



Annual Report 2016

- In 2016, RZD Holding's key focus throughout the year was on improvements to customer service.

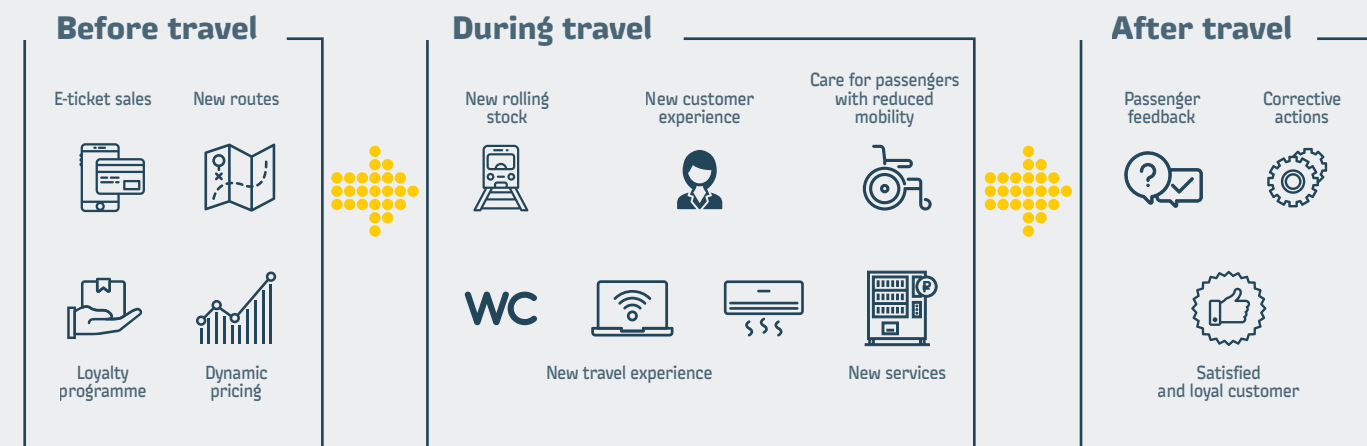
We strove to improve the quality of passenger service by leveraging our own resources and capabilities. Through our efforts undertaken as part of the Year of the Passenger Programme, we succeeded in reversing the negative trend in passenger transportation, carrying 1.37 billion people by rail, a 1.6% increase over 2015.

Domestic travel has gained popularity with passengers, including leisure travel, which was particularly visible in strong passenger numbers during the summer holiday period. To make our services even more convenient for our passengers, we started selling tickets for all long-distance trains 60 days before departure. We plan to increase this period to 120 days, to enable customers to plan their travel well in advance. We remained fully aware of passengers with restricted mobility or other special needs, focusing on providing greater comfort to these customer groups aboard trains and at stations.

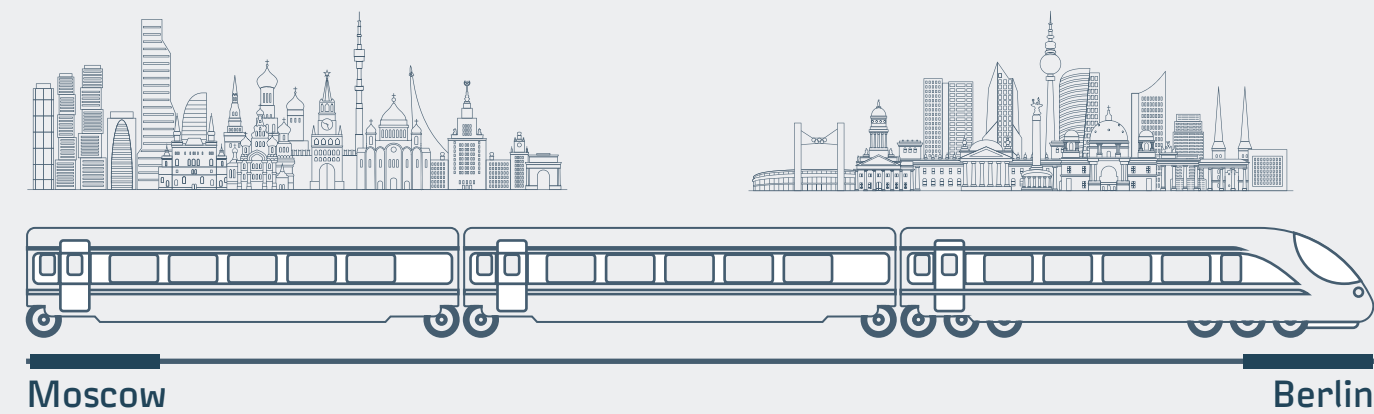
*From a message by RZD President Oleg Belozarov
JSC RZD Annual Report*

2016 – Year of the Passenger

Improvement of service quality throughout the customer journey



A new Moscow – Berlin Strizh train was launched in the Year of the Passenger. Its carriages are equipped with a variable gauge system, unique in the Russian market, which automatically adjusts axle gauges for efficient conversion between Russian and European tracks.



Year of the Passenger 2016 Priorities

- **HIGHER AFFORDABILITY OF SERVICES**
 - 50% discount off the price of tickets for children
 - Lower tariff indexation for third-class sitting and sleeping carriages
 - Development of the Revenue Management System and Loyalty Programme

- **SERVICES TO PASSENGERS WITH REDUCED MOBILITY**

- **IMPROVED GOVERNMENT RELATIONS**
 - Inter-Regional Passenger Service Long-Term Regulation Concept
 - Reduction of the VAT rate for passenger services to 0%

- **HIGHER COMFORT AND SERVICE QUALITY**
 - Development of ticket sales
 - Expansion of the product portfolio
 - Provision of additional on-board services



Children on Board Programme

Under Children on Board Programme, FPC purchased two double decker inter-regional (open-plan seating) carriages with a children playroom for passengers with children. The carriage has everything a child may need: educational games, cuddle toys, a TV set, and colouring books. The first run of such train took place on the Moscow – Voronezh route on 27 December 2016.





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Oleg Belozarov
President of Russian Railways

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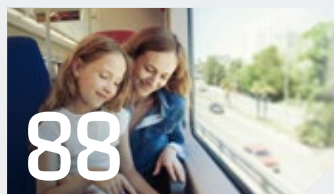
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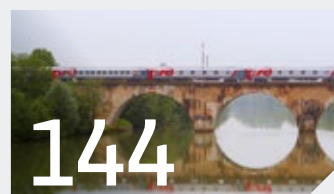
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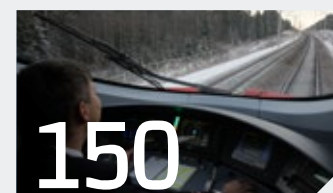
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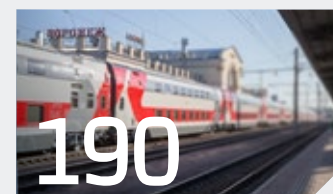
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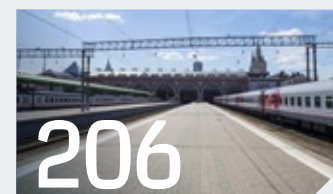
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Company Profile

Geography

Russian Railways rail infrastructure



77 Russian regions
FPC provides passenger rail transportation in 77 of 85 Russian regions and ensures transport accessibility and connectivity between locations.

FPC route network includes several routes within Russia which have no other alternative modes of transport available, such as: Tynda – Komsomolsk, Petrozavodsk – Kostomuksha, Kamyshin – Moscow, Tomsk – Bely Yar, etc.

19 European and Asian countries
FPC carries passengers on 40 international long-distance routes to 19 countries in Europe and Asia – Germany, France, Italy, Poland, Austria, the Czech Republic, Latvia, Lithuania, Estonia, Finland, China, Mongolia, North Korea, Azerbaijan, Kazakhstan, Kyrgyzstan, Uzbekistan, Belarus, Moldova.

International long-distance passenger transportation:

- passenger transportation on international routes;
- provision of third-party carriages in FPC trains on international routes.

Baggage, unaccompanied baggage, and mail transportation:

- baggage transportation;
- unaccompanied baggage transportation;
- provision of freight forwarding companies' carriages in FPC's trains.

Other types of business activities include:

- repair and maintenance of clients' rolling stock;
- provision of additional services on trains;
- other types of activities:
 - lease of rolling stock;
 - lease of real estate and equipment.

Types of activities

FPC is engaged in the following types of activities.

Rail passenger transportation on domestic routes in the regulated sector using:

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

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;
- provision of third-party carriages in FPC trains on domestic routes.

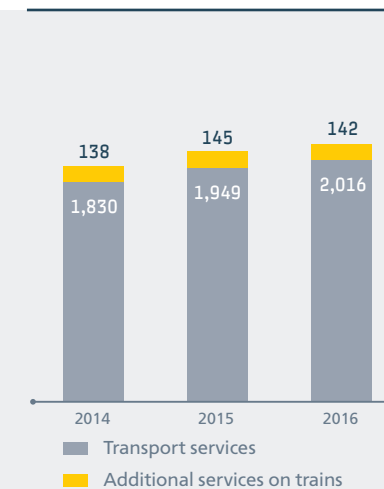
FPC's investment appeal

1. Monopolistic position in the long-distance rail passenger transportation market in Russia.
2. Low competition in the domestic rail passenger transportation market from international companies due to challenges in entering the Russian market.
3. The Company's high social and strategic importance for the state as the main transport operator for long- and medium-distance travel covering most of Russia, including regions with extreme climatic and natural conditions which lack road transport infrastructure.
4. Strategic importance for the implementation of long-term objectives of state-owned RZD Holding.
5. State regulation of fares for long-distance passenger transportation, and income loss compensation paid by the state.
6. Conservative financial policy and low debt level.
7. High potential growth of population mobility.
8. Railway passenger services to support major passenger flows in Russia.

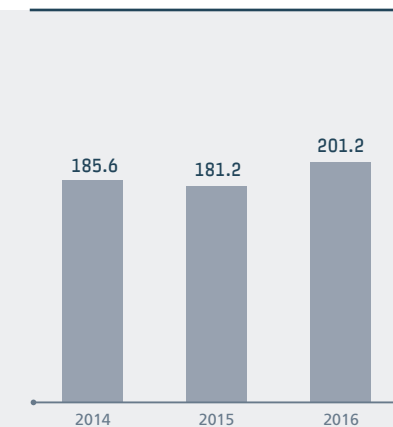
Key indicators

Indicators	2014	2015	2016	2016/2015, %
Passenger turnover, billion passenger-kilometres	94.6	86.1	89.5	103.9
on trains made up by FPC	87.5	81.1	85.1	104.8
deregulated segment	28.7	24.2	26.0	107.2
domestic traffic	25.2	22.7	24.3	107.1
interstate traffic	3.5	1.6	1.7	108.2
regulated segment	58.8	56.9	59.1	103.8
on trains made up in the CIS and Baltic states	7.1	4.9	4.4	89.2
Passengers carried, million people	98.7	91.3	93.8	102.7
deregulated segment	35.9	30.3	31.1	102.5
regulated segment	62.8	60.9	62.7	102.9
Average number of carriages in a train, carriages	13.0	12.7	12.7	100.0

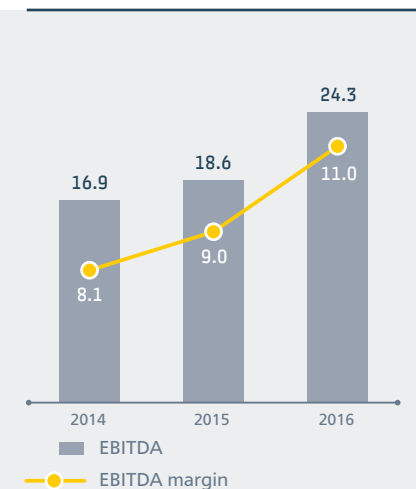
Average revenue per passenger (incl. VAT) in 2014–2016, RUB



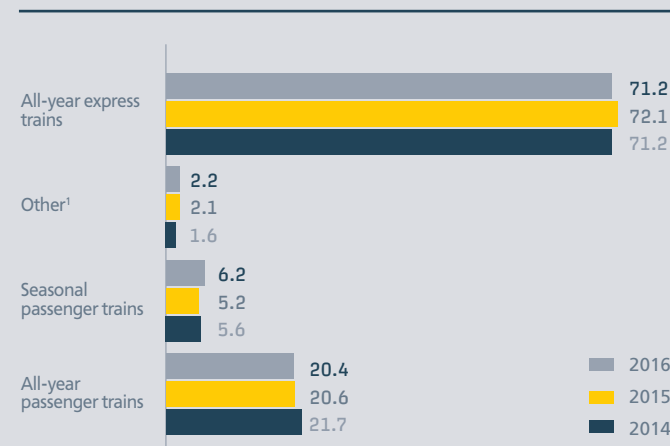
Revenue from operating activities in 2014–2016, RUB billion



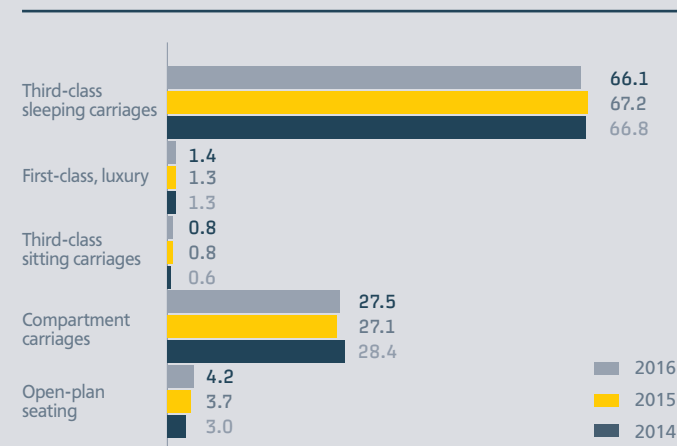
EBITDAR and EBITDA margin (incl. Subsidies) in 2014–2016



Passenger turnover by train type in 2014–2016, %

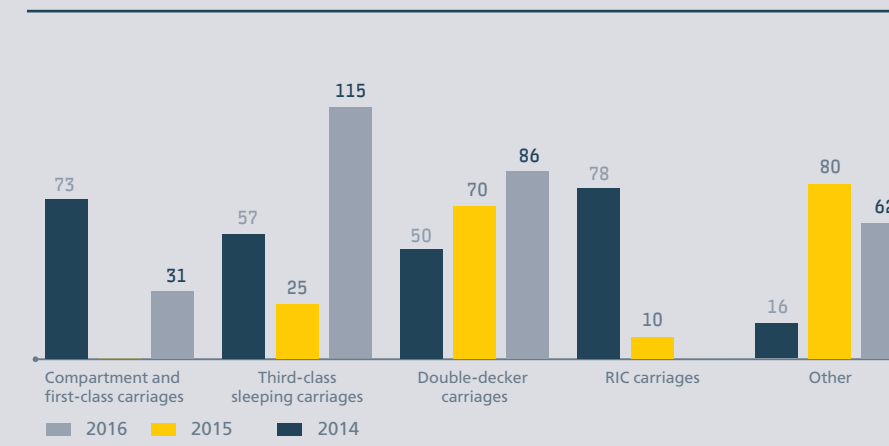


Passenger turnover by carriage type in 2014–2016, %

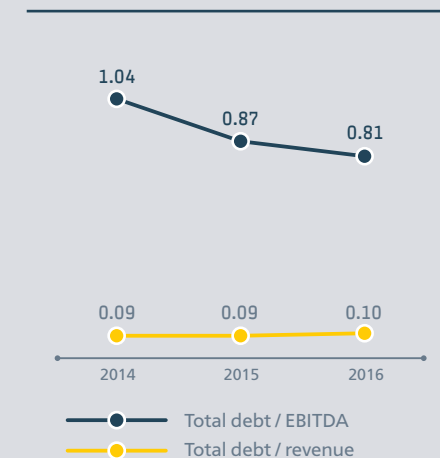


¹ Other trains include seasonal express trains, one-off passenger trains, local passenger trains (running on one railway line only).

Rolling stock acquisition in 2014–2016, carriages










Total debt to EBITDA and total debt to revenue ratios in 2014–2016






Company history¹

Key milestones

<div>2010</div> <div></div> <div>FPC gained the actual status of a national rail long-distance carrier: The Company was included in the Register of Natural Monopolies eligible for subsidies from the federal budget.</div>	<div>2011</div> <div></div> <div>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).</div>	<div>2012</div> <div></div> <div>FPC was awarded with the Company of the Year 2012 National Award by RosBusinessConsulting (RBC) information agency.</div>	<div>2013</div> <div></div> <div>FPC was assigned the status of observer at the OSJD, which entitles it to represent the Company at the meetings of the OSJD working bodies, thus strengthening the Company’s position in the international transport services market.</div>	<div>2014</div> <div></div> <div><div>Credit rating was assigned to FPC by the leading rating agencies.</div><div>FPC 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.</div></div>	<div>2015</div> <div></div> <div><div>Award at the national loyalty marketing competition Loyalty Awards Russia 2015 in the Best Loyalty Programme by a Transportation Company category.</div><div>Double-decker train from Moscow to Voronezh was entered in the Russian Book of Records as the “year-round regular long-distance train with the largest number of passenger seats” – 1,320 seats.</div><div>FPC Annual Report was awarded for the second time in the Best Presentation of a Business Model for Non-Public Companies category at the Annual Report Competition by the Moscow Exchange.</div></div>	<div>2016</div> <div></div> <div><div>The Year of the Passenger Programme was successfully implemented: in 2016, FPC managed to stop the declining passenger turnover rates for the first time in five years and achieve a 4% growth.</div><div>FPC won the Best Employer for Young People 2016 award in the Reliable Partnerships category.</div><div>FPC 2015 Annual Report was awarded the Best Annual Report of a Non-Public Company by the Moscow Exchange.</div></div>
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State and restructuring

<div>2010</div> <div></div> <div>Restructuring of long-distance passenger infrastructure under Stage III of the Railway Restructuring Programme was completed.</div>	<div>2011</div> <div></div> <div>Regulatory and legal framework for revenue shortfall calculation was finalised.</div>	<div>2012</div> <div></div> <div>Cooperation Agreements were signed with the Governments of the Republic of Karelia, the Komi Republic, and the Republic of Ingushetia.</div>	<div>2013</div> <div></div> <div>The Plan to Develop and Implement a Mechanism for Long-Term Subsidising of Long-Distance Rail Passenger Transportation was approved by instruction of Russian Deputy Prime Minister Arkady Dvorkovich.</div>	<div>2014</div> <div></div> <div><div>Fares for travel in third-class sitting and sleeping carriages were reduced following the resolution of the Federal Tariff Service (FTS of Russia).</div><div>In accordance with the Russian Government’s Resolutions No. 1223 dated 19 November 2014 and No. 1044 dated 11 October 2014, FPC was entitled to receive subsidies covering part of interest expenses under loans granted to purchase rolling stock (double-decker carriages), and to benefit from the Programme to Support Investment Projects in Russia on the basis of project financing.</div></div>	<div>2015</div> <div></div> <div>The Russian Government resolved to reduce the VAT rate applicable to long-distance rail passenger services to 10% between 1 January 2016 and 31 December 2017.</div>	<div>2016</div> <div></div> <div><div>The Russian Government resolved to reduce the VAT rate applicable to long-distance rail passenger services to 0% between 2017 and 2030.</div><div>The Federal Antimonopoly Service (FAS) of Russia resolved to reduce infrastructure tariffs for higher-speed trains travelling at 91 to 140 km/h.</div></div>
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Business development



2010



FPC started independent operations.



2011



All FPC's domestic trains support online registration.

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

Controlling share of RZD Travel LLC was acquired to expand FPC's presence in the tourist market (rail travel segment).



2012



FPC 2030 Development Strategy was approved.

Ticket sales on credit were launched.

Implementation of the technology for including trains in the general turnaround schedule was expanded.

A logistics company engaged in unaccompanied baggage and mail transportation – FPC-Logistics – was launched.

Revenue Management System and RZD Bonus Loyalty Programme were launched.

Car carriers were put into service.



2013



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

Co-branding card project was launched in cooperation with Bank VTB 24 (PJSC).

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

Procedure for e-ticket purchase and refund was simplified; the English version of the website for ticket purchase was launched.

High-Speed Traffic Improvement Programme was implemented.



2014



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

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

Lastochka electric trains were launched.

Cost Optimisation Programme was implemented, bringing RUB 15 billion of savings. Total effect in 2010–2014 reached RUB 39 billion.



2015



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

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.

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



2016



New international Strizh train set off on its first passenger journey from Moscow to Berlin with travel time of 20 hours, i.e. shorter by 4.5 hours.

Booking dates for domestic trains were increased to 60 days.

Trains to resort destinations were accelerated.

Passengers were offered to use non-cash payment for goods on board of all FPC's trains for the first time.

On-board Shower service was made available in 266 trains.

In June 2016, FPC successfully completed its RUB 5.0 billion three-year debut bond issue on the Moscow Exchange.

Carriage operator

Integrated mobility provider

Competitive advantages of long-distance trains



ENVIRONMENTAL FRIENDLINESS AND SAFETY

The most environment-friendly and safe mode of transport



RAILWAY STATIONS' PROXIMITY TO CITY CENTRES

Departure from / arrival to city centre avoiding traffic jams



COMFORTABLE TRAVEL

Proper rest throughout the trip



BAGGAGE ALLOWANCE

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



TRAVELLING WITH A CAR

Opportunity to travel with own car



PASSENGER SERVICES TO CHILDREN

Children up to five years old travel free of charge



WEATHER CONDITIONS

Travel in any weather conditions



QUICK BOARDING

No lengthy check-in procedure



CATERING

Dining carriage, meals à la carte, room service



AFFORDABLE TICKET FARES

Benefits, relatively low prices, regular special offers



REFUND TERMS AND CONDITIONS

Minimum commission for ticket refund and reissue, refunds can be processed via the website



TRANSPORTATION OF PASSENGERS WITH REDUCED MOBILITY

Specially equipped compartment, assistance during the trip



FPC peer companies¹



FPC²



Amtrak (USA)³



DB Bahn Long Distance (Germany)⁴



SNCF Voyages (France)⁵



FPC’s activities cover a full range of business processes: acquisition, maintenance and repair of rolling stock, sales organisation, collection of revenue, management and administration, IT and communications. FPC has 15 branches and an extensive network of depots and carriage sites, as well as personnel to support all business processes. FPC’s income comprises income from passenger transportation excluding income from baggage and unaccompanied baggage transportation.



Amtrak’s business includes all business processes associated with transportation, including a network of repair depots and facilities in 12 US states. The company also operates own locomotives and sections of high-speed passenger service infrastructure of the Northeast Corridor.



DB Bahn Long Distance is a business unit within Deutsche Bahn Group comprising several carriers with extensive geography and wide range of activities (day/night trains, tourism, train catering, marketing, and sales). Rolling stock repair, maintenance, and management, IT and communications are provided by specialist companies within DB Services, another Deutsche Bahn unit.



Voyages is a business unit within 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.

¹ Data on DB and SNCF taken from their 2015 annual reports; and on Amtrak – from the company’s press release on FY2015 results.

² FPC data for 2016.

³ <https://www.amtrak.com/servlet/ContentServer?c=Page&pagename=am%2FLayout&cid=1246041980246>

⁴ Deutsche Bahn – 2015 Integrated Report.

⁵ SNCF – 2015 Financial Report.

Key events in 2016

Year of the Passenger

RZD Holding declared 2016 the Year of the Passenger. During the year, the Company became more transparent for its customers and introduced new passenger feedback channels: open meetings with passengers, online office of General Director, online trip feedback engine.



Route network expansion and rolling stock upgrades

Daytime express trains

Three new daytime express trains were launched in 2016:

- No. 120/119 Moscow – Saransk, as from 30 May 2016;
- No. 103/104 Ufa – Samara – Saratov, as from 10 June 2016;
- No. 250/249 Irkutsk – Ulan-Ude, as from 20 December 2016.

Second Lastochka train was put on existing routes No. 801/802 Adler – Krasnodar (as from 2 May 2016), and No. 721/724 Moscow – Kursk (as from 11 December 2016). Three Moscow – Belgorod trains were transferred to the higher-speed category.

In 2016, daytime express trains carried over 10 million passengers.

Double-decker trains

The geography of double-decker trains was expanded:

- a new Saint Petersburg – Adler train was launched;



- the number of double-decker trains on the Moscow – Saint Petersburg and Moscow – Voronezh routes was increased.

Since 27 December 2016, double-decker trains No. 69/70 and No. 45/46 Moscow – Voronezh have featured new administrative carriages with rest areas for passengers with children. Such playrooms have children's furniture, TV sets, cuddle toys and educational toys (toy blocks, mosaics, building sets), and painting sets.

International Strizh train

Since 17 December 2016, a new 13/14 Strizh train has been running between Moscow and Berlin.

The innovative technology helped reduce the travel time from Berlin to Moscow to 20 hours 14 minutes.

Each train includes various carriage types manufactured by Patentes Talgo S.L., Spain. Innovation technologies used in train design ensure higher comfort



for passengers during a trip, in particular, compensate for centrifugal force on small-radius turns.

On board passengers, are offered Wi-Fi access to the Internet through a multimedia portal. The portal may be used to view a timetable, a dining carriage menu or passenger news, get information on a route, purchase a ticket or watch a film. In addition, passengers of first-class carriages with open-plan seating are provided, upon request, with tablets for viewing multimedia content.



Special projects

In 2016, FPC trains were used to run major national social and educational projects.

As part of the Year of Russian Cinema, 12 double-decker trains were designed to celebrate famous writers, directors, actors and cameramen, and passengers were offered to watch masterpieces of Russian cinema.

To celebrate the 100th anniversary of the Trans-Siberian Railway and the 50th anniversary of the Rossiya train travelling from Moscow to Vladivostok, the Company jointly with the Russian Geographical Society launched the Road of Discovery scientific and educational project. Rossiya trains interiors were decorated with visual representations of the Trans-Siberian Railway: maps and layouts, photographs showing the history of the railway construction and launch, landscapes, and interesting facts. The country's largest railway stations hosted lectures and master classes by explorers,



scientists, travellers, photographers and members of the Russian Geographical Society dedicated to the Trans-Siberian Railway history, Russian geography, environmental protection, and historical and contemporary expeditions conducted by the Society.

The Company also supported the all-Russia Amur Tiger and Far Eastern Leopard Conservation Project by decorating a campaign train that crosses the entire country.

The 85th anniversary of the launch of the historical Krasnaya Strela (train No. 1/2) running between St Petersburg and Moscow was celebrated on 9 June 2016. The fifth anniversary of Moscow – Berlin – Paris train No. 23/24 was celebrated on December 14.





Key events in 2016

Development of electronic sales channels

2016 saw extensive development of electronic passenger services, including e-ticket sales. Days before departure were increased from 45 to 60, and Russian Railways' e-ticket purchase procedure has now three steps instead of seven.

Russian Railways website now offers e-tickets for international trains running to non-CIS countries at fares equal to first-class single ticket fares.

The Company launched an Android-based mobile app for purchasing tickets for long-distance trains.

FPC's website contains a page for corporate customers where legal entities can apply online for the transportation of organised groups of passengers and children.

Since 6 September 2016, Russian Railways' website has offered e-tickets to school students with a 50% discount for seats/berths in third-class sitting and sleeping carriages and carriages with open-plan seating on express and passenger domestic long-distance trains operated by FPC. In 2016, the share of electronic sales was 40.2% of the total number of tickets sold across RZD's network.

Improvements to on-board passenger services

By late 2016, Wi-Fi Internet access and access to on-board entertainment services platform were provided in 51 trains.

All FPC's trains have non-cash payment terminals to pay for goods or services on board.

Long-distance passengers are now offered an On-board Shower service available in 266 trains.

In 2016, over 1,600 carriages were fitted with additional power outlets to charge mobile devices.

Car transportation service by car carriers is gaining popularity. In 2016, FPC's trains carried 4 703 cars, up 44% year-on-year. In 2016, FPC started testing a motorbike transportation service by specialised car carriers included in passenger train sets on the Moscow – Saint Petersburg, Moscow – Petrozavodsk, Moscow – Astrakhan, Saint Petersburg – Astrakhan routes. In spring 2017, this service will become permanent. The Company also expects to launch motorbike transportation on the Saint Petersburg – Adler and Moscow – Adler routes.



