention is aligned with the UN Sustainable Development Goals set out in the 2030 Agenda to improve transport infrastructure and international mobility.

When adopted, the Convention will enable carriers to implement innovative railway transportation projects on routes linking Europe and Asia, and provide a framework for the development of cross-border high-speed international rail services.

# CORPORATE



**9**

**members**  
of the Board  
of Directors

**27**

**meetings**  
of the Board  
of Directors

**3**

**Committees**  
of the Board  
of Directors



# CORPORATE

## GOVERNANCE

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### OVERVIEW OF THE CORPORATE GOVERNANCE MODEL AND PRACTICE AT FPC

#### Corporate governance principles

##### Protecting shareholder interests and rights

The Regulations on Preparing and Holding the General Shareholders Meeting of JSC FPC (published on FPC's website) provide for the corporate governance rights of shareholders.

Protection of interests and rights of FPC's shareholders is provided due to a reliable method for recording their rights to shares – the share register is maintained by an independent entity, Company STATUS.

As part of the preparation for the General Shareholders Meeting, shareholders are provided with supplementary information in addition to the mandatory information required by law.

##### Equal treatment of all shareholders

Shareholders have equal and fair rights to share FPC's profits by receiving dividends. The Regulations on JSC FPC's Dividend Policy (published on FPC's website) establish a mechanism for determining the amount of dividends and their payment.

All shareholders are provided with materials required for the General Shareholders Meetings and have equal access to all required information at the offices of the Company.

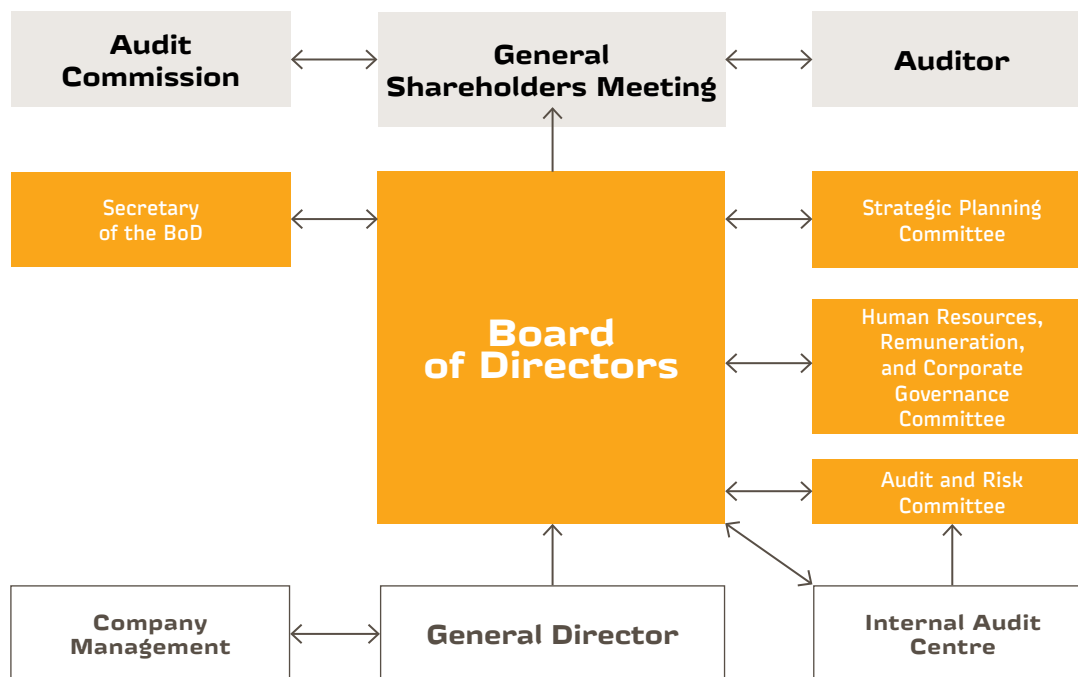
##### Timely disclosure of information

FPC ensures timely disclosure of information on its website and in the news feed of SKRIN information agency, which is authorised to disclose information about securities and other financial instruments.

##### Mutual trust and respect for all stakeholders

Relationships between FPC's shareholders, members of the Board of Directors, and management are based on integrity, trust, mutual respect for legitimate interests, and all parties performing their obligations in good faith.

### The Company's corporate governance model



FPC's corporate governance model is built in line with Russian statutory requirements and is a multi-tier system of relationships between participants in the corporate governance process.

The Company's supreme governing body is the General Shareholders Meeting, with the Board of Directors occupying a central place in the corporate governance system, and the management of the Company's day-to-day operations delegated to the General Director.

The General Director is accountable to the General Shareholders Meeting and the Board of Directors. The Board of Directors, in its turn, reports to FPC's General Shareholders Meeting.

The jurisdiction of all governing bodies is clearly defined and formalised in the Articles of Association.

Matters reserved to the General Shareholders Meeting include:

- approval of the Company's Auditor
- election of the Audit Commission and the Board of Directors
- payout (declaration) of dividends following the first quarter, the first six months, and the first nine months of the reporting year
- approval of FPC's Annual Report and annual accounting (financial) statements
- distribution of the Company's profit (including payout (declaration) of dividends, except for the payout (declaration) of dividends following the first quarter, the first six months, and the first nine months of the financial year) and loss following the end of the financial year
- approval of transactions or making decisions for their subsequent approval in cases stipulated by Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995.

The Board of Directors occupies a key position in FPC's corporate governance system, as it:

- determines the focus areas for the Company's development
- approves the key financial and economic targets for FPC and monitors their achievement
- sets strategic priorities both for the near and longer term
- oversees the activities of FPC's executive bodies.

Election of the General Director and the Secretary of the Board of Directors, and appointment of members to the Board of Directors' Committees are reserved to the Board of Directors.

Three Committees have been set up at FPC's Board of Directors to preview the most important matters related to the Company's activities:

- Strategic Planning Committee
- Audit and Risk Committee
- Human Resources, Remuneration, and Corporate Governance Committee.

The Corporate Secretary of the Board of Directors ensures effective ongoing interaction with shareholders, coordinates the Company's efforts to protect shareholder rights and interests, and supports the activities of the Board of Directors.

FPC has the Audit Commission and appoints its Auditor on an annual basis to provide shareholders with reliable and complete information on its financial and business activities.

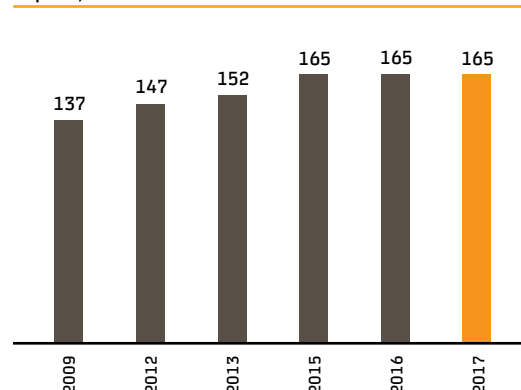
## SHARE CAPITAL

In 2017, FPC launched its scheduled issuance of 6,500,000,000 additional shares with a par value of RUB 1 each.

The shares were paid for with cash.

On 27 December 2017, a transaction was made in FPC's securities register to credit all ordinary registered uncertified shares from the additional issuance to Russian Railways' account.

Changes in the Company's share capital, RUB billion



### Voting shares by class of shares

Type, class of securities	Registered ordinary shares	Registered ordinary shares (additional shares issued in 2017)
Form of shares issued	uncertified	uncertified
Number of shares issued	165,461,040,539 shares	6,500,000,000 shares
State registration number	1-01-55465-E	1-01-55465-E004D
Par value per share	RUB 1	RUB 1

## Share distribution

Name	Number of voting shares		Percentage of voting shares, %
	1-01-55465-E	1-01-55465-E004D	
Russian Railways	165,461,040,538	6,500,000,000	99.999999999
KRP-Invest	1	0	0.000000001
Total:	165,461,040,539	6,500,000,000	100

As at 31 December 2017, FPC's authorised capital was RUB 165,461,040,539.

## Events after the reporting date

On 5 February 2018, the Bank of Russia registered the Report on the Issuance of Additional Shares by JSC FPC.

On 26 February 2018, amendments were made to JSC FPC's Articles of Association.

## DIVIDEND POLICY

Under the Regulations on JSC FPC's Dividend Policy, if depreciation and external funding sources are insufficient to finance the Investment Programme, the Company may draw additional funds from the net profit that was to be distributed as dividends to Russian Railways.

General Shareholders Meetings held in 2010–2013 resolved not to pay out any dividends.

In 2014, RUB 4.1 billion were allocated to dividends and RUB 4.5 billion were contributed by Russian Railways to FPC's authorised capital to finance its investment programme.

In 2015, FPC made a net profit of RUB 141.1 million. RUB 70.5 million were paid out as dividends.

In 2016, FPC made a net profit of RUB 5.3 billion. RUB 4.9 billion were paid out as dividends.

Following the first nine months of 2017, RUB 1.6 billion were allocated to dividends and RUB 6.5 billion were contributed by Russian Railways to FPC's authorised capital to finance its investment programme.



## Calculating the amount of dividends

On 17 December 2012, FPC's Board of Directors approved the Regulations on JSC FPC's Dividend Policy.

In accordance with the Regulations, the amount of a full year dividend is a sum total of a fixed dividend (DIV1) and a residual dividend (DIV2).



Fixed dividend (DIV1) = net profit for the reporting year\* (fixed dividend payable (no less than 25%)) + fixed dividend adjustment coefficient reflecting the variance between FPC's actual net profit and the target value (CT).

Where the variance between the actual and target net profit is no greater than 15%, CT is equal to 0.

Where the variance between the actual and target net profit is greater than 15% but less than 50%, CT is equal to 5%.

Where the variance between the actual and target net profit is greater than 50%, CT is equal to 10%.

Residual dividend (DIV2) = net profit for the reporting year – the amount of mandatory contributions deducted from the net profit (reserve fund and charities) – the amount of fixed dividend (DIV1) – the portion of FPC's profit used to finance its investment programme (investment programme – depreciation – borrowings).

The resolution to pay out (declare) dividends is made by the General Shareholders Meeting. The amount of dividends cannot be higher

than the amount of dividends recommended by the Company's Board of Directors.

## SHAREHOLDERS MEETINGS

FPC's supreme governing body is the General Shareholders Meeting.

In 2017, four General Shareholders Meetings were held – the annual General Shareholders Meeting and three extraordinary General Shareholders Meetings.

Annual General Shareholders Meeting	30 June 2017			
Extraordinary General Shareholders Meeting		14 July 2017	16 November 2017	17 November 2017
Number of issues reviewed	10	1	1	6

### Resolutions passed by the Annual General Shareholders Meeting

Date	Resolutions
30 June 2017	<p>Approved FPC's 2016 Annual Report.</p> <p>Approved FPC's annual accounting (financial) statements. Resolved to distribute the net profit and pay out dividends.</p> <p>Resolved to pay annual remuneration to the members of FPC's Board of Directors and the Audit Commission.</p> <p>Resolved to approve the entity determined following a limited bid as FPC's Auditor.</p> <p>Elected the new Board of Directors and the new Audit Commission of FPC.</p> <p>Approved amendments and addenda to JSC FPC's Articles of Association.</p>

### Resolutions approved by Extraordinary General Shareholders Meetings

Date	Resolutions
14 July 2017	Approved Ernst&Young as FPC's Auditor for 2017 to audit financial statements prepared under the Russian Accounting Standards (RAS) and the International Financial Reporting Standards (IFRS).
16 November 2017	<p>Resolved on FPC's membership in Self-Regulated Organisation Association of Companies Engaged in Energy Audits of the Fuel and Energy Complex.</p> <p>Resolved to pay dividends following 2016 and the first nine months of 2017.</p>
17 November 2017	<p>Resolved to place 6,500,000,000 ordinary registered uncertified shares (declared shares) with a par value of RUB 1 each.</p> <p>Resolved to increase FPC's share capital by placing additional shares.</p> <p>Approved amendments to JSC FPC's Articles of Association.</p>

# BOARD OF DIRECTORS



## Sergey Maltsev

Independent Director Chairman  
of the Board of Directors

Year of birth: 1963.

Nationality: Russian Federation.

### Education:

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Elected to the Board of Directors  
in March 2016.

He has acted as Chairman  
of FPC's Board of Directors since  
March 2016.

Leningrad Higher Military School of Railway and Transport Services with a degree  
in Command and Tactics in Military Transport.

### Experience:

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From 1993 to 2008, he held senior positions  
at a number of commercial entities in  
the transport industry.

From 2008 to 2009, he was CEO and  
a member of the Board of Directors  
at Globaltrans Group.

From 2009 to 2014, he acted as Chairman  
of the Presidium of the non-profit  
partnership Council of Railway Operators  
Market.

From 2014 to 2015, he headed the Consumer  
Council on the Activities of Russian Railways,  
an advisory and deliberative body of the  
Government Commission for Transport.

From November 2015 to February 2017,  
he served as Senior Vice-President for  
Corporate Governance and Strategic  
Development of Russian Railways and was  
a member of the Management Board.

Since March 2017, he has been Advisor to the  
CEO – Chairman of the Management Board  
of Russian Railways on a pro-bono basis.



### Key professional competencies:

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- Corporate Governance
- Strategic Planning and Development
- Finance and Audit

### Positions held in other companies:

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Chairman of the Board of Directors at High-Speed Rail Lines, member of the Supervisory Board at Gefco S.A.

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## Dmitry Pečov

Non-Executive Director Deputy Chairman  
of the Board of Directors

Year of birth: 1973.

Nationality: Russian Federation.



### Education:

St Petersburg State Transport University with a degree in Locomotives  
(Electric Locomotives and Electric Trains).

### Experience:

From 2004 to 2009, he was Head of the locomotive depot of the Saint Petersburg – Moskovskoye Locomotive Directorate, a business unit of the Transcom Suburban Service Directorate of the Oktyabrskaya Railway, a branch of Russian Railways.

In June 2009, he was appointed Head of the Northwest Directorate for Higher-Speed Services, a business unit of the Directorate for Higher-Speed Services, a branch of Russian Railways.

From February 2010 to July 2014, he was CEO of the Directorate for Higher-Speed Services, a branch of Russian Railways.

