

# 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.

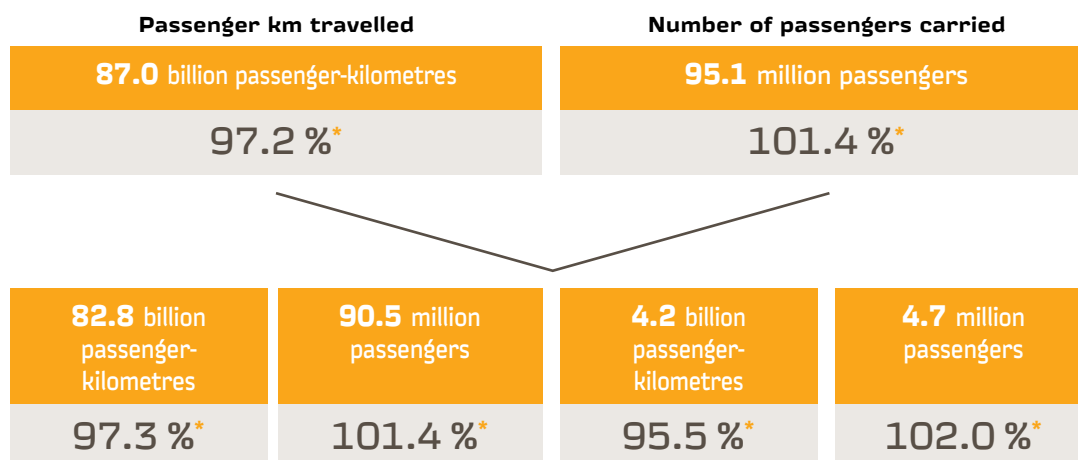
### Highlights

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.

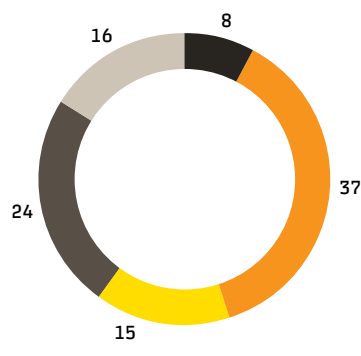
## Revenue from other activities

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.

- Repair and maintenance of non-owned rolling stock
- Bed sheets on trains
- Service maintenance
- Property lease
- Other services

## 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

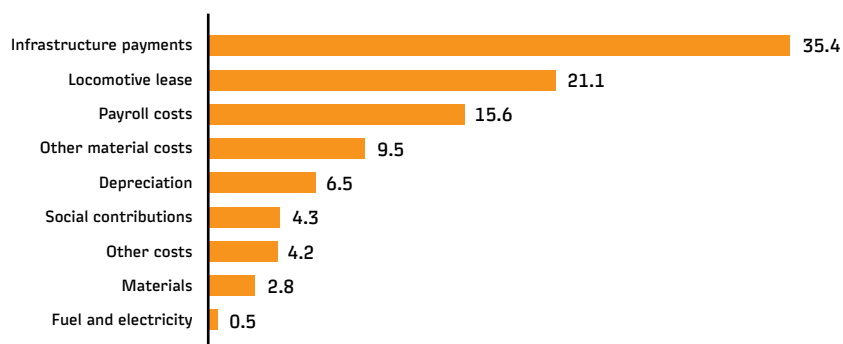
Expenses for materials were down 1%, other material costs declined by 3.8%.

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%.

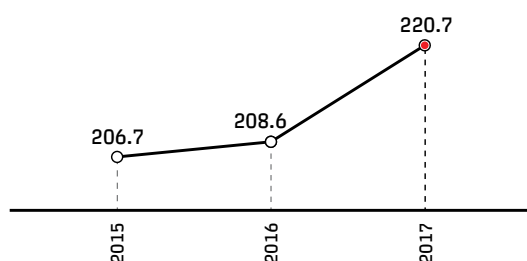
## Key balance sheet items, RUB billion

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>

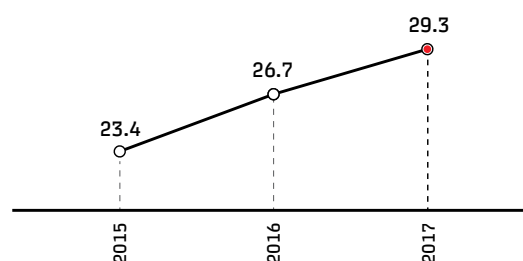
## Balance sheet changes, RUB billion

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

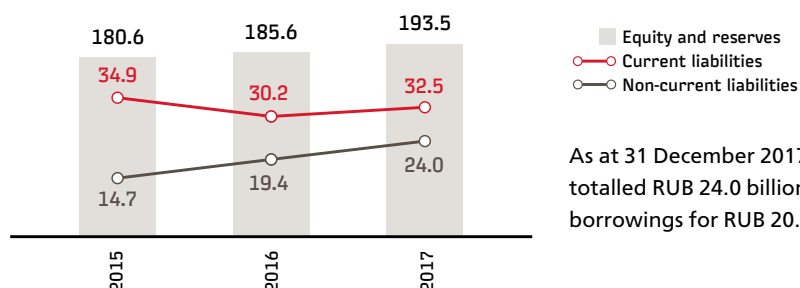
## Non-current assets, RUB billion



## 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.

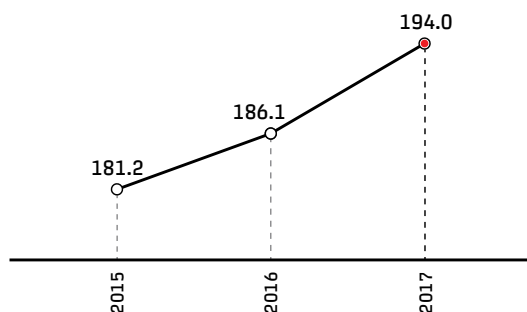
In 2017, FPC launched its scheduled issuance of 6,500,000 (six billion five hundred

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
<b>Total</b>	<b>5.25</b>	<b>7.06</b>	<b>12.09</b>

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
<b>Total</b>	<b>24.37</b>	<b>22.09</b>	<b>24.43</b>

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 – RUB2.2 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