FPC seeks to make its services affordable for all passenger groups. For example, in 2016, the Company purchased 565 wheelchairs enabling physically challenged passengers not only to travel in a specialised administrative carriage compartment, but also to use a lower berth in any compartment of the carriage. FPC purchased 18 administrative carriage with compartments for special needs passengers; overhauled 40 administrative carriage with service life extension to make compartments fit for passengers with reduced mobility. The Company also had 16 passenger carriage models certified to carry passengers with special needs.



Pricing policy and marketing promotions

In 2016, FPC offered a 50% discount for children aged 10 to 17 for the first time. The discount is effective from 1 June to 31 August. Before that, travel privileges were only available during the school year, from 1 September to 31 May. It resulted in a 16% growth of traffic in this passenger group in 2016. The number of passengers aged 10 to 17 totalled about 2.5 million in June–August.

In December 2016, the dynamic pricing system covered 100% of the deregulated domestic segment, excluding some socially necessary trains.

On 14 January 2017, another 150 regular trains were launched using the flexible pricing mechanism. Applied since 2013, the dynamic pricing system for long-distance trains is FPC's most flexible pricing tool.



RZD Bonus Loyalty Programme

On 19 November 2016, FPC greeted the two millionth RZD Bonus card holder at Kazan station.

Last year, the Programme card holders were offered new privileges. RZD Bonus card holders who are pensioners now enjoy a 5% discount for travelling in compartments. The discount is applicable to tickets for domestic trains departing from 1 September 2016 to 31 May 2017.

To boost the Loyalty Programme, in September 2016, FPC, Gazprombank and Mastercard launched the first joint project to issue co-branded bank cards for students using contactless payment technology. Card holders enjoy a year-round 25% discount for compartment carriages on domestic routes, which is a distinctive offer on the Russian banking market.

Allegro train passengers were also offered to join the RZD Bonus Loyalty Programme in 2016.

Awards

In 2016, the RZD Bonus Loyalty Programme won the Loyalty Award Russia 2016 for the Best Transportation Company Loyalty Programme.

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

In December 2016, FPC, as a bond issuer, won a Cbonds Awards in the Debut of the Year category.

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





Message from the Chairman of the Board of Directors

Dear Shareholders and Colleagues,

In 2016, which was declared the Year of the Passenger, FPC's activities were carried out according to the RZD Holding's Common Action Plan on improvement of passenger services. An extensive range of projects and new approaches to the Company's workflow organisation drove stronger financial performance – according to the year-end results, the Company's profit reached RUB 5.3 billion.

Sergey Maltsev

The Company successfully implements project management methods. In 2016, five strategic projects were initiated in key areas: Affordability, Network, Fleet, Repairs, and Crew. Comprehensive efforts within these projects are aimed at enhancing the Company's performance and customer focus, improving consumer properties of transport services, and boosting labour productivity.



The bulk of investments were allocated to rolling stock, amounting to

>90%

Modern rolling stock is a key component of a high-quality service. In 2016, FPC allocated over 90% of its investments to increasing carriage purchases, and the continued replacement and upgrading of its passenger rolling stock. The remaining funds under the Investment Programme were invested in depot upgrades, innovation and information initiatives, as well as implementation of the Integrated Programme to Ensure Public Safety on Transport.

A total of 294 new passenger carriages were purchased in 2016 under the Investment Programme, including double-decker and conventional carriages to replace the rolling stock of high class trains, as well as innovative carriages by Patentes Talgo S.L., which are equipped with an automatic variable gauge wheelset system.

It should be emphasised that the Russian Government's resolution to reduce the VAT rate to 10% in 2016 allowed FPC to expand its Investment Programme, thereby purchasing more carriages from domestic manufacturers. As of 2017, the VAT rate will see a further reduction to 0%, applicable to long-distance rail passenger services. The reduction will provide the Company additional opportunities to continue its carriage fleet renewal.

A strong marketing strategy has enabled us to develop attractive offers both in the regulated and deregulated segments for various passenger categories. We offered a discounted fare for children aged from 10 to 17 during the summer period and launched marketing promotions in third-class sitting and sleeping carriages.

In the deregulated segment, the dynamic pricing system now covers almost 100% of routes, and a significant amount of tickets within the dynamic pricing system are sold at prices lower or comparable to basic fares. According to surveys, 94% of passengers claim they have benefited from the implementation of the system, and actively take advantage of it.

Within the Russian Railways Bonus loyalty programme, benefits for students and corporate customers were further developed, discounts were introduced for pensioner members, and Allegro trains passengers were included into the programme. In 2017, new co-branding initiatives with select banking institutions are to be launched, and additional privileges for passengers implemented. The Company plans to increase the number

of members within the RZD Bonus Programme to 3 million.

In 2016, the Company made significant progress in improving its corporate governance practice. The target framework of key performance indicators at FPC was approved, and the risk management and internal control system was further developed. The results of these efforts have been praised by independent experts: in 2016, RAEX (Expert RA) rating agency affirmed the Company's 2015 rating at A+ .gq, Very High Level of Management Quality.

Environmental protection and energy efficiency are among the Company's highest priorities. The Company regularly conducts various activities to mitigate the negative impact on the environment, and upgrades its rolling stock and

engineering facilities. In 2016, FPC's standard Environmental Protection Management System was developed. All the positive changes implemented during the Year of the Passenger will certainly be further developed within new projects in 2017. At the core of each project, FPC will pursue its mission to improve quality of life by making travel safe, reliable, and comfortable.



294

new passenger carriages purchased in 2016



Message from General Director

Dear Shareholders, Partners, and Colleagues,

2016 was announced the Year of the Passenger at RZD Holding, and became a milestone in further development of the entire rail passenger infrastructure. A significant share of activities implemented across the Holding was within FPC’s area of responsibility. All planned projects were successfully implemented. As a result, passengers gave a positive evaluation of our efforts: in 2016, FPC managed to reverse the downward trend in passenger turnover, and achieved a 4 per cent growth.

Petr Ivanov

In 2016, the Company’s activities were primarily focused on developing its customer-oriented approach, particularly with a focus on people people with reduced mobility, as well as enhancing passenger satisfaction, increasing affordability, and improving government relations.

We strove to hear every passenger’s voice, and to this end the efficiency of our feedback mechanism was improved by introducing open meetings at railway stations, the General Director’s virtual reception, and online questionnaires for travel feedback. Prompt, high-quality feedback has played an important role in driving significant improvements in service quality throughout the customer journey, beginning with the travel planning stage.

In the Year of the Passenger, long-distance trains became

more affordable. A 50% discount for children aged from 10 to 17 travelling in third-class sitting and sleeping carriages during the summer period was introduced for the first time. As a result, over 2.5 million children travelled at reduced fares, up 16% year-on-year. Flexible pricing was introduced in December 2016 – almost 100% of routes were covered by the dynamic pricing system in the deregulated segment. Special initiatives within the RZD Bonus loyalty programme were also developed and implemented, aimed at students and pensioners.

In the reporting year, the advance booking period for domestic services was extended from 45 to 60 days. E-ticket sales services were further developed, and a number of trains became much faster, primarily on routes to Russian resorts.

The Company allocated over 90% of its investments in a major effort to replace and upgrade the rolling stock. In 2016, new carriages were included in the rolling stock of high-class trains, and more routes were made available for double-decker trains. Those are the ones with children’s playrooms, fully equipped to entertain young passengers with educational games, soft toys, colouring books, and cartoons from Soyuzmultfilm’s gold collection.

Improvements were also made on offers covering international routes. The Strizh train, manufactured by Patentes Talgo S.L., has been operating between Moscow and Berlin since 17 December. Its carriages are equipped with a variable gauge system, unique on the Russian market, which automatically adjusts axle gauges for efficient conversion between Russian and European tracks. This innovative technology has enabled a considerable reduction in travel time, and has

undoubtedly ensured a more comfortable travel experience for all passengers, including those with special needs, as there are more compartments for people with limited mobility.

It’s a high priority for the Company to provide a comfortable trip for passengers with limited mobility – new administrative carriages equipped with compartments for passengers with reduced mobility and with wheelchairs; different models of passenger trains were certified for transportation of people with reduced mobility.

In 2016, we expanded the list of on-board passenger services and added new service offerings. Specifically, passengers can now use a bank card to pay for all products offered aboard FPC trains, and shower units are now available for use on a number of trains. More trains have been equipped with Wi-Fi internet access,

and over 1.6 thousand carriages have been fitted with additional power outlets to charge mobile devices. Experimental trials of motorcycle transportation have been introduced on passenger trains which contain car carriers. In spring 2017, motorcycle transportation is planned for launch as a permanent service, and the list of routes with this service is to be expanded.

It also stands to mention that the Company’s trains have become venues for major nation-wide social and educational projects. Scientific and educational project the Road of Discoveries was launched in cooperation with the Russian Geographical Society to mark the 100th anniversary of the Trans-Siberian Railway and the 50th anniversary of the Rossiya train, which operates on the Moscow – Vladivostok route. We supported a national Russian project on protection of the Amur

tiger – a campaign train has been running across the country since September. As part of the Year of the Russian Cinema, 12 double-decker trains received a themed design, and Russian cinema masterpieces were played aboard trains.

Summing up the Company’s performance in 2016, I can say with certainty that the Year of the Passenger has become a year of fundamental change and transformation. However, these accomplishments should not make us complacent. And so our progress does not stop here – our objective is to further enhance passenger comfort and service quality, and to expand our product portfolio. From now on, FPC will make every year the Year of the Passenger.

01

Company Strategy

Our five current strategic projects:



Affordability



Network



Repairs



Fleet



Crew

- As a response to external challenges, at its annual strategy session held in February 2016, FPC initiated new strategic projects with the aim to make improvements to the main components of its business system: improvement of the route network,

interactions with the regulator and infrastructure, operation and maintenance of the rolling stock, and enhancement of a train crew focus on the customer-oriented approach.



Company Strategy

Mission, Vision, and Strategy

Mission

We improve the quality of life by making your travel experience as safe, affordable, and comfortable as possible.

Our mission is centered around customer focus. Customer-oriented approach is a core principle of everything we do.

Every change ultimately contributes to the Company's mission.

Vision

FPC is a highly efficient, financially sound, innovative, rapidly developing company focused on enhancing shareholder value.

- FPC acts as a national carrier providing traditional and high-speed long-distance rail passenger services in Russia and abroad.
- FPC is a customer-focused company, leading the market in service quality.

We offer convenient and comfortable travel experience, including connections with other modes of transport and multimodal transportation.

- FPC is a socially responsible company acting under instruction from

the Russian Government to ensure general access to the most environment-friendly mode of transport.

- FPC operates under a recognisable international brand and is a reliable partner across Europe and Asia.

Strategic goals

FPC plays a crucial role in RZD Holding, being the largest subsidiary in the passenger segment, and is involved in the holding company's financial planning.

The key document defining the key areas of RZD Holding's long-term strategic development is the Long-Term Development Programme of JSC RZD, its Subsidiaries and Affiliates until 2020¹.

According to the Programme, RZD Holding's targets in the passenger sector are as follows:

- maintaining the existing share in the passenger turnover of Russia's transport system and growing passenger numbers on long-distance and interregional routes 1.3 to 1.7-fold by 2030;
- implementing projects for the development of higher-speed and high-speed passenger services,

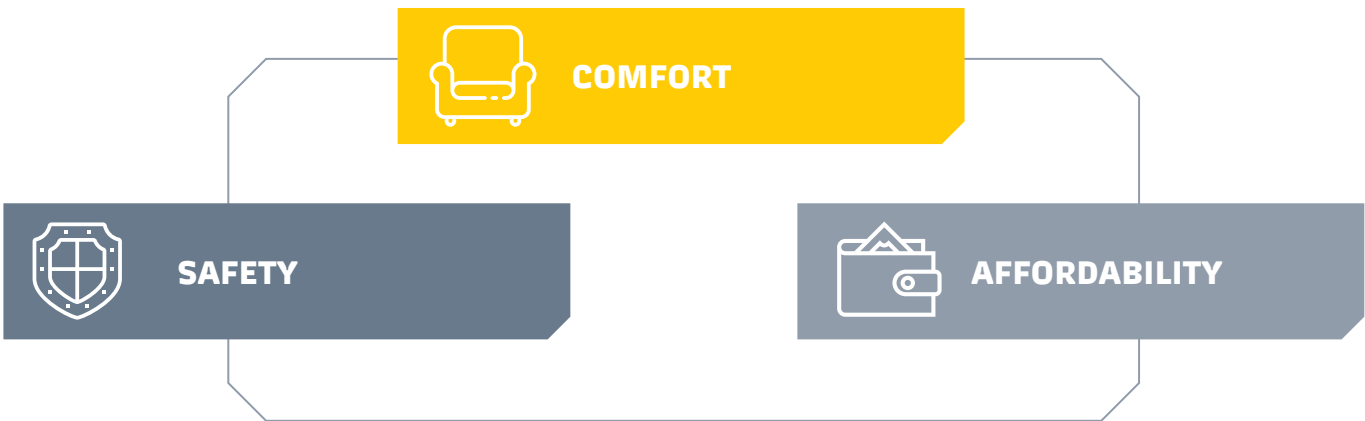
ensuring that up to 20% of the services (in the structure of passenger turnover) are provided at new speed levels by 2030;

- consistent renovation of assets using innovative technology and solutions based on the effective management of the life cycle cost, availability, and reliability of core assets;
- raising customer satisfaction levels by improving the quality of services while keeping transportation costs competitive.

FPC's initiatives are synchronised with RZD's goals in the passenger service sector through a list of the following performance indicators set out as targets in FPC's Development Strategy:

- passenger turnover;
- revenue;
- EBITDA;
- investment volume;
- labour productivity improvement.

Since the Company was founded, no traffic incidents (train crashes, accidents) have happened due to FPC's fault.



Since the establishment of FPC, fares in the deregulated segment have been rising slower than an inflation rate².

Since FPC was founded, more than 20% of the railcar fleet has been renovated³.

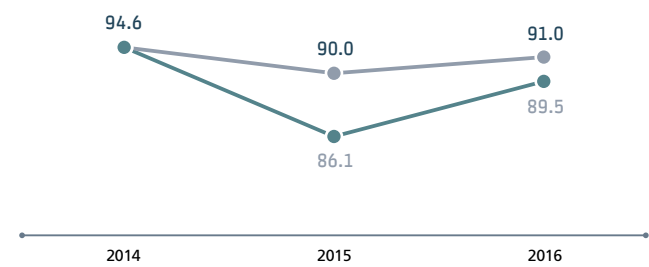
¹ Approved by JSC RZD's Board of Directors (Minutes No. 24 dated 1 December 2014).

² Cumulative fare increase from 2011 to 2016 (29% in the deregulated segment, CPI is 50%).

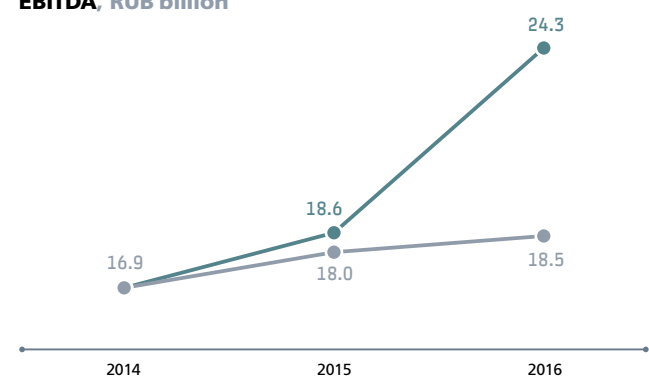
³ Ratio of carriages purchased or overhauled with service life extension between 2011 and 2016 to the 2016 operating fleet.

FPC Strategy indicators¹

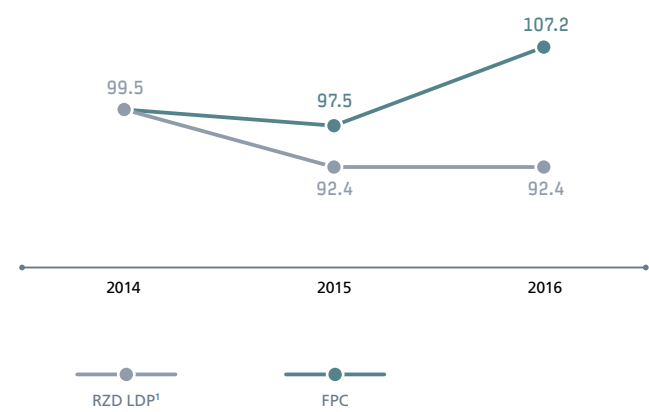
Passenger turnover, billion passenger-kilometres



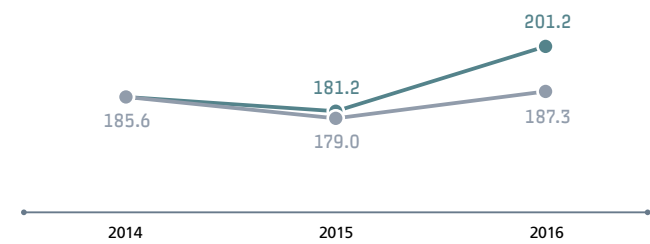
EBITDA, RUB billion



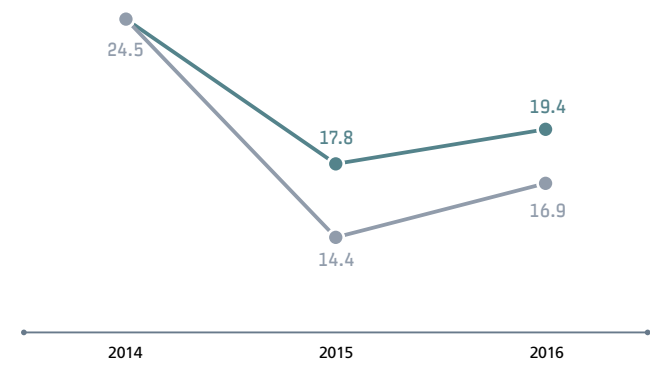
Labour productivity improvement by 2012, %



Revenue, RUB billion



Investments, RUB billion



The following factors have contributed to changes in the passenger turnover:

- reduced subsidies to FPC;
- increased state support for air transport;
- slowdown in the Russian economy;
- decreased international passenger traffic due to the situation in Ukraine.

¹ RZD LDP means the Long-Term Development Programme of JSC RZD, its Subsidiaries and Affiliates until 2020, approved by JSC RZD's Board of Directors on 1 December 2014.

Strategic management framework

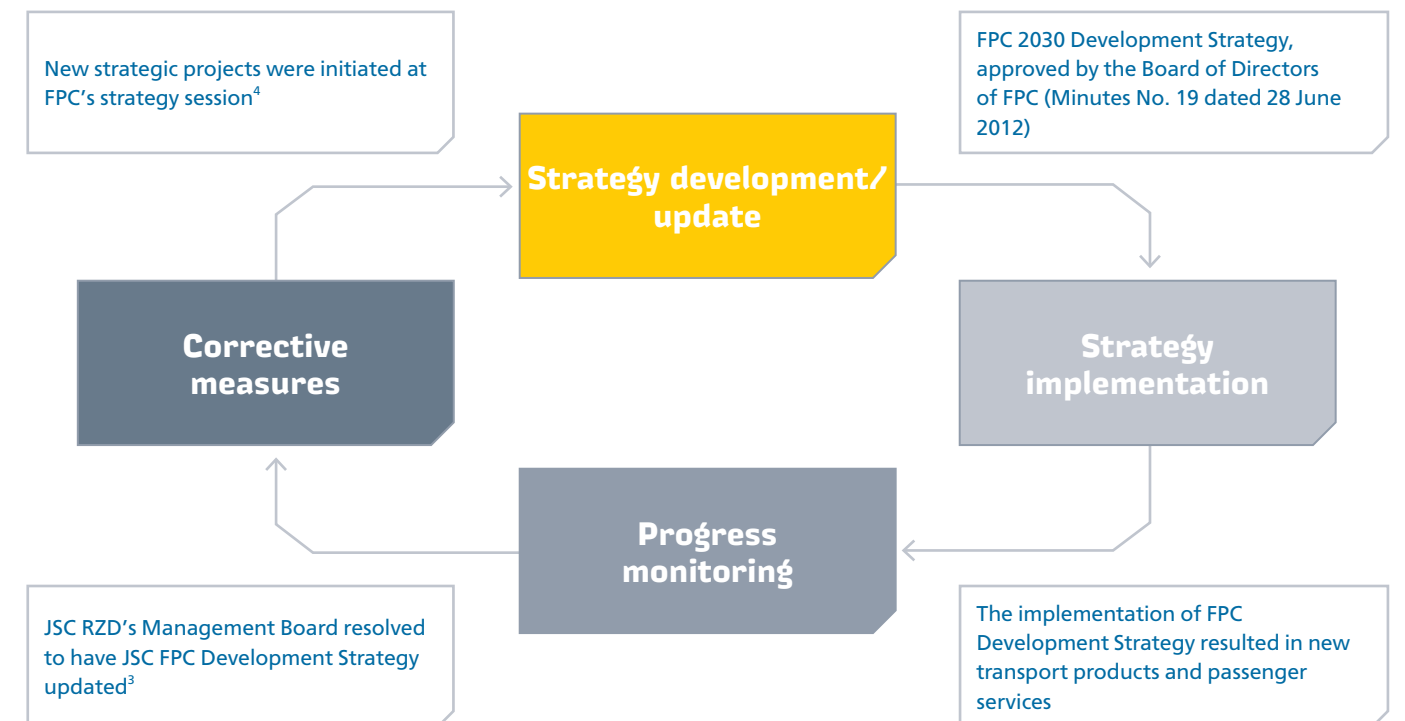
JSC FPC Development Strategy is currently being updated.

In 2012², the implementation of the Company's Development Strategy resulted in the creation of new transport products and passenger services, including daytime trains, double-decker trains, Strizh higher-speed trains, car carriers, and multimodal services.

In addition to the completion of a number of strategic projects, the need to update the Strategy was driven by significant changes in the external business environment which have taken place since the approval of the Strategy.

As a response to external challenges, at its annual strategy session held in February 2016, FPC initiated new strategic projects

with the aim to make improvements to the main components of its business system: improvement of the route network, interaction with the regulator and infrastructure, operation and maintenance of the rolling stock, and enhancement of train crews' customer focus.



² JSC FPC 2030 Development Strategy and Its Key Development Priorities Until 2015, approved by the Board of Directors of JSC FPC (Minutes No. 19 dated 28 June 2012).

³ FPC's strategy session, themed "2015 Results and Outlook".

⁴ Wrap-up Meeting of JSC RZD's Management Board dated 17–18 December 2014 (Minutes No. 45).

Project management

Introducing a project management framework in FPC has become a prerequisite for the successful implementation of the strategic projects which were initiated by the Company.

Project management is a key tool to improve FPC performance, which is fully in line with the Economic Policy outlined in the Policy Priorities of the Government of the Russian Federation and Instruction of the President of the Russian Federation to set up project offices and improve the investment climate.

To develop project management expertise, FPC set up the Project Management Unit to address the following tasks:

- training and methodology support for managers and employees of the Company on identification and development of strategic initiatives and project management;
- organising project teams;
- ensuring consistency between plans and results of project activities.

To organise and manage activities under each particular project, the Company set up project teams composed of the Company's specialists and external experts.

To address problems, and monitor progress and compliance with the established functional requirements and budgets, the Company set up JSC FPC Strategic Project Management Committee.

A regulatory and methodology framework setting out the principles, methods, and procedures for project management in FPC was created.

Each strategic project has its Charter which details the names of the project manager and sponsor, as well as the project objectives and key performance indicators.

Translation of FPC's mission into strategic projects



Strategic projects

The Company has identified five strategic projects.

STRATEGIC PROJECTS



Affordability Project



Network Project



Fleet Project



Repairs Project



Crew Project



PROJECT GOALS

- Review of the pricing policy for infrastructure services:
- applying a discounting factor to existing rates for transportation by higher-speed trains with average speeds of 91 km/h to 140 km/h
 - establishing rate caps

- Building the Company's product portfolio
- Optimising train routes and schedules
- Improving the consumer experience of transport services

- Improving fleet management
- Reducing carriage non-productive time
- Developing and introducing a centralised rolling stock automatic management system

- Reducing carriage repair costs and carriage repair-related downtime
- Improving labour productivity and carriage repair quality
- Reducing the failure rates (including through the introduction of lean approaches)

- Enhancing customer focus and improving passenger experience
- Raising labour productivity of train crews through new technologies



Affordability Project

The goal of the Affordability project is to increase the passenger numbers carried by FPC by reducing transportation costs to costeffective levels, leading to lower prices for passengers.

The Affordability project provides review of the pricing policy for infrastructure services for long distance public rail transportation:

- applying a discounting factor to existing rates for transportation by higher-speed trains with average speeds of 91 km/h to 140 km/h, while potentially raising the infrastructure access tariffs for express trains to maintain RZD’s revenues;
- establishing rate caps¹ on infrastructure access tariffs for long-distance trains. The objectives of the first stage of the project were achieved in 2016. The FAS of Russia has amended the Tariff Guidelines (Decree No. 1836/16 dated 23 December 2016 amending FTS

of Russia Decree No. 156-t/1) to change the tariff schemes for infrastructure services, which will enable the Company to save RUB 3.2 billion annually, increase the number of passengers carried by daytime trains by 24.6% per year, boost revenues by 22.1%, and reduce the need for subsidies by RUB 1 billion (since higher-speed trains are included in the deregulated segment).

The development of a pricing cap mechanism for long-distance trains will be continued in 2017.

The effort is aimed to provide the infrastructure owner with the authority to offer to carriers discounts off infrastructure services in passenger transportation. Discounts are subject to increased passenger volumes through higher traffic on a specific route during a particular period (year, quarter).



Review of the existing rates will enable the Company:

to achieve annual savings of

RUB **3.2** billion

increase revenues

by **22.1**%

increase the number of passengers carried

by **24.6**%



Network Project

The purpose of the Network project is to generate target demand and satisfy it effectively through optimising train routes and schedules, the Company’s product portfolio², and improving the consumer experience of transport services.

In 2016, the Company continued to develop its Daytime Express Programme³. In 2016, these trains carried over 10.2 million passengers (+20.6% year-on-year).

The Company continues to develop the multimodal transportation segment that combines railway and bus services. The Company introduced eight multimodal routes combining train and bus services to increase passenger traffic and improve passenger experience. In 2016, over 75 thousand passengers benefited from multimodal transportation services provided by FPC, which is 1.5 times higher than in 2015. To increase train speeds, the Company has developed the Programme to Increase an Average Speed of Long-Distance Passenger Trains⁴.

The Programme covers the period from 2017 to 2022 and will be implemented in three stages:

- Stage I (2017–2018);
- Stage II (2019–2020);
- Stage III (2021–2022).

Eleven train pairs will be accelerated on eight routes during Stage I: Saint Petersburg – Belgorod, Moscow – Voronezh, Krasnodar – Adler, Saint Petersburg – Petrozavodsk, Moscow – Belgorod, Moscow – Saransk, Moscow – Bryansk, Moscow – Smolensk.

Double-decker trains, which have proven their cost efficiency, will be another major contributor to the expansion of the Company’s product portfolio.

Double-decker trains run on six routes and enjoy increasing popularity among passengers. In 2016, double-decker trains carried 2.8 million passengers, which is twice as many as in the previous year.

The Comprehensive Long-Term Programme to Introduce Double-Decker Passenger Carriages on RZD’s Network⁵ aims to improve the operational performance of long-distance passenger rolling stock in the context of the infrastructure throughput capacity shortage and lower state subsidies.

Between 2017 and 2020, more than 20 routes for higher-speed double-decker trains will be launched under the Programme, with prices lower than in single-decker compartment carriages, boosting the passenger traffic by 2.6 million people.

An important factor for the successful implementation of the Programme is the Russian Government’s decision to reduce VAT rates for long-distance services to zero, allowing FPC to allocate additional funds to purchasing new passenger carriages to develop its route network.