From July 2014 to May 2017, he headed Moscow Metro.

In May 2017, he was appointed Director for Passenger Transportation at Russian Railways.

First elected to the Board of Directors in 2017.

Chairman of the Strategic Planning Committee of FPC's Board of Directors.



### Positions held in other companies:

member of the Board of Directors at High-Speed Rail Lines, Chairman of the Board of Directors at OY Karelian Trains Ltd.

### Key professional competencies:

- Macroeconomic and Industry Analysis
- Government Relations
- Strategic Planning and Development
- Strategic Management



**Olga Gnedkova**  
Non-Executive Director

Year of birth: 1960.  
Nationality: Russian Federation.

First elected to the Board of Directors in December 2009 by the founders' meeting.

### Education:

---

Novosibirsk Institute of Railway Engineers with a degree in Accounting.  
PhD in Economics.

### Experience:

---

Started her career in railways in 1981 as an accountant at the West Siberian Railway.

In 2000, she was appointed Chief Accountant at the West Siberian Railway.

From 2002 to 2004, she acted as Deputy Head and Chief Accountant at the Moscow Railway.

In 2004, she was appointed Deputy Head of Economics and Finance at the Moscow Railway.

From 2004 to 2005, she was Head of the Financial Management Department at Russian Railways.

From 2005 to 2017, she acted as Head of the Corporate Finance Department at Russian Railways and a member of the Management Board at Russian Railways.

In 2017, she was appointed Economics and Finance Director at Russian Railways.

In March 2018, she was appointed Deputy CEO – Chairman of the Management Board at Russian Railways.



### Key professional competencies:

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- Corporate Finance and Investor Relations
- Macroeconomic and Industry Analysis
- Taxation, Strategic Planning and Development
- Finance and Audit

### Positions held in other companies:

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member of the Board of Directors at Company TransTeleCom, member of the Management Board at Russian Railways.

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## Petr Ivanov

Executive Director



Year of birth: 1970.

Nationality: Russian Federation.

### Education:

Financial Academy under the Government of the Russian Federation with a degree in International Economic Relations, Moscow State Law Academy with a degree in Law.

Elected to the Board of Directors in March 2016.

### Experience:

From 1998 to 2005, he acted as Vice- President and Deputy General Director at Mosgortrans.

From 2005 to 2006, he acted as Deputy Head of the Moscow Transport and Communications Department.

From 2006 to 2013, he acted as General Director of Mosgortrans.

From 2013 to 2015, he was Deputy Chairman of the Moscow Region Government.

From 2015 to 2016, he was Deputy Chairman / Transport Minister of the Moscow Region Government.

In January 2016, he was appointed General Director of FPC.

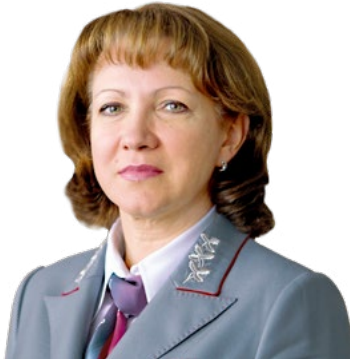


### Positions held in other companies:

none.

### Key professional competencies:

- Macroeconomic and Industry Analysis
- Law
- Government Relations
- Strategic Management



## **Irina Kostenets**

Non-Executive Director

Year of birth: 1961.

Nationality: Russian Federation.

### **Education:**

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Elected to the Board of Directors in June 2013.

Irkutsk Institute of Railway Engineers with a degree in Construction of Railways, Track and Track Facilities, and the Academy of National Economy under the Government of the Russian Federation with a degree in Public Economic and Financial Management of Railway Transport.

### **Experience:**

---

In 1998, she was appointed Head of the Economics Service, Deputy Head of Economics at the Krasnoyarsk Railway.

In 2005, she was appointed Head of the Organisational and Administrative Department at Russian Railways.

From 2003 to 2005, she acted as Deputy Head of the Planning and Budgeting Department at Russian Railways.

From 2012 to 2017, she was Head of the Economics Department at Russian Railways.

Since August 2017, she has been Advisor to the CEO – Chairman of the Management Board of Russian Railways.



### **Key professional competencies:**

---

- Corporate Governance
- Macroeconomic and Industry Analysis
- Strategic Planning and Development
- HR Management and Corporate Social Responsibility

### **Positions held in other companies:**

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member of the Board of Directors at South Caucasus Railway.



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## Alla Saltykova

Independent Director

Year of birth: 1970.  
Nationality: Russian Federation.

### Education:

Graduated from Moscow State Linguistic University, Faculty of English.

Holds MBAs from California State University (Hayward, USA) and the Academy of National Economy under the Government of the Russian Federation.

Obtained the IoD Certificate in Company Direction under the IoD's Chartered Director global programme for qualification of directors.

### Experience:

Until the beginning of 2014, she held senior positions at major international audit and consultancy firms.

Until 2011 (inclusive), she was Director of the Audit Department of PricewaterhouseCoopers International Network.

From 2011 to 2014, she was a partner at Deloitte international network of firms.

Since 2014, she has acted as Deputy Executive Director of the not-profit foundation Forum Analytical Centre.

### Positions held in other companies:

independent member of the Board of Directors at High-Speed Rail Lines, member of the Council for Financial Accounting and Reporting Standards of the National Organisation for Financial Accounting and Reporting Standards Foundation.



Elected to the Board of Directors in June 2016.

Chair of the Audit and Risk Committee of FPC's Board of Directors and member of the Strategic Planning Committee of FPC's Board of Directors



### Key professional competencies:

- Finance and Audit
- Internal Audit and Internal Control
- Risk Management
- Corporate Governance
- Management and Optimisation of Major Investment Projects
- Strategic Planning and Development



**Sergey Zemlyansky**  
Independent Director

Year of birth: 1968.  
Nationality: Russian Federation.

### Education:

---

Elected to the Board of Directors in 2017.

Chairman of the Human Resources, Remuneration, and Corporate Governance Committee of FPC's Board of Directors

Ryazan Higher Airborne Command School with a degree in Wheel and Track Vehicles Operation Engineering, Institute for Professional Upgrade and Advanced Training Programs of the Financial Academy under the Government of the Russian Federation with a degree in Banking and Insurance Economy.

Holds an EMBA from Moscow School of Management SKOLKOVO.

Obtained the IoD Certificate in Company Direction under the IoD's Chartered Director global programme for qualification of directors.

### Experience:

---

Since 1993, he held senior positions and was a member of the Management Board at a number of commercial banks.

Since 2007, he has been Advertising and Marketing Director at Stroyholding Stolitsa.

From 2012 to 2013, he was First Deputy President and a member of the Management Board at Novikombank.



### Key professional competencies:

---

- Finance and Audit
- Strategic Planning and Development
- Corporate Governance
- Strategic Management
- HR

### Positions held in other companies:

---

member of the Supervisory Board at the Corporate and Project Management Institute, member of the Board of Directors at State Transport Leasing Company.

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## Maxim Shneider

Non-Executive Director

Year of birth: 1979.  
Nationality: Russian Federation.



### Education:

Gorky Ural State University with a degree in Economics.

### Experience:

From 1998 to 2000, he served as an economic modelling consultant at the Sverdlovsk Region Food Market Development Agency, a public unitary enterprise.

From 2001 to 2004, he was CFO at Avtolainer.

In 2005, he was appointed Deputy Head of Suburban Service at the Sverdlovsk Railway, a branch of Russian Railways.

From 2005 to 2010, he was General Director of Sverdlovsk Commuter Passenger Company.

From 2010 to 2014, he worked as Head of the Corporate Governance Centre for Commuter Transport, a business unit of Russian Railways.

From 2014 to June 2015, he acted as Deputy Head of the Passenger Services Management Department at Russian Railways.

From June to December 2015, he was Head of the Central Directorate for Passenger Facilities, a branch of Russian Railways.

Since December 2015, he has been Head of the Passenger Services Management Department at Russian Railways.

From August 2017 to January 2018, he was Deputy Head of the Passenger Services Management Department at Russian Railways.

Elected to the Board of Directors in March 2016.

Member of the Strategic Planning Committee of FPC's Board of Directors



### Key professional competencies:

- Government Relations
- Corporate Governance
- Macroeconomic and Industry Analysis
- Strategic Management

### Positions held in other companies:

member of the Board of Directors at Aeroexpress.



**Sergey Kust**  
Non-Executive Director

Year of birth: 1974.  
Nationality: Russian Federation.

### Education:

---

Elected to the Board of Directors in 2017.

Saint Petersburg University of Economics and Finance with a degree in Marketing. In 2000, graduated from Saint Petersburg State University with a degree in Law.

Member of the Strategic Planning Committee of FPC's Board of Directors

### Experience:

---

From 1994 to 2008, he worked in a number of commercial entities.

From 2014 to 2016, he acted as Deputy General Director at MKZD.

From 2008 to 2012, he was Vice President for Corporate Policy at Baltic Construction Company Group.

From March to October 2016, he was First Deputy Head of the Subsidiaries and Affiliates Management Department at Russian Railways.

From 2012 to 2014, he was Director for Energy Construction In-house Resources and Advisor on Matters of Strategic Development at Sstroytransgaz.

From October 2016 to October 2017, he acted as Head of the Subsidiaries and Affiliates Management Department at Russian Railways.



### Key professional competencies:

---

- Finance and Audit
- Corporate Governance
- Strategic Planning and Development
- Strategic Management

### Positions held in other companies:

---

member of the Board of Directors at CRC-1.

# BOARD OF DIRECTORS' REPORT

## Structure of the Board of Directors

The Board of Directors is elected by FPC's annual General Shareholders Meeting in accordance with the Company's Articles of Association and is composed of nine members.

In June 2017, Sergey Zemlyansky, Sergey Kust, and Dmitry Pegov were newly elected to FPC's Board of Directors by the annual General Shareholders Meeting.

The mandates of the following Directors were terminated: Mikhail Akulov, Kirill Yankov, and Andrey Sergeev.

The Board of Directors, therefore, now has 1/3 of new members.

In July 2017, Sergey Maltsev was elected Chairman of the Board of Directors, and Dmitry Pegov was elected Deputy Chairman of the Board by a unanimous vote of Directors.



**Sergey Maltsev**

## Events after the reporting date

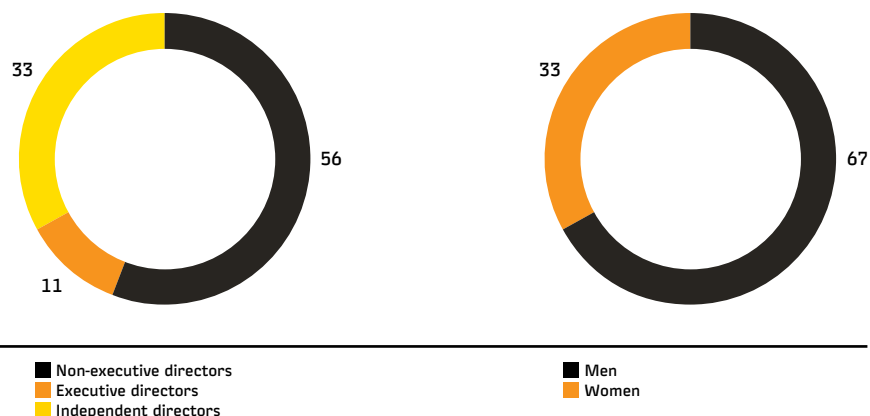
In February 2018, FPC's extraordinary General Shareholders Meeting resolved on early termination of the mandates of all the Directors and elected the new Board as follows: Pavel Burtsev, Vladimir Gaponko, Olga Gnedkova, Vera Evsegneeva, Sergey Zemlyansky, Petr Ivanov, Sergey Maltsev, Dmitry Pegov, Alla Saltykova.

Since 5 March 2018, Dmitry Pegov has acted as Chairman of the Board of Directors, and Vera Evsegneeva has acted as Deputy Chair of the Board of Directors.

### Board of Directors' Membership in 2017

From 1 January 2017 to 30 June 2017	From 30 June 2017 to 31 December 2017
Mikhail Akulov	Dmitry Pegov
Olga Gnedkova	Olga Gnedkova
Irina Kostenets	Irina Kostenets
Sergey Maltsev	Sergey Maltsev
Petr Ivanov	Petr Ivanov
Maxim Shneider	Maxim Shneider
Andrey Sergeev	Sergey Zemlyansky
Kirill Yankov	Sergey Kust
Alla Saltykova	Alla Saltykova

### Structure of the Board of Directors, %



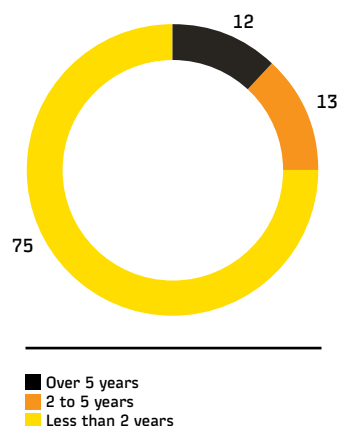
FPC's Board of Directors performs efficiently due to a balanced composition of members in terms of their age and gender: the Board includes three women and six men from different age groups, allowing the Board members to have a deep insight into agenda items.

Independent directors play an important role in the Board, and their fresh insight helps improve the quality of management decisions. FPC meets the recommendations of the Corporate Governance Code as to members of the Board of Directors: the share of executive directors on the Board is less than 1/4, and the share of independent directors is 1/3.

To gain a prompt and efficient insight into FPC's production, financial and business operations, the new independent director Sergey Zemlyansky has had an induction training course under the Induction Programme for Newly Elected Members of JSC FPC's Board of Directors as approved by the Board in December 2015.

As part of the induction training, FPC organised office meetings with the General Director and Deputy General Directors and site visits to the Situation Centre and the Company's facilities.

### Length of service on the Board



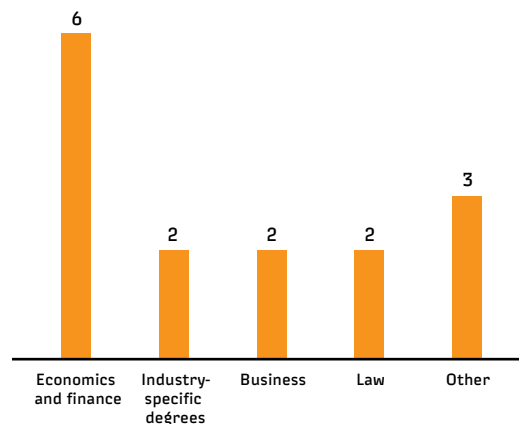
Director Olga Gnedkova has been a continuous Board member since first elected by the founders' meeting in 2009.

