

MARKETING

POLICY

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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



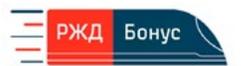
The dynamic pricing system is a multifactor pricing tool that combines most approaches previously used as marketing promotion tools: pricing depending on seat/berth category (upper or lower berth); day of the week; booking date, etc.

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 website¹ 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.

¹ <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

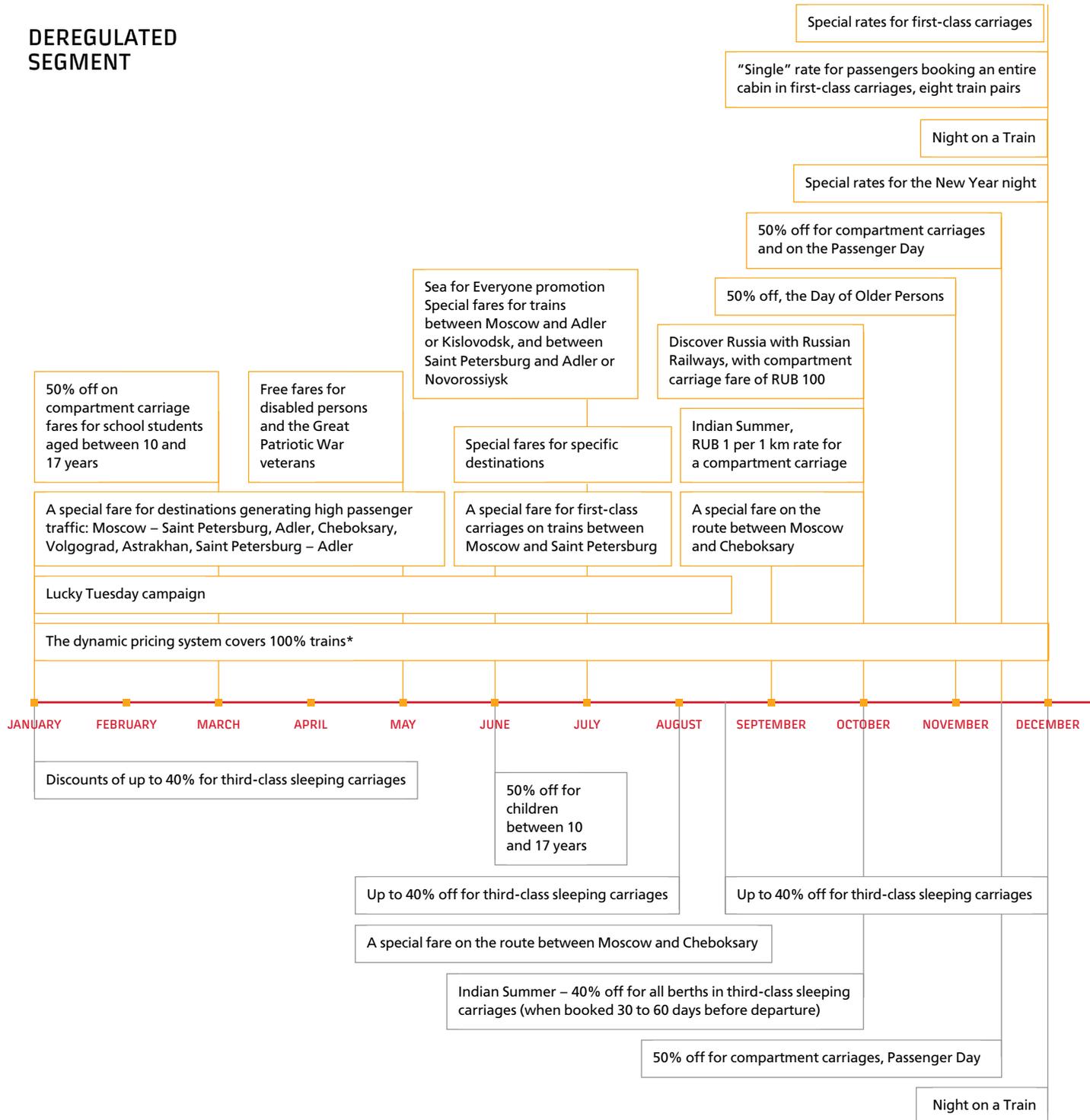
In the regulated segment, key groups of promotions run in 2017 included flexible ticketing depending on the location of berths in third-class sleeping carriages; promotions targeting certain categories of passengers (e.g. for school students in summer); early booking discounts; offers covering certain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