¹ A rate cap on infrastructure services means that the provider of infrastructure services (JSC RZD) may reduce (below the tariff established by the Russian Federal Antimonopoly Service, FAS of Russia) the infrastructure access tariff for passenger trains on particular routes without consent of the FAS Russia. The purpose of this is to provide more trains in the timetable by selling tickets at lower prices.

² In the context of the Network project, a product means a set of consumer properties provided by the Company to customers on a paid basis. A product is based on tangible components (carriage, route, train, meals, services, etc.); however, the main aspects are its value for the customer and the consistency of the customer experience and perception of using each product. An illustrative example: a future product called Luxury Single would be sold to customers for various routes to travel by single or double-decker carriage with a composting toilet, in a private compartment with free Wi-Fi access, air conditioning unit, hot meals, fresh newspapers and magazines, and slippers, at an average speed of not less than 90 km/h. The product portfolio means the entire range of a company’s products.

³ Daytime trains with high average speeds put on routes where launching trains without reducing infrastructure costs would not be profitable. RZD may not reduce the rates without introducing a pricing cap mechanism, as the rates are set by the FAS of Russia.

⁴ Approved by RZD Order No. 2028r dated 30 September 2016.

⁵ Approved by RZD Order No. 2822r dated 30 December 2016.



Fleet Project

The purpose of the Fleet project is to improve utilisation of the rolling stock by reducing carriage non-productive time. The Fleet project will reduce the need for additional carriages.

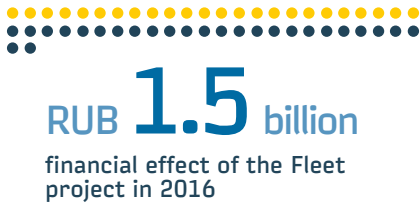
The key steps within the Fleet project are:

- aligning trains within an overall turnaround schedule, providing for the use of a single train set on several routes and optimisation of train set options;
- standardising and unifying carriages within clusters. Localising relatively homogeneous (in terms of technical

and consumer properties) carriages within a cluster will help reduce the inventories of spare parts, improve their supply logistics, and increase the product line consistency;

- developing target railcar fleet management processes to optimise fleet operation while maintaining the required volumes of passenger transportation.

The implementation of the project improved carriage productivity by 15%¹ in 2016. The total financial effect of the project was RUB 1.5 billion in 2016.



¹ Carriage productivity is measured in passenger-kilometres per carriage.



Repairs Project

The Repairs project is aimed at reducing carriage maintenance and repair costs through:

- reducing carriage downtime due to repair;
- increasing the labour productivity of the maintenance staff;
- increasing the quality of carriage repair services, including through the introduction of lean approaches;
- adjusting the maintenance and repair frequency for locomotive-hauled passenger carriages.

In 2016, measures undertaken as part of the project included:

- developing the concept of a new procedure for passenger carriage maintenance and repair, providing for transition from the Run and Time

in Service approach to a repair approach based on Run Only. The implementation of the concept enabled us to reach an agreement with JSC TVZ to amend the design documentation for carriages produced by JSC TVZ;

- analysing, describing, and simulating maintenance and repair business processes as a pilot project in four carriage depots: Samara, Voronezh, Kirov, and Kotlas. As a result, we identified key areas for improvement in carriage maintenance and repair.

In 2017, we plan to:

- introduce a new procedure for passenger carriage maintenance and repair, i.e. the Run Only approach;
- develop the Programme of Organisational and Technical Measures to Optimise JSC FPC's

Passenger Carriage Maintenance and Repair Costs. According to early estimates, the pilot implementation of the programme in 2017 will help reduce maintenance and repair costs by 10%.

Based on the estimated project performance at the pilot facilities, decision will be made to upscale the project to FPC's entire network.





Crew Project

The Crew project is aimed at enhancing the customer focus of train crews, improving passenger experience, and increasing the labour productivity and wages of attendants by introducing new technologies. In 2016, as part of the brand new ideology, Attendant for the Passenger, Not for the Carriage, the Company implemented in two waves a pilot project to introduce progressive service standards on FPC's trains,

assigning cleaning positions to train crews and excluding cleaning and garbage disposal responsibilities not directly related to passenger service from the attendants' job scope. The pilot project was implemented at 13 FPC branches. The experiment covered 13 trains, which made a total of over 70 journeys.

Based on the results of the test journeys, the decision was made to proceed with

further phased roll-out of the new service approach to 53 train sets of 20 trains operated by FPC, between April and September, starting in 2017.

The Company is aware that the overall satisfaction of its employees contributes to the positive financial result through their attitude towards their colleagues and customers.



FPC's key objectives for 2017

Based on results of the 2016 annual strategy session, FPC's key objectives for 2017 are as follows.

Digitalisation of business processes (increasing the share of electronic sales, the automation of maintenance and repair system, the implementation of a CRM system in FPC)

Development of multimodal transportation based on innovative mobility

Product offering improvements

Improvement of the pricing system

Development of new mechanisms for financing the Company's fleet replacement and upgrades

Improving the performance of the maintenance and repair system

02

The Company's Business Model and Assets



63.1 thousand
employees



19.6 thousand
carriages

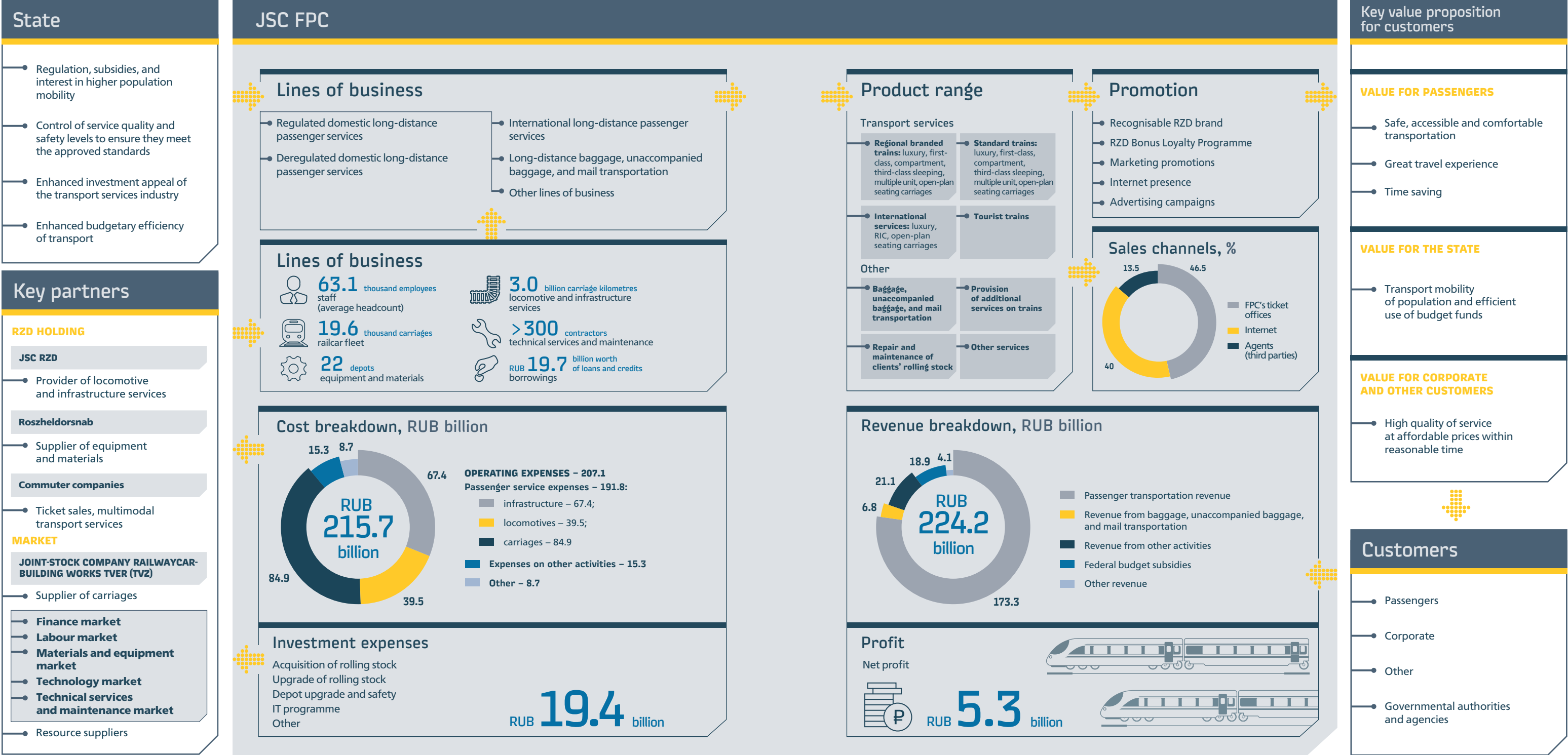


22
depots



RUB **19.4** billion
of capex

Business model





Asset map





Assets

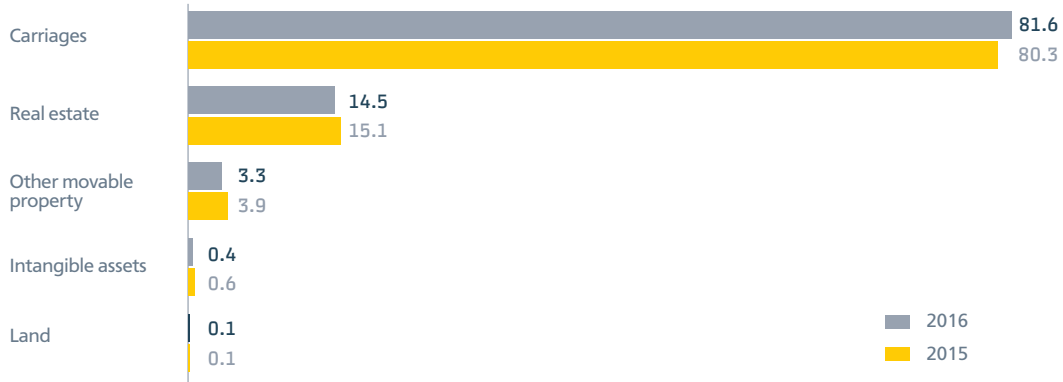
Asset structure and changes in the asset structure

ASSET STRUCTURE AS AT 31 DECEMBER 2016, RUB BILLION		ACQUISITION OF ROLLING STOCK					
Assets	Book Value	Carriages	2012	2013	2014	2015	2016
Carriages	166.4	Compartment and first-class carriages	29	17	73	–	31
Real estate	29.8	Third-class sleeping carriages	290	169	57	25	115
Other movable property	6.9	Double-decker carriages	–	50	50	70	86
Intangible assets	0.9	RIC carriages	30	82	78	10	–
Land	0.2	Other carriages	33	77	16	80	62
Total	203.9						

ROLLING STOCK STRUCTURE

Carriage type	Fleet as of 31 December 2013	Acquired	Retired	Fleet as at 31 December 2016	Average age of carriages as at 31 December 2016, years
Luxury carriages	1,472	32	128	1,376	17.1
Compartment carriages	9,827	104	682	9,249	19
Third-class sleeping carriages	7,798	115	828	7,085	18.7
Interregional carriages	754	23	71	706	14
Dining carriages	860	14	20	854	26.4
Baggage carriages	305	–	14	291	19.8
Other	43	6	–	49	21
Total	21,059	294	1,743	19,610	18.9

Changes in asset structure in 2015–2016, %



¹ One train comprises five carriages.

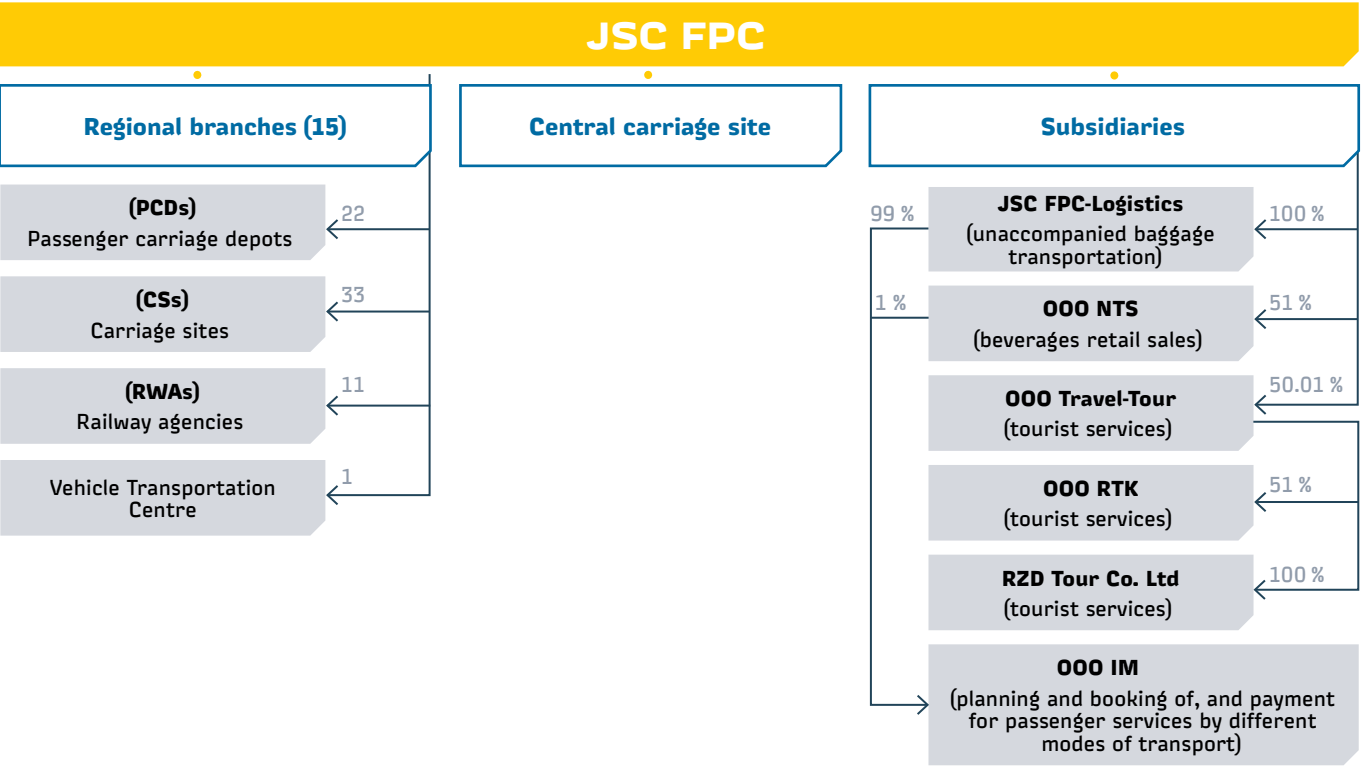
² ED4M series trains have a different number of sections depending on the lease period.

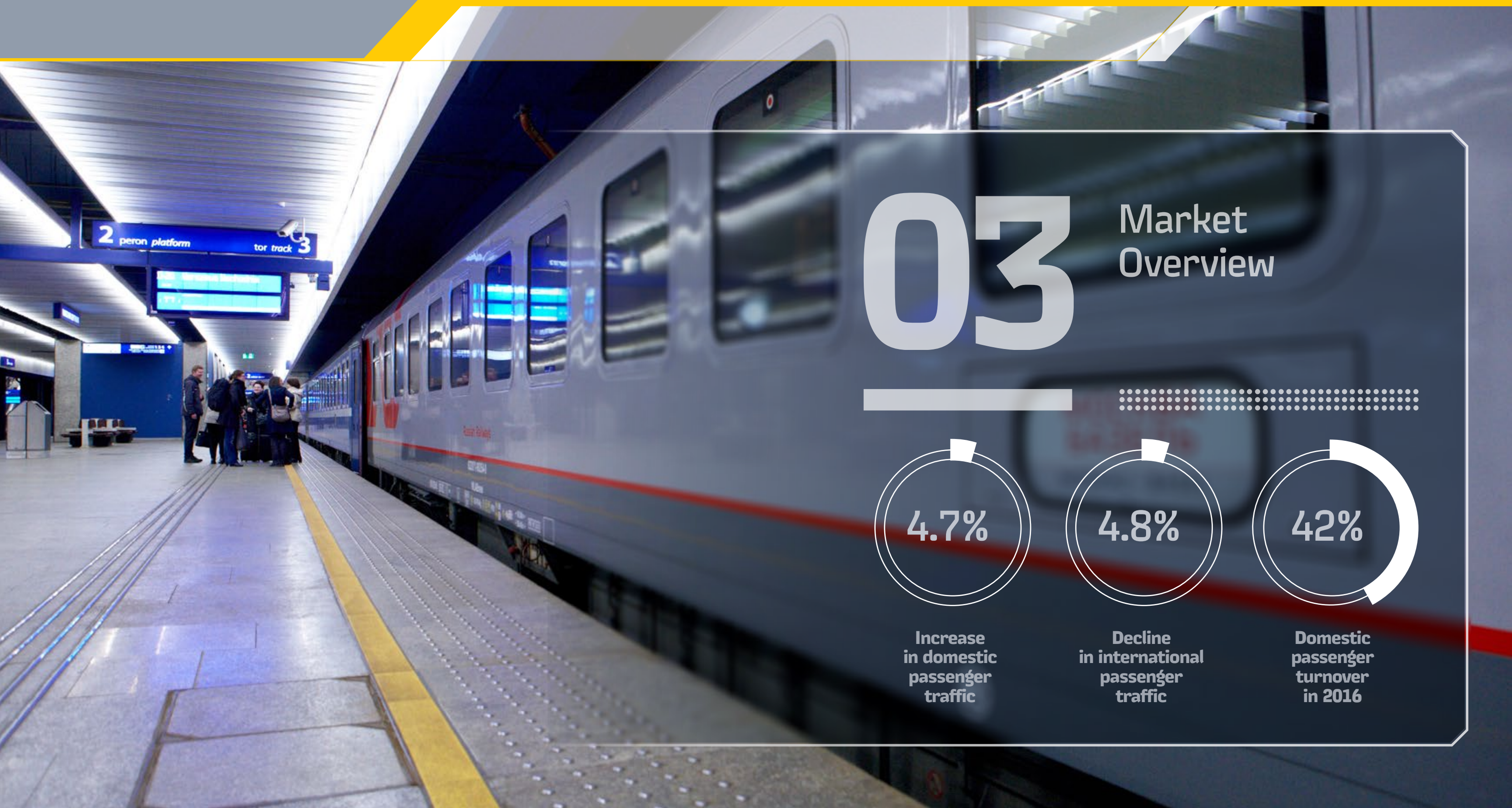
Multiple-unit trains

In 2016, Lastochka¹ electric trains were operated under agreements for lease of multiple-unit trains with crew signed by FPC and the Directorate for Higher-Speed Services, a branch of Russian Railways, on the following routes:

Route	Series	Number of trains	Composition	Series	Number of trains	Composition
Lastochka electric trains		As at 31 December 2015		As at 31 December 2016		
Saint Petersburg – Petrozavodsk	ES-1	2	5	ES-1	2	5
Moscow – Kursk	ES-1	1	5	ES-1	1	5
Moscow – Orel	ES-1	1	5	ES-1	1	5
Moscow – Smolensk	ES-1	2	5	ES-1	2	5
Moscow – Nizhny Novgorod	ES-1	4	5	ES-1	4	5
Krasnodar – Adler	ES-1	2	5	ES-1	4	5
800s trains		As at 31 December 2015		As at 31 December 2016		
Petropavlovsk – Omsk	ED4M	1	6	ED4M	1	6
Novosibirsk – Omsk	ED4MK	1	6		0	0
Kurgan – Yekaterinburg	ED4M	1	5.3 ²	ED4M	1	5.1
Chelyabinsk – Kurgan	ED4MK	1	4		0	0
Chelyabinsk – Yekaterinburg	ED4MK	1	4		0	0

FPC’s organisational structure



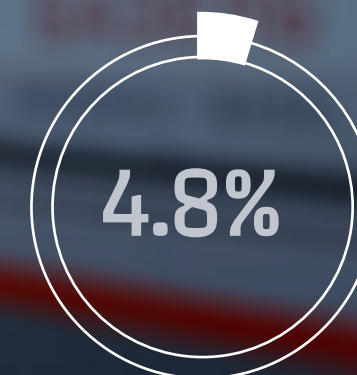


03

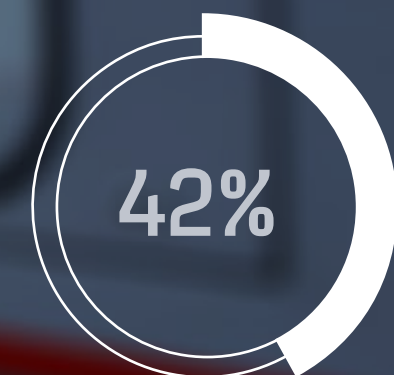
Market Overview



Increase
in domestic
passenger
traffic



Decline
in international
passenger
traffic



Domestic
passenger
turnover
in 2016

- Higher demand for domestic transport services was driven by the rise of domestic tourism (including routes to the resorts in the Krasnodar Territory and the Caucasian

Mineral Waters), particularly after leisure destinations in Egypt and Turkey were closed to Russians who had originally planned to go there on holiday.

Market Overview¹

In 2016, domestic passenger traffic increased by 4.7%, while international passenger traffic declined by 4.8%

Macroeconomic environment

KEY ECONOMIC GROWTH INDICATORS, % YEAR-ON-YEAR

Indicator	2016
Gross Domestic Product	99.8
Consumer Price Index	107.1
Investment in fixed assets (9M 2016)	97.7
Real household disposable income	94.1
Real wages	100.6
Change in the number of unemployed	99.5
Retail turnover	94.8
Paid retail services	99.7

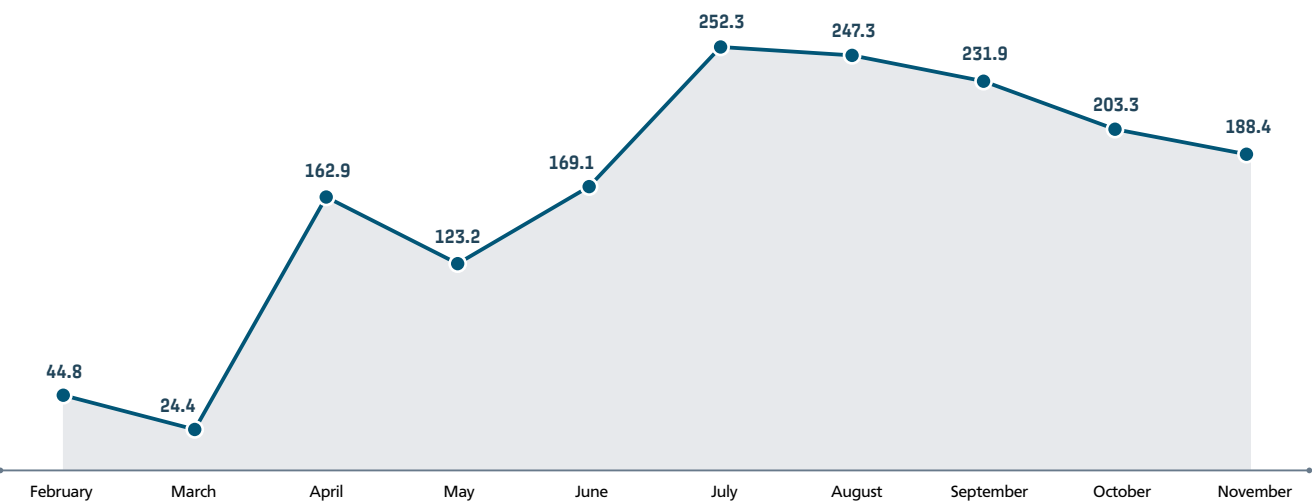
Source: Rosstat.

In 2016, consumer price inflation declined to 7.1%. In the previous year, inflation was 15.5%. Consumer demand depends on, among other factors, the two most critical parameters: actual take-home pay, which remained flat year-on-year, and the number of unemployed, which decreased by 0.5%.

The period from February to July 2016 saw an active accumulation of income in cash. By July, the positive balance of household income and expenditure amounted to RUB 252.3 billion (according to Rosstat). In August–September household consumption was on the rise; accumulated income in cash started to decline driving an

increase in transport mobility (due to pent-up demand).

Cash income and expenditure balance (on an accrual basis for the period from February to November 2016), RUB billion



Source: Rosstat.

Pent-up demand along with certain improvements in the macroeconomic environment boosted population mobility in Q3 2016 and helped increase the overall passenger turnover in 2016.

8.4%
decline in inflation in 2016

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

Russian market of transport services

In 2016, domestic traffic reached 104.7% of the 2015 level, specifically, 103.9% in the regulated segment and 107.1% in the deregulated segment.

An upward trend in traffic in 2016 was due to higher demand transport services in Q2 and Q3 2016 (following the switch of passengers from international to domestic routes); in April–September 2016, traffic was up 9.8% year-on-year.

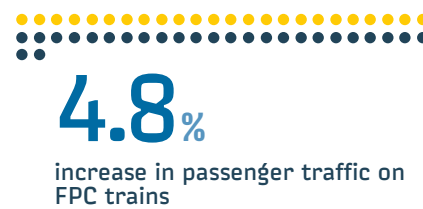
Higher demand for domestic transport services was driven by the rise of domestic tourism (including routes to the resorts in the Krasnodar Territory and the Caucasian Mineral Waters), particularly after leisure destinations in Egypt and Turkey were closed to Russians who had originally planned to go there on holiday. An increase in passenger numbers on routes

to the Black Sea coast in the Krasnodar Territory and the Crimea was also predictable. Passenger surveys regarding holiday plans for the summer of 2016 showed that over 38% of respondents intended to go to Russian resorts, while in 2015 they accounted for only 30%. The share of potential passengers still wishing to spend their holidays in Turkish and Egyptian resorts amounted to approximately 6% in 2016.

According to the Federal Air Transport Agency (Rosaviatsia), in 2016, airlines continued to experience a decline in passenger numbers on international flights, the key market growth driver

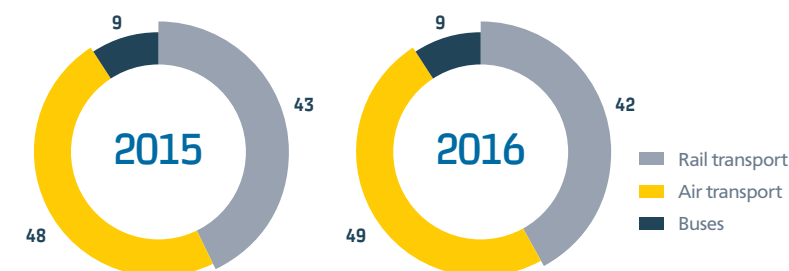
over recent years (–12.6% year-on-year), with an upward trend in domestic flights (+4.9% year-on-year).

In 2016, passenger traffic on FPC trains (passenger turnover) increased by 4.8% year-on-year.



The structure of domestic traffic remained unchanged in 2016. The share of rail transport declined by 1%. These results were caused by an accelerated absolute increase in domestic air traffic.

Domestic passenger turnover in 2015–2016, %



Sources: Statistical Reporting Forms TsO-33 and TsO-32 for rail transport, Rosaviatsia (<http://www.favt.ru>) for air transport, an expert assessment based on Rosstat's data (<http://www.gks.ru>) for buses.

International transport services market

International long-distance passenger services

According to the train schedule for 2015/2016, FPC operated direct and transit passenger services on 40 international routes to 19 European and Asian countries – Germany, France, Poland, Austria, Slovakia, the Czech Republic, Hungary, Serbia, Montenegro, Bulgaria, Monaco, Italy, Finland, China, Mongolia, and North Korea. FPC also provided rail services to the CIS and Baltic states.



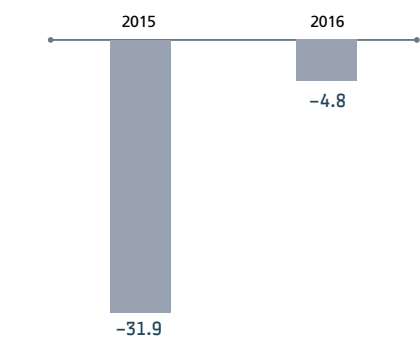
The share of passengers carried on routes to other countries in the total international traffic in 2016 grew to 8.9% (in 2015, this share was 7.8%).