Director Irina Kostenets has over four years' experience on FPC's Board of Directors.

## Educational background, skills, and experience of the Board members

Members of FPC's Board of Directors have an impeccable business and personal reputation and an extensive track-record in the rail transport and related industries, which ensures effective decision-making within the jurisdiction of the Board.

Educational background<sup>1</sup>

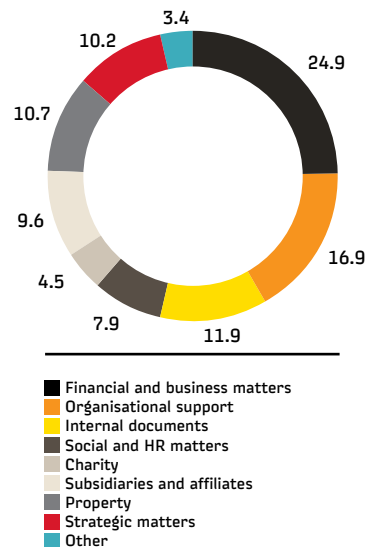
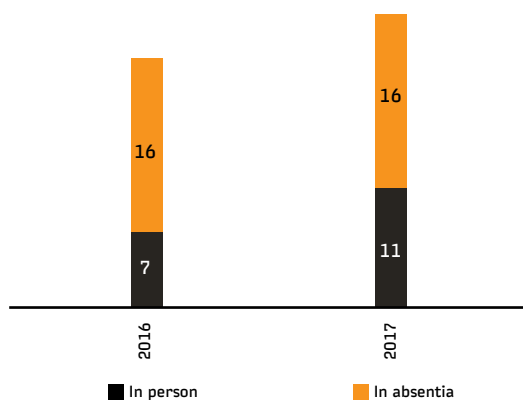


<sup>1</sup> Directors Petr Ivanov, Irina Kostenets, Alla Saltykova, Sergey Kust, and Sergey Zemlyansky each have two or more higher education degrees. Director Olga Gnedkova has an academic degree.

## Meetings of the Board of Directors

In 2017, 27 meetings of FPC's Board of Directors were held, including 16 meetings in absentia and 11 meetings in person. The Board reviewed 177 matters during 2017.

Statistics of the matters reviewed by the Board of Directors in 2017, %





## Key Resolutions of the Board of Directors in 2017

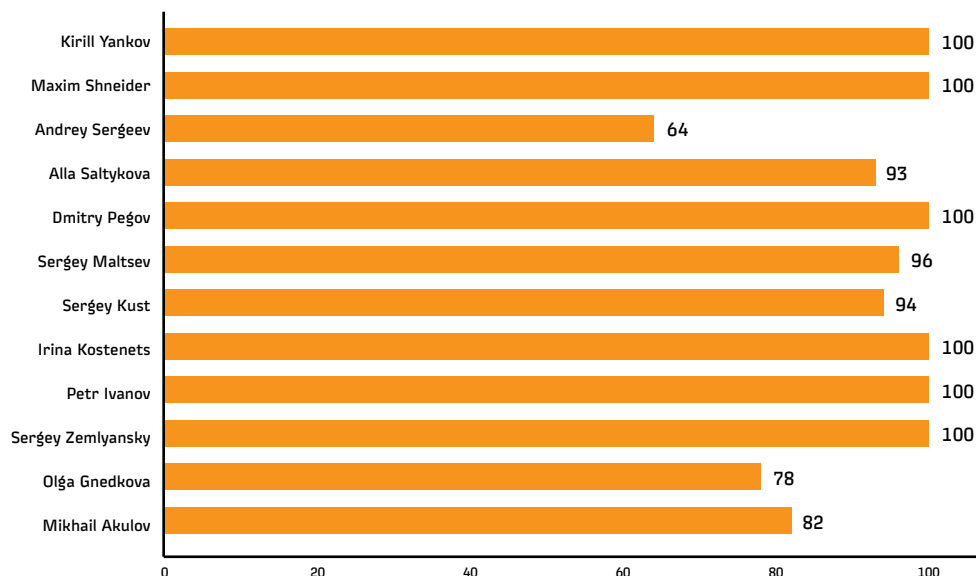
1. Approved the Procedure for Planning, Reviewing, and Monitoring the Implementation of, Initiatives to Enhance the Reliability of Technical Means and Reduce Technical Failures at JSC FPC
2. Approved the new version of the Procedure for Budgeting and Budget Performance Monitoring at JSC FPC
3. Approved the 001R Exchange-Traded Bonds Programme and the Exchange-Traded Bond Prospectus for the bonds placed thereunder
4. Approved JSC FPC's Budget for 2017
5. Approved JSC FPC's IT Programme for 2017
6. Approved the Procedure for Determining Nominees to the Position of JSC FPC's Auditor
7. Adopted the Traffic Safety Policy of RZD Holding
8. Approved the Regulations on JSC FPC's Debt Policy
9. Approved the new version of the Standard Payment Terms for contracts signed with counterparties on behalf of FPC, in which FPC is the payer
10. Approved the Regulations on JSC FPC's Corporate Secretary
11. Approved the draft version of JSC FPC's 2030 Development Strategy
12. Approved the Programme for Disposal of JSC FPC's Non-Core Assets
13. Approved JSC FPC's Cost Optimisation Programme for 2017
14. Approved JSC FPC's Insurance Coverage Programme for 2018
15. Approved the Resolution on the Issuance of Additional Shares of JSC FPC
16. Approved JSC FPC's Budget adjustments for 2017
17. Approved candidate Deputy General Directors and Heads of FPC's Branches; approved changes to FPC's organisational structure

#### Attendance at meetings of FPC's Board of Directors by members of the Board of Directors in 2017

Name	In-person Board meeting <sup>1</sup>	In-absentia Board meeting
Mikhail Akulov	5(1)/6	4/5
Olga Gnedkova	7(2)/11	14/16
Petr Ivanov	11/11	16/16
Irina Kostenets	11(7)/11	16/16
Sergey Maltsev	10/11	16/16
Alla Saltykova	11(1)/11	14/16
Andrey Sergeev	2(2)/6	5/5
Maxim Shneider	11(2)/11	16/16
Kirill Yankov	6(1)/6	5/5
Sergey Zemlyansky	5(1)/5	11/11
Sergey Kust	4/5	11/11
Dmitry Pegov	5(1)/5	11/11

<sup>1</sup> The format "5(1)/7" in the table means that the concerned Director personally attended five of seven meetings, and participated in one in-person meeting by submitting a written opinion.

#### Attendance at Board meetings by individual members in 2017



The annual General Shareholders Meeting (Resolution No. 33 dated 30 June 2017) elected Sergey Zemlyansky, Sergey Kust, and Dmitry Pegov to the Board of Directors.

The mandates of Directors Mikhail Akulov, Andrey Sergeev and Kirill Yankov were terminated.

Directors do not hold the Company's shares; no claims were filed in 2017 against members of the Board of Directors in relation to their performance of duties as Directors.

FPC did not extend any loans to members of the Board of Directors.

No conflicts of interest were identified at the Board level.

Members of the Board of Directors provided timely information to the Board about the circumstances that could potentially lead to a conflict of interest,

including information about interests related to any given transaction.

To avoid any conflict of interest, members of the Board of Directors did not vote on transactions in which they had an interest.

## Remuneration of members of the Board of Directors

The principles regarding motivation for members of FPC's Board of Directors, as well as payment of compensation / reimbursement of expenses to members of the Board of Directors are set out in the Regulations on Remuneration and Reimbursement for Members of FPC's Board of Directors.

A Director's remuneration consists of two parts: remuneration for involvement in the activities of the Board of Directors and annual remuneration.

A Director's remuneration for attendance at the Board meetings (irrespective of the form) equals three times the minimum wage at Russian Railways.

Aggregate Director's remuneration for attendance at the Board meetings may not exceed the limit set out in the Regulations on Remuneration and Reimbursement for Members of the Board of Directors of JSC FPC.

This remuneration is not payable if the Company has losses above an anticipated level as at the last reporting date preceding the date when the Board meeting is held.

The level of a Director's annual remuneration depends on his/her personal attendance at the Board meetings and personal contribution to the Company's results.

The Regulations also provide for the payment of an extra 50% and 25% to Chairman and Deputy Chairman of the Board of Directors, respectively, for performing their roles.

Members of FPC's Board of Directors are reimbursed for expenses incurred when travelling to the venue of the Board meetings or making other trips as part of their duties as members of FPC's Board of Directors.

Non-executive and independent directors are not eligible for pension contributions, insurance programmes, investment programmes, or other benefits and privileges.

In 2017, the remuneration (including annual remuneration) paid to members of the Board of Directors totalled RUB 15,292,075.

## REPORT OF THE AUDIT AND RISK COMMITTEE

The Audit and Risk Committee is a consultative and advisory body of the Board of Directors, whose resolutions are of an advisory nature.



Alla Saltykova

### The Committee's goals and objectives

#### Accounting (financial) statements



Monitor the completeness, accuracy, and integrity of FPC's accounting (financial) statements; review the material aspects of FPC's Accounting Policies; participate in reviewing material matters and judgements relating to FPC's accounting (financial) statements; approve the draft budget, investment programme, and relevant performance reports

#### Risk management and internal control



Monitor the risk management and internal control systems for reliability and effectiveness; review the effectiveness of risk management and internal control procedures; prepare proposals for their improvement; review and assess the implementation of the risk management and internal control policy

#### Internal and external audit



Monitor the performance of the system of alerting on potential fraud being committed by FPC's employees or third parties; oversee special investigations of potential fraud, misuse of insider or confidential information; monitor the implementation of measures taken by the Company in response to reports of suspected fraud or other violations

#### Combating malpractice by FPC's employees or third parties

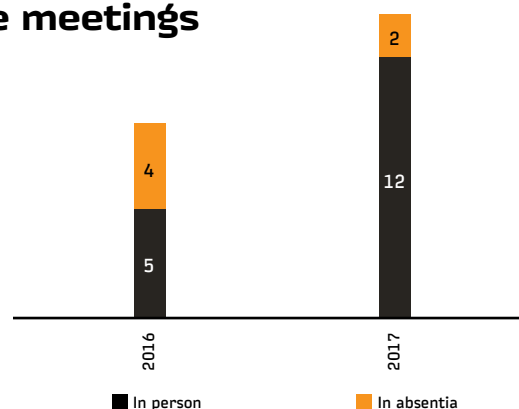


Ensure independent and unbiased approach of the internal audit function, and review its effectiveness; review the Company's internal audit policy and internal audit plan; assess nominees to the Company's auditors and make proposals on the auditor's remuneration; oversee external audits and assess audit quality and auditors' reports

## Statistics on the Committee meetings

In 2017, the Committee held a total of 14 meetings: twelve meetings in person and two meetings in absentia.

In 2017, the Audit and Risk Committee discussed 76 agenda items.



## Key items discussed by the Committee

On the Committee's initiative, the Board of Directors reviewed and supported the need to set up the internal audit function; appropriate re-organisational measures and tendering procedures to select the Head of the Internal Audit Unit were initiated and completed in 2017. In 2018, the Internal Audit Unit functionally reporting to the Board of Directors began its operation.

As instructed by the Committee, an external consultant assessed the status and maturity of the risk management system, and provided recommendations on its further enhancement. On the Committee's initiative, a number of measures were taken to set up reviewing and decision-making mechanisms within the risk management system, and the package of documents to enhance the risk management system was finalised.

The Committee reviewed regulatory changes and their impact on the Company, as well as amendments to JSC FPC's Accounting Policy for accounting under the Russian Accounting Standards, the International Financial Reporting Standards, and for tax purposes.

The Committee reviewed the audit results of FPC's accounting (financial) statements, FPC's consolidated financial statements for 2016, and interim statements for 6M 2017. The Committee held a number of meetings attended by the external auditor (to review the auditor's reports, audit planning matters, key risks, the external auditor's recommendations, as well as the implementation of the external auditor's recommendations).

The Committee reviewed forecasts and the draft budget, including investments, as well as JSC FPC's Budget adjustments for 2017.

The Committee reviewed plans and reports on the functioning of the system for combating malpractice by employees or third parties, including the results of the hotline complains handling.

On a quarterly basis, the Committee reviewed the reports on the operation of FPC's Internal Audit Centre (Control and Audit Centre) in relevant periods. The Committee provided recommendations on controls to ensure implementation of the Centre's recommendations.

## The Committee's plans for 2018



1. Review the General Director's report on FPC's financial and business performance in 2017
2. Review the audit reports on FPC's RAS accounting (financial) statements and IFRS consolidated financial statements for 2017
3. Review FPC's accounting statements for 2017, including the profit and loss statements, and provide opinion on whether and how FPC's net profit for 2017 can be distributed
4. Propose nominees for voting on the "Approval of FPC's Auditor" agenda item at the annual General Shareholders Meeting. Review nominees to the position of external auditor, and material terms of the relevant agreement and service fee
5. Review reports on risk management system performance at FPC, discuss recommendations on system enhancements
6. Review matters relating to the enhancement of the internal audit procedure at FPC

On 7 February 2017 (Minutes No. 15), the Board of Directors approved changes in the Committee membership – due to the termination of

employment at Russian Railways, Andrey Derin was removed from office before the expiration of his term, and Fyodor Kuzin was elected.