Trains running to the CIS and Baltic states carried 6.3 million passengers in the reporting period, down 7% year-on-year. In 2016, FPC carried 2,256.2 thousand passengers to Ukraine, down 2.3% year-on-year.

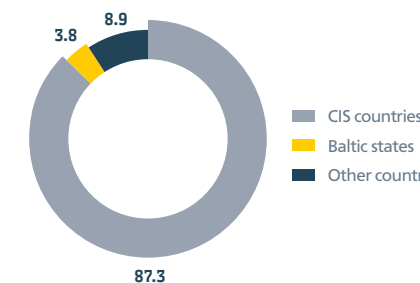
In 2016, international passenger traffic continued to decline, albeit much slower. In particular, the number of passengers carried in 2016 was 7,253.8 thousand people, down 4.8% year-on-year (–31.9% year-on-year in 2015), including:

- 6,300.4 thousand passengers on routes to the CIS and Baltic states (–6.5% year-on-year);
- 645.7 thousand passengers on routes to other countries (+8.5% year-on-year).

Decline in international passenger traffic in 2015–2016, % year-on-year



Structure of international passenger services in 2016, %



The largest growth was reported in traffic to Uzbekistan, Tajikistan and Estonia (+19%, +56% and +82%, respectively).

In 2016, trains running to Abkhazia carried 307.7 thousand passengers, up 8.9% year-on-year (in 2015, the increase was 4.2% year-on-year).

Pricing policies

Regulated segment

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 2016

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

by the state, represented by the FTS of Russia. 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. In 2015, FPC was authorised to run marketing promotions for third-class sitting and sleeping carriages depending on the location of seats/berths and booking date.

From 2016

In accordance with paragraphs 1 and 2 of Decree 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 FAS of Russia.

In 2016, pursuant to Decree of the FAS of Russia No. 1227/15 dated 10 December 2015 (as amended by Decree of the FAS of Russia No. 103/16 dated 4 February 2016), FPC continued to run marketing promotions for third-class sitting and sleeping carriages depending on the location of seats/berths. The price differentiation of tickets for various seat categories in third-class sleeping carriages made train fares more affordable to various consumer 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.

Deregulated segment

FPC may set the prices of fares for first-class and compartment carriages at its own discretion¹.

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

The deregulated segment also covers tourist and commercial services.

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

To reinforce its positions in the passenger services market, the Company has been

running various marketing promotions to stimulate consumer demand in the deregulated segment and boost its revenue. Besides, the Company continuously improves the flexibility of its pricing tool in use: since March 2013, FPC has been phasing in a dynamic pricing system.



¹ According to item 5 of the List of Services of Natural Rail Monopolies with Regulated Fares, Fees and Charges, as approved by the Russian Government's Resolution No. 643 On Government Regulation of, and Control Over, Fares, Fees and Charges for Services of Natural Rail Monopolies dated 5 August 2009.

04

Marketing Policy

Campaign for children:



50%

summer discount for children's tickets

Lucky Tuesday campaign:



47 campaigns ran in 2016



2.5 million passengers (children) carried as part of the campaign



>220 thousand tickets issued

- In December 2016, the Company's dynamic revenue management system covered 100% of the deregulated domestic segment (except for its socially important

component). The dynamic pricing system is the most flexible pricing tool ever used by FPC.

Marketing Policy

RZD Bonus Loyalty Programme launched by RZD Holding won the annual national Customer eXperience Awards Russia for the Best Customer Experience in the Transport Sector, and the Loyalty Awards Russia 2016 for the Best Transportation Company Loyalty Programme.

Key marketing initiatives in 2016

As a socially responsible company, FPC significantly increased the share of special fares in the regulated segment in 2016:

- in the summer of 2016 (from 1 June to 31 August 2016), children aged between 10 and 17 were offered a 50% discount on fares for third-class sitting and sleeping carriages. Over 2.5 million young passengers benefited from this campaign, which is a 21% increase year-on-year in passenger traffic in this age group;
- in 2016, the number of passengers who took advantage of other special fares increased 2.5 times year-on-year. The share of passengers in the regulated segment who benefited from these special fares exceeded 10%.

Along with its flexible Tariff Policy, FPC constantly runs the Lucky Tuesday marketing campaign inviting passengers to purchase tickets for long-distance trains on Tuesdays at highly attractive prices.

In 2016, the Lucky Tuesday campaign covering domestic routes ran 47 times; over 220 thousand tickets were issued at special fares. Every “Lucky Tuesday” the Company sold on average 2.5 times more tickets for the selected routes than on other, non-promotion days.

The Lucky Tuesday campaign covering domestic routes ran 47 times in 2016

Dynamic pricing system

In December 2016, the Company’s dynamic revenue management system covered 100% of the deregulated domestic segment (except for its socially important component).

The dynamic pricing system is the most flexible pricing tool ever used by FPC. It is a powerful combination of 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, where the rates are set in advance for a long period of time, the dynamic pricing system offers flexible ticketing.

The dynamic pricing system applies consistent pricing principles for each destination, train and route leg.

Fare plans are in place for each destination, which take into account seasonal fluctuation, day of the week and passenger traffic. In some cases, the lowest fare for compartment carriages may be just a little higher than fares for third-class sleeping carriages.

As tickets get sold, and the departure date draws nearer, fares for the main route leg generally grow higher. At the same time, the fare at different route legs may vary disproportionately.

In case of high demand, the fare for a certain route leg may get closer to the main route leg fare. The Company may also apply the Discounted Fares Policy for the main train route to boost relevant passenger traffic. Thus, the fare for the main route may be lower than

fares for certain legs. Discounted fares may apply to low-demand routes or trains through to the departure date.

Ticket fares for each train mainly depend on the expected booking profile. In case of significant deviation from the projected parameters, fares are adjusted in a consistent manner. We increase fares when actual demand exceeds the projected level and decrease them when projected demand is low.

Customers appreciate the current Tariff Policy. According to surveys, 94% of passengers say that they benefited from the implementation of the system and actively take advantage of it. Their choice is driven by objective reasons: approximately 68% of tickets that are subject to dynamic pricing are sold at prices lower than or comparable to basic fares.

The share of tickets sold at reduced fares varies by destination and train category. For instance, although the Moscow – Adler route (operating a double-decker) provides high passenger traffic, in 2016 the Company sold 80% of tickets for the route at prices lower than basic fares.

In 2016, 96% of tickets for train No. 23/24 Moscow – Kazan were sold at prices lower than basic fares driving an increase in passenger traffic.

In summer, almost all tickets were purchased at discounted fares.

Dynamic pricing helps the carrier identify a balance between demand and service pricing and improve the overall efficiency of the initiative. As at 2016, the areas covered by the revenue management system reported an upward trend in passenger traffic, with a 108.8% growth in passenger turnover.

Seizing the opportunities offered by the system, passengers may save significantly on transport fares. All trains covered by the system are labelled in online ticketing systems by a special icon (“dynamic pricing”).



For the list of trains covered by the dynamic pricing system, please visit Russian Railways website.

Loyalty Programme

Since 2012, RZD Holding has in place the RZD Bonus Loyalty Programme for railway passengers.

Over 600 thousand new members were registered in the Programme in 2016. The year-on-year growth in the number of cardholders was 34%, with their total number reaching 2.16 million people.

As at 2016, the number of members holding RZD – Alfa-Bank co-branded cards, exceeded 100 thousand people (the joint project with Alfa-Bank was launched in December 2015).

In 2016, 40 thousand students from 200 universities joined the RZD Bonus programme for students.

In the same year, the Programme members booked 172 thousand premium tickets, and over 100 thousand members travelled on these tickets, up 31.2% year-on-year.

To develop the Loyalty Programme, enhance its efficiency and improve customer service, the Company implemented the following initiatives:

- Allegro train services are included in the Programme, and points are awarding for travelling in Allegro trains (more ways to earn points);
- a 5% discount is offered to the Programme members of retirement age under a project for pensioners (implementation of the Programme’s social functions);
- a CRM system is implemented (enabling automatic customer relations management, development of marketing promotions and customised offers based on advanced analysis of trips made by each passenger).

In 2017, the Programme’s efficiency will be enhanced through the following initiatives:

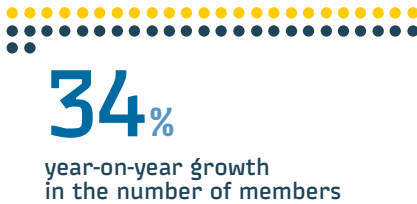
- launch of new co-branding initiatives with banks (with Otkritie Bank, Rosbank and Gazprombank joining in);
- additional privileges to passengers (an option to use points for partial

- payment of premium ticket price, issue of premium tickets for international routes, etc.);
- an option to earn points by purchasing goods and services from third parties;
 - attracting new members to join the Corporate Programme and encouraging existing customers through marketing promotions.

Social projects under the RZD Bonus Programme in 2017:

- issue of premium tickets for compartments for disabled persons at FPC’s ticket offices;
- implementation of the Family Programme offering a possibility to accumulate bonus points of all family members on a joint account.

The key objective is to increase the number of the RZD Bonus Programme members to 3 million.





05

Government Relations



Government Relations

In 2016, FPC continued to collaborate closely with federal and regional authorities to improve quality and availability of long-distance passenger rail services.

As government subsidies in the long-distance passenger service sector tend to shrink (from RUB 24.7 billion in 2015 to RUB 18.9 billion in 2016, and with RUB 9.7 billion expected in 2017), boosting the efficiency of long-distance passenger services through updating the regulatory framework and optimising traffic on unprofitable destinations has become a priority task.

In 2016, very important regulatory initiatives were adopted at the federal level, seeking to improve the competitive ability and appeal of railway services:

- from 1 January through 31 December 2016, a 10% VAT rate was applicable to long-distance rail services for passengers and baggage (Federal Law No. 386-FZ On the Deflator Coefficient for 2016 and Amendments to Individual Legislative Acts of the Russian Federation dated 29 December 2015);
- 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, which set a zero VAT rate for the long-distance passenger services, came into effect;

- Order of the Federal Antimonopoly Service of the Russian Federation No. 1836/16 dated 23 December 2016 updated the current pricing for long-distance railway infrastructure services, thus driving development of high-speed train services.

However, no long-term transparent subsidy mechanism to support transport services based on government contracts is in place yet. FPC jointly with Russian Railways, its parent company, continues to cooperate with sectoral ministries and agencies and the Russian Government on draft Regular Railway Passenger Services Bill, Amendments to Individual Legislative Acts of the Russian Federation, and the Interregional Passenger Service Long-Term Regulation Concept.

In 2016, the Company also went on with the preparation of the draft Federal

Law On Amendments to Article 83 of the Federal Law Railway Transport Statute of the Russian Federation, seeking facilitate lower ticket prices for long-distance passenger rail services throughout Russia. The draft introduces amendments authorising a carrier to sell non-refundable tickets, i.e. tickets which are not refunded if the trip is cancelled by the passenger. The State Duma of the Russian Federation approved the draft in the first reading in March 2015.

Regionally, the Company liaised with Russian regional governments to improve the network and find new profitable routes, including tourist destinations. For example, in 2016, workshops were held with the Governors of the Nizhny Novgorod Region, Krasnoyarsk Territory, Saratov, Rostov and Yaroslavl Regions, the Head of the Komi Republic, and Pskov Region and Trans-Baikal Territory government officials, who supervise the transport sector. The work will be continued in 2017.





06

Risk Management

In a major development, the Risk Management Committee of JSC FPC was established in 2016.

The Committee has the following roles:

- Overall coordination of risk management activities for all identified risks;
- Drafting proposals for FPC's Board of Directors on the principles of, and approaches to, setting up a risk management system.



Overview of the risk management framework

FPC makes full use of the existing risk management tools, continually improves its Risk Management and Internal Control System, and develops new powerful risk management tools.

The Company plans to complete the development of a formalised risk management framework and present the system’s architecture, operating procedure, and the Company’s updated Risk Map for consideration by the Board of Directors by the end of 2017.

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, and mitigating risks.

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

The Policy defines the goals and objectives of, and outlines overall approaches to, setting up the Company’s risk management system, principles of its structure and operation, and determines the risk management process participants, their roles, responsibilities and interactions, as well as the infrastructure and stages of the risk management process.

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

FPC has in place a dedicated risk management and internal control unit. Its main tasks are the coordination

and improvement of risk management processes and the development of internal control framework.

FPC’s risk management activities are governed by the following key principles:

- comprehensive approach to risk management;
- continuity of the risk management process;
- involvement of all employees in risk management as part of their duties;
- inclusion of all FPC’s activities in the scope of the Risk Management System;
- uniform principles and approaches of the risk management process;
- segregation of duties among the risk management system participants;
- the most optimal scope and complexity of risk management procedures;
- balanced criteria for making decisions on risk handling – striking the right balance between potential losses and opportunities, and between risk management cost and potential damage if the risk occurred.

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 due consideration of the cost vs benefit balance;

- ensuring integrity, reliability and effectiveness of risk management in 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 engagement of 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 management structure

JSC FPC Board of Directors



- Defines the principles of, and approaches to, setting up FPC’s Risk Management and Internal Control System (RM&ICS)
- Approves risk appetites for FPC’s principal and individual risks
- Reviews matters related to the organisation, operation and performance of the RM&ICS

Audit Committee at FPC’s Board of Directors



- Monitors the reliability and effectiveness of the RM&ICS including through performance assessments of FPC’s risk management and internal control procedures and preparation of improvement proposals
- Reviews and assesses compliance with the Risk Management and Internal Control Policy

JSC FPC General Director



- Makes sure the FPC Board of Directors resolutions concerning the organisation of RM&ICS are implemented
- Ensures the sustainable and effective operation of the RM&ICS

JSC FPC Risk Management Committee



- Provides overall coordination of risk management activities for all identified risks facing JSC FPC
- Drafts proposals for FPC’s Board of Directors on the principles of, and approaches to, setting up a risk management system.

JSC FPC Deputy General Director for Safety and Security



- Responsible for the maintenance, operation and improvement of the RM&ICS
- Makes arrangements for forecasting external and internal risks and analysis of their impact on FPC’s business

Risk Management and Internal Control Unit



- Coordinates the risk management processes and systematises the internal control mechanisms of FPC
- Develops and maintains FPC’s company-wide risk register, risk matrix and risk map

JSC FPC business units (risk owners)

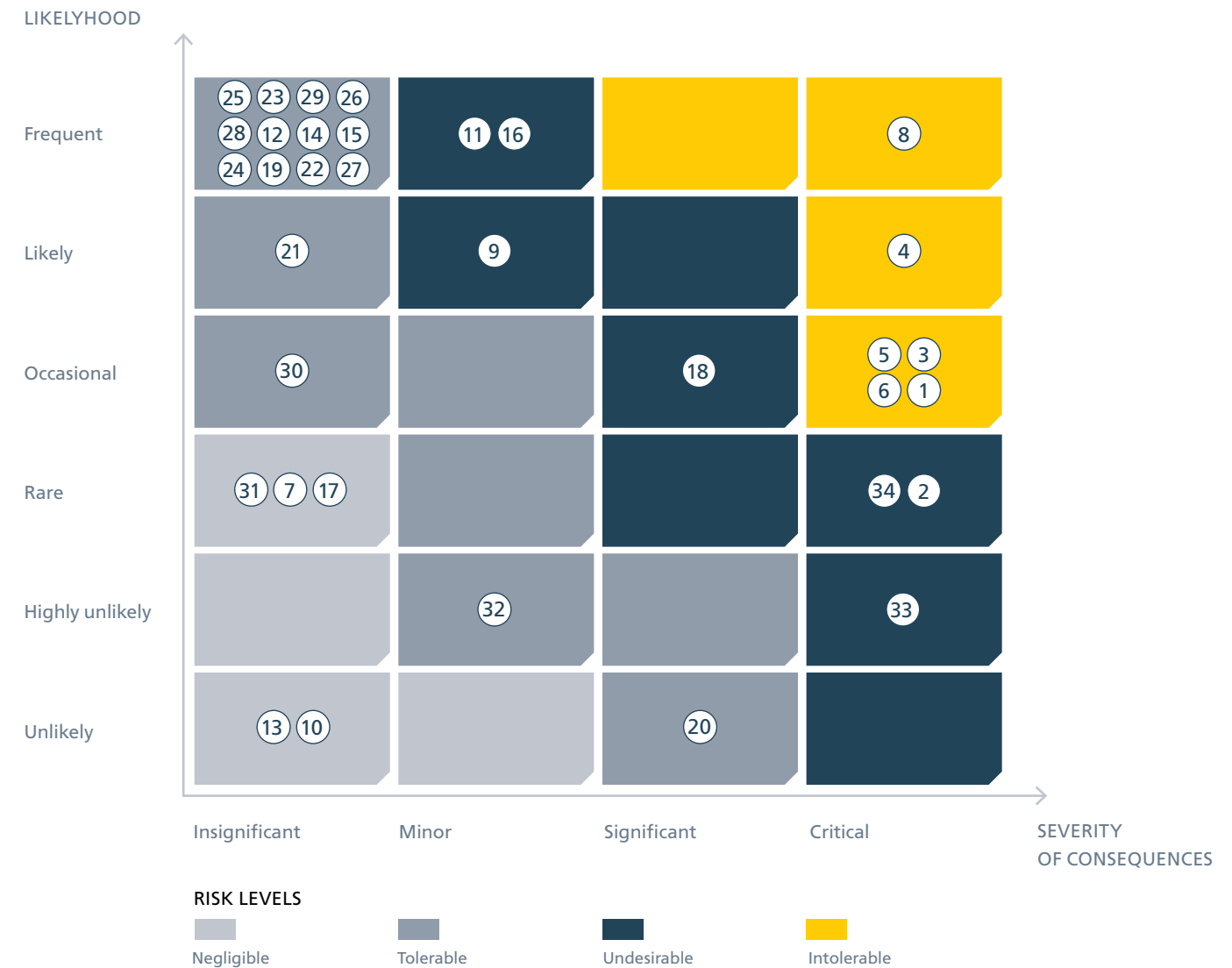


- Identify and analyse risks that can impact the achievement of the relevant unit’s goals
- Develop and maintain a risk register, risk matrix and risk map within their remit

Stages of the risk management process



Risk matrix



34 risks in total, including:

- 6 intolerable risks (##1, 3, 4, 5, 6 and 8);
- 7 undesirable risks (##2, 9, 11, 16, 18, 33 and 34);
- 16 tolerable risks (##12, 14, 15, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30 and 32);
- 5 negligible risks (##7, 10, 13, 17 and 31).

Measures to mitigate risks and measures to mitigate their consequences should these risks occur can be found in FPC's risk map.



Risk map

No.	Risk	Risk Owner	Risk description	Risk classification by area of occurrence	Risk likelihood / severity of consequences	Risk tolerance level	Measures to maintain or reduce risk level	Measures to mitigate consequences should the risk occur	Risk occurrence in 2016
Marketing and tariff policy									
1	Declines in passenger volumes on domestic routes (declines in passenger traffic)	Marketing and Tariff Policy Department	Declines in passenger volumes on domestic routes (declines in passenger traffic)	Market-based risk	Occasional/critical	Intolerable	<ul style="list-style-type: none">Implementation of the Marketing and Competition Strategy to retain existing and acquire new customers from alternative modes (including private cars).Wider application of the Revenue Management System (to cover 100% of trains on regular domestic routes, excluding socially necessary train services) – dynamic pricing is used for 650 trains serving 364 destinations.Optimisation of train schedules (to make them more convenient for passengers), including shorter journey times.Development and promotion of new routes.Rolling stock replacement and upgrades.	<ul style="list-style-type: none">Implementation of an optimal Tariff Policy (promotions both in the regulated and deregulated segments).Leveraging the Loyalty Programme to enhance customer relations (when building relationships with individuals, corporates, and university students).	No
2	Declines in passenger volumes on international routes (declines in passenger traffic)	Marketing and Tariff Policy Department	Declines in passenger volumes on international routes (declines in passenger traffic)	Market-based risk	Rare/critical	Undesirable	<ul style="list-style-type: none">Dynamic pricing.Optimisation of international train schedules, including shorter journey times.Development and promotion of new routes.Rolling stock replacement and upgrades.	Various marketing initiatives (special fares for international long-distance trains).	No
3	Passenger preferences shifting towards alternative modes of transport	Marketing and Tariff Policy Department	Passengers shifting to other modes, resulting in lower passenger volumes on domestic and international routes (lower passenger traffic) and reduced market share for FPC (FPC lost 11 p.p. of the domestic market between 2012 and 2016).	Market-based risk	Occasional/critical	Intolerable	<ul style="list-style-type: none">Use of innovative rolling stock.Implementation of the Marketing and Competition Strategy to retain existing and acquire new customers from alternative modes (including private cars).Wider application of the Revenue Management System on domestic routes (to cover 100% of trains on regular domestic routes, excluding socially necessary train services) – dynamic pricing is used for 650 trains serving 364 destinations.Dynamic pricing for international trains.Optimisation of train schedules (to make them more convenient for passengers), including shorter journey times.Development and promotion of new routes.	<ul style="list-style-type: none">Implementation of an optimal Tariff Policy (promotions both in the regulated and deregulated segments).Leveraging the Loyalty Programme to enhance customer relations (when building relationships with individuals, corporates, and university students).	No
4	Fares in the regulated segment growing at a different pace from that projected in the Strategy, with no compensation from the Government	Marketing and Tariff Policy Department	Fares in the regulated segment growing at a different pace from that projected in the Strategy, with no compensation from the Government	Regulatory risk	Likely/critical	Intolerable	<ul style="list-style-type: none">Mileage reductions on loss-making routes.Change of VAT rate.	<ul style="list-style-type: none">Adjustment of train frequencies (train cancellations).Reduction of VAT from 18% to 10%.	Partial



No.	Risk	Risk Owner	Risk description	Risk classification by area of occurrence	Risk likelihood / severity of consequences	Risk tolerance level	Measures to maintain or reduce risk level	Measures to mitigate consequences should the risk occur	Risk occurrence in 2016
5	Loss of market share due to stiffer competition	Marketing and Tariff Policy Department	FPC losing market share due to increased competition and shifting consumer preferences (FPC lost 11 p.p. of the domestic market between 2012 and 2016)	Market-based risk	Occasional/critical	Intolerable	<ul style="list-style-type: none">• Use of innovative rolling stock.• Implementation of the Marketing and Competition Strategy to retain existing and acquire new customers from alternative modes (including private cars).• Wider application of the Revenue Management System on domestic routes (to cover 100% of trains on regular domestic routes, excluding socially necessary train services) – dynamic pricing is used for 650 trains serving 364 destinations.• Dynamic pricing for international trains.• Optimisation of train schedules, including shorter journey times.• Development and promotion of new routes.	<ul style="list-style-type: none">• Implementation of an optimal Tariff Policy (promotions both in the regulated and deregulated segments).• Leveraging the Loyalty Programme to enhance customer relations (when building relationships with individuals, corporates, and university students)	No
6	Increased state support for air transport	Marketing and Tariff Policy Department	Declines in rail passenger volumes in the deregulated segment (declines in passenger traffic)	Regulatory risk	Occasional/critical	Intolerable	<ul style="list-style-type: none">• Implementation of the Marketing and Competition Strategy to retain existing and acquire new customers from alternative modes (including private cars).• Wider application of the Revenue Management System (to cover 100% of trains on regular domestic routes, excluding socially necessary train services) – dynamic pricing is used for 650 trains serving 364 destinations.• Development of the Inter-Regional Passenger Service Long-Term Regulation Concept and the Regular Railway Passenger Services Bill.	<ul style="list-style-type: none">• Implementation of an optimal Tariff Policy (promotions both in the regulated and deregulated segments).• Leveraging the Loyalty Programme to enhance customer relations (when building relationships with individuals, corporates, and university students).• Adoption of the Inter-Regional Passenger Service Long-Term Regulation Concept and the Regular Railway Passenger Services Bill.	No
7	Leakage of personal data of the Loyalty Programme participants	Marketing and Tariff Policy Department, Loyalty Programme Unit	Programme participants making complaints to courts under Federal Law No. 152-FZ On Personal Data	Reputational risk	Rare/negligible	Negligible	<ul style="list-style-type: none">• Data link encryption at http://pass.rzd.ru.• Certification of the Automatic Route Control System.• SMS authentication for logging in to personal accounts.	Award of compensation points under the Loyalty Programme.	No
Development									
8	Failure to achieve the target performance of investment projects during the implementation of Investment Programme	Investment Department	Longer payback periods due to larger investments, longer project timelines and higher planned operating costs, as well as lower planned returns	Investment risk	Frequent/critical	Intolerable	<ul style="list-style-type: none">• Monitoring the operational performance of the new fixed asset.• Selection of fixed asset providers through tendering procedures.• Making sure the contract contains a clause providing for the provider's responsibility for the fixed asset quality and delivery in due time.	Drafting an Action Plan to improve the operational performance of the new fixed asset.	Partial
9	Technical, economic and performance characteristics of the passenger rolling stock lagging behind international benchmarks	Rolling Stock Management Department	<ul style="list-style-type: none">• No opportunity to increase train speed on RZD's infrastructure.• Having to keep more carriages in the Company's fleet.• Failure to accommodate passenger volumes.	Research, technological and operational risk	Likely/minor	Undesirable	<ul style="list-style-type: none">• Development of RZD's infrastructure to improve average speeds.• Higher allocations for innovative rolling stock purchases.• Setting technical specifications for newly developed and upgraded rolling stock.	<ul style="list-style-type: none">• Larger purchases of new rolling stock.• Timely preventive maintenance.	No



No.	Risk	Risk Owner	Risk description	Risk classification by area of occurrence	Risk likelihood / severity of consequences		Risk tolerance level	Measures to maintain or reduce risk level	Measures to mitigate consequences should the risk occur	Risk occurrence in 2016
10	Poor management of strategic projects	Strategic and Organisational Development Department, Project Management Unit	Poor management of strategic projects resulting in strategic project failures	Management risk	Unlikely/negligible		Negligible	<ul style="list-style-type: none">Improvement of project management methodology.Allocation of human resources for strategic projects.	No negative impact from the risk occurrence.	No
Traffic safety										
11	Breach of traffic safety rules	Rolling Stock Management Department	Train schedule disruptions as well as other safety-related consequences (train crashes, accidents, etc.)	Research, technological and operational risk	Frequent/minor		Undesirable	Implementation of the Action Plan to Improve Traffic Safety Measures and to Achieve Accident Reduction Targets at JSC FPC for 2017, approved by FPC Order No. FPC-618 dated 29 December 2016.	<ul style="list-style-type: none">Requiring contractors and subcontractors to comply with the Company's Traffic Safety Policy when performing work for FPC.Building personal and collective ownership of traffic safety among FPC's employees.	Partial
Technical and technological aspects of product manufacturing, delivery of works and services										
12	Fire safety	Operation and Production Facilities Development Department	Injuries and death, damage to property caused by fires	Research, technological and operational risk	Frequent/negligible		Tolerable	<ul style="list-style-type: none">Implementation of the Operational Programme for Fire Safety, including:<ul style="list-style-type: none">centralised contracting for fire prevention/ fighting and emergency response, maintenance of fire protection systems;procurement and maintenance of first response fire fighting equipment;pressure measurements in indoor and outdoor fire water mains;fireproofing of metal and wooden structures.Implementation of the Investment Programme to Equip FPC's Stationary Facilities with Fire-Protection Systems.Implementation of an action plan covering organisational and technical measures.Audits and inspections.	Fire containment and extinguishing according to specific fire-fighting plans and the existing contract with FGPVO ZDT (Federal State Enterprise Departmental Security Service of Railway Transport) of Russia for emergency response and fire fighting services at FPC's facilities.	Partial
13	Industrial Safety	Operation and Production Facilities Development Department	Accident or incident at a hazardous industrial facility.	Research, technological and operational risk	Unlikely/negligible		Negligible	<ul style="list-style-type: none">Implementation of the Operational Programme for Industrial Safety (expert review of industrial safety of buildings, structures and equipment).Implementation of the Investment Programme for Industrial Safety (replacement of equipment that has reached the end of its standard service life).Implementation of action plans covering organisational and technical measures.Development of an Emergency Response Plan.Development of an Oil Spill Response Plan.Audits, inspections and certifications.	<ul style="list-style-type: none">Execution of contracts for the provision of emergency response services for gas distribution and consumers' gas systems.Execution of contracts with professional emergency response organisations.Ongoing contract with FGP VO ZDT of Russia for emergency response services.	No