### Changes in the Committee's membership in 2017<sup>1</sup>

#### Members of the Audit Committee from January to 7 February 2017

Alla Saltykova, Chair of the Committee, Deputy Executive Director of the Forum Analytical Centre, independent director

Olga Gnedkova, Deputy CEO – Chairman of the Management Board, Russian Railways

Elena Chamortseva, Deputy Head of Zheldorkontrol Internal Control Centre, a business unit of Russian Railways

Sergey Milokhin, Head of the IFRS Consolidated Statements Department at the Accounting Service, Russian Railways

Andrey Derin, Deputy Head of the Subsidiaries and Affiliates Management Department, Russian Railways

Alexander Muslovets, Deputy General Director of FPC for Economics and Finance

Alexander Ananyev, Deputy Head of the Department of Economics, Russian Railways

#### Members of the Audit Committee from 7 February to 21 July 2017

Alla Saltykova, Chair of the Committee, Deputy Executive Director of the Forum Analytical Centre, independent director

Olga Gnedkova, Deputy CEO – Chairman of the Management Board, Russian Railways

Elena Chamortseva, Deputy Head of Zheldorkontrol Internal Control Centre, a business unit of Russian Railways

Sergey Milokhin, Head of the IFRS Consolidated Statements Department at the Accounting Service, Russian Railways

Fyodor Kuzin, Head of the Subsidiary Relations Unit at the Subsidiaries and Affiliates Management Department, Russian Railways

Alexander Muslovets, Deputy General Director of FPC for Economics and Finance

Alexander Ananyev, Deputy Head of the Department of Economics, Russian Railways

<sup>1</sup> Positions as at the date of election to the Committee.

On 21 July 2017 (Minutes No. 1), the Board of Directors resolved to elect a new Committee. On 19 September 2017 (Minutes No. 4), the Board of Directors resolved to change the name of the Audit Committee of FPC's Board of Directors to the Audit and Risk Committee of FPC's Board of Directors,

as well as to expand and approve the Committee's membership of eight members.

The Committee is led by Alla Saltykova as an independent director.

#### Changes in the Committee's membership in 2017

Membership of the Audit Committee 21 July – 19 September 2017	Membership of the Audit and Risk Committee 19 September – December 2017
Alla Saltykova, Chair of the Committee, Deputy Executive Director of the Forum Analytical Centre, independent director	Alla Saltykova, Chair of the Committee, Deputy Executive Director of the Forum Analytical Centre, independent director
Fyodor Kuzin, Head of the Subsidiary Relations Unit at the Subsidiaries and Affiliates Management Department, Russian Railways	Fyodor Kuzin, Head of the Subsidiary Relations Unit at the Subsidiaries and Affiliates Management Department, Russian Railways
Elena Chamortseva, Deputy Head of Zheldorkontrol Internal Control Centre, a business unit of Russian Railways	Elena Chamortseva, Deputy Head of Zheldorkontrol Internal Control Centre, a business unit of Russian Railways
Sergey Milokhin, Head of the IFRS Consolidated Statements Department at the Accounting Service, Russian Railways	Olesya Chernysheva, Head of the Accounting Department, Russian Railways
Elena Filatova, Advisor to the Economics and Finance Director, Russian Railways	Elena Filatova, Advisor to the Economics and Finance Director, Russian Railways
Alexander Muslovets, Deputy General Director of FPC for Economics and Finance	Alexander Muslovets, Deputy General Director of FPC for Economics and Finance
Alexander Ananyev, Deputy Head of the Department of Economics, Russian Railways	Alexander Ananyev, Deputy Head of the Department of Economics, Russian Railways
	Gleb Zaznov, Head of the Risk Management Development and Outsourcing Centre, a business unit of Russian Railways

The Audit Committee acting from January to 7 February 2017 held one meeting in person.

No in-absentia meetings were held.

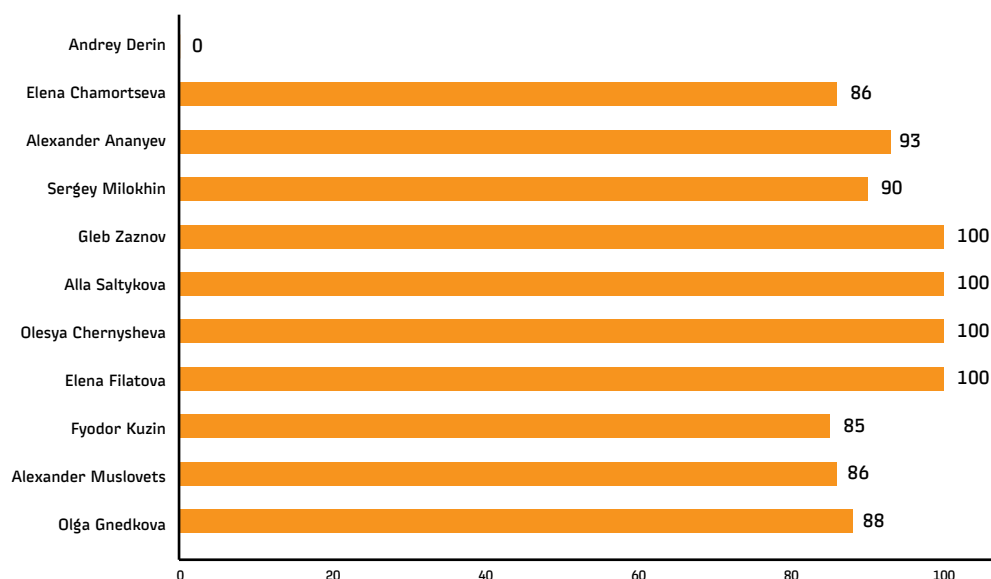
The Audit Committee acting from 7 February to 21 July 2017 held six meetings in person and one meeting in absentia.

The Audit Committee acting from 21 July to 19 September 2017 held two meetings in person. No in-absentia meetings were held.

The Audit and Risk Committee acting from 19 September to December 2017 held three meetings in person and one meeting in absentia.



### Statistics on individual attendance of the Committee meetings in 2017, %



In 2017, the remuneration (including annual remuneration) paid to members of the Committee totalled RUB 5,496,982.

## Events after the reporting date

On 5 March 2018, FPC's Board of Directors:

- determined the membership of the Audit and Risk Committee of FPC's Board of Directors at nine members
- resolved to elect the following persons to the Audit and Risk Committee of FPC's Board of Directors:
  - Alla Saltykova, Independent Director, FPC
  - Alexander Ananyev, Deputy Head of the Department of Economics, Russian Railways
  - Mikhail Beskhmel'nitsyn, Head of the Control and Analytical Service of the CEO – Chairman of the Management Board, Russian Railways
  - Fyodor Kuzin, Head of Unit at the Subsidiaries and Affiliates Management Department, Russian Railways
  - Gleb Zaznov, Head of the Risk Management Development and Outsourcing Centre, a business unit of Russian Railways
  - Elena Filatova, Advisor to the Economics and Finance Director, Russian Railways
  - Elena Chamortseva, Deputy Head of Zheldorkontrol Internal Control Centre, a business unit of Russian Railways
  - Olesya Chernysheva, Head of the Accounting Department, Russian Railways
  - Alexander Muslovets, Deputy General Director, FPC
- unanimously elected Alla Saltykova, FPC's Independent Director, the Chair of the Audit and Risk Committee of FPC's Board of Directors.



**Sergey Zemlyansky**

## REPORT OF THE HUMAN RESOURCES, REMUNERATION, AND CORPORATE GOVERNANCE COMMITTEE

The Human Resources, Remuneration, and Corporate Governance Committee is a consultative and advisory body of the Board of Directors, whose resolutions are of an advisory nature. The Committee's main goal – to assist the Board of Directors' efficient operation in developing corporate governance, efficient HR planning, and effective and transparent remuneration practice in the Company – is achieved through addressing the following tasks.

### The Committee's goals and objectives

#### Effective and transparent remuneration practice



Develop and regularly review the Company's policy on remuneration of members of the Board of Directors and executive bodies, and other key managers; make recommendations on the levels of remuneration and reimbursement for members of the Boards of Directors and Audit Commissions of FPC and its subsidiaries and affiliates; define material terms of contracts with FPC's executive officers; authorise FPC's General Director to serve in governing bodies or hold other paid positions in other companies; oversee the disclosure of information on remuneration levels, policy and practice, and on shareholdings in the Company by members of the Board of Directors and members of collective executive bodies in the Annual Report and on FPC's website

#### HR planning



Develop an induction programme for newly elected members of the Company's Board of Directors and oversee its implementation; develop a training and development programme for members of the Board of Directors and oversee its implementation; analyse the current and anticipated needs of the Company regarding the professional qualifications of members of its executive bodies and other key managers, and ensure succession planning for these positions; discuss, review, and make recommendations to the Company's Board of Directors as to appointments of, the Company's representatives to supreme governing bodies of its subsidiaries and affiliates, and nominate candidates to the Boards of Directors and Audit Commissions of the Company's subsidiaries and affiliates; approve candidates to positions of the Company's executive officers and to certain positions in the Company's administration as determined by FPC's Board of Directors

#### Development and improvement of the corporate governance practice

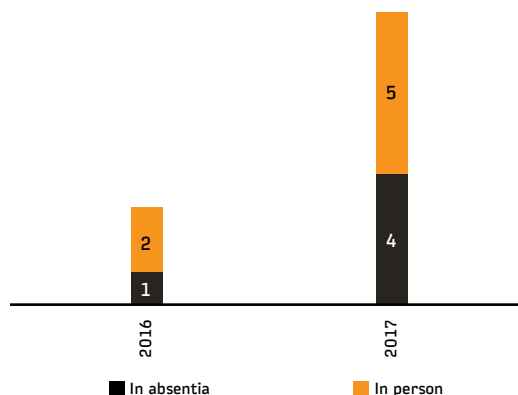


Monitor compliance with the Company's information policy; monitor reliability and effectiveness of the corporate governance system; review the effectiveness of the corporate governance practice and make proposals for its improvement; monitor procedures which ensure FPC's compliance with Russian laws on corporate governance; define the conflict of interest management policy and review and assess its implementation

## Statistics on the Committee meetings

In 2017, the Committee held nine meetings: five meetings in person and four meetings in absentia.

During the period, the Committee discussed 33 agenda items.



## Key items discussed by the Committee

Approved nominee heads of FPC's branches.

Approved the Regulations on the Corporate Secretary of JSC FPC.

Approved the amendments to the terms of the employment contract with FPC's General Director.

Reviewed FPC's proposals on aggregating FPC's branches.

Reviewed proposed changes to the organisational structure of the Company's administration.

Provided recommendations on the incentives for FPC's General Director.

Reviewed FPC's General Director's quarterly reports on the Company's social and HR policy and the implementation of the resolutions of FPC's Board of Directors.

## The Committee's plans for 2018

The following items are planned to be reviewed in 2018:



1. Review the General Director's report on FPC's performance in 2017 and Q1 2018
2. Provide recommendations on the amount of FPC's General Director's bonus
3. Determine the levels of remuneration for members of FPC's Audit Commission and Board of Directors
4. Review the report on the Committee's performance in the corporate year 2017/2018

The Committee was set up by resolution of FPC's Board of Directors to assist the Board's efficient operation in:

- developing and improving the corporate governance system and practice
- managing relationships between the Company's shareholders, the Board of Directors, and executive bodies
- interaction with the Company's subsidiaries
- HR planning professional composition and efficiency of the Board of Directors
- establishing effective and transparent remuneration practice in the Company.

Members of the Committee are appointed by resolution of the Company's Board of Directors based on the Directors' proposals.

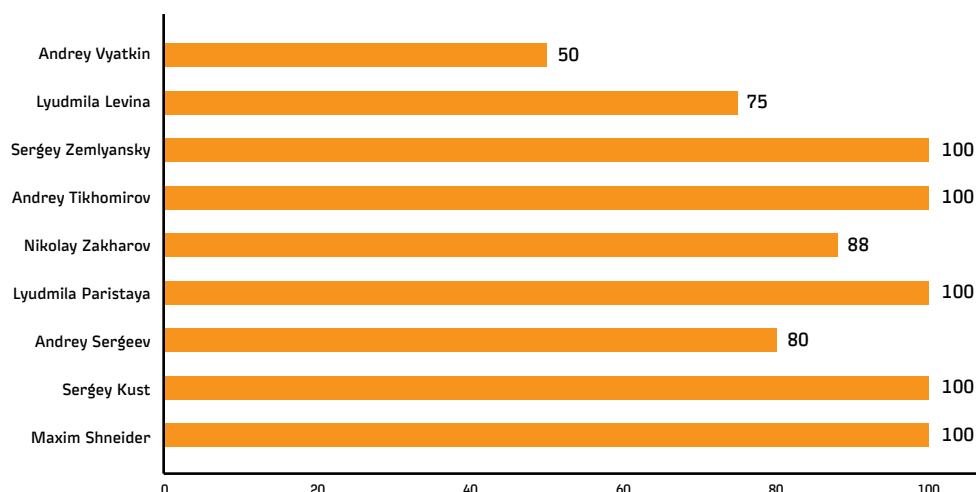
In July 2017, FPC's Board of Directors resolved to form the Committee of six members.

The Committee is led by Sergey Zemlyansky as an independent director.

#### Changes in the Committee's membership in 2017

Members of the Committee in January – June 2017	Members of the Committee in July – December 2017
Maxim Shneider, Deputy Head of the Passenger Services Management Department, Russian Railways; Chairman of the Committee	Sergey Zemlyansky, Independent Director, FPC; Chairman of the Committee
Lyudmila Paristaya, Deputy General Director, FPC; Deputy Chairman of the Committee	Lyudmila Paristaya, Deputy General Director, FPC; Deputy Chairman of the Committee
Nikolay Zakharov, First Deputy Head of the Personnel Management Department, Russian Railways	Nikolay Zakharov, First Deputy Head of the Personnel Management Department, Russian Railways
Andrey Tikhomirov, First Deputy Head of the Employment, Remuneration, and Motivation Department, Russian Railways	Andrey Tikhomirov, First Deputy Head of the Employment, Remuneration, and Motivation Department, Russian Railways
Sergey Kust, Head of the Subsidiaries and Affiliates Management Department, Russian Railways	Lyudmila Levina, Head of Unit at the Subsidiaries and Affiliates Management Department, Russian Railways
Andrey Sergeev, Independent Director	Andrey Vyatkin, Advisor to the General Director of VEB-leasing

### Statistics on individual attendance of the Committee meetings in 2017, %



In 2017, the remuneration (including annual remuneration) paid to the members of the Committee totalled RUB 3,187,276.

### Events after the reporting date

On 5 March 2018, FPC's Board of Directors:

- determined the membership of the Human Resources, Remuneration, and Corporate Governance Committee of FPC's Board of Directors at six members

- resolved to elect the following persons to the Human Resources, Remuneration, and Corporate Governance Committee of FPC's Board of Directors:

- Sergey Zemlyansky, Independent Director, FPC
- Nikolay Zakharov, First Deputy Head of the Personnel Management Department, Russian Railways
- Lyudmila Levina, Head of the Unit for Relations with Subsidiaries' and Affiliates' Governing and

Control Bodies at the Subsidiaries and Affiliates Management Department, Russian Railways

- Andrey Tikhomirov, First Deputy Head of the Employment, Remuneration, and Motivation Department, Russian Railways
- Vladimir Gaponko, Head of the Economics Department, Russian Railways
- Lyudmila Paristaya, Deputy General Director, FPC

- elected Sergey Zemlyansky, FPC's Independent Director, the Chairman of the Human Resources, Remuneration, and Corporate Governance Committee of FPC's Board of Directors.



## REPORT OF THE STRATEGIC PLANNING COMMITTEE

The Strategic Planning Committee is a consultative and advisory body of the Board of Directors, set up to enable the Board of Directors to increase the Company's long-term performance, whose resolutions are of an advisory nature.

**Dmitry Pečov**

### The Committee's goals and objectives



Determine strategic goals of FPC's activities; participate in the development of the Company's Strategy, and monitor its implementation; make recommendations to the Board of Directors on adjustments to the Company's existing Strategy



Determine the Company's business priorities



Preview, and make recommendations to the Board of Directors on, the following:

- The Company's dividend policy
- The Company's investment policy, including the establishment of key principles for the development of the investment policy
- The Company's membership in other entities (including direct or indirect acquisition and disposal

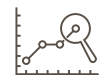
- of interests in the share capitals of such entities and imposing a charge on shares or interests)
- Approval of, and adjustments to, the Company's annual budget and investment programme, and approval of the relevant performance report
- Determining the amount of dividend on shares
- Approval of the Company's material transactions



Assess the Company's long-term performance



Assess voluntary and mandatory offers for the Company's securities



Review the Company's financial model and a model for valuation of its business and business segments



Consider reorganisation or liquidation of the Company and its controlled entities



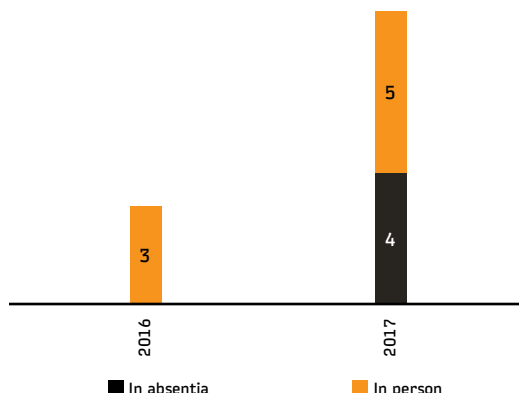
Consider changes to the organisational structure of the Company and its controlled entities



Consider reorganisation of business processes in the Company and its controlled entities

## Statistics on the Committee meetings

In 2017, the Committee held nine meetings: five meetings in person and four meetings in absentia, and discussed 24 agenda items.



## Key items discussed by the Committee

Reviewed JSC FPC's 2030 Development Strategy and the Company's development priorities.

Reviewed the Stabilisation and Development Plan for JSC FPC-Logistics for 2017–2018.

Reviewed the Progress Report on FPC's Strategy implementation in 2016 and 1H 2017.

Reviewed the Company's proposals on aggregating FPC's branches.

Reviewed FPC's Annual Report for 2016 and proposals on the payout (declaration) of the full year dividend for 2016.

## The Committee's plans for 2018



1. Review JSC FPC's Budget for 2018–2020 and JSC FPC's Investment Programme for 2018–2020 as part of JSC FPC's Budget for 2018–2020
2. Review JSC FPC's 2030 Development Strategy
3. Review FPC's draft Annual Report for 2017
4. Consider payment of the full year dividend for 2017



## The Committee's membership in 2017

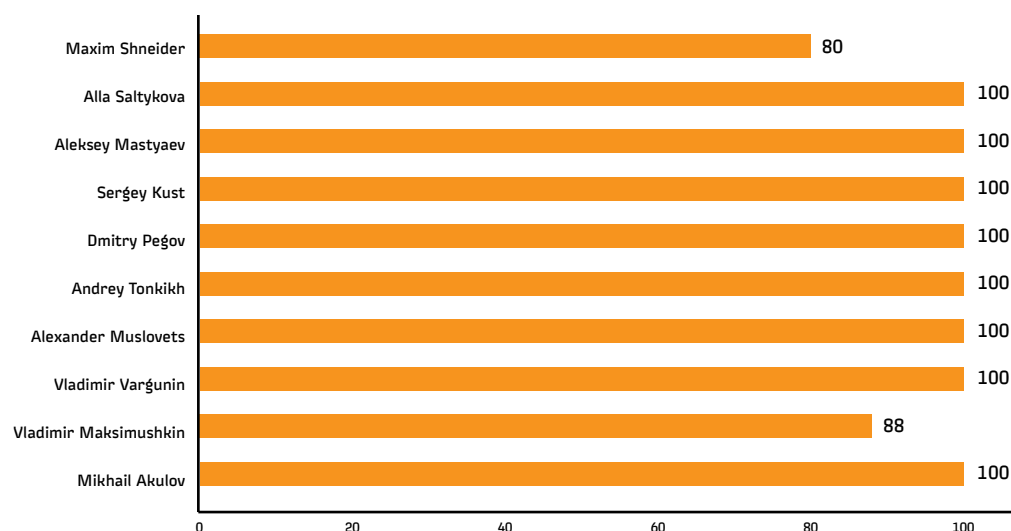
In July 2017, FPC's Board of Directors determined the membership of the Strategic Planning

Committee of FPC's Board of Directors at seven members.

### Changes in the Committee's membership in 2017

Members of the Committee in January – June 2017	Members of the Committee in July – December 2017
Mikhail Akulov, Advisor to the President of Russian Railways, member of FPC's Board of Directors; Chairman of the Committee	Dmitry Pegov, Passenger Transportation Director, Russian Railway; Chairman of the Committee
Alexander Muslovets, Deputy General Director, FPC	Sergey Kust, member of FPC's Board of Directors; Deputy Chairman of the Committee
Vladimir Vargunin, Head of the Department of Tariff Methodology, Expertise, Analysis, and Application of Tariffs in Freight and Passenger Transport, Russian Railways	Vladimir Maksimushkin, First Deputy Head of the Economic Environment and Strategic Development Department, Russian Railways
Vladimir Maksimushkin, First Deputy Head of the Economic Environment and Strategic Development Department, Russian Railways; Deputy Chairman of the Committee	Aleksey Mastyaev, Referent of the Department for the State Regulation of Tariffs, Infrastructure Reforms, and Energy Efficiency of the Ministry of Economic Development of the Russian Federation
Andrey Tonkikh, Head of the Department of Business Project Management, Russian Railways	Alexander Muslovets, Deputy General Director, FPC
	Alla Saltykova, Independent Director, FPC
	Maxim Shneider, member of FPC's Board of Directors

### Statistics on individual attendance of the Committee meetings in 2017, %



In 2017, the remuneration (including annual remuneration) paid to the members of the Committee totalled RUB 2,597,039.

## Events after the reporting date

On 5 March 2018, FPC's Board of Directors:

- determined the membership of the Strategic Planning Committee of FPC's Board of Directors at eight members
- resolved to elect the following persons to the Strategic Planning Committee of FPC's Board of Directors:
  - Dmitry Pegov, Passenger Transportation Director, Russian Railway
  - Pavel Burtsev, Head of the Passenger Services Management Department, Russian Railways
  - Vladimir Gaponko, Head of the Economics Department, Russian Railways
  - Vladimir Maksimushkin, First Deputy Head of the Economic Environment and Strategic Development Department, Russian Railways
  - Elena Vilchinskaya – Advisor to the Head of Moscow Metro on Legal Matters
  - Petr Ivanov, General Director, FPC
- Unanimously elected Dmitry Pegov, Passenger Transportation Director at Russian Railways, the Chairman of the Strategic Planning Committee of FPC's Board of Directors.

## GENERAL DIRECTOR

The management of FPC's day-to-day operations is delegated to the General Director as the sole executive body.

The General Director acts as Chairman of the Company's Science and Technology Board, and also Chairman of the Board of the Heads of the Company's Branches.

The General Director is accountable to FPC's shareholders and the Board of Directors and submits quarterly reports to the Board on the Company's performance (budget performance, contract work performance, HR policy, credit policy, social programmes, insurance coverage, implementation of the Board's resolutions).

The Board of Directors resolves on the election of the Company's General Director, termination of his/her powers, and approves the terms of his employment contract, including remuneration and termination.

The General Director is responsible for timely and quality budgeting and budget performance at the Company, preparing budget performance reports, and organising activities at the Company's branches.

On 25 January 2016, Petr Ivanov was elected FPC's General Director for a three-year term by resolution of the Board of Directors.



**Petr Ivanov**

## DEPUTY GENERAL DIRECTORS



**Konstantin Torubarov**

Deputy General Director for  
Transportation Support

Year of birth:1962.

### Education:

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Graduated from the Moscow Institute of Railway Engineers in 1985 with a degree in Carriage-Building and Rolling Stock.

### Experience:

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Started his career in railways in 1983.

From 2006 to 2009, he served as Deputy Head of the Moscow Regional Directorate for Passenger Service at the Federal Passenger Directorate, a branch of Russian Railways.

From 2010 to 2015, he was Head of the Moscow Branch of FPC.

Since 2015, he has held the post of Deputy General Director of FPC.



**Alexander Muslovets**

Deputy General Director  
for Economics and Finance

Year of birth:1977.

### Education:

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Graduated from Far Eastern State Transport University in 1999 with a degree in Economics and Management at Railway Transport Enterprises.

Graduated from Financial Academy under the Government of the Russian Federation in 2009 with an MBA in Finance.

Obtained an MBA from the University of Navarra (IESE business school) in 2013.

PhD in Economics.

### Experience:

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Started his career in railways in 1999.

From 2004 to 2005, he headed the Finance Department at the Moscow – Ryazan Division of the Moscow Railway, a branch of Russian Railways.

From 2005 to 2009, he was First Deputy Chief Accountant at the Moscow Railway, a branch of Russian Railways.

From 2009 to 2010, he served as Deputy CEO at the Federal Passenger Directorate, a branch of Russian Railways.

Since 2010, he has held the post of Deputy General Director of FPC.

## Education:

Graduated from the Moscow Institute of Railway Engineers in 1985 with a degree in Electrification of Railway Transport.

## Experience:

Started his career in railways in 1977.

From 2012 to 2013, he was Deputy Chief Engineer at FPC.

From 2009 to 2011, he was Chief Engineer at the Traction Rolling Stock Repair Directorate of Russian Railways.

Since 2013, he has held the post of Deputy General Director of FPC.

From 2011 to 2012, he served as Deputy Head of the Technical Policy Department at FPC and headed the Engineering Office.



**Aleksandr Petrunin**

Deputy General Director  
for Business Development  
and Operations

Year of birth:1958.

## Education:

Graduated from the Moscow Institute of Railway Engineers in 1983 with a degree in Railway Operation.

## Experience:

Started her career in railways in 1983.

From 2009 to 2010, she served as Head of the Agents Network Department at the Federal Passenger Directorate, a branch of Russian Railways.

From 2006 to 2009, she was Deputy Head of the Human Resources and Social Development Department at the Federal Passenger Directorate, a branch of Russian Railways, and Head of the Executive Personnel Office.

From 2010 to 2012, she was Head of the Human Resources and Social Development Department at FPC.

Since 2012, she has held the post of Deputy General Director of FPC.



**Lyudmila Paristaya**

Deputy General Director  
for Human Resources and  
Social Development

Year of birth:1960.



### **Stanislav Zotin**

Deputy General Director  
for Maintenance Services

Year of birth:1979.

#### **Education:**

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Graduated from St Petersburg State Transport University in 2001 with a degree in Water Supply and Drainage.

Graduated from St Petersburg State Transport University in 2006 with a degree in Railway Operation and Logistics.

Graduated from the Stockholm School of Economics in St Petersburg where he completed RZD Holding's Corporate Modular Educational Programme Executive MBA of the Stockholm School of Economics

#### **Experience:**

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Started his career in railways in 1998.

From 2010 to 2011, he was Head of the Saint Petersburg – Moskovsky carriage site of the Northwest Branch of FPC.

From 2011 to 2013, he was Deputy Head of the Northwest Branch of FPC.

From 2013 to 2015, he was First Deputy Head of the Northwest Branch of FPC.

From 2015 to 2016, he was Head of the Northwest Branch of FPC.

Since 2016, he has held the post of Deputy General Director of FPC.



### **Marina Zhegulina**

Deputy General Director  
for Marketing and Sales

Year of birth:1984.

#### **Education:**

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Graduated from Moscow Aviation Institute (State Technical University) in 2007 with a degree in Economics and Management at Enterprises.

Graduated from the Institute of Business Studies under the Government of the Russian Federation in 2013 with a degree in Company Management.

#### **Experience:**

---

Started her career in 2005.

From 2010 to 2017, she was Marketing Director at the law firm Legal and Tax Advice on the CIS Countries Law VEGAS LEX.

From February 2017 to July 2017, she was Advisor to the General Director of FPC.

From July 2017 to December 2017, she served as Head of the Customer Experience Centre at FPC.

In December 2017, she was appointed Deputy General Director of FPC.

## Education:

Graduated from the Moscow Higher Combined-Arms Command School in 1988 with a degree in Command and Tactics, Motorised Rifle Troops.

Graduated from the Moscow Presidential Academy of Public and Municipal Administration in 2008 with a degree in Public and Municipal Administration.

## Experience:

From 2004 to 2009, he was Assistant Director at Federal Road Agency.

From 2009 to 2010, he served as Head of the Transport Safety Department at the Federal Road Agency.

From 2010 to 2013, he served as Advisor to the Chairman of the Management Board at the State Company Russian Highways.

From 2013 to 2016, he served as Deputy Chairman of the Management Board at the State Company Russian Highways.

In December 2016, he was appointed Deputy General Director of FPC.