No.	Risk	Risk Owner	Risk description	Risk classification by area of occurrence	Risk likelihood / severity of consequences	Risk tolerance level	Measures to maintain or reduce risk level	Measures to mitigate consequences should the risk occur	Risk occurrence in 2016
14	Environmental Safety	Operation and Production Facilities Development Department	<ul style="list-style-type: none">Administrative sanctions or fines levied against the Company or its officers; extra payments for negative environmental impact.Suspension of operations by authorities, environmental pollution.Negative environmental impact of operations in excess of predetermined limits; contamination of soils or waste water; damage to sewerage systems due to petroleum product spills or damaged treatment facilities.	Environmental risk	Frequent/negligible	Tolerable	<ul style="list-style-type: none">Implementation of the Operational Programme for Environmental Safety.Implementation of investment projects to improve environmental performance.Implementation of action plans covering organisational and technical measures.Audits, inspections and training.	<ul style="list-style-type: none">Ongoing contract with FGP VO ZDT of Russia for emergency response services.Emergency containment and response plans.Plans to prevent and clean-up spills of crude oil and petroleum products.Procedure for interaction between FPC, Rail Transport Department at the Russian Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing, and other involved governmental agencies in situations where radioactive substances or other sources of ionising radiation above natural background levels or hazardous substances are discovered in carriages of long-distance passenger trains crossing the national border of the Russian Federation.	Partial
15	Administrative sanctions and fines	Operation and Production Facilities Development Department	<ul style="list-style-type: none">Administrative sanctions or fines levied against the Company or its officers.Suspension of operations at the facility in question by authorities.	Research, technological and operational risk	Frequent/negligible	Tolerable	<ul style="list-style-type: none">Implementation of Operational Programmes for Fire, Industrial and Environmental Safety.Implementation of the Investment Programme for Industrial Safety.Implementation of action plans covering organisational and technical measures.Audits, inspections, certifications and examinations.	<ul style="list-style-type: none">Procedure for interaction between FPC, Rail Transport Department at the Russian Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing, and other involved governmental agencies in situations where radioactive substances or other sources of ionising radiation above natural background levels or hazardous substances are discovered in carriages of long-distance passenger trains crossing the national border of the Russian Federation.Ongoing contract with FGP VO ZDT of Russia for emergency response services.Site-specific fire fighting plans.Emergency containment and response plans.Plans to prevent and clean-up spills of crude oil and petroleum products.	Partial
16	Occupational injuries	Occupational Health and Safety Unit	The risk of injury to employees is associated with the lack of control over compliance with occupational health and process safety requirements as well as regulatory requirements for health and safety.	Risk of occupational injuries	Frequent/minor	Undesirable	Preventive health and safety measures (briefings, training in safe work practices, etc.).	Payment of sick pay and payments to injured people in accordance with Russian laws.	Partial

No.	Risk	Risk Owner	Risk description	Risk classification by area of occurrence	Risk likelihood / severity of consequences	Risk tolerance level	Measures to maintain or reduce risk level	Measures to mitigate consequences should the risk occur	Risk occurrence in 2016
Product manufacturing, delivery of works and services									
17	Infrastructure constraints	Transport Management Department	Lower passenger numbers carried by FPC due to failure to provide convenient schedules; passengers shifting to alternative modes.	Research, technological and operational risk	Rare/negligible	Negligible	Implementation of the Programme to Increase Average Speeds of Long-Distance Passenger Trains for 2017–2022, approved by Order of JSC RZD No. 2028 dated 30 September 2016.	Submission of a request to RZD to develop a train schedule with shorter journey times.	Partial
18	Shortage of passenger carriages	Rolling Stock Management Department	<ul style="list-style-type: none">Failure to accommodate passenger volumes.Mileage reductions.	Investment risk	Occasional/significant	Undesirable	<ul style="list-style-type: none">Higher rates of rolling stock replacement and upgrades (procurement + overhaul with service life extension (KVR)).Early repair of third-class sleeping carriages.Maintenance and depot repair of third-class sleeping carriages approaching the end of their service life to increase capacity at peak times.	Replacement of third-class sleeping carriages with other types of rolling stock.	No
19	Lower quality of passenger carriage repairs	Rolling Stock Management Department	Failure to control the quality of contractors' services and performance under carriage repair contracts.	Research, technological and operational risk	Frequent/negligible	Tolerable	<ul style="list-style-type: none">Monthly reliability and quality analysis.Achieving targets for reducing the amount of running repair that involves uncoupling of rolling stock.Inspections of the Company's branches and contractors to monitor compliance with contractual obligations.	<ul style="list-style-type: none">Development of rapid corrective measures.More stringent requirements and greater responsibility (including larger fines) in new contracts with contractors.	Partial
20	Lower customer focus by FPC's staff vs competition	Passenger Service Department	Lower passenger volumes (due to modal shifts).	Human resource risk	Unlikely/significant	Tolerable	<ul style="list-style-type: none">Review of the training system (both for new hires and professional development).Launching specialised training involving psychologists.	<ul style="list-style-type: none">Professional training in educational institutions listed by FPC and licensed to deliver training under the training programmes agreed with FPC.Participation of FPC's representatives in qualification examinations.	No
21	Lower passenger satisfaction levels due to substandard customer service by RZD Holding's business units involved in the passenger service value chain	Passenger Service Department	Lower passenger volumes (due to modal shifts).	Reputational risk	Likely/negligible	Tolerable	<ul style="list-style-type: none">Implementation of motivational programmes (Ranks, Personal Salaries, Passport of Trust).Professional training and education of personnel.Engagement of student train attendant teams in the summer holiday period.	<ul style="list-style-type: none">Specialised training (under TWI and other programmes).Young employee support programmes.	No



No.	Risk	Risk Owner	Risk description	Risk classification by area of occurrence	Risk likelihood / severity of consequences	Risk tolerance level	Measures to maintain or reduce risk level	Measures to mitigate consequences should the risk occur	Risk occurrence in 2016
Public relations									
22	Public dissatisfaction with FPC's services	Corporate Communications Centre	<ul style="list-style-type: none"> Lower satisfaction or complete dissatisfaction of customers with FPC's services can result in a loss of passenger traffic on specific routes or across the country in general. Consumers shifting to road and air modes. The occurrence of this risk may result in major financial losses up to the level where the Company would have to go into liquidation due to unprofitability. 	Reputational risk	Frequent/negligible	Tolerable	<ul style="list-style-type: none"> Detailed Regulations on Cooperation of the Heads of FPC Business Units with the Media were developed to make sure such dealings are properly conducted (Order No. 536, dated 24 May 2016). JSC RZD Order on Emergency Response Communications Procedures (Order No. 1, dated 9 January 2017) has been communicated to the employees dealing with the media. A Quick Reference Card for RZD Holding's Front-Line Staff Dealing with Media Members Taking Photos or Videos was developed for train crews (Order No. SH-169, dated 11 January 2017). Special instructions for the heads of FPC business units, FPC's Standard Publicity Threat Response Procedure, was drafted and approved (Order No. FPC-519, dated 21 November 2015). 	Monitoring of negative publicity incidents involving the Company or its employees currently covers not only the media but social networks as well.	No
23	Damage to business reputation	Corporate Communications Centre	Damage to business reputation may result in lower credit ratings, which, in turn, may lead to higher interest rates on loans raised by the Company or even complete banks' refusal to lend to the Company.	Reputational risk	Frequent/negligible	Tolerable	In order to mitigate the risk of loss of business reputation and to comply with the requirements of the Federal Antimonopoly Service of Russia, FPC's Corporate Communications Centre publishes (discloses) the following financial statements at the Company's website: annual reports, annual accounting statements, and consolidated financial statements of JSC FPC, and the issuer's quarterly statements.	<ul style="list-style-type: none"> Participation in industry exhibitions and conferences and holding image-building events to promote positive perceptions of the Company among experts. Monitoring consumer loyalty to FPC's activities (initiating and maintaining passenger feedback). Monitoring negative reports about the Company in the media space and ensuring prompt anti-crisis responses. Monitoring competitors – key players in the air, road and rail sectors of the transportation services market. Ensuring the Company's full visibility in the media. Generation of own positive information flow. 	No
Safety and security									
24	Threat of terrorist attacks	Transport Security Department	Act of unlawful interference is an illegal action (omission), including a terrorist attack, threatening the safety of transportation and inflicting damage to life, health and property or posing a threat of such consequences.	Research, technological and operational risk	Frequent/negligible	Tolerable	Implementation of JSC FPC's Transport Infrastructure and Vehicle Security Plans.	Timely communication of threats to federal executive authorities and helping them to discover, prevent and thwart acts of unlawful interference as well as identify the causes and conditions facilitating such acts.	No



No.	Risk	Risk Owner	Risk description	Risk classification by area of occurrence	Risk likelihood / severity of consequences		Risk tolerance level	Measures to maintain or reduce risk level	Measures to mitigate consequences should the risk occur	Risk occurrence in 2016
25	Disclosure of the Company's confidential or insider information	Corporate Security Department	<ul style="list-style-type: none">Third parties obtaining trade secrets, confidential information or other insider information.The Company's confidential or insider information shared with third parties.Unauthorised persons entering FPC's premises to steal materials or employees' personal belongings.	Management risk	Frequent/negligible		Tolerable	<ul style="list-style-type: none">Verification of compliance with FPC's local regulations covering the protection of the Company's confidential and insider information.Preventive activities.	Internal investigation of information leaks and disciplinary/administrative action against offenders.	Partial
26	Risk of corruption	Corporate Security Department	<ul style="list-style-type: none">Abuse of office, giving/accepting bribes, abuse of power.Commercial bribery or other abuse of office by an individual to obtain benefits in the form of money, valuables, other property or other services of pecuniary value or property rights for himself/ herself or third parties or unlawful provision of such benefits to said person by other individuals (economic damage, financial losses, reputational risks for FPC).	Management risk	Frequent/negligible		Tolerable	<ul style="list-style-type: none">Communicating provisions of the anti-corruption laws of the Russian Federation and internal anti-corruption policies of JSC FPC to FPC's employees.Educating FPC's employees on the importance of avoiding behaviours at work that can be interpreted by others as a promise or offer of a bribe, or as a consent to accept a bribe or a request for a bribe.Educating FPC employees on anti-corruption and corruption prevention requirements and liability for corrupt practices; corruption prevention workshops; production and distribution of printed anti-corruption materials.Educating FPC's employees to cultivate a culture against accepting gifts that are related to their office or duties.Checking compliance by FPC's employees with job-related anti-corruption and corruption prevention procedures, including those related to accepting gifts, and reporting attempts to lead employees into corrupt practices.Cooperation with law-enforcement agencies in the implementation of anti-corruption measures. Joint inspections.Maintaining a security hotline to provide FPC's employees, citizens and third-party organisations with a means to promptly report corrupt practices.	Cooperation with law-enforcement and judicial authorities to redress damage sustained by FPC.	Partial

Company Profile	Company Strategy	The Company's Business Model and Assets	Market Overview	Marketing Policy	Government Relations	Risk Management	Passenger Service		Safety and Security	Review of Operating and Financial Results	Investment Management	Procurement	International Activities	Corporate Governance Framework	Sustainable development	Appendix
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No.	Risk	Risk Owner	Risk description	Risk classification by area of occurrence	Risk likelihood / severity of consequences				Risk tolerance level	Measures to maintain or reduce risk level	Measures to mitigate consequences should the risk occur	Risk occurrence in 2016				
Human resource management																
27	Social tensions among staff	HR and Social Development Department	<ul style="list-style-type: none">Damage to the Company's image.Employees' complaints to various authorities.	Social risk	Frequent/negligible				Tolerable	<ul style="list-style-type: none">Working meetings with teams.FPC's Employee Information Day.Drafting a Procedure for the Reorganisation of Business Units of FPC's Branches.Inspecting compliance with labour law in the business units of FPC's branches.Cooperation with regional job centres to provide employment for dismissed personnel.	<ul style="list-style-type: none">Working meetings with teams.Monthly monitoring of the downsizing process and managing employment relationships with employees being dismissed.	Partial				
28	Shortage of highly skilled staff	HR and Social Development Department	<ul style="list-style-type: none">Failure to train skilled personnel in due time;growing number of passenger complaints;equipment failures;increased overtime.	Human resource risk	Frequent/negligible				Tolerable	<ul style="list-style-type: none">Professional development training of employees involved in train operations at least once every three years.Timely training and engagement of student train attendant teams for passenger services in the summer holiday period in order to prevent overtime.	Professional training only in educational institutions that are listed by FPC and hold relevant educational licenses; FPC participation in qualification examinations; provision of training courses.	Partial				
Financial and economic management of resources																
29	Supplier prices and the cost of long-distance passenger services growing faster than fares	Economics Department	Mismatch between the actual costs of transportation and the Company's revenues.	Market-based risk	Frequent/negligible				Tolerable	<ul style="list-style-type: none">Use of fixed prices in contracts covering more than one year or unit rate formulas linked to actual inflation.Budgeting below inflation, based on the indices used by RZD Holding (e.g. ref. No. 18868, dated 14 October 2016).No entering into contracts linked to exchange rates; renegotiation of existing contracts denominated in foreign currencies.Notifying the branches of maximum allowed price increases in decentralised contracts.	<ul style="list-style-type: none">Drafting a Cost Cutting and Optimisation Plan or amending programmes implemented by FPC (train cancellations, Repair Programme, etc.).Shortened working hours for administrative staff.Adjusting approved budget parameters.	No				
30	Foreign currency risk	Financial Department	Increased FPC's expenditures under agreements and contracts denominated in foreign currencies.	Financial risk	Occasional/negligible				Tolerable	<ul style="list-style-type: none">Hedging of payments in foreign currencies with derivatives.Renegotiation of contracts denominated in foreign currencies.	–	No				
31	Interest rate risk	Financial Department	The risk of increase of interest rates on borrowed funds and funds being raised.	Financial risk	Rare/negligible				Negligible	<ul style="list-style-type: none">Obtaining credit ratings from leading international rating agencies.Renegotiation of interest rates for existing loan agreements (adjusted by agreement of the parties).The main risk factor was eliminated in 2016 – FPC's debut bond offering on the Moscow Exchange helped refinance the debt owed to VTB Bank under a loan agreement by repaying RUB 2.7 billion on 15 June 2016 and replacing the remaining debt with 9.95% p.a. coupon payments.	–	No				



No.	Risk	Risk Owner	Risk description	Risk classification by area of occurrence	Risk likelihood / severity of consequences	Risk tolerance level	Measures to maintain or reduce risk level	Measures to mitigate consequences should the risk occur	Risk occurrence in 2016
32	Liquidity risk	Financial Department	The risk related to threats and opportunities arising in the process of managing FPC's surplus funds (insolvency risks, cash gap risks).	Financial risk	Unlikely/minor	Tolerable	<ul style="list-style-type: none">Daily planning of FPC payments.Placement of surplus cash into deposit accounts with early withdrawal provisions.	Borrowing; early termination of deposit agreements.	No
33	Credit risk	Financial Department	Risk of contractors' failure to fulfil their obligations to FPC under signed contracts/agreements.	Financial risk	Unlikely/minor	Undesirable	<ul style="list-style-type: none">Use of standard payment terms to minimise advance payments and receive pre-payment for services rendered to counterparties.Requirement for high-risk contractors to provide bank guarantees to secure fulfilment of their obligations to FPC.	—	No
34	Sharp decrease in subsidies	Financial Department	Risk of a significant reduction in governmental financial support (subsidies).	Financial risk	Rare/critical	Undesirable	<ul style="list-style-type: none">Checking the completeness and validity of provided calculations.	Providing substantiating documents to support calculations; out-of-court settlements and litigation.	No



07

Passenger Service

Services popular in 2016:



Daytime Express
trains



double-decker
trains



Moscow – Berlin
Talgo trains



Electronic ticket
service

Passenger Service

Quality policy

In November 2016, FPC completed the certification of its corporate quality management system for compliance with the requirements of the national standard GOST R ISO 9001:2015 (Quality Management Systems – Requirements).

On 28 November 2016, FPC obtained Certificate No. 16.1779.026.

To develop its corporate quality management system in compliance with the requirements of the international

standard ISO 9001:2015, FPC approved the new Quality Policy in November 2016.

Quality priorities

- Meet customer requirements and expectations in full 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 the corporate quality management system, business processes,

lean production technologies, rolling stock preparation, and passenger service.

Quality management principles

- 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 of the Company’s customers and all stakeholders;
- Manage potential corporate risks, prevent recurring potential inconsistencies, and make decisions based on objective evidence and stakeholder requirements;
 - Ensure the compliance of the corporate quality management system with the requirements of the international standard ISO 9001:2015 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.

Quality monitoring

Between 2008 and Q3 2016, the quality of service was evaluated based on extensive quarterly questionnaire-based surveys of passengers during journeys. In Q4 2016, the Company

switched to a more advanced methodology of monitoring service quality online at <http://www.opros.fpc.ru>. The monitoring has already yielded positive results, as it generates relevant information

on a weekly and even daily basis and enables the Company to react promptly to passengers’ complaints and suggestions.

CHANGES IN CUSTOMER SATISFACTION LEVEL (CSI, FPC’S METHODOLOGY)¹

Aspects	2014	2015	Q1–Q2 2016
Overall assessment of travel experience	4.45	4.56	4.75

¹ High level of customer satisfaction corresponds to scores between 4.5 and 5 points. Medium level of customer satisfaction corresponds to 4–4.4 points. Low level of customer satisfaction corresponds to 3.9 points and below.

Additionally, in 2017, in compliance with the best industry practices (including international), FPC will, for the first time, assess the Net Promoter Score (NPS) to evaluate customers’ willingness to make

repeated journeys and recommend the Company’s services across all components: ticket purchase procedures, on-board services, additional services, and safety.

COMPARISON OF CUSTOMER FOCUS ASSESSMENT METHODOLOGIES

Aspects	FPC’s methodology (CSI), 2008–2016 (Q1–Q2)	CSI quality service monitoring from Q4 2016	NPS index from 2017
Data collection method	Passengers complete questionnaires during journeys	Online survey at opros.fpc.ru	Phone survey
Sample, respondents	40,000	2,000	40,000
Frequency	4 times a year	Weekly	4 times a year
Tools	Printed questionnaire, 37 questions	Electronic questionnaire, 28 questions	Phone/online questionnaire containing 3 questions in each of the following sections: Information, Booking and Sales, Products and Services, After-Sales Service

The NPS index will help identify FPC's position in the passenger transportation market, evaluate the quality of individual components of services (ticket purchase procedure, on-board services, RZD Bonus Loyalty Programme, Unified Information and Service Centre) and the operations of relevant units (KPIs), as well as find ways to boost the Company’s competitive edge. Also, as part of its efforts to improve

passenger services (Year of the Passenger), FPC intends, for the first time, to publish on its website the summary results of quality monitoring, in the form of the Company’s average score and NPS index counter.

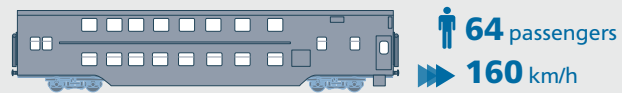
The Company plans to use survey results to build comprehensive ratings of trains and passenger infrastructure facilities, and,

eventually, to devise corrective measures based on passenger feedback. In addition, we will introduce personal accountability and performance control for our officers, to evaluate their compliance with service quality requirements and create relevant motivation and incentive systems based on a customer-focused work style, direct feedback, and customer evaluations.

New carriage types

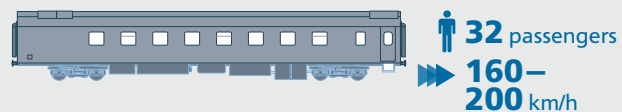
Average carriage life – at least 40 years

Double-decker compartment carriage with berths. Model 61-4465



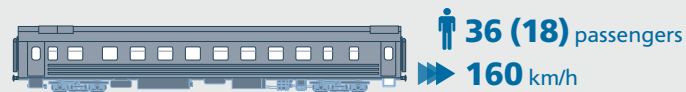
- Environmentally friendly toilet facilities
- Air conditioning unit
- Drinking water cooler
- Audio and video system

RIC-standard sleeping carriage for international routes. Model 61-4476



- Environmentally friendly toilet facilities, including shower
- Climate control system (heating, ventilation and cooling)
- Running water
- Individual reading lamps
- Power sockets to charge phones or laptops
- Loudspeaker with volume control

Compartment carriage for train sets. Model 61-4462



- Environmentally friendly toilet facilities
- Air conditioning unit
- Drinking water cooler
- Audio and video system

Lastochka higher-speed electric train (Desiro RUS)



- Environmentally friendly toilet facilities
- Air conditioning unit –: separate units in each compartment and every passenger cabin
- Sliding steps for easy boarding from and alighting to low platforms (200 mm)
- Passive passenger safety system
- Floor-mounted racks for large hand luggage

Passenger carriage with open-plan seating. Model 61-4458



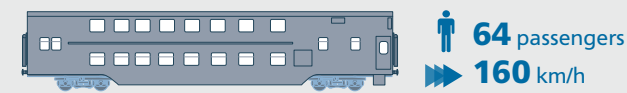
- Environmentally friendly toilet facilities
- Air conditioning unit
- Drinking water cooler
- Audio and video system
- Attendant call buttons

Third-class sleeping carriage. Model 61-4447



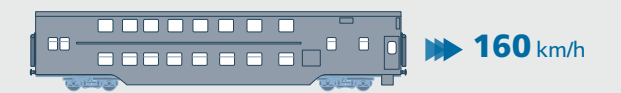
- Environmentally friendly toilet facilities
- Air conditioning unit
- Fire-extinguishing system connected to the train water supply system

Double-decker compartment carriage with seats. Model 61-4465



- Environmentally friendly toilet facilities
- Air conditioning unit
- Drinking water cooler
- Audio and video system

Double-decker carriage with open-plan seating. Model 61-4492



60 seats in the first-class carriage 104 seats in the second-class carriage

- Environmentally friendly toilet facilities
- Air conditioning and purification system
- Passenger information display
- Audio and video system
- Fire alarm system
- Train security and communication monitoring system

Strizh higher-speed train (Talgo)



7 train sets
manufactured by Patentes Talgo S.L.

20 carriages
in each train set, including:



- Environmentally friendly toilet facilities (multiple unit trains)
- Air conditioning unit — separate units in each compartment and every passenger cabin
- Sliding steps for easy boarding from and alighting to low platforms (200 mm)
- Passive passenger safety system
- Floor-mounted racks for large hand luggage

For use on international routes

3 train sets with 1,520 / 1,435 mm variable-gauge wheelsets
216 passenger seats

- 2 first-class carriages with open-plan seating
- 9 first- and second-class sleeping carriages
- 2 VIP-class sleeping carriages with a toilet and a shower in each compartment
- 3 first-class sleeping carriages for passengers with reduced mobility

Schedule for commissioning in 2016

For use on domestic routes







































4 train sets with fixed-gauge wheelsets
414 passenger seats

- 11 first- and second-class carriages with open-plan seating
- 5 VIP-class sleeping carriages with a toilet and a shower in each compartment

Scheduled for commissioning in June 2015
(Moscow – Nizhny Novgorod route)

On-board passenger services

SERVICE CLASSES ON DOMESTIC ROUTES

Carriage type	Service class		Note
Luxury (VIP) carriages			
Luxury Two-berth compartments. 8 to 12 berths per carriage	1A (4 compartments and a bar), 1И (5 compartments), 1М (6 compartments)	<div><div></div><div></div></div>	Shower, composting toilet, washbasin and air conditioning in the compartment. Fold-out sofa 120 cm wide and upper berth 90 cm wide, armchair. The tariff applies to the entire compartment. Only the entire compartment can be purchased (one or two adults can ride in the compartment). Children under 10 years of age travel on domestic routes free of charge. Premium carriage (meals, sanitary kit, print media, bed sheets). Animals are allowed in the carriage.
First-class or RIC carriages (two-berth)			
First-class Two-berth compartments. 10 to 20 berths per carriage	1Б (no more than one passenger), 1З	<div></div>	The carriage is equipped with air conditioning and composting toilet. Premium carriage (meals, sanitary kit, print media, bed sheets). Animals are allowed in the carriage.
	1Y	<div></div>	The carriage is equipped with air conditioning and composting toilet. Bed sheets are included in the fare. Animals are allowed in the carriage.
	1Л	<div></div>	The carriage is equipped with air conditioning. Composting toilet is not guaranteed. Bed sheets are included in the fare. Animals are allowed in the carriage.
	1Д (tourist)	<div></div>	The carriage is equipped with air conditioning. Composting toilet is not guaranteed. Bed sheets are included in the fare.
	Strizh train		
	1Э	<div><div></div><div></div></div>	Shower, washbasin and composting toilet in the compartment. The carriage is equipped with air conditioning. Two berths. Lower berth can be converted into two seats. Animals are allowed in the carriage. TV set with a film selection option. Premium carriage (meals, sanitary kit, print media and bed sheets are included in the fare).

 Air conditioning

 Composting toilet

 Shower

 Washbasin

 Sanitary kit

 Meals

 Print media

 Bed sheets


 Children travel free of charge

 Fold-out sofa

 Armchair

 TV set

 Lap blanket

 Animals allowed

Company Profile	Company Strategy	The Company's Business Model and Assets	Market Overview	Marketing Policy	Government Relations	Risk Management	Passenger Service	Safety and Security	Review of Operating and Financial Results	Investment Management	Procurement	International Activities	Corporate Governance Framework	Sustainable development	Appendix
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Carriage type	Service class														Note
Compartment carriages (K)															
K (compartment) Four-berth compartments. 32 to 40 berths per carriage	2Э								Premium carriage (meals, sanitary kit, print media, bed sheets). The carriage is equipped with air conditioning and composting toilet. Animals are allowed in the carriage.						
	2Б							Premium carriage (meals, sanitary kit, print media, bed sheets). The carriage is equipped with air conditioning. Composting toilet is not guaranteed. Animals are allowed in the carriage.							
	2К					The carriage is equipped with air conditioning and composting toilet. Bed sheets are included in the fare. Animals are allowed in the carriage.									
	2У				The carriage is equipped with air conditioning. Composting toilet is not guaranteed. Bed sheets are included in the fare. Animals are allowed in the carriage.										
	2Л			Air conditioning and composting toilet are not guaranteed. Bed sheets are included in the fare. Animals are allowed in the carriage.											
	2Д (tourist)		Air conditioning and composting toilet are not guaranteed. Bed sheets are included in the fare.												
Third-class sleeping carriages (П)															
П (third-class sleeping) Open-plan carriage with berths. 52 to 54 berths in the carriage	3Э			The carriage is equipped with air conditioning and composting toilet.											
	3Т		The carriage is equipped with air conditioning. Composting toilet is not guaranteed.												
	3Д			The carriage is equipped with air conditioning. Composting toilet is not guaranteed. Animals are allowed in the carriage.											
	3У		Air conditioning and composting toilet are not guaranteed. Animals are allowed in the carriage.												
	3Л	Air conditioning and composting toilet are not guaranteed.													
	3П (for organised groups of children, based on a compartment carriage)			The carriage is equipped with air conditioning and composting toilet.											



Carriage type	Service class		Note
Multiple unit train			
Seating carriage with improved seat arrangement	1C		The carriage is equipped with air conditioning and composting toilet.
	2C		The carriage is equipped with air conditioning and composting toilet.
	2B		The carriage is equipped with air conditioning. Composting toilet is not guaranteed. Animals are allowed in the carriage.
	2M		Air conditioning and composting toilet are not guaranteed.
	3Ж		Air conditioning and composting toilet are not guaranteed. Animals are allowed in the carriage.
	3C		Air conditioning and composting toilet are not guaranteed.
Third-class sitting carriages			
O (third-class sitting) Open-plan carriage with seats.	3O		Air conditioning and composting toilet are not guaranteed. Animals are allowed in the carriage.
	3B (without numbers)		Air conditioning and composting toilet are not guaranteed.