**Boris Suvorov**

Deputy General Director  
for Safety and Security

Year of birth: 1967.

## Education:

Graduated from the Moscow Institute of Railway Engineers in 1979 with a degree in Railway Operation.

PhD in Technical Sciences.

## Experience:

Started his career in railways in 1979.

From 2003 to 2006, he served as Head of the Long-Distance Passenger Service Department of Russian Railways.

From 2006 to 2007, he was Head of the Passenger Service Department of Russian Railways

From 2007 to 2008, he served as Deputy Head for Passenger Service at the Oktyabrskaya Railway, a branch of Russian Railways.

From 2008 to 2010, he was First Deputy CEO at the Federal Passenger Directorate, a branch of Russian Railways.

Since 2010, he has held the post of Deputy General Director of FPC.



**Oleg Nikitin**

Deputy General Director  
for External Relations and  
Legal Affairs

Year of birth: 1957.



### **Aleksey Zhigunov**

Deputy General Director  
for Transport Management,  
Head of the Transport  
Management Department

Year of birth: 1979.

### **Education:**

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Graduated from the Moscow State University of Railway Engineering (MIIT) in 2003 with a degree in Railway Operation and Logistics.

Graduated from the Moscow State University of Railway Engineering (MIIT) in 2014 with a degree in Corporate Management.

Graduated from the Moscow State University of Railway Engineering in 2011 with a Mini MBA IIM.

### **Experience:**

---

Started his career in railways in 2001.

From 2010 to 2012, he served as Deputy Head of the Transport Management Department and Head of the Situation Centre at FPC.

From 2012 to 2014, he served as Head of the Transport Management Department at FPC.

From 2014 to 2016, he acted as Head of the Passenger Transport and Logistics Centre at FPC.

Since June 2016, he has been Deputy General Director and Head of the Transport Management Department.

## **CORPORATE SECRETARY**

The Corporate Secretary's activities are guided by JSC FPC's order to allocate responsibilities among Deputy General Directors of the Company. Furthermore, in August 2017, the Board of Directors approved the Regulations on the Corporate Secretary which take effect after JSC FPC's Articles of Association are amended to introduce the role of the Corporate Secretary.

The Corporate Secretary administratively reports to the General Director, functionally reports to the Chairman of the Board of Directors, and is accountable to the Board of Directors. The Corporate Secretary acts as the Secretary of FPC's Board of Directors.

The Board of Directors resolves on the election or termination of powers of the Secretary of the Board of Directors. In June 2017, Alexander Andryushin was appointed FPC's Corporate Secretary by order of FPC's General Director.

The Board of Directors resolves on the election or termination of powers of the Secretary of the Board of Directors. In June 2017, Alexander Andryushin was appointed FPC's Corporate Secretary by order of FPC's General Director.

On 18 July 2017, FPC's Corporate Secretary was elected the Secretary of the Board of Directors by resolution of the Board of Directors.

The tasks of the Corporate Secretary are to:

- ensure that the governing bodies and the Company's employees comply with applicable laws, the Company's Articles of Association and internal documents ensuring the exercise of rights and legitimate interests of shareholders
- ensure the Company's shareholder relations and protection of shareholders' rights and property interests
- provide organisational support to the Company's Board of Directors
- develop the Company's corporate governance practice.



### Education:

He graduated from St Petersburg State University with a degree in Law. Currently is studying at the Financial University under the Government of the Russian Federation majoring in Financial Management.

**Alexander Andryushin**  
Corporate Secretary

Year of birth: 1975  
Nationality: Russian Federation.

### Experience:

From April 2003, he worked in the Legal Division of the Ministry of Railways of the Russian Federation, and from October 2003, he worked in the Legal Department at Russian Railways.

From September 2015, he worked in units of the Passenger Services Management Department at Russian Railways.

Since June 2017, he has served as Corporate Secretary at Russian Railways.

While working at Russian Railways, he was a member of the Board of Directors of the Russian-Finnish Company Oy Karelian Trains operating the Allegro project, and the Chairman of the Board of Directors at High-Speed Lines

## EXTERNAL AUDITOR

To audit and verify the Company's annual financial statements, the General Shareholders Meeting approves an external auditor on an annual basis.

In 2017, the General Shareholders Meeting approved LLC Ernst&Young as the Company's Auditor for 2017 to audit FPC's financial statements prepared under the Russian Accounting Standards (RAS) and the International Financial Reporting Standards (IFRS), and the Group's IFRS consolidated financial statements.

## AUDIT COMMISSION

The Audit Commission is FPC's permanent internal control body responsible for regular control over financial and business activities of the Company, its branches, officers of

governing bodies and administrative units to ensure compliance with the laws of the Russian Federation, the Company's Articles of Association and internal documents.



The Audit Commission acts in the best interests of the Company's shareholders and is accountable to FPC's General Shareholders Meeting.

The Audit Commission is independent of officers of the Company's governing bodies and administrative units. FPC's Audit Commission is guided by applicable laws of the Russian Federation, FPC's Articles of Association, the Regulations on the Audit Commission, and the Regulations on Remuneration and Reimbursement for Members of FPC's Audit Commission.

The Audit Commission is composed of five members elected annually by the annual General Shareholders Meeting in accordance with the Articles of Association. FPC's employees are not elected to the Audit Commission.

In June 2017, the annual General Shareholders Meeting of FPC elected members of the Audit Commission as follows:

- Fyodor Kuzin
- Olga Mazhuolite
- Virginia Kulikova
- Elena Chamortseva
- Elena Yudina.

Incentives for members of the Audit Commission are established by the Regulations on Remuneration and Reimbursement for Members of FPC's Audit Commission and imply payment of remuneration for participation in every audit of the financial and business activities of the Company as well as annual remuneration.

Payment of annual remuneration to the Audit Commission members is decided by FPC's annual General Shareholders Meeting as proposed by the Board of Directors.

Annual remuneration paid to a member of the Audit Commission may not exceed an amount equivalent to twenty times the minimum wage at Russian Railways for each completed audit.

Pursuant to a decision of the annual General Shareholders Meeting, in 2017, members of the Audit Commission were paid remuneration totalling RUB 461,285.

## EXTERNAL EVALUATION OF CORPORATE GOVERNANCE



Since 2013, FPC has engaged an independent expert to conduct external qualitative assessment of its corporate governance.

In 2017, RAEX (Expert RA) affirmed the Company's 2016 rating "A+.gp" Very High Level of Management Quality. The management quality system greatly contributes to the promotion and protection of stakeholders' rights.

The positive factors highlighted by the agency include:

- highly organised system for control over financial and business activities of the Company, as well as risk management and corporate social responsibility systems
- high ownership concentration, high level of owners' rights protection
- highly organised activities of the Board of Directors and its Committees, high level of cooperation among the Company's governing bodies
- moderately high level of organisation of executive bodies' activities
- high credit ratings (the Company has high credit ratings assigned by foreign rating agencies)
- high level of disclosure
- strong financial performance
- ISO 9001 certificates (the certificate was granted by the Russian Register Certification Association (accredited by IAF).

## INTERNAL QUALITATIVE ASSESSMENT OF CORPORATE GOVERNANCE

Pursuant to the recommendations of the Corporate Governance Code, FPC annually conducts qualitative self-assessment of its corporate governance.

The Internal Audit Unit has scheduled the next independent qualitative assessment of corporate governance for 1H 2018.

Currently, the Company conducts phased implementation of the corporate governance

principles recommended by the Corporate Governance Code.

To enhance the efficiency of its corporate governance practice, FPC has developed and expects the Board of Directors to approve JSC FPC's Action Plan to Achieve the Target State of the Corporate Governance System by 1 January 2019.

## REPORT ON COMPLIANCE WITH THE BANK OF RUSSIA'S CORPORATE GOVERNANCE CODE

In 2017, the following measures were taken to bring the Company's corporate governance practice into compliance with the recommendations of the Corporate Governance Code:

- The Company complied with the Code's recommendations as to the membership of the Board of Directors: the share of executive directors on the Board is less than 1/4, and the share of independent directors is 1/3; the Chairman of the Board of Directors is an independent director. Independent directors head the Human Resources, Remuneration, and Corporate Governance Committee of the Board of Directors and the Audit and Risk Committee of the Board of Directors
- The Company's Articles of Association have been amended so that the members of the Board of Directors are entitled to access documents and make requests on the Company and its controlled entities, while executive bodies of the Company should furnish all relevant information and documents
- The Company's Articles of Association have been amended to include a list of the most important matters related to the Company's activities, and the quorum required for the Board of Directors to approve such resolutions has determined – a majority of all elected directors.

The Board of Directors approved the organisational structure as per which the role of Corporate Secretary was introduced and the office of the Corporate Secretary was set up. The Corporate Secretary's activities are guided by JSC FPC's order to allocate responsibilities among Deputy General Directors of the Company.

Furthermore, in August 2017, the Board of Directors approved the Regulations on the Corporate Secretary which take effect after JSC FPC's Articles of Association are amended to introduce the role of the Corporate Secretary.

The Company's Corporate Secretary is the Secretary of the Board of Directors who is elected / removed from office pursuant to a resolution of the Board of Directors; the risk management, internal control, and internal audit system was further developed.

To perform the internal audit function, the Internal Audit Unit has been set up (administratively reporting to FPC's General Director and functionally reporting to the Board of Directors).

Risk management functions are assigned to the stand-alone Risk Management Unit (administratively reporting to the Deputy General Director leading the Safety and Security Section). The activities of the above units are guided by the relevant Regulations.

## Statistics of compliance with the principles and recommendations of the Corporate Governance Code in 2017<sup>1</sup>

Sections	Corporate Governance principles recommended by the Code	Compliance with corporate governance principle					
		Full		Partial		None	
		2017	2016	2017	2016	2017	2016
Shareholder Rights	13	8	6	3	5	2	2
Board of Directors	36	15	9	14	18	7	9
Corporate Secretary	2	–	1	2	1	–	–
Compensation System	10	6	7	1	–	3	3
Risk Management System	6	5	5	1	1	–	–
Information Disclosure	7	2	1	4	4	1	2
Material Corporate Actions	5	2	1	2	2	1	2
<b>Total</b>	<b>79</b>	<b>38</b>	<b>30</b>	<b>27</b>	<b>31</b>	<b>14</b>	<b>18</b>

<sup>1</sup> In line with Letter of the Bank of Russia dated 17 February 2016 No. IN-06-52/8 On Reporting on Compliance with the Corporate Governance Code by Public Joint-Stock Companies.

More details on the Company's compliance with the Corporate Governance Code are available

in the Corporate Governance Code Compliance Report annexed hereto.

## CONFLICT OF INTEREST RESOLUTION AND CORRUPTION PREVENTION

FPC, the procedure for preventing, identifying, and resolving conflicts of interest is formalised in the Company's internal documents: the Regulations on the Board of Directors of JSC FPC, JSC FPC's Code of Ethics and Anti-Corruption Policy, and the Regulations on Conflict of Interest Resolution at JSC FPC.

The Board of Directors plays a key role in preventing, identifying, and resolving internal conflicts between members of FPC's Board of Directors.

According to the Regulations on the Board of Directors of JSC FPC approved by the extraordinary General Shareholders Meeting of FPC on 9 February 2016, a member of the Board of Directors shall avoid, or refrain from, any actions that will or can potentially provide conditions for, or lead to, a conflict of interest between the said member of the Board of Directors and the Company.

Furthermore, a member of the Board of Directors must inform the Company about the facts that may potentially lead, or have already led, to a conflict of interest, including relevant information on related or affiliated organisations, individuals serving in those organisations' governing bodies, members of an executive body, other key executives, and the relevant conflict of interest (including information about interests related to any given transaction).

The Regulations also stipulate that Directors shall notify the Board of Directors of any conflict of interest they may have in respect of any item on the agenda of the Board meeting prior to the discussion of this agenda item, and refrain from voting on any agenda item in respect of which they have a conflict of interest.

To identify transactions leading to a conflict of interest, FPC regularly requests information from members of the Board of Directors:

- on entities in which they hold 20 or more percent of voting shares (interests or stakes) on their own or with affiliates
- on entities in which they serve in a governing body
- on FPC's performed or proposed transactions known to them, in which they may be recognised as interested parties.

In 2017, no conflict-of-interest situations were identified at the Board level.

FPC's Board of Directors approved JSC FPC's Code of Ethics, JSC FPC's Anti-Corruption Policy, and the Regulations on Conflict of Interest Resolution at JSC FPC.

These regulatory documents define the procedure for identifying and resolving conflicts of interest that emerge between FPC's employees when they perform their duties, and establish the procedure for informing the employer on the emergence of a conflict of interest.

## Anti-Corruption Committee

FPC has in place the Anti-Corruption Committee.

The Corporate Security Department is a unit responsible for preventing corruption

FPC's administration and all branches place anti-corruption information on dedicated information boards, including the "safety hotline" number and e-mail for reporting on corruption offences, as well as contact details of anti-corruption officials.

FPC also consistently interacts with law enforcement bodies to identify breaches of anti-corruption laws.

In 2017, 11 FPC's employees were held criminally liable for corruption-related crimes.

In 2017, the list of FPC's positions exposed to corruption risks was prepared and approved, along with the Procedure for Providing Information on Income, Expenses, Property, and Property Obligations at JSC FPC.

Furthermore, the following officials were appointed in 2017:

- the official responsible for handling reports on accepting gifts, transferring, evaluating, and disposing of (purchasing) gifts, and crediting the resulting proceeds from disposal
- the official responsible for handling reports on attempts to lead employees into corrupt practices.

**SUSTAINABLE**



**62.800**

**employees**

total headcount

**65 %**

**female**  
employees

**68 %**

**employee**  
stability index





# SUSTAINABLE DEVELOPMENT

FPC sees its people as a key asset and the basis of its competitive ability.



## PERSONNEL

FPC manages its human capital in a way which helps achieve its strategic goals and create conditions for employees' personal development. The key priorities

of the FPC's HR policy are recruiting people, training them in required skills, ensuring their continuous development, and providing them social support.

### Staff profile

The Company currently employs 62,800 people.

Most employees (38,700, or 61.6%) are directly involved in providing services to passengers.

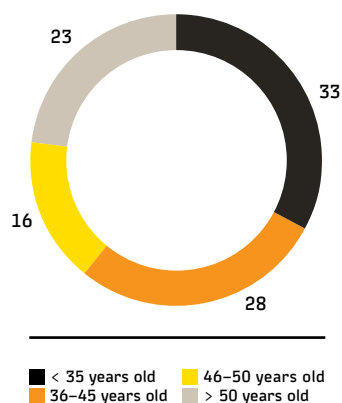
The labour productivity enhancement and organisational structure optimisation initiatives allowed FPC to decrease its employee headcount by 4.8% year-on-year.

#### Personnel by occupation, people

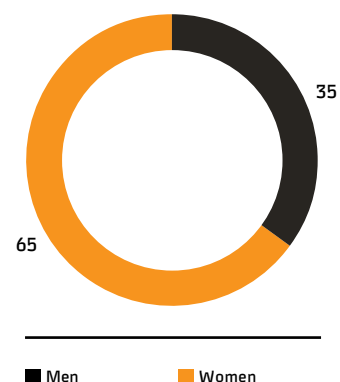
Employees by occupation	As at 31 December 2016	As at 31 December 2017
Employees involved in on-train services	36,811	35,212
Employees involved in ticket sales	6,953	6,897
Employees involved in maintenance and repair of rolling stock	13,026	12,485
Other employees	9,138	8,177
Total	65,928	62,771



#### Personnel by age, %

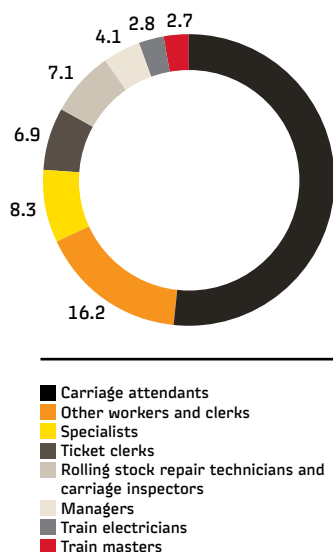


#### Personnel by gender, %

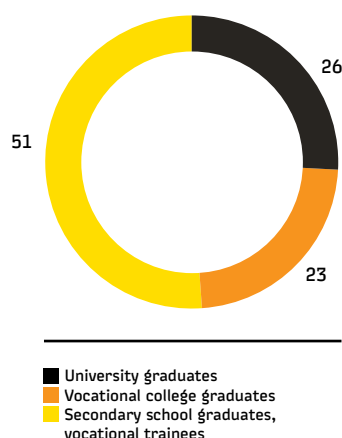


The Company maintains a balance between its young and more experienced employees. The average age of employees is 40 years. Young people under 35 years account for 33% of the total headcount. Most employees (65%) are women.

Personnel by position/profession, %



Personnel by educational background, %



FPC paid specific attention to the development and retention of its employees in 2017. Personnel turnover at FPC remained flat year-on-year at 8.1% (8.1% in 2016). The employee stability index<sup>1</sup> has not changed since last year, at 68%.

## Staff recruitment

FPC's recruitment efforts are focused on two key position segments: "general" and "managers and specialists". FPC seeks to recruit talented people who will contribute to its ongoing development. General positions (carriage attendant, ticket clerk) are most often recruited externally. When seeking managers and specialists, FPC focuses on internal talent, with only rare or unique professionals recruited externally.

Within recruitment and assessment efforts, candidates undergo different assessment procedures: interviews, vocational tests, personal surveys, and ability tests. Candidates are assessed in accordance with the 5C+L corporate competence model:

- Competence – possessing professional skills. Ability to learn and develop. Willingness to share experience and knowledge

- Customer focus – focus on delivering value to FPC's customers
- Corporate culture and ownership – focus on FPC's needs. Teamwork. Focus on results
- Quality and safety – focus on quality and performance. Safety assurance
- Creativity and drive for innovation – proposing initiatives and implementing innovations. Supporting others' initiatives
- Leadership – motivating and engaging other employees. Motivating and influencing without administrative pressure.

Over 16,000 employees underwent the corporate competence assessment during the year, with front-line employees accounting for 89% of the total.

<sup>1</sup> Calculated as a ratio between employees with FPC for more than five years and the total employee headcount.



## Personnel training and development

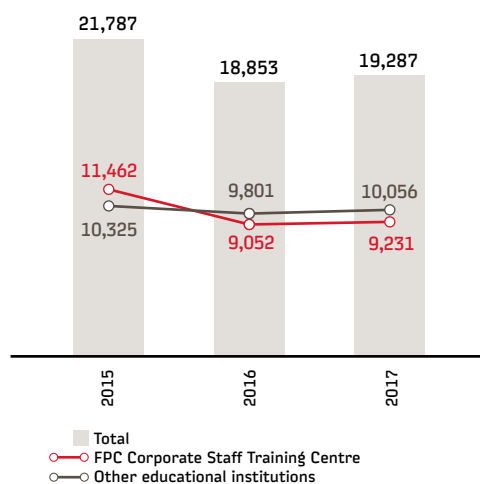
FPC has in place an effective personnel training and development system.

A total 19,200 employees, or 30.7% of FPC's total headcount, underwent training in 2017.

### Training system performance

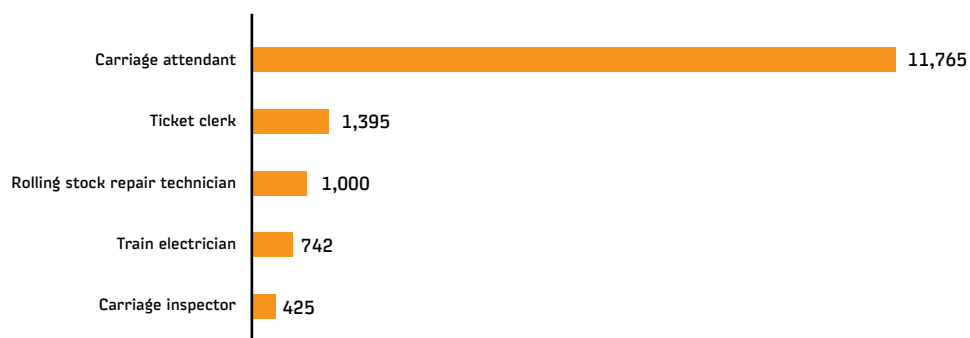
Metrics	2015	2016	2017
FPC headcount, people	67,677	65,928	62,771
Total employees trained, people	21,787	18,853	19,287
Share of employees trained at FPC's Corporate Staff Training Centre, %	41	48	48
Budget, RUB million	97.5	86.9	96.3

### Staff training broken down by training centre, people



More than 2,300 people were trained as railway and office workers in 2017, while around 14,200 employees completed professional development courses.

### Training by profession, people



### Personnel training courses cover key areas:

- Organising induction training using the TWI (Training Within Industry) method
- Operation, maintenance, and fault diagnostics of systems and assemblies in double-decker carriages
- Setting up a corporate risk management system
- Modern, customer-focused passenger service methods
- The specifics of providing rail passenger services to people with reduced mobility
- Providing passenger services during the 2017 FIFA Confederations Cup and 2018 FIFA World Cup
- Foreign languages
- Building a culture around safety in passenger services
- A traffic safety management system in passenger services
- Transportation safety and security
- Organising railway agency activities
- Professional training of internal auditors.

FPC is continuously updating its existing training programmes and developing new ones; around 23% of the existing programmes were updated in 2017 and the inventory base of the Corporate Staff Training Centre (the Centre) is in development.

### The training facilities and programmes available at the Centre enable:

- training effective customer service and passenger communication skills
- improving upon knowledge of corporate service standards.

In line with the 2017 Investment Programme, a mobile computer room was purchased for the Centre, allowing an interactive training environment to be created in any room.

In 2017, particular attention was paid to training luxury carriage attendants. During the training, carriage attendants were taught how to present FPC's services and the configuration specifics of luxury carriage compartments.

Training courses on customer-focused communication allowed carriage attendants to learn VIP customer psychology, speech standards, and how to behave under pressure while maintaining VIP service standards.

Practical training in preparing a luxury carriage for boarding is conducted aboard a training carriage which contains a luxury compartment.

FPC's psychologists use interactive techniques when conducting personnel training courses to understand customer needs and build trust-based relationships with customers. In 2017, FPC conducted over 3,500 on-the-job training courses.

### FPC's training materials help develop its employees' customer service skills:

- The Corporate Standards of Customer Communication handbook
- Passenger interaction (complaints) cases
- A series of informational brochures, Questions and Answers on Customer-Focused Approach
- The Dress Code for Customer Service Employees handbook

In pursuing FPC's strategic goals and to further improve its business performance, 2,700 Company managers and specialists completed higher vocational training programmes. Expenses on training, re-training, and professional development courses reached RUB 96.3 million in 2017.

**RUB 96.3**  
million

invested in employee  
training in 2017

## Targeted training programmes for young talent

To maintain a steady stream of young talent, FPC cooperates with nine universities offering railway- related degrees.

In 2017, 271 students opted for targeted training courses in professional colleges and universities.

Full-time students in targeted training courses had an opportunity to attend open days at FPC to learn about its operations and objectives.

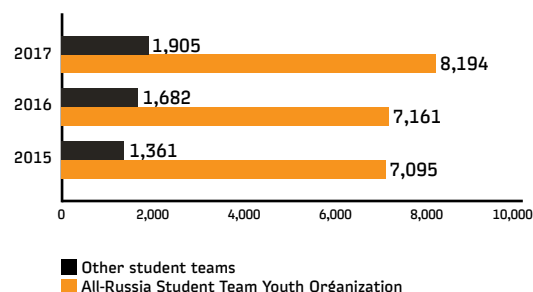
A total 66 train crew members are currently being trained through distance education to receive a Bachelor's degree in Management.

## Student train attendant teams

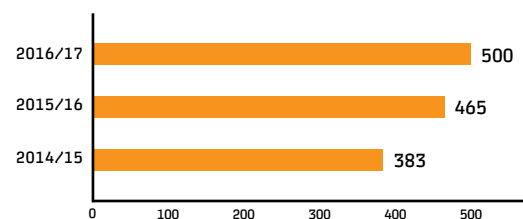
Since 2010, the Company has been engaging university students as train attendants on an annual basis to ensure no staffing shortages during the summer holiday period.

A total 10,099 students from over 300 non-railway educational institutions were employed for the 2017 summer season by FPC's branches. For three years in a row, FPC has been employing students during the winter holidays.

Students engaged during the summer period, **people**



Students engaged during the winter period, **people**



In 2017, FPC spent RUB 69.1 million on student train attendant teams engaged in the summer and winter holiday periods under a service contract with the Orenburg branch of the All-Russia Student Team Youth Organization.

Based on its full-year results, FPC was given the Best Employer for Young People 2017 award by the Moscow government for Efficient Fulfilment of Student Team Potential.

## Staff remuneration and incentive system

Based on improved performance and increased labour productivity, FPC's enhanced incentive system helps improve the competitiveness of its employees' wages.

The incentive system is aimed at creating financial incentives and accountability for FPC employees in ensuring railway traffic safety and improving the quality of carriage maintenance, repairs, passenger service, and travel comfort, including the quality of service on next-generation rolling stock and proficiency in foreign languages.

In 2017, the average wage in the Company was RUB 42,675, up by 8.8% year-on-year, with a growth in real wage of 4.9%. Employees were awarded annual remuneration for complying with the projected budget.

In 2017, the ratio between the wages of FPC employees and the wages of employees of organizations in the Russian Federation was 1.08 compared with 1.06 in 2016.

**4.9 %**

growth in real wages in 2017

## SOCIAL POLICY

### The Collective Bargaining Agreement

FPC pursued its social policy in accordance with its Collective Bargaining Agreement.

The benefits and guarantees set out in the Collective Bargaining Agreement and corporate regulations of the Company provide additional social security measures beyond the regular social guarantees specified in the Russian Federation's labour law.

FPC's social benefits and guarantees are centred on sustaining, stimulating, and improving employee performance and maintaining social stability among staff.

In 2017, FPC's individual social package for each employee was RUB 52,000, and the benefit package for FPC's retired pensioners was worth RUB 6,500.

FPC's full-year expenses under the Collective Bargaining Agreement totalled RUB 6.7 billion.

**RUB 52**  
thousand

for each individual social package in 2017

### Housing policy

FPC has adopted the Mortgage Subsidy Programme for its employees whose housing conditions are in need of improvement.

Under the Collective Bargaining Agreement, monthly subsidies are paid to more than 829 of

FPC employees to repay the interest accrued on their mortgage loans. In 2017, 34 employees of the Company were provided with subsidies following childbirth for mortgage payments towards built or purchased housing. Overall, FPC spent RUB 79.8 million on its housing policy in 2017

**RUB 6.7**  
billion

FPC's full-year expenses under the Collective Bargaining Agreement

## Healthcare

FPC's Employee Healthcare Programme aids proper recreation and treatment, thereby improving its employee work efficiency. Under the Programme, 2,759 employees and retirees of FPC were provided subsidised tours to health centres and resorts in 2017.

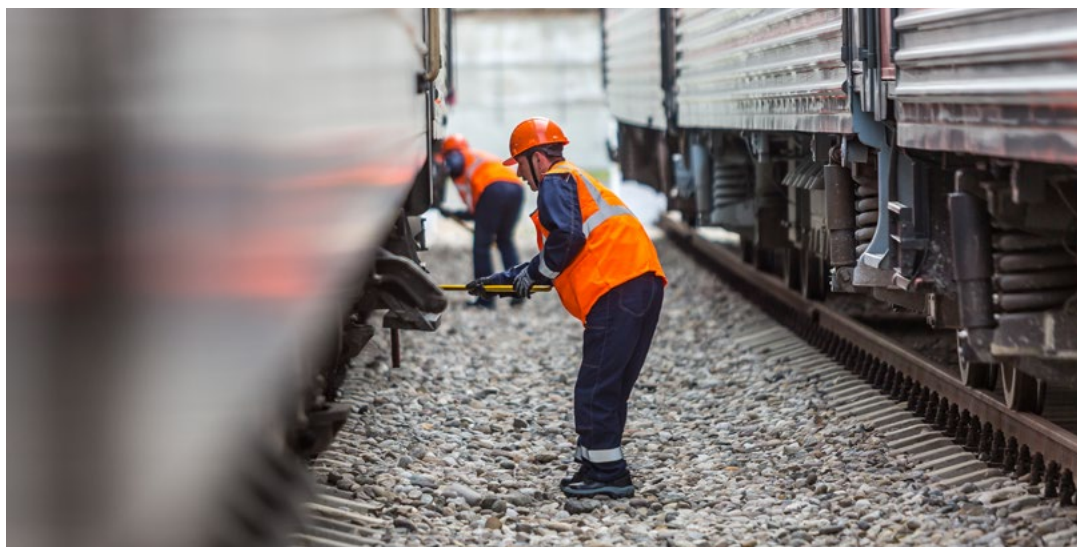
The Company is committed to protecting and improving the health of its employees' children, preventing illnesses they may be vulnerable to, and providing conditions for proper rest and activities during the summer holidays.