High-quality ticket service

In 2016, the Company launched a mobile app for purchasing tickets for long-distance trains. The app was installed by over 505 thousand users. Over 526 thousand e-tickets were purchased using the app.

Electronic sales account for 40% of the total number of tickets purchased, up 7% year-on-year. The share of e-tickets for Strizh (Moscow – Nizhny Novgorod) trains reached 79%.

School students can now purchase tickets online and from ticket offices without presenting a certificate from the school. The certificate is required when boarding a train.

Ticket offices of the railway network have been equipped with integrated payment terminals (IPTs). Over 1,862 IPTs have been installed in ticket offices.

FPC's website contains a page for corporate customers where legal entities can apply online for the transportation of organised groups of passengers and children. 1,162 applications were submitted in 2016.

All points of sale have been equipped with conversation recorders to help improve passenger service.

New carriages and trains

The comprehensive long-term programme to introduce double-decker passenger carriages on RZD's network (approved by RZD's Order No. 2822r dated 30 December 2016) is intended to maintain the competitive ability of railway transport in the passenger transportation market, improve the cost efficiency of operating passenger rolling stock, and make rational use of the throughput capacity of RZD's railway network. The practical

implementation of the Programme is planned on 12 routes (490 carriages worth more than RUB 40 billion), including:

Stage I (2017–2018) – introduce double-decker trains on the Moscow – Kislovodsk (August 2017), Rostov – Adler (September 2017), and Moscow – Izhevsk (December 2018) routes. 119 carriages must be purchased to implement this stage;

Stage II (2019–2020) – introduce double-decker trains on the Moscow – Rostov, Moscow – Kazan, Moscow – Novorossiysk, Moscow – Adler, Moscow – Petrozavodsk, Saint Petersburg – Murmansk, Moscow – Penza, Moscow – Anapa, and Moscow – Samara routes in December 2019. 371 carriages must be purchased to implement this stage.

Projects implemented: new transportation products

Daytime Express programme

10.2
million passengers
carried
+22.5% year-on-year



Car transportation service

4.6
thousand cars
transported
in 2016
+42% year-on-year



Double-decker trains

around **2.8**
million passengers
carried
double growth versus 2015



Increased demand for Strizh trains

1.2
million passengers
carried in 2016
1.9 million passengers carried from the start of operation



Launch of Talgo trains 17 December 2016

Launch of Talgo trains
on the Moscow –
Berlin route



Multimodal transportation

8
routes
over 75
thousand passengers
1.5 times growth versus 2015



Expanding the area covered by Daytime Express train services



45 train pairs on 25 routes

Train schedule for 2015/2016

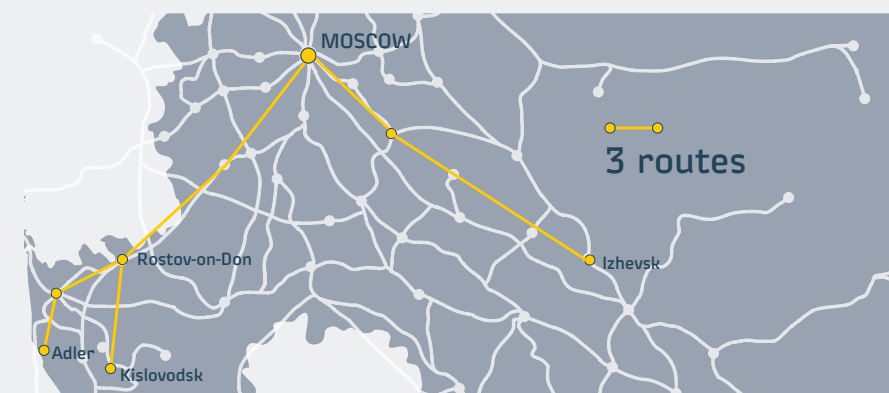
Organising interregional routes is expedient between large cities on routes from 500 km to 700 km. Therefore, the majority of daytime trains operate in the central part of Russia.

45 train pairs on 23 routes

Train schedule for 2016/2017

Examples of projects planned for 2017–2018

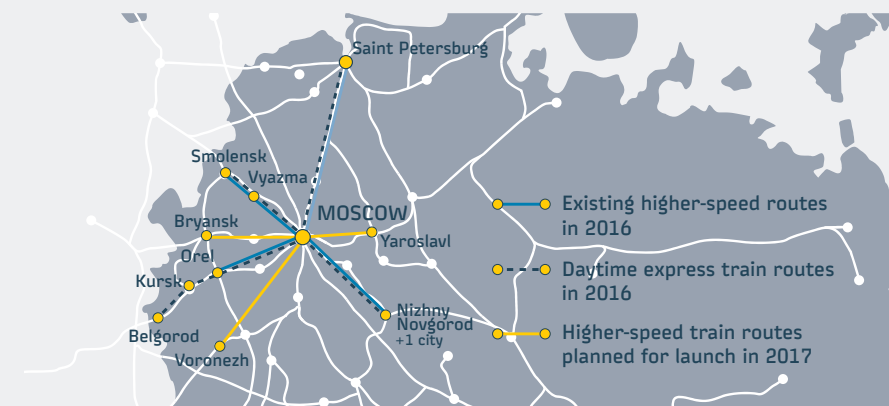
Expanding the geography of double-decker trains: Stage I (2017–2018)



Main objectives

Enhance passenger service quality, improve affordability of railway transport for the population by decreasing ticket prices, and increase passenger comfort by enhancing the technical equipment of the new rolling stock.

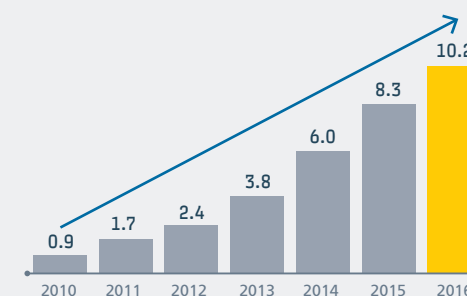
Expanding the geography of higher-speed trains in 2017



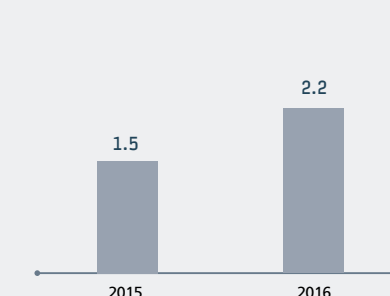
New routes

Moscow – Bryansk, Moscow – Voronezh, Moscow – Vyazma, Moscow – Yaroslavl, Saint Petersburg – Nizhny Novgorod, Saint Petersburg – Belgorod. There are plans to make higher-speed trains even faster on the Moscow – Belgorod and Moscow – Smolensk routes.

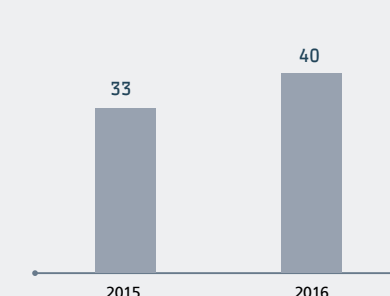
Changes in passenger traffic, million passengers



Growth in the number of RZD Bonus cardholders, million



Development of electronic sales, %



Faster services and improved long-distance passenger train schedule

Travel time is the main criteria in selecting the mode of transport. Therefore, to prepare for the upcoming season, RZD Holding carried out extensive work as part of the Year of the Passenger Programme to accelerate FPC's high-class trains which enjoy the highest demand among passengers.

On 29 May 2016, 102/101 Moscow – Adler and 104/103 Moscow – Adler trains were accelerated, with travel times reduced by 74/24 minutes and 42/23 minutes, respectively. Thus, travel from Moscow to Adler now takes less than 24 hours.

On 29 May 2016, the travel time of the 35/36 Saint Petersburg – Adler train was reduced by 65 minutes / 51 minutes. The journey from Saint Petersburg to Adler now takes around 39 hours. The travel

time on this route can be further reduced to 32 hours.

On 29 May 2016, the following trains were accelerated: 12 Moscow – Anapa (by 22 minutes), 30 Moscow – Novorossiysk (by 38 minutes) and 144 Moscow – Kislovodsk (by 96 minutes).

Acceleration of the 33/34 Moscow – Tallin train:

- as of 13 December 2015, the travel time from Moscow was reduced by 1 hour 56 minutes to 14 hours 22 minutes;
- as of 1 June 2016, departure time from Tallin was changed to 17:09 (instead of 16:25), arrival in Saint Petersburg is 23:17 (instead of 23:07), departure from Saint Petersburg is 01:09, arrival in Moscow is 09:40. The travel time

is 16 hours 31 minutes (acceleration by 70 minutes).

From 31 May 2016, the 3/4 (715/716 was reclassified into the higher-speed category) Moscow – Belgorod train was accelerated by 1 hour in both directions, from 7 hours 45 minutes to 6 hours 45 minutes.

From 2 August 2016, the 66/65 Moscow – Togliatti train was accelerated: the travel time from Togliatti was reduced by 30 minutes; from Moscow – by 34 minutes.

On 31 May, the 124 Belgorod – Novosibirsk train was accelerated by 1 hour 20 minutes; departure time from Belgorod was changed from 07:50 to 09:10.

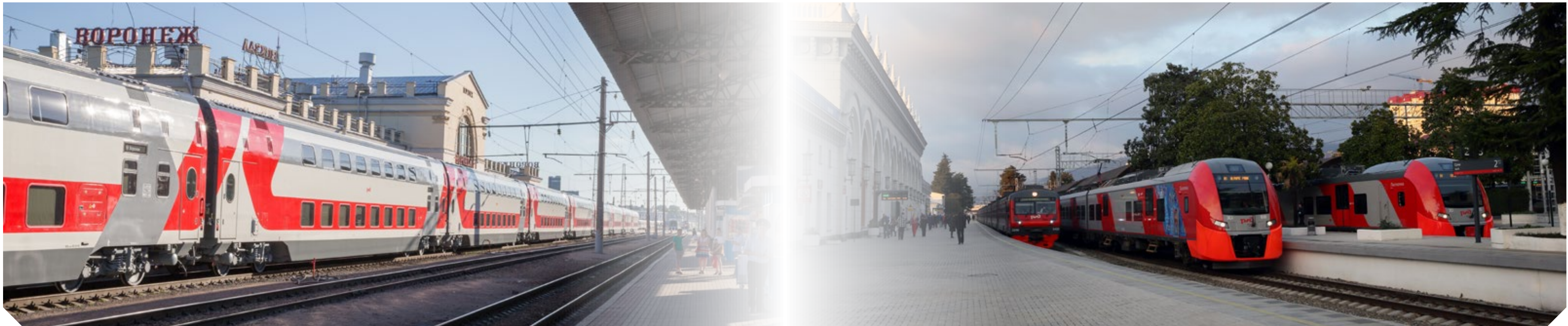
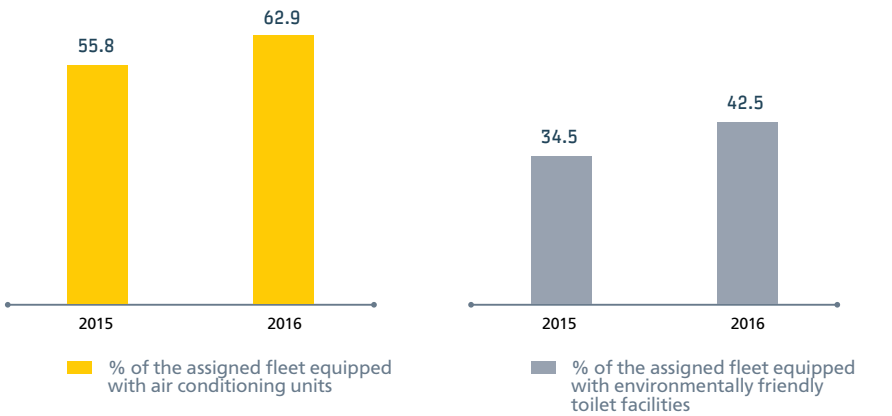
Equipping carriages with air-conditioning units and environmentally friendly toilet facilities

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

In 2016, the number of carriages equipped with air conditioning units increased by 7.1%, the number of carriages with

environmentally friendly toilet facilities – by 8% of the assigned fleet.

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



08

Safety and Security



36%
less failures



69
technical audits
in 2016



31%
less economic
losses caused by fires



321 carriages
equipped with upgraded
fire-fighting
equipment

- Consistent efforts to reduce the number of incidents connected with a breach of traffic or railway safety rules are an integral part of the Transport Strategy

for Guaranteed Security and Reliability of Transportation Process in the Russian Federation for the Period until 2030.



Safety and Security

The safety of FPC’s passenger trains is one of the Company’s top priorities.

Train operation safety

Since the Company was founded, no traffic incidents (train crashes, accidents) have happend through FPC’s fault.

Consistent efforts to reduce the number of incidents connected with a breach of traffic or railway safety rules are an integral part of the Transport Strategy¹ for Guaranteed Security and Reliability of Transportation Process in the Russian Federation for the Period until 2030.

FPC exceeded its traffic safety target by 72% (0.0026 incidents per one million train-kilometres, with the incident

threshold of 0.0092 across RZD Holding) and by 20% year-on-year (4 incidents in 2016 and 5 in 2015).

In 2016, the Company reduced the total number of failures by 36% (58 failures in 2016, 90 failures in 2015).

Higher safety and stable traffic safety targets resulted, among other things, from:

- implementation of FPC’s Action Plan to Improve Traffic Safety Measures and to Achieve Accident Reduction Targets;

- on-schedule delivery of the Action Plan to Ensure Functional Traffic Safety on the Infrastructure of JSC RZD;
- 9 technical audits and 7 inspections conducted in FPC’s branches and their structural units to ensure traffic safety, monitor elimination of revealed defects, and develop corrective actions;
- 69 technical audits of repair and maintenance processes conducted in structural units of FPC’s branches, including 34 scheduled audits, 10 ad-hoc audits and 25 tracking audits.

20%
year-on-year improvement of traffic safety

36%
year-on-year decline in the total number of failures

By the end of 2016, the total number of facilities equipped with automatic fire-fighting systems reached
997
facilities,
or 72.4% of the target

Fire safety

Two fire incidents occurred in 2016 (1 fire incident in 2015).

In 2016, fires caused 31% less economic losses year-on-year.

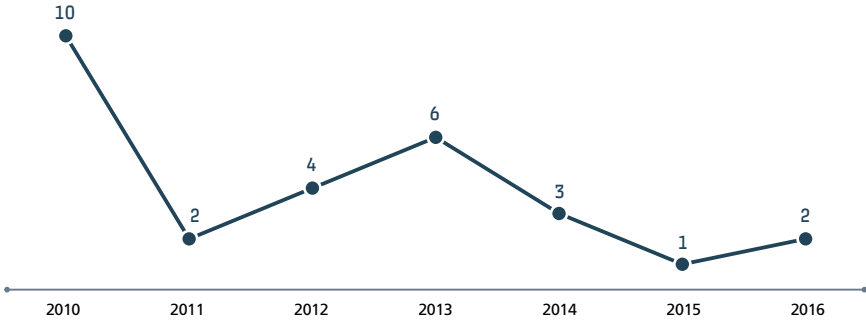
The Company carried out fire risk assessments at 128 stationary facilities to verify their compliance with Federal Law No. 123-FZ Technical Regulations on Fire Safety Requirements dated 22 July 2008.

In 2016, FPC developed and introduced:

- fire safety instructions in FPC’s carriages (as approved by the order of FPC issued in 2016);
- FPC’s standard for Fire Safety Management System (FPC STO 1.21.009–2016) (as approved by the order of FPC issued in 2016).

In line with the repair and maintenance programme, 321 carriages were equipped with new fire-fighting equipment in 2016.

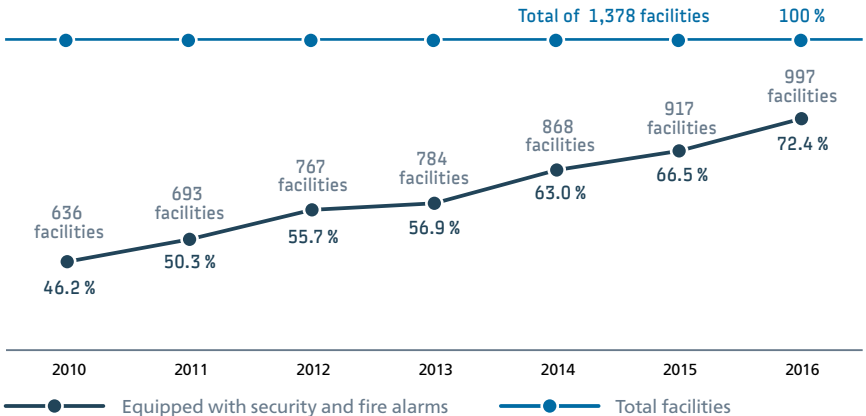
Number of fires at passenger infrastructure facilities in 2016



1 One arson in a carriage

1 One short circuit at a stationary facility

Equipping FPC depot workshops and other stationary facilities with security and fire alarms and automatic fire extinguishers.



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

Industrial safety

In 2016, FPC implemented a Centralised Industrial Safety Programme. During 2016, 448 initiatives were launched, with total costs amounting to RUB 32.4 million.

In 2016, production process optimisation and efforts to ensure compliance with the requirements of federal laws helped the Company reduce the number of its hazardous production facilities and technical devices operated by such facilities.

As at 31 December 2016, the State Register listed 212 FPC’s hazardous production facilities (224 facilities in 2015), which operated 490 technical devices (526 devices in 2015).

In line with Federal Law No. 225-FZ On Compulsory Insurance of Civil Liability of the Owner of a Hazardous Facility for Inflicting Damage as a Result of an Accident at the Hazardous Facility dated 27 July 2010, all FPC’s hazardous production facilities are insured.

In 2017, the Company intends to reduce the number of hazardous production facilities from 212 to 200, and the number of technical devices from 490 to 467.

In 2016, FPC developed and introduced a standard for Industrial Safety Management System at FPC (FPC STO 1.21.008–2016) (as approved by the order of FPC).

Corporate, economic and information security

The Company’s carriages are escorted by squads of transport police officers and security guards from private security companies. Based on the review of the public order situation and within the limits of the budget allowance, 896 long-distance trains were escorted by squads of security providers on a monthly basis. In 2016, a total of 10,798 FPC’s trains were escorted, up 33.7% year-on-year. The Company strongly focused on providing security for children travelling in groups.

In the reporting year, as part of the state Integrated Programme to Ensure Public Safety on Transport, the Company fitted 23 FPC’s facilities, including 18 FPC’s facilities involved in hosting the FIFA Confederations Cup Russia 2017 and the 2018 FIFA World Cup, with state-of-the-art systems ensuring transport security.

FPC’s facilities located in the cities hosting the above sports events are fully equipped with security posts.

Due to FPC’s economic security initiatives the amount of unjustified losses recovered as a result of inspections in 2016 exceeded RUB 47 million, and prevented losses totalled over RUB161 million.

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

Transportation safety and security

FPC’s arrangements for transportation safety and security of transport infrastructure facilities and vehicles are governed by Federal Law No. 16-FZ On Transportation Safety dated 9 February 2007 and other regulations.

The Company carried out the vulnerability assessment of FPC’s transport

infrastructure facilities and vehicles listed in the Register. FPC developed and introduced transport security action plans for all vehicles.

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, which brought a significant reduction in the number of technical failures in carriages, on-board equipment, electrical equipment and fire-fighting systems on such trains.

During 2016, the Company prevented any unlawful interferences¹ at transport infrastructure facilities and in carriages.

Occupational health and safety

In 2016, FPC’s occupational health and safety management system was validated as compliant with the requirements of GOST R 54934-2012 / OHSAS 18001:2007 standard (Occupational Health and Safety Management Systems. Requirements), and

validity of the Company’s management system compliance certificate No. 1 614 was renewed.

In 2016, ensuring safe working environment for the employees

of FPC’s administration and branches enabled the Company to obtain special terms of the Social Insurance Fund for the insurance rate for compulsory insurance covering industrial accidents and occupational diseases.

¹ 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.



Anti-corruption policy

FPC’s arrangements to prevent corruption comply with the requirements of Article 13.3 of Russian Federal Law No. 273-FZ On Countering Corruption dated 25 December 2008.

According to the resolution of FPC’s General Director, the Corporate Security Department is responsible for prevention of corruption.

All the Company’s branches place anti-corruption information on dedicated

information boards, including the “safe hotline” number and e-mail for reporting on corruption offences, as well as contact details of anti-corruption officials.

FPC developed and introduced its anti-corruption regulations.

The Company has in place:

- Commission for Resolving Conflicts of Interest (established by the order of FPC issued in 2016);

- Anti-Corruption Committee (established by the order of FPC issued in 2016).

FPC also consistently interacts with law enforcement bodies to identify breaches of anti-corruption laws.



09

Review of Performance and Financial Results



Passenger turnover

89.5

billion passenger-
kilometres



Passengers carried

93.8

million



Net profit

RUB 5.3

billion



Operating revenues

+11%

year-on-year



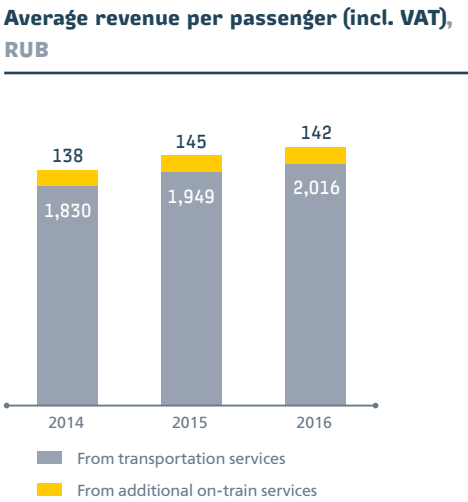
Operating Performance Review

The year 2016 was a more favourable for FPC than 2015.

In 2016, FPC carried 4.7% more passengers on domestic routes, including a year-on-year increase of 3.9% in the regulated segment and 7.1% in the deregulated segment.

The growth during 2016 was driven by increased demand for rail services in Q2 and Q3 2016 (due to a shift in passenger traffic from international to domestic routes), with passenger rail traffic growing 9.8% year-on-year over the period from April to September 2016.

Increased demand for domestic passenger services was due to the growth in the Russian tourism sector (resorts in the Krasnodar Territory, the Caucasian Mineral Waters region, and Crimea), particularly after a ban was imposed on leisure flights to Turkey and Egypt, popular holiday destinations for Russians.



Highlights

In 2016, passenger turnover amounted to 89.5 billion passenger-kilometres, 3.9% higher year-on-year, with trains made up by FPC accounting for 85.1 billion passenger-kilometres, or up 4.8% from 2015.

HIGHLIGHTS

Indicator	2014	2015	2016	2016/2015, %
Passenger turnover, billion passenger-kilometres	94.6	86.1	89.5	103.9
• on trains made up by FPC	87.5	81.1	85.1	104.8
• deregulated segment	28.7	24.2	26.0	107.2
• domestic traffic	25.2	22.7	24.3	107.1
• interstate traffic	3.5	1.6	1.7	108.2
• regulated segment	58.8	56.9	59.1	103.8
• on trains made up in the CIS and Baltic states	7.1	4.9	4.4	89.2
Passengers carried, million people	98.7	91.3	93.8	102.7
• deregulated segment	35.9	30.3	31.1	102.5
• regulated segment	62.8	60.9	62.7	102.9
Average number of carriages in a train, carriages	13.0	12.7	12.7	100.0

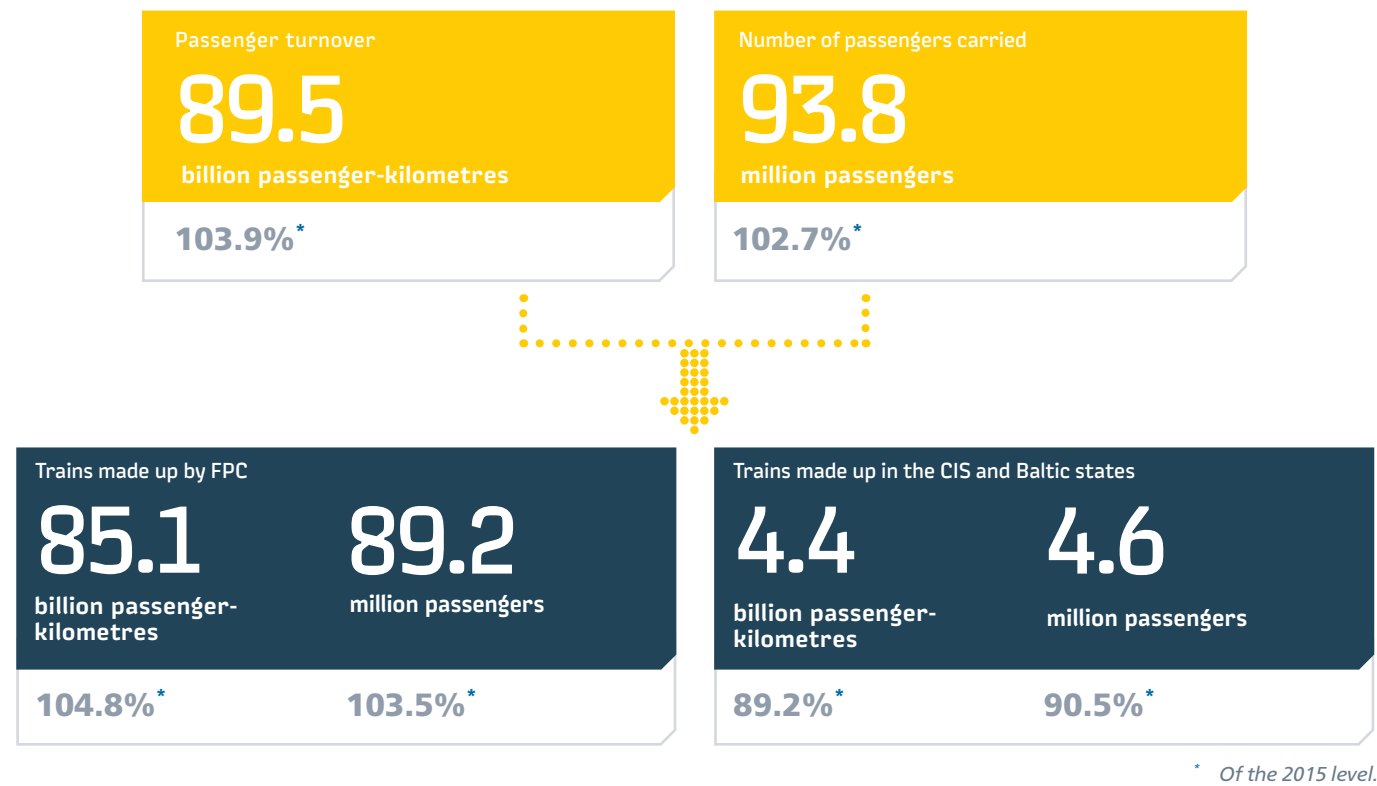
In the deregulated segment, the number of passengers carried amounted to 107.2% of the previous year's level, while in the regulated segment passenger volumes reached 103.8% of the 2015 level. In the reporting year, passenger turnover on trains made up in the CIS and

Baltic states totalled 4.4 billion passenger-kilometres, or 89.2% of the previous year's level.

The number of passengers carried amounted to 93.8 million people (102.7% of the 2015 level), including:

- 89.2 million passengers (103.5% of the 2015 level) carried on trains made up by FPC;
- 4.6 million passengers (90.5% of the 2015 level) carried on trains made up in the CIS and Baltic states.

Changes in key indicators over 2016



With the Company's passenger turnover growing faster than its carriage-kilometre performance (+3.9% year-on-year vs +2.9% year-on-year), we improved our carriage capacity utilisation rates to 71.5%, up 1.9% year-on-year.

Financial results

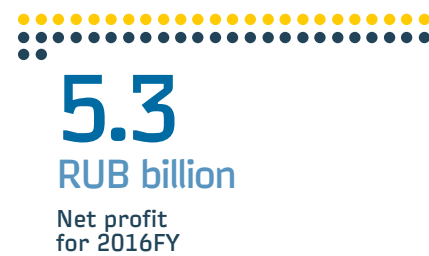
In 2016, operating revenues amounted to RUB 201.2 billion, up 11.0% year-on-year.

Operating expenses increased to RUB 207.1 billion, or by 4.1% year-on-year.

Subsidies from the federal budget amounted to RUB 18.9 billion (2015: RUB 24.7 billion).

EBITDA for 2016 was RUB 24.3 billion, which is higher by RUB 5.7 billion than in 2015.

FY2016 net profit totalled RUB 5.3 billion.



CHANGES IN NET ASSETS, RUB BILLION

Indicator	2014	2015	2016
Net assets	181.1	181.2	186.1

The Company's non-current liabilities increased from RUB 14.7 billion to RUB 19.4 billion, or by 32.5%, in the year. The growth was driven by an increase in long-term loans by RUB 4.6 billion.

Short-term liabilities fell to RUB 30.2 billion, or by RUB 4.6 billion year-on-year, due to a decrease in payables.

FINANCIAL RESULTS, RUB BILLION

Indicator	2014	2015	2016	2016/2015, %
Revenue, total	185.6	181.2	201.2	111.0
• passenger transportation	164.2	160.0	180.1	112.6
• other activities	21.4	21.2	21.1	99.4
Expenses, total	204.9	199.0	207.1	104.1
• passenger transportation	189.7	183.6	191.8	104.4
• other activities	15.2	15.4	15.3	99.5
Operating profit	−19.3	−17.8	−5.9	33.0
• passenger transportation	−25.4	−23.6	−11.7	49.5
• other activities	6.2	5.9	5.8	99.2
Other revenue	27.1	28.8	23.0	79.8
• subsidies from the federal budget	23.3	24.7	18.9	76.8
Other expenses	6.6	8.6	8.7	100.3
Result from other revenue and expenses	20.5	20.2	14.3	71.0
Profit (loss) before tax	1.2	2.4	8.5	348.6
EBITDA	16.9	18.6	24.3	130.8
EBITDA margin, %	8.1	9.0	11.0	122.2
Income tax and other similar liabilities	1.6	2.3	3.2	139.0
Net profit/loss	−0.4	0.1	5.3	—
Net profit margin, %	−0.21	0.08	2.63	—

Revenue

In 2016, the Company’s operating revenues were RUB 201.2 billion, up 11.0% year-on-year, with 3.9% more passengers carried as compared to 2015.

CHANGES IN OPERATING REVENUES, RUB BILLION				
Indicator	2014	2015	2016	2016/2015, %
Operating revenues	185.6	181.2	201.2	111.0
passenger transportation	164.2	160.0	180.1	112.6
• in the deregulated segment	79.3	73.9	85.6	115.9
• in first-class and compartment carriages	59.4	58.5	70.2	120.1
• international services	19.8	15.4	15.4	99.8
• in regulated segment	85.0	86.1	94.5	109.7
• passenger transportation	76.8	79.2	87.7	110.7
• in third-class sleeping carriages	73.7	74.8	82.5	110.3
• in third-class sitting carriages	3.1	4.5	5.2	115.7
• baggage, unaccompanied baggage, and mail transportation	8.1	6.9	6.8	99.3
other activities	21.4	21.2	21.1	99.4
• repair and maintenance of non-owned rolling stock	2.3	2.2	2.1	94.8
• provision of additional on-train services	11.6	11.3	11.3	100.6
• premium services	3.0	2.9	3.1	105.2
• bed sheets on trains	7.7	7.7	8.2	106.5
• tea, confectionery and printed media sales	0.9	0.6	0.04	6.6
• other lines of business (property lease to third parties, agency contracts)	7.5	7.8	7.7	99.0

Revenue from passenger transportation

In 2016, revenue from passenger transportation increased to RUB 180.1 billion, up 12.6% year-on-year. One of the key drivers behind this growth was an additional price indexation of 7.3% vs 2015, pursuant to a decision

of the Russian Government to amend paragraph 2 of Article 164 of the RF Tax Code to set a VAT rate of 10% for long-distance public rail services for passengers and baggage (Federal Law No. 386-FZ dated 29 December 2015).

Revenue in the deregulated segment increased to RUB 85.6 billion, or by 16.4% from 2015.

Revenue from domestic services was RUB 70.2 billion, up 20.9% year-on-year. This growth was driven by higher passenger turnover in the segment (up 7%), price indexation (+5%), and an additional indexation of 7.3% vs 2015.

In 2016, international traffic continued to decline, particularly on trains made up in the CIS and Baltic states (down 10.8% year-on-year), which negatively affected the related revenue. At RUB 15.4 billion, it was 99.8% of the 2015 level.

VAT rate change

In order to reduce the burden on the federal budget and support the Russian mechanical engineering

Revenue in the regulated segment totalled RUB 94.5 billion, up 9.3% year-on-year.

Revenue from domestic passenger rail services in the regulated segment was RUB 87.7 billion, an increase of 10.3% year-on-year. The increase was driven by higher passenger turnover in the segment (up 3.8%), price indexation (+4%), and an additional indexation of 7.3% vs 2015.

sector, Federal Law No. 401-FZ dated 30 November 2016 amended the Tax Code of the Russian Federation to set a VAT rate

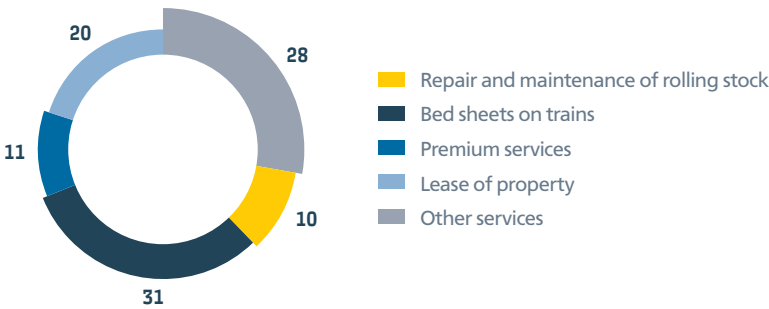
Revenue from baggage, unaccompanied baggage, and mail transportation totalled RUB 6.9 billion, down 2.7% year-on-year. The decrease was due to a decline in baggage and unaccompanied baggage turnover in the Company’s own and leased baggage carriages by 9.6% year-on-year and tariff indexation by 4%.

of 0% for long-distance public rail services for passengers and baggage for the period between 2017 and 2029.

Revenue from other activities

Other business activities include repairs of non-owned rolling stock, additional on-train services, leasing rolling stock and real estate to third parties, etc.

Breakdown of revenue from other activities, %



In 2016, revenue from other activities totalled RUB 21.1 billion, down 0.6% year-on-year.

At the same time, in 2016, the demand for leasing of carriages to third-party clients was down by 3.7% year-on-year, and the demand for repairs of non-owned rolling stock dropped by 5.2% as compared to 2015, resulting in a considerable decline in revenue from other activities over the year.

In 2016, revenue from other activities accounted for about 10.5% of the total revenue, against 11.7% in 2015.

Expenses

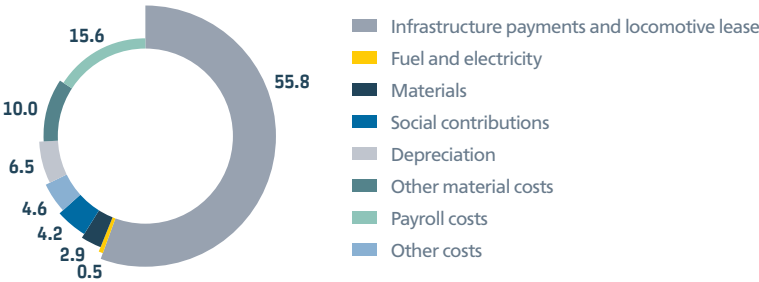
Passenger service expenses

In 2016, passenger service expenses amounted to RUB 191.8 billion, up 4.4% year-on-year.

EXPENSES BREAKDOWN, RUB BILLION				
Indicator	2014	2015	2016	2016/2015, %
Payroll costs	28.5	28.2	29.9	106.2
Social contributions	7.8	7.7	8.1	105.2
Materials	6.1	5.0	5.5	109.7
Fuel	0.7	0.6	0.6	92.4
Electricity	0.3	0.3	0.4	111.0
Other material costs	22.6	18.7	19.2	102.4
Other	110.6	110.5	115.7	104.7
including expenses for infrastructure services and locomotives	101.6	101.6	106.9	105.2
Depreciation	12.9	12.5	12.5	99.4
Expenses, total	189.7	183.6	191.8	104.4

Payroll costs amounted to RUB 29.9 billion, which is 106.2% of the previous year’s level. Expenses for materials amounted to RUB 5.5 billion, or 109.7% of 2015 level. Fuel and electricity costs totalled RUB 1.0 billion, down 1.1% year-on-year. The lower costs were due to declines in fuel oil prices, which were 36.5% lower than forecast for the period. Other material costs totalled RUB 19.2 billion, demonstrating a 2.4% increase year-on-year. Depreciation charges were RUB 12.5 billion, down 0.6% year-on-year. Other costs amounted to RUB 115.7 billion.

Breakdown of passenger service expenses, %



Expenses on other activities

In 2016, expenses on other activities were RUB 15.3 billion, down 0.5% year-on-year

The decline was due to fewer requests for leasing of rolling stock from third parties, and, consequently, fewer lease contracts, and to lower volumes of rolling stock repair, which had a negative impact on related revenues.

Overhauls of fixed assets

During 2016, overhauls were carried out on 2,812 passenger carriages owned by FPC, including:

- 2,448 carriages received a 6-year overhaul (KR-1); and
- 364 carriages received an 18-year overhaul (KR-2).

FIXED ASSETS OVERHAUL COSTS, RUB BILLION				
Indicator	2014	2015	2016	2016/2015, %
Overhauls of fixed assets	8.6	5.4	5.7	105.6
• carriages	8.1	5.1	5.5	107.8
• buildings and structures	0.5	0.3	0.2	67.4

In 2016, actual expenses for overhauls of fixed assets were RUB 5.7 billion (105.6% of 2015 level), including:

- RUB 5.5 billion for overhauls of passenger carriages (107.8% of 2015 level);
- RUB 0.2 billion for overhauls of buildings and structures by third parties – only facilities that were in need of an urgent overhaul (67.4% of the 2015 level).

Cost optimisation measures

In 2016, costs savings achieved through the implementation of FPC’s medium-term Stabilisation Programme, approved by the Board of Directors on 27 April 2015,

totalled RUB 6.3 billion against the planned RUB 5.2 billion, a remarkable 21.2% over-achievement.

STABILISATION PROGRAMME, RUB BILLION				
Activities	2016			
	Plan	Actual	+/-	%
Reduction of rolling stock maintenance and repair costs	1.4	1.8	0.4	130.6
Optimisation of train-kilometre performance	2.6	2.6	0.0	100.0
Reduction of costs for maintenance and repair of buildings, structures and equipment	0.6	0.7	0.1	126.8
Mothballing of fixed assets	0.1	0.6	0.5	579.6
Rightsizing to match performed tasks	0.6	0.6	0.05	108.7
Total	5.2	6.3	1.1	121.2



Other income and expenses

The financial result from other income and expenses amounted to RUB 14.3 billion.

Key revenues received by FPC 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 2016 amounted to RUB 18.9 billion (76.8% of the 2015 level).

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 FPC's liquidity, in 2016 we generated RUB 0.9 billion (78.3% of the 2015 level) from placement of surplus funds on deposits.

Over 2016, we posted a foreign exchange gain of RUB 0.5 billion (92.8% of the 2015 level) during FX settlements.

The main items in other expenses are interest expenses on loans, amounting to RUB 2.0 billion (102.2% of the 2015 level), and cash collection and bank account management costs, which totalled RUB 1.9 billion for the year (116.4% of the 2015 level).

FX rate changes during FX settlements resulted in a foreign exchange loss of RUB 0.5 billion for 2016 (49.0% of the 2015 level).

In addition to the Stabilisation Programme, which was taken into consideration in the cost budgeting process¹, to reduce operating expenses by 10% JSC FPC's Programme for the Reduction of Scope and

Costs of Consumed Services in 2016 and the Programme of Additional Measures, were both approved by FPC's Board of Directors on 7 October 2016 (Minutes No. 5).

The actual savings achieved under the programmes over the year totalled RUB 3.3 billion, or 105.0% of the target.

JSC FPC'S ADDITIONAL PROGRAMME FOR THE REDUCTION OF SCOPE AND COSTS OF CONSUMED SERVICES IN 2016, RUB BILLION

Activities	Plan	Actual	+/-	%
Organisational structure optimisation	0.07	0.1	0.03	144.7
Working with suppliers and contractors to achieve lower cost inflation for goods and services, and reduce the scope of consumed services	3.1	3.2	0.07	103.2
Total for activities	3.2	3.3	0.1	105.0

Average headcount and Optimisation Programme

Labour productivity in transport services was improved by 9.8% from 2015, and by 10.3% vs 2014.

The operations staff increased its productivity in terms of value by 17%, the production staff by 17.4%.

Overall, the average headcount across all business lines was reduced from 71,629 in 2014 to 63,109, or by 8,519 FTEs (–11.9%). Headcount was reduced by 7,390 FTEs for the production staff (–11.7%), and by 1,130 FTEs for the management staff (–13.2%).

Indicator	2014	2015	2016	2016/2015, %
Passenger turnover on trains made up by FPC, billion passenger-kilometres	87.5	81.1	85.1	97.2%
Total average headcount, FTEs	71,629	66,515	63,109	–8,519
Production headcount, FTEs	63,092	58,898	55,702	–7,390
Management headcount, FTEs	8,537	7,616	7,407	–1,130
Productivity of FTEs in transport services, thousand passenger-kilometres / FTE	1,327.8	1,334.5	1,465.0	110.3%
Productivity of operations FTEs, thousand RUB / FTE	2,591.3	2,724.7	3,188.3	123.0%
including production FTEs	2,941.9	3,077.0	3,612.3	122.8%

¹ Pursuant to Russian Government Directive No. 4750p-P13 dated 4 July 2016; paragraph 4 of Section II of the minutes of the 18 January 2016 Meeting at the Office of the Russian Prime Minister; and instruction of the Russian Government No. ISh-P13-2047 dated 11 April 2016.



Debt policy

The Company’s key borrowing principles are described in the Regulations on JSC FPC’s Debt Policy approved by the Board of Directors on 15 May 2015. The Debt Policy of JSC FPC is fully compliant with

the Russian Railways’ Unified Corporate Standard for debt transactions to provide sufficient funding for investing and operating activities, approved by Order of JSC RZD No. 847r dated 1 April 2015.

JSC FPC’s Debt Policy sets out covenants as follows.

Covenant	Limit	2016
Debt structure (short-term loans to total borrowings ratio)	max 0.4	0.18
Debt coverage (net debt to EBITDA ratio)	max 2.5	0.18
Interest coverage (EBITDA to net interest expenses ratio)	min 4.0	22.62
Equity structure (total borrowings to equity ratio)	max 1.5	0.11

In 2016, FPC borrowed RUB 18.9 billion, of which RUB 7.2 billion were allocated to cover cash gaps due to high seasonality of passenger traffic, and RUB 11.7 billion

to fund long-term projects included in the Investment Programme and refinance the current loan portfolio. In June 2016, JSC FPC successfully

completed its RUB 5.0 billion 3-year debut bond issue on the Moscow Exchange.

As at 31 December 2016, the Company’s loan portfolio was RUB 19.7 billion.

IN DECEMBER 2016, FPC WON A CBONDS AWARD IN THE DEBUT OF THE YEAR CATEGORY.

The Cbonds Awards are an annual recognition of the best players in the Russian bond market, chosen by bond market players themselves through an open vote. The vote is fully transparent and is held annually since 2006.

Market players are traditionally invited to vote for the best DCM, sales, and trading teams, best bond market analytics, and the best debut issue among corporate and subfederal borrowers. Over the years, a number of the best IB teams in the Russian market were chosen winners of the Cbonds Awards, including VTB Capital, Sberbank CIB, Region Group, Promsvyazbank, Raiffeisenbank, Otkritie, and others.

Balance sheet total

In 2016, FPC’s balance sheet total increased by RUB 5.1 billion, or by 2.2%.

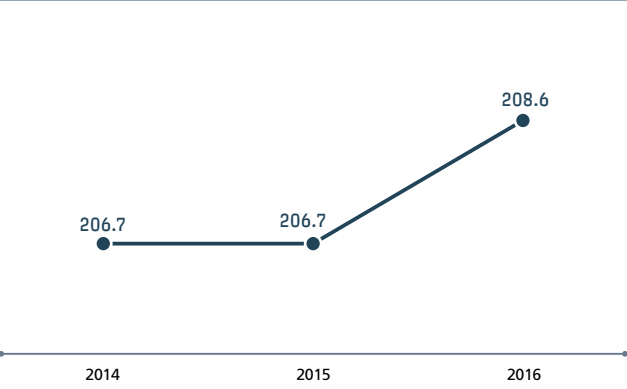
KEY BALANCE SHEET ITEMS, RUB BILLION

Indicator	2014	2015	2016	2016/2015 change, +/-	2016/2015, %
Non-current assets	206.7	206.7	208.6	1.9	100.9
Current assets	25.1	23.4	26.7	3.2	113.9
Assets	231.8	230.2	235.3	5.1	102.2
Equity and reserves	180.5	180.6	185.6	5.0	102.8
Non-current liabilities	15.8	14.7	19.4	4.8	132.5
Current liabilities	35.5	34.9	30.2	-4.6	86.7
Liabilities	231.8	230.2	235.3	5.1	102.2

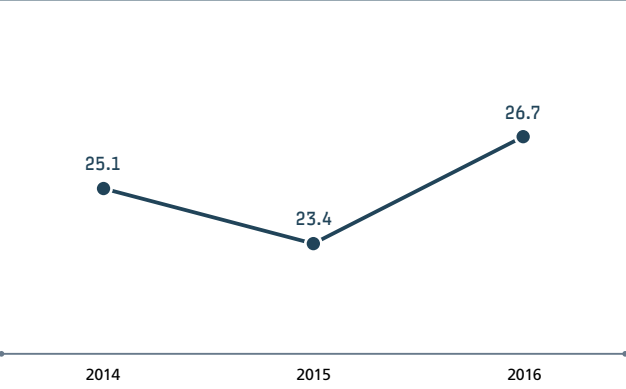
BALANCE SHEET CHANGES, RUB BILLION

Indicator	2014	2015	2016
Non-current assets	206.7	206.7	208.6
Current assets	25.1	23.4	26.7
Equity and reserves	180.5	180.6	185.6
Non-current liabilities	15.8	14.7	19.4
Current liabilities	35.5	34.9	30.2

Non-current assets, RUB billion



Current assets, RUB billion





As at 31 December 2016, FPC’s non-current liabilities amounted to RUB 19.4 billion, including loans and borrowings in the amount of RUB 16.2 billion.

As at 31 December 2016, 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.

On 18 August 2016, changes were made to JSC FPC’s shareholding structure – one share held by JSC Baminvest was transferred to JSC KRP-Invest. As at the end of 2016, RZD’s shareholding in FPC’s authorised capital

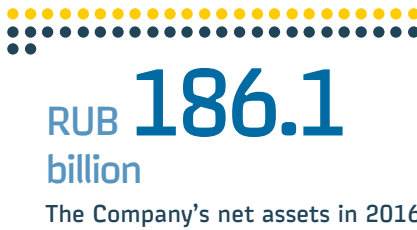
was 99.999999999%, with JSC KRP-Invest holding 0.000000001%.

JSC FPC’s registrar is JSC STATUS, which maintains the FPC securities register under contract No. 201-14/FPC-14-216 dated 11 June 2014.

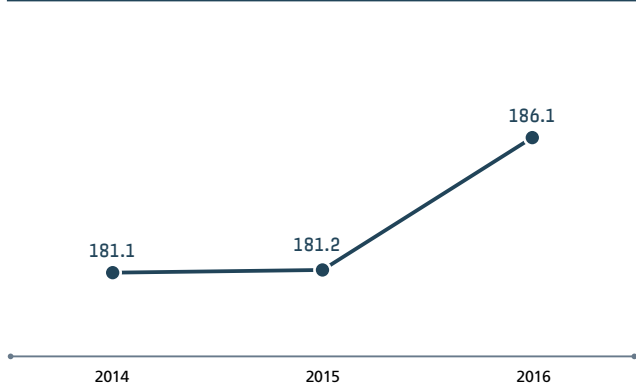
CHANGES IN NET ASSETS, RUB BILLION

Indicator	2014	2015	2016
Net assets	181.1	181.2	186.1

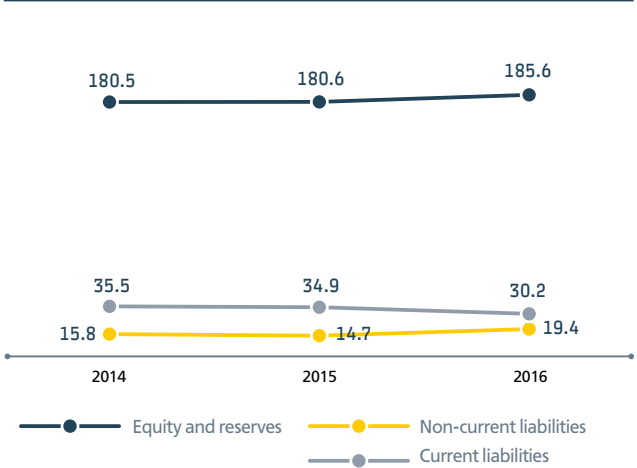
In the reporting year, the Company’s net assets increased by 2.7% to RUB 186.1 billion.



Net assets, RUB billion



Balance sheet changes, RUB billion



Payables and receivables

As at 31 December 2016, FPC’s receivables amounted to RUB 7.06 billion.

Taxes and charges receivable were 50.0%, or RUB 3.53 billion.

As at the end of 2016, trade receivables (except for transport services) amounted

to RUB 1.21 billion, or 17.1%, – an increase of RUB 0.30 billion, or 33.0%, year-on-year. The largest share of trade receivables was due for repair and maintenance of the rolling stock, amounting to RUB 0.46 billion, or 38.0%, and for lease of the rolling stock and property assets, amounting to RUB 0.35 billion, or 28.9%.

As at 31 December 2016, trade receivables due for passenger services made up RUB 1.10 billion, or 15.6%, in line with the terms of relevant contracts.

As at 31 December 2016, prepayments were RUB 0.48 billion, or 6.8%.

Receivables	31 December 2014	31 December 2015	31 December 2016
Trade receivables (except for transport services)	0.80	0.91	1.21
Trade receivables (for transport services)	1.20	1.00	1.10
Prepayments	0.49	0.70	0.48
Taxes and charges	3.27	1.72	3.53
Other receivables	2.09	0.92	0.74
Total	7.85	5.25	7.06

As at 31 December 2016, payables decreased year-on-year by 9.4% to RUB 22.09 billion.

The largest share of payables is attributed to trade payables amounting to RUB 9.22 billion, or 41.7%.

As at the end of 2016, prepayments for transport services were RUB 7.48 billion, or 33.9%.

Payables	31 December 2014	31 December 2015	31 December 2016
Trade payables	10.91	10.88	9.22
Payroll liabilities	1.42	1.36	1.42
Taxes and charges, social insurance	2.41	1.74	1.77
Prepayments for other activities	0.39	0.23	0.16
Prepayments for transport services	8.55	7.99	7.48
Other payables	2.78	2.17	2.04

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

Receivables to payables ratio is 0.32.

Cash flows

As at 1 January 2016, the Company’s cash balances amounted to RUB 2.2 billion.

Cash flows from operating activities

In 2016, the cash flow from operating activities amounted to RUB 262.8 billion, including RUB 18.9 billion from the federal budget. Most income (82.4%) was received from passenger services amounting

to RUB 216.5 billion less transit charges. Operating expenses amounted to RUB 245.8 billion. Expenses for infrastructure services and locomotives were RUB 126.4 billion,

or 52.4% of the costs. Positive cash flow from operating activities increased to RUB 17.0 billion (on the back of the growth of revenue from passenger services).

CASH FLOWS FROM OPERATING ACTIVITIES, RUB BILLION				
Indicator	2014	2015	2016	
Net cash flow	16.1	15.4	17.0	
Cash inflow	260.6	258.0	262.8	
Cash outflow	244.5	242.5	245.8	

Cash flows from investing activities

Negative cash flow from investing activities amounted to RUB 20.2 billion.

Expenses under investment activities (financing of the Investment Programme) were RUB 21.4 billion. In 2016,

RUB 19.8 billion (93.0% of investment) were allocated for passenger rolling stock replacement and upgrades, including:

RUB 16.1 billion for acquisition of new passenger carriages;

RUB 3.7 billion for upgrades of passenger rolling stock;

RUB 1.6 billion for other investment purposes.

Cash flows from financing activities

Cash inflows from financing activities were RUB 25.2 billion for 2016, of which 75.4% were attributed to borrowings.

Cash outflows from financing activities amounted to RUB 17.6 billion, including:

interest payments on loans and borrowings – RUB 2.0 billion;

repayment of loans and borrowings – RUB 15.5 billion.

Net cash flows from financing activities amounted to RUB 7.6 billion.

FPC’s total negative cash flow for the year was RUB 0.1 billion.

As at 31 December 2016, FPC’s cash balance amounted to RUB 2.1 billion.

As at 31 December 2016, FPC’s balance of cash and cash equivalents in the current account (including short-term deposits) amounted to RUB 15.4 billion.

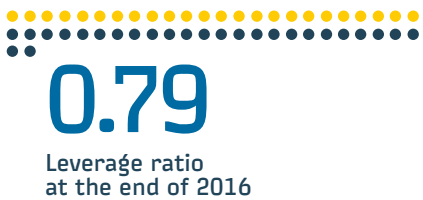
Financial review

Indicator	2014	2015	2016
Liquidity			
Absolute liquidity ratio	0.31	0.32	0.51
Current liquidity ratio	0.71	0.67	0.88
Leverage ratio	0.78	0.78	0.79
Margins, %			
Sales margin (including subsidies)	1.91	3.35	5.94
Return on equity (ROE)	−0.22	0.08	2.85
Return on assets, including subsidies (ROA)	−0.17	0.06	2.25
Liabilities			
Liabilities in the balance sheet total	0.22	0.22	0.21
Financial leverage (interest-bearing borrowings / equity)	0.28	0.27	0.27
Total debt / EBITDA	1.04	0.87	0.81
Total debt / revenue (including subsidies)	0.08	0.08	0.09

As at the end of 2016, liquidity ratios increased year-on-year.

Absolute liquidity ratio improved to 0.51 due to higher cash and cash equivalents and lower current liabilities. As at

the end of 2016, the current liquidity ratio was 0.88, up 0.21 year-on-year, due to lower current liabilities, down by RUB 4.7 billion, or 13.3%. As at the year-end, the leverage ratio was 0.79, as compared to 0.78 at the end of 2015.



10

Investment Management



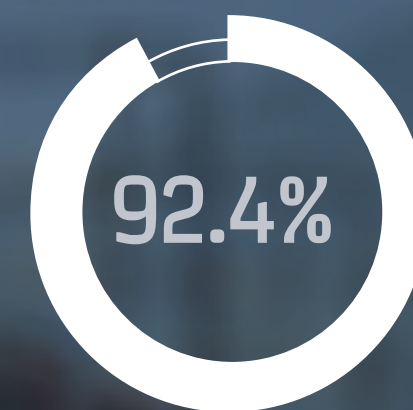
RUB **19.4**
billion

spent under the Investment
Programme



RUB **14.7**
billion

spent on new carriages



Share of investment
in replacement and upgrades
of passenger rolling stock

Investment Management

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

Investments 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;
- technology and social projects.

Each project is ranked from 0 to 100.

The higher the score, the higher priority is given to the project when included in the Investment Programme.

INVESTMENT PROGRAMME STRUCTURE BY PROJECT CATEGORY

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

Structure of investments

Expenditures for the FPC’s Investment Programme totalled RUB 19.4 billion in 2016.

In the reporting period, RUB 17.9 billion (92.4% of investment) were allocated for the rolling stock replacement and upgrades, including:

- RUB 14.7 billion for acquisition of 294 new passenger carriages, including:
 - 115 third-class sleeping carriages,
 - 31 compartment carriages,
 - 2 dining carriages,
 - 86 double-decker carriages,
 - 60 Talgo carriages;
- RUB 3.2 billion for passenger rolling stock upgrades.

The remaining capex totalling RUB 1.5 billion, or 7.6 % 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 gives priority to the acquisition of new rolling stock for upgrading high-class trains. To achieve this goal, in 2016, the Company purchased 148 carriages worth RUB 5.3 billion, including 115 third-class carriages. The carriages were used to upgrade 15 trains running between:

- Belgorod – Moscow;
- Pskov – Moscow;

- Saransk – Moscow;
- Vologda – Saint Petersburg;
- Khabarovsk – Komsomolsk-on-Amur;
- Khabarovsk – Blagoveshchensk;
- Tynda – Blagoveshchensk;
- Novokuznetsk – Saint Petersburg.

Additionally, for high-demand profitable passenger destinations the Company purchased 86 double-decker carriages (worth RUB 6.7 billion), including 17 double-deckers (worth RUB 1.4 billion) for interregional services:

- Moscow – Saint Petersburg;
- Saint Petersburg – Adler;
- Moscow – Voronezh.

The double-deckers improved the Company’s competitiveness by reducing passenger fares.

For the Moscow – Berlin route, in 2016, the Company purchased 60 Talgo carriages worth RUB 2.7 billion. The project seeks to ensure:

- comfortable passenger services on the above routes in terms of shorter travel time;
- more passenger traffic on the routes;
- higher profitability of the Company;
- better Russian Railways’ image and brand awareness in the global market.

As part of its 2016 Investment Programme, the Company financed a RUB 3.2 billion Passenger Rolling Stock Upgrade project. Most funds (RUB 2.8 billion) were used to perform overhauls for 166 carriages

with service life extension (KVRs). 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 2.4–2.6 times less than a new carriage, which is critical in a situation of mass retirement of rolling stock for reasons of expired service life.

In addition, the Investment Programme provided for depot upgrade projects and IT projects.

RUB 0.8 billion were spent on depot upgrades.

Investments in depots were used primarily to:

- upgrade existing production facilities (RUB 0.5 billion);
- purchase equipment to ensure continuous depot operations (RUB 0.2 billion);
- upgrade hazardous production facilities and install security and fire alarm systems at workshops (RUB 0.1 billion).

RUB 19.4 billion

spent under the 2016 Investment Programme

RUB 0.3 billion were spent on IT projects in 2016 (setup of an information security management system, supply of software and hardware, network equipment, etc.).

Investments in other projects totalled RUB 0.4 billion. (implementation of the Comprehensive Transport Safety & Security Programme, and the Innovative Mobility project).

Sources of financing for the 2016 Investment Programme:

- equity (depreciation): RUB 13.7 billion.
- borrowings: RUB 5.7 billion.

The key reason for the year-on-year change in the size of capital investments was the larger number of passenger carriages purchased in 2016 (294 carriages vs. 185 in 2015), – 109 passenger carriages or RUB 2.1 billion more, year-on-year.

INVESTMENT PROGRAMME STRUCTURE, RUB BILLION

Item	2015	2016	+/–
Rolling stock acquisition	12.6	14.7	2.1
Rolling stock upgrades	3.9	3.2	–0.7
Depot upgrades	0.8	0.8	–
IT projects	0.4	0.3	–0.1
Other projects	0.1	0.4	0.3
Total	17.8	19.4	1.6

Priority investment areas

Customer-focused investment

In 2016, FPC spent RUB 17.8 billion to improve its customer experience through a number of initiatives, including:

- Transit time reduction and enhancement of passenger experience and transport safety by purchasing new highly efficient passenger carriages with improved performance and passenger comfort (294 new carriages for RUB 14.7 billion);

- Passenger carriage KVRs (166 carriages for RUB 2.8 billion).

In addition, RUB 0.3 billion were spent on the implementation of information technology innovations.

Investment in safety

RUB 0.8 billion were spent in 2016 on enhancing safety and quality of passenger services. Major investments in transport safety included:

- RUB 0.4 billion to implement the Comprehensive Transport Safety & Security Programme;
- RUB 0.2 billion to replace retired rolling stock;
- RUB 0.1 billion to ensure the compliance of FPC’s facilities with fire safety requirements;
- RUB 0.1 billion to install new frames, bolsters, and 1,520 mm gauge bogies during scheduled carriage repairs.

Upgrades

In 2016, to maintain its existing carriage repair and maintenance facilities, FPC

invested RUB 0.8 billion in renovation and upgrades of its fixed assets.

Mid-term investment

FPC’s Investment Programme for 2017–2019 provides for the purchase of 264 double-deckers worth RUB 23.0 billion to be used on profitable routes.

Priority rolling stock investment is the purchase of carriages for high-class trains. To this end, the Company plans to purchase 643 Russia-made single-deckers in 2017–2019.

The Passenger Rolling Stock Upgrade project for 2017–2019 sets an amount of RUB 16.8 billion, including RUB 9.8 billion worth of KVRs for 553 carriages.

In addition, the Investment Programme provides for RUB 5.6 billion to be spent on depot upgrade projects and RUB 0.6 billion on information technology innovations. In particular, the Company plans to complete renovation of the repair facilities in the Orekhovo-Zuevo passenger

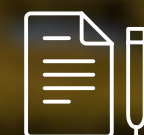
carriage depot to improve the depot’s capacity and take on KVR repairs. Total 2017 investments including the cost of equipment are RUB 0.2 billion. Additionally, in the concerned period, the Company is going to raise external investments to upgrade its carriage-washing facilities and blasting and painting systems, and construct a laundry plant in Yekaterinburg worth RUB 1.5 billion. In 2017–2019, the Company plans to invest a total of RUB 72.7 billion.

11

Procurement



RUB **314** million
procurement savings



4,756
contracts entered
into in 2016



Share of annual
procurement from
SMEs



Procurement

FPC achieved RUB 314 million of procurement savings in 2016 as per the procurement register.

Procurement activities in FPC are governed by the corporate Regulation on Procurement of Goods, Work 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, Work and Services by Certain Types of Legal Entities dated 18 July 2011;
- Resolutions adopted by the Russian Government;
- other documents adopted pursuant to Federal Law No. 223-FZ.

In 2016, FPC entered into 4,756 contracts for the total of RUB 25.1 billion less VAT, including contracts for the total of RUB 7.0 billion less VAT with JSC Railwaycar-Building Works Tver (TVZ)

(a leading rolling stock manufacturer) and Russian Railways (carriage repair and maintenance, and Roszheldorsnab services).

In the reporting period:

- 881 contracts were entered into through competitive bidding for the total of RUB 14.7 billion less VAT, or 59% of the total price of contracts;
- the price of contracts with the single-source supplier (contractor, service provider) totalled RUB 3.3 billion, or 13% of the total price of contracts.

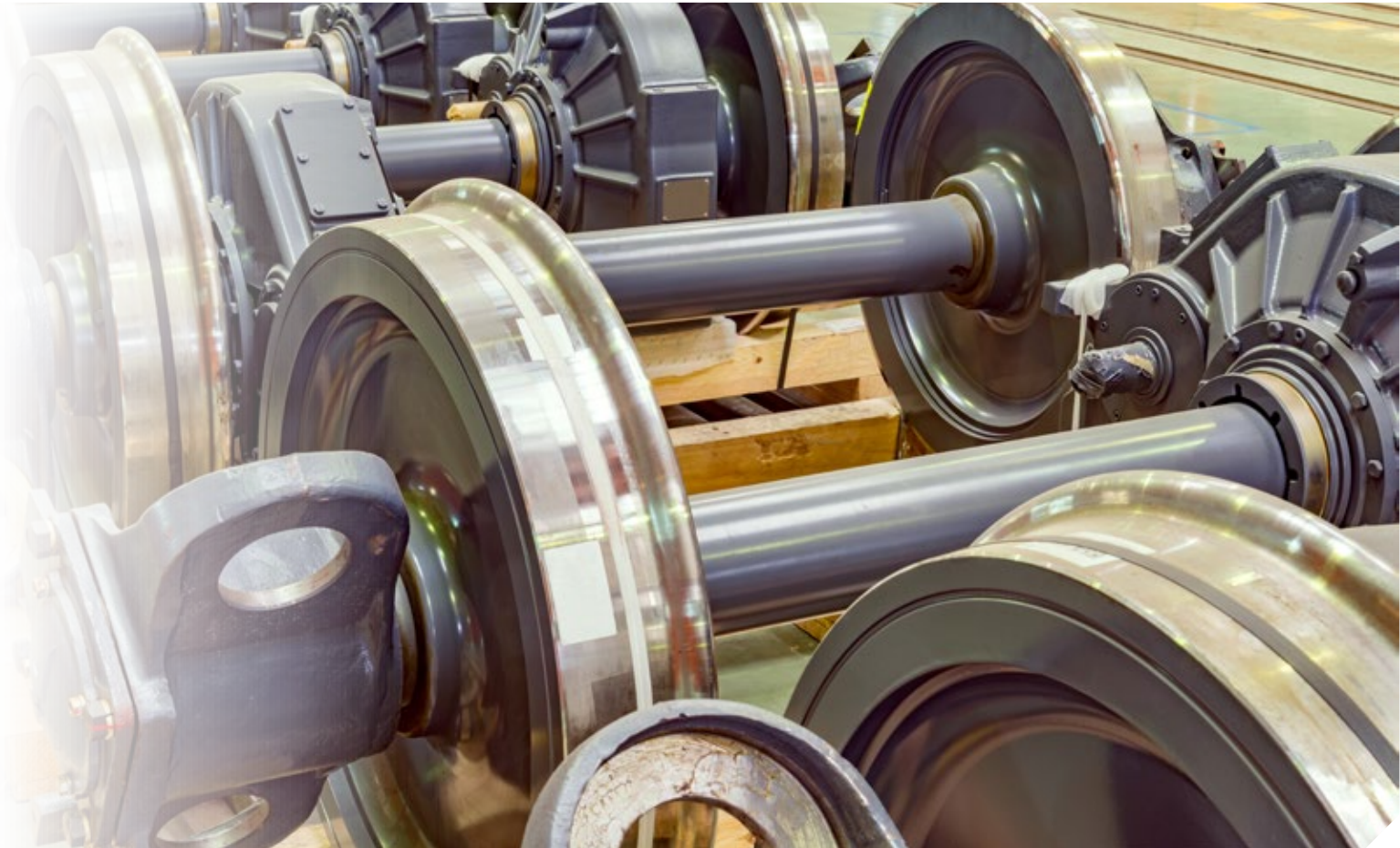
The ongoing collaboration between FPC and Russian Small and Medium Business Corporation (RSMB Corporation)¹ provided favourable conditions for involvement of SMEs in the Company's procurement.

In the competitive bidding for procurement of goods, work or services where only SMEs took part, in 2016, 1,058 bids were filed.

FPC's annual procurement from SMEs was 42.4% of the aggregate annual value of contracts.

FPC's annual procurement from SMEs through bidding or other procurement procedures provided for by the Regulation on Procurement, with SME bidders only, totalled 18.4% of the aggregate annual value of contracts.

FPC is aware of its key role in the development of Russian small and medium-sized business and is committed to rise their share in its procurement from year to year.



For reference: annual procurement from SMEs should constitute at least 18% of the aggregate annual value of contracts entered into by a customer through bidding. The aggregate annual value of contracts entered into by and between a customer and SMEs through bidding held in line with paragraph 4b of the Regulation should constitute at least 10% of the aggregate annual value of contracts entered into by a customer through bidding².



4,756
contracts

entered into by FPC in 2016 for the total of RUB 25.1 billion



1,058
bids

for procurement contracts filed by SMEs in 2016

¹ RSMB Corporation acts as a development institution for support of small and medium-sized enterprises (SMEs).
² Russian Government's Resolution No. 1352 On Specifics of Participation of Small and Medium-Sized Enterprises in the Procurement of Goods, Work and Services by Certain Types of Legal Entities.

12

International Activities



40
international
routes

In 2016, the first Strizh
higher-speed train was put
on the route between
Moscow and Berlin





International Activities

2016 saw a 6.5% fall of passenger flow carried by the Company on international routes.

In 2016, FPC operated 40 international routes, providing direct and transit passenger services to 19 European and Asian countries, including Germany, France, Poland, Austria, Slovakia, the Czech Republic, Hungary, Serbia, Montenegro, Bulgaria, Monaco, Italy, Finland, China, Mongolia, and North Korea.

Despite relative macroeconomic stabilisation in Russia, 2016 saw a 6.5% fall in the passenger numbers carried by the Company on international routes.

As in the previous year, the decline was mainly driven by lower household incomes and depreciation of the national currency against the US dollar, Euro and Swiss franc.

In this context, the Company continued to cut costs and focus on service quality improvement in an effort to address increased competition in the passenger services market through leveraging opportunities offered by both bilateral cooperation and membership in international industry associations such

as OSJD, UIC, CIS Railway Transport Council and CIT (the International Rail Transport Committee).

The Company was able to maintain its leadership in the international railway sector through collaborative efforts, including proactive adjustments proposed to the Tariff Policy and policies for providing access to rail infrastructure for international trains, as well as improvements to the quality of its passenger services.

Improvement of the Pricing Policy and optimisation of international rail services

In 2016, FPC stayed in contact with railway authorities and carriers from the CIS and Baltic states to discuss pricing, discounts and surcharges. The Company continued to pursue the pricing strategy introduced in 2015, which offered discounts and special prices for certain trains running to the CIS and Baltic states. In particular, discounts were offered depending on the booking date (Russia – Belarus / Moldova / Lithuania / Latvia / Estonia / Kazakhstan / Uzbekistan / Kyrgyzstan / Tajikistan), onsidebunksinthird-classcarriages (Russia – Belarus / Moldova), round-trip tickets (Russia – Belarus), and for 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.

Another set of discounts was offered on all category tickets in international trains (17/18 Moscow – Nice, 23/24 Moscow – Paris, 21/22 Moscow – Prague, and direct carriages Moscow – Vienna, Moscow – Cheb, Saint Petersburg – Vienna and Saint Petersburg – Prague). These discounts were offered on upper bunks 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 just married couples and on the passenger's birthday. Discounts ranged from 20% to 50%.

In the reporting year, FPC continued to optimise its international route network.

Due to lower passenger flows, direct carriages on the routes to Eastern Europe became unprofitable, and in 2016 Moscow – Budapest, Moscow – Sofia, Moscow – Varna, Moscow – Burgas, Moscow – Bar and Moscow – Cheb routes were removed from the train schedule for 2016/2017.



Promotion of transport products on international markets

On 17 December 2016, the new higher-speed Strizh train set off on its first journey from Moscow to Berlin, departing from Kursky railway station in the Russian capital. The train was launched as part of the events to celebrate the “Day of High Speeds” in Russia.

The Strizh train has a unique technical profile that enables automatic track gauge changeover from 1,520 mm to 1,435 mm track gauge and vice versa, a 20% increase in travel speeds without the need to upgrade railway tracks, and reduced centrifugal force on passengers in small-radius turns.

The new train provides a more comfortable journey for all passengers, including those with special needs, since it has an increased number of compartments for people with reduced mobility. Another benefit is a 5-hour faster travel to Berlin – the entire trip now taking a little over 20 hours.

Improvements to the international regulatory framework

During 2016, FPC’s representatives took part in a number of meetings held by the Inland Transport Committee (ITC) Working Parties at the UN Economic Commission for Europe (UNECE) and in meetings of the OSJD’s Informal Ad Hoc Working Group of Experts focused on the development of a convention on the facilitation of border crossing procedures for passengers, luggage and load-luggage carried in international traffic by rail (the “Convention”).

In particular, from 22 to 24 November 2016, FPC’s delegation participated in the 70th Anniversary Session

of the UNECE ITC Working Party on Rail Transport (SC.2), during which the Company made a presentation at the Workshop on International Rail Passenger Traffic on the Route East-West and contributed to the discussion on the Draft Convention.

The Company’s presentation focused on the current state of affairs in the international passenger services sector, outlined the current issues, and offered solutions to them. Participants of the Workshop supported the initiative of the Russian side and decided to develop a draft resolution submitted to the UNECE

ITC for inclusion into the final document of its next session scheduled for February 2017.

During the meeting, the Working Party made progress towards achieving consensus among all members on the need to develop a new Convention on the facilitation of border crossing procedures for passengers. To finalise the draft document, the Secretariat of Working Parties SC.2 and WP.30 proposed a roadmap which provides for signing of the Convention at the 2018 Session of the UNECE ITC.



Expansion of bilateral cooperation

Ticket sales via the Euronet system for trains operated by SNCF and other European carriers remain high on FPC’s agenda for bilateral cooperation.

In December 2016, FPC and Voyages-SNCF Benelux SPRL signed a new bilateral contract for distribution of international services which provides for continued sales of tickets for trains run by European operators, using Euronet ticket forms and available in Moscow, Saint Petersburg and Rostov-on-Don. From March 2017, passengers will be able to buy e-tickets for European trains via the Russian version of the agent website www.voyagessncf.eu in ticket offices of Moscow, Northern, Northwest, North Caucasus, Gorky and Ural ticket agencies. Since 2012, FPC has been taking efforts to integrate

the Company into the EU’s transport system. In 2016, FPC ran a joint project with SNCF to include Russian carriages into the night trains serving the Paris – Nice route.

The project participants noted the high occupancy rates of the carriages (approximately 69% on average) and passengers welcoming the opportunity to travel across Europe in highly-comfortable Russian carriages. In 2016, the project delivered a positive rate of return for the Company.

Given the success of the pilot project, a Russian-French Ad Hoc Working Group was established to look into the case for launching a joint venture for operating passenger services in the night train

segment of the European market, which now offers attractive opportunities for new entrants to exploit.

The target market for the proposed JV is overnight trips lasting between 6 and 12 hours, including, in particular, the routes with no alternative to high-speed train services. At the moment, this segment of the European market for passenger services faces severe competition from high-speed services and airlines, but still it has some undeniable advantages such as high level of comfort, convenient schedule, boarding and alighting at the centre of departure and destination cities (unlike air mode); therefore, there are customers loyal to this segment of services.

13

Corporate Governance



4

General Shareholders Meetings of JSC FPC:



1

annual
General
Shareholders
Meeting



3

extraordinary
General
Shareholders
Meetings



JSC FPC Corporate Governance

Overview of the corporate governance model and practice at JSC FPC

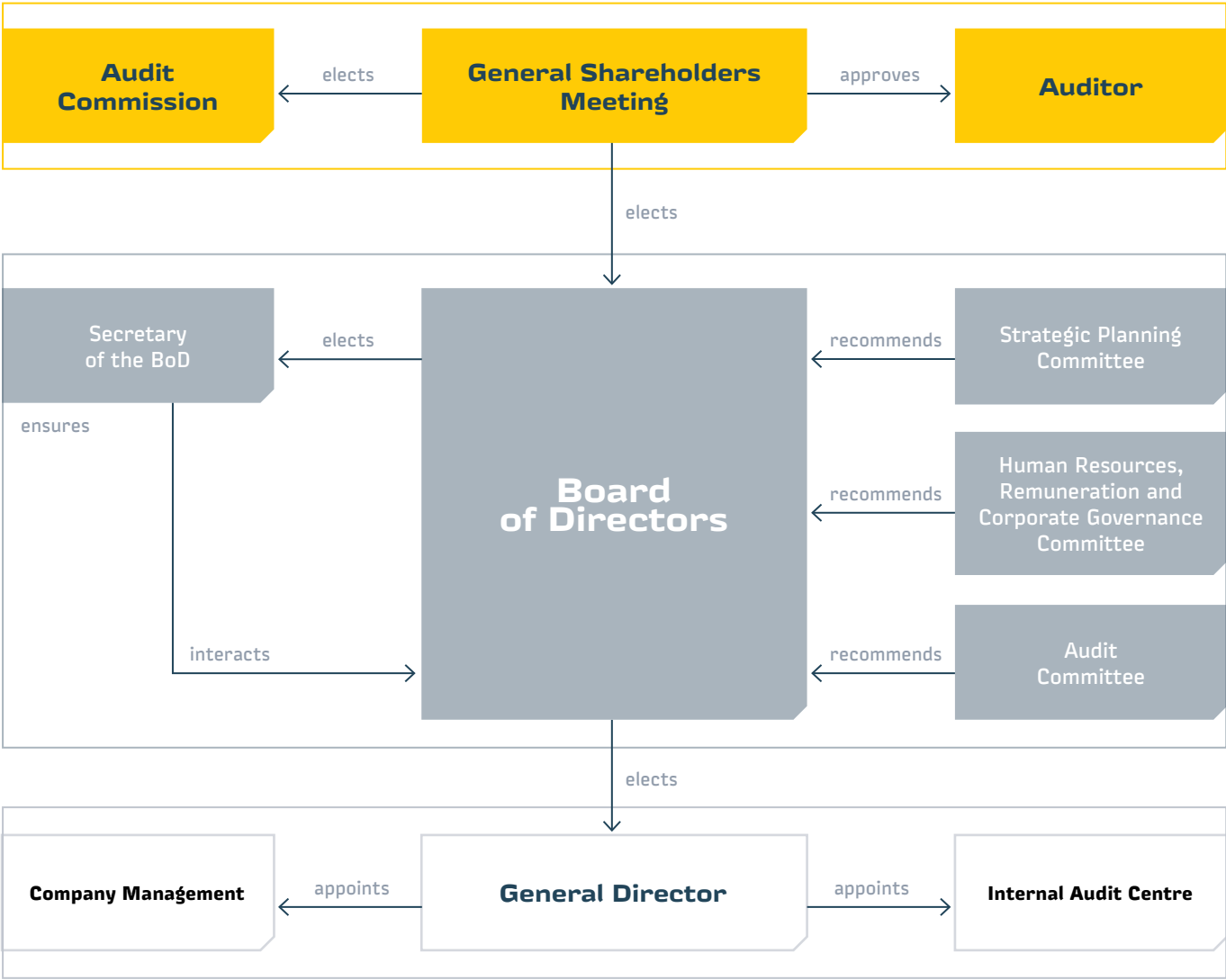
CORPORATE GOVERNANCE PRINCIPLES

	1	2	3	4	5
	Protecting shareholder interests and rights	Equal treatment of all shareholders	Timely disclosure of information	A uniform Corporate Policy for all subsidiaries and affiliates of the Company	Mutual trust and respect for all stakeholders
	<p>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.</p> <p>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.</p> <p>As part of the preparation for the General Shareholders Meeting, shareholders are provided with additional information in addition to the mandatory information required by law.</p>	<p>Shareholders have equal and fair rights to share profits of JSC FPC 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.</p> <p>All shareholders are provided with materials required for the General Shareholders Meeting and have equal access to all required information at the offices of the Company.</p>	<p>The Company ensures timely disclosure of information on JSC FPC’s website at http://www.fpc.ru and in the news feed of SKRIN information agency, which is authorised to disclose information about securities and other financial instruments.</p>	<p>JSC FPC pursues a uniform Corporate Policy covering its subsidiaries to ensure the implementation of uniform corporate standards, including standard Articles of Association and Regulations governing the activities of management and control bodies, uniform business planning standards, uniform corporate reporting, and uniform principles of financial and budget control.</p>	<p>Relationships between the Company’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.</p>
	<div><div>Link to the Regulations on the Procedure for Preparing and Holding the General Shareholders Meeting of JSC FPC</div></div>	<div><div>Link to the Regulations on JSC FPC’s Dividend Policy</div></div>	<div><div>Link to FPC’s official website</div></div>		



The Company's corporate governance model

The Company's corporate governance model



JSC 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 management body is the General Shareholders Meeting, with the Board of Directors occupying a central place in the corporate governance system, and the management of 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 the General Shareholders Meeting of JSC FPC.

The jurisdiction of all management bodies is clearly defined and formalised in the provisions of the Company's Articles of Association.

Matters reserved to the General Shareholders Meeting include approval of the Company's independent Auditor, election of the Audit Commission and the Board of Directors, payout (declaration) of dividends following the first quarter, the first six months, the first nine months of the financial

year, approval of the Company's annual reports, annual accounting statements, including profit and loss statements (profit and loss accounts), as well as distribution of the Company's profit (including payout (declaration) of dividends, except for the profit distributed as dividends following the results of the first quarter, first six months, and first nine months of the financial year) and loss following the end of the financial year, approval of transactions as provided for by Federal Law No. 208-FZ On Joint Stock Companies dated 26 December 1995.

The Board of Directors occupies a key position in JSC FPC's system of corporate governance, as it determines the focus areas for the Company's development, approves the key financial and economic targets for the Company and monitors their achievement, sets strategic priorities both for the near- and longer-term, and oversees the activities of the Company's executive bodies.

Election of the General Director and the Corporate 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 JSC FPC's Board of Directors for preliminary consideration of the most important matters related to the Company's activities: the Strategic Planning Committee, the Audit Committee and the 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.

To provide the Company's shareholders with reliable and complete information on the Company's financial and business activities the Company appoints its Auditor on an annual basis and has the Audit Commission in place.



Shareholders Meetings

The Company’s supreme management body is the General Shareholders Meeting.

In 2016, four General Shareholders Meetings of JSC FPC were held – the annual General Shareholders Meeting

and three extraordinary General Shareholders Meetings.

Extraordinary General Shareholders Meeting	9 February 2016	14 March 2016	30 November 2016
Annual General Shareholders Meeting	30 June 2016		
Number of issues reviewed	2	2	10
			3

RESOLUTIONS APPROVED BY THE ANNUAL GENERAL SHAREHOLDERS MEETING

30 June 2016	Approve the Annual Report of the Company.
	Approve JSC FPC’s annual accounting statements.
	Approve Ernst&Young LLC as FPC’s Auditor for 2016 to audit financial statements prepared under the Russian Accounting Standards (RAS), the International Financial Reporting Standards (IFRS), and the Group’s IFRS consolidated financial statements.
	Resolve to pay annual remuneration to the Board of Directors and the Audit Commission of JSC FPC.
	Elect the new Board of Directors and the new Audit Commission of JSC FPC.
	Resolve to distribute the net profit of JSC FPC based on the results of financial and business activities in 2015 and pay out dividends to the Company’s shareholders.

RESOLUTIONS APPROVED BY EXTRAORDINARY GENERAL SHAREHOLDERS MEETINGS

9 February 2016	Approve the new version of the Regulations on the Board of Directors of JSC FPC. Approve the new version of the Regulations on Remuneration and Reimbursement for Members of the Board of Directors of JSC FPC.
14 March 2016	Early terminate the mandate of members of the Board of Directors of JSC FPC. Elect a new Board of Directors of JSC FPC.
30 November 2016	Approve the new version of the Regulations on Remuneration and Reimbursement for Members of the Board of Directors of JSC FPC. Approve amendments to the Regulations on the Board of Directors of JSC FPC. Amend JSC FPC’s Articles of Association.

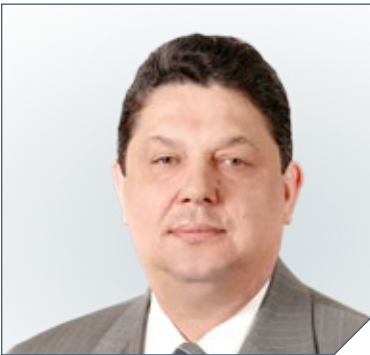
Board of Directors



Sergey Maltsev
Chairman of the Board of Directors

Year of birth: 1963.
Nationality: Russian Federation.

Elected to the Board of Directors in March 2016. He has acted as Chairman of JSC FPC’s Board of Directors since March 2016.



Mikhail Akulov
Deputy Chairman of the Board of Directors

Year of birth: 1960.
Nationality: Russian Federation.

First elected to the Board of Directors in December 2009 by the founders’ meeting. He has acted as Deputy Chairman

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

Experience:
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 RZD, an advisory and deliberative

of JSC FPC’s Board of Directors since March 2016. Chairman of the Strategic Planning