In 2017, the children's health improvement campaign involved 2,283 recreation and health

improvement tours for the children of FPC's employees:

- 1,533 tours to Russian Railway's children's health resorts (67% of the total number of children)
- 750 tours (33%) to third-party children's health resorts, including those on the Black Sea coast.

Parents paid 10% to 20% of the tour price depending on the camp session at the children's health resort, while large and/or disadvantaged families paid 10% of the price regardless of the camp session.



## Competitions

**Based on the 2017 FPC staff team competition results, the following teams were announced winners:**

- Far East Branch
- Moscow-Kalanchevskaya carriage site of the Moscow Branch
- Kaliningrad passenger carriage depot of the Northwest Branch
- Volga Railway Agency of the Volga Branch.

FPC's Central Contest Commission recognised the achievements of 12 teams and 46 employees in 2017, awarding the titles of the FPC Best Master, FPC Best Middle Manager, and FPC Best in Profession.

**During 2017, 932 FPC employees were given various awards for their achievements in the workplace and dedicated work:**

- Awards of the Head of the Administration of the Federation Council of the Federal Assembly of the Russian Federation – 2 persons
- Awards of the Ministry of Transport of the Russian Federation – 141 persons
- Russian Railways awards – 248 persons
- FPC awards – 541 persons.



The 2017 First Among the Best corporate competition was won by the crew of Passenger Train No. 31/32 Orenburg – Moscow of the Orenburg passenger carriage depot at the South Urals Branch, headed by the train master, Aleksey Zuev.



Crew of Passenger  
Train No. 31/32  
Orenburg – Moscow

A.G. Zuev, train  
master. Carriage  
attendants: E.A Antipina,  
M.A. Antipova,  
O.A. Eroshenko,  
T.N. Klinkova,  
T.M. Maslova,  
M.V. Tikhonov,  
O.E. Rumyantsev –  
train electrician.

1 WorldSkills International (WSI) is an international non-governmental association committed to raising the global status and standards of vocational training and qualification and popularise vocational skills through conducting international competitions across the world. Founded in 1953. Today, 77 countries participate in the organisation's activities.

## The WorldSkills international movement

To raise the prestige of vocational skills and develop vocational training in Russia, FPC joined the WorldSkills International (WSI)<sup>1</sup> movement and introduced a new railway skill – Passenger Services and Travel Safety on a Passenger Train – into the international system of professional championships.

In 2017, the first stage of the All-Russia Carriage Attendants Vocational Skills Competition finals was organised in a new format in line with the WSI standards.

While performing the competition task, employees demonstrated both their professional expertise and technical skills in passenger interaction, such as boarding and exiting, offering additional services, and conflict resolution.

The competition was won by participants Alexander Anisimov and Galina Kalinina from the East Siberian Branch – FPC's Irkutsk passenger carriage depot.

## Occupational health

FPC's Health Management initiative maintains front-line personnel's high level of work ability and professional reliability.

Following rehabilitation services, employees note less fatigue after a train trip, higher work ability, and restored motivation to perform their roles.

As part of this effort, psychological support offices were established in structural units of the Moscow, North Caucasus, Yenisey, and East Siberian branches in 2017, and have been fitted out to diagnose and treat psycho-emotional conditions among employees.

The initiative contributes to internal development on customer focus, positively impacts FPC's image as an attractive employer, and is popular in all FPC's branches.

## Youth policy

To develop the professional and corporate expertise of its young employees, the eighth FPC Youth Assembly was held in Sochi from 23 to 26 October 2017, attended by 56 employees from the Company's branches and administration. Prizes for solving the "Increasing FPC's passenger turnover and profitability until 2020" case were granted to the teams that offered the largest number of new, actionable solutions.

FPC's employees also participated in the 19th World Festival of Youth and Students, in Global Rail Network: Bringing the Future Closer section. Participants discussed the impact of technology and innovation on the rail network and defined key skills that may be required of railway workers in the future.



## Corporate pension system

Corporate pensions are included in FPC employees' social security packages. Over 23,000 employees have pension programmes with the Non-State Pension Fund Blagosostoyanie.

In the reporting period, 777 employees registered in the corporate pension programme; the average pension was RUB 7,000.

In line with the principle of matched funding of private pension plans, FPC pays monthly pension contributions for each participant until a corporate pension is assigned, and then additional pension contributions following the corporate pension assignment.

In 2017, the Company invested a total of RUB 524 million in private pension plans.

## Social guarantees for FPC's retirees

FPC provides its retirees with all possible support.

At present, FPC supports over 63,000 non-working retirees.

Special emphasis is placed on railway workers who took part in the Great Patriotic War, home front workers, and underage prisoners of Nazi concentration camps. As part of Victory Day celebrations, over 4,000 veterans received additional financial aid.

To celebrate the 73rd anniversary of Victory Day, FPC and Veteran Councils organised home visits to veterans who fought in the Great Patriotic War.

Non-working retirees who have worked at FPC for over 20 years receive compensation for dentures and subsequent repairs of such, high-tech medical services in Russian Railways' healthcare facilities, free transportation on suburban and long-distance trains, and resort healthcare services.

Over RUB 370 million were spent on retiree support in 2017.

## Corporate research

To develop the internal communications system, over 1,300 of FPC's employees took part in group wide social surveys:

- Comprehensive surveys of motivation and social and psychological environment in employee teams
- A unified comprehensive social survey of the personnel
- A survey of external and internal customer focus of Russian Railways
- Annual progress monitoring in Russian Railways' Youth targeted programme.

Based on the survey results, the employee satisfaction index remains stable and positive, at 64.3 points.

Most employees (61%) state their high commitment to FPC and intention to work there for a long time (8 years or more).

# ENVIRONMENTAL IMPACT MANAGEMENT

Environmental protection and mitigating negative impacts are among FPC's priorities. In its environmental activities, FPC complies with the laws of the Russian Federation, the Environmental Strategy of Russian Railways, and FPC's standard for Environmental Management System, FPC STO 1.16.001–2016.

To reduce the man-made impact of passenger services, FPC upgraded its rolling stock and facilities across its branches.

The Company keeps tracks from becoming polluted while maintaining an adequate level of sanitation at infrastructure facilities by only acquiring carriages equipped with composting toilets. In addition, old

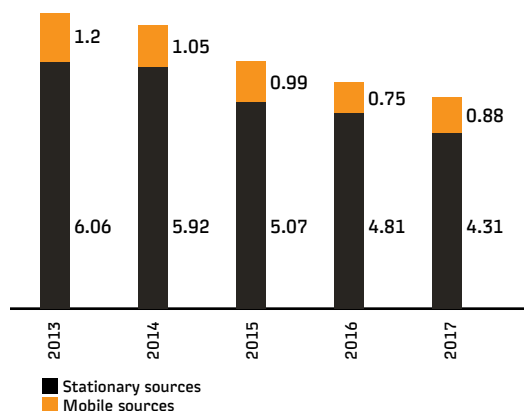
carriages are being fitted out with composting toilets during overhauls.

In an effort to reduce air pollution, FPC is installing boilers fired with environmentally friendly fuels, heating its carriages with electricity, and purchasing carriages with a central power supply.

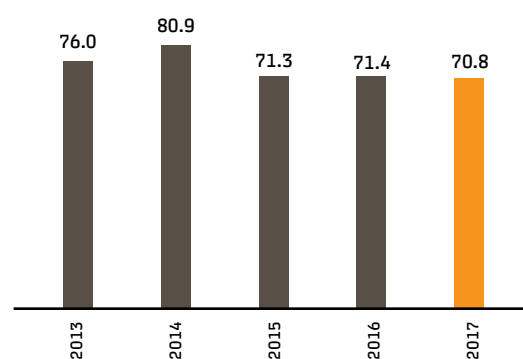
Air emissions were reduced by 6.65% in 2017.

FPC implements annual programmes to renovate its water treatment and carriage-washing facilities in efforts to reduce the negative effects of waste water on the environment and centralised water systems, including the installation of water recirculation systems and on-site water treatment facilities.

Air emissions,  
'000 tonnes



Waste water discharge  
to the environment, '000 m<sup>3</sup>



## ENERGY CONSUMPTION

### Fuel and energy consumption

Type	2015	2016	2017	Growth rate, change 2017/2016, %
Electricity, million kWh	135.6	131.8	129.3	-1.9
Diesel fuel, '000 tonnes	2.3	2.5	2.6	0.2
Coal, '000 tonnes	117.7	113.9	106.3	-6.7
Fuel oil, '000 tonnes	25.4	20.4	17.3	-15.2
Natural gas, million m <sup>3</sup>	24.3	25.6	23.3	-8.8
Gasoline, '000 tonnes	1.2	1.0	0.9	-12.7
Briquettes, '000 tonnes	3.4	3.5	3.0	-13.7
Pellets, '000 tonnes	1.5	1.8	1.2	-36.4
Wood, '000 m <sup>3</sup>	1.9	1.3	0.8	-42.8
Total, '000 t c.e.	211.1	201.1	186.3	-7.3

Total fuel and energy savings amounted to 7.3% vs 2016 baseline in c.e. terms.

### Actual fuel and energy costs in 2017:

- Electricity: RUB 645.1 million
- Diesel fuel: RUB 92.7 million
- Coal: RUB 280.3 million
- Fuel oil: RUB 200.1 million
- Natural gas: RUB 133.4 million
- Gasoline: RUB 41.0 million
- Briquettes: RUB 17.0 million
- Pellets: RUB 9.5 million
- Wood: RUB 2.8 million

## CHARITABLE ACTIVITIES

An important component of FPC's business is social and charitable activity, as well as support for projects in culture, education, healthcare, sports, and other social initiatives.

Donor's Day has become a tradition for FPC's employees, and the number of those joining the donor movement is rising each year. FPC's employees actively participated in two events, with more than 35 litres of blood and over RUB 100,000 collected in donations to the Podari Zhizn (Gift of Life) charitable foundation for children's medical treatment.

The blood received was used to treat patients in the municipal perinatal centre and multi-purpose adult and children's hospitals.

In maintaining the annual event, which began in 2016, and as part of celebrations of the Day of the Railway Worker, the Achieving the Goal! charity run was held at Moscow's Victory Park (Poklonnaya Gora). The funds collected at the sporting event were handed to the Life Line charity foundation focusing on supporting severely ill children



We encourage the readers of this Annual Report to follow our initiative to the best of their ability and join the charity movement.

During the celebrations of the 72nd anniversary of Victory Day, from 1 to 10 May 2017, FPC provided Great Patriotic War (1941–1945) participants and disabled persons, as well as their travelling companions, with free transportation to meet their friends from the war, visit nostalgic and memorable locations, and place flowers on their comrades-in-arms' graves. For their travels,

the veterans were provided compartment carriages within express, branded, and passenger trains, as well as carriages with open-plan seating on any train category throughout Russia.

The total approved amount allocated to charitable activities in 2017 was RUB 27.5 million.

## FPC's volunteer movement

To promote volunteering among FPC's employees, increase the communal activities of FPC's youth, and develop a corporate volunteering system, FPC organised its Make Good Happen! volunteering competition. In 2017, 260 proactive employees participated in the competition with a total 52 projects.

The winning teams as decided by the judging panel:

- 1st Prize – team "Path Forward" of the Northern Branch of FPC – "Employment of People with Disabilities" project
- 2nd Prize – team "Present" of the Yenisey Branch of FPC – "Railway Safety Assurance" project
- 3rd Prize – team "Neva Angel" of the Northwest Branch of FPC – "Unified Volunteer Centre" project.





## FPC'S REGISTRAR DETAILS

Protection of interests and rights of the Company's shareholders is provided due to a reliable method for recording their rights to shares – the share register is maintained by an independent entity, Company STATUS.

On 28 April 2014 (Minutes No. 15), FPC's Board of Directors approved Joint Stock Company Registry Society STATUS as FPC's registrar and approved the terms of the contract therewith.

**Full name of the registrar:**

Joint Stock Company Registry Society STATUS

**Abbreviated name of the registrar:**

Company STATUS

**Location:**

32 Novorogozhskaya St., Bld. 1, Moscow, 109544, Russia

**INN** 7707179242 / **KPP** 770901001

**Tel.:**

+7 495 974 8350 (general inquiries)

**E-mail:**

office@rostatus.ru, info@rostatus.ru

**Website:**

<http://www.rostatus.ru>

## DISCLAIMER

This Annual Report of Federal Passenger Company (the "Company") for 2017 (the "Annual Report") has been prepared using the information available to the Company at the time of its preparation.

The Annual Report contains information about the results of the Company's activities in 2017, forecast data and forward-looking statements regarding the Company's intentions, opinions, or current expectations regarding its operations, financial position, liquidity, growth prospects, and strategy, as well as the development of the industry in which the Company operates. Such forward-looking statements are inherently subject to risks and uncertainties as they deal with events and depend on circumstances that may or may not take place in the future.

The Company makes no direct or implied representations or guarantees and assumes no responsibility in the event of losses incurred by individuals or legal entities as a result of directly or indirectly using the forward-looking statements contained in this Annual Report.

The forward-looking statements contained herein should not be solely relied upon, as they are not the only possible scenario of future events.

Some numbers may not add up to the precise total due to rounding off.

The Company accepts no obligation to revise or confirm expectations and estimates or to update publicly or revise the forward-looking statements made in this Annual Report whether as a result of new information, future events, or otherwise, except to the extent required pursuant to applicable laws of the Russian Federation.

## CONTACTS

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**Abbreviated name of the Company:**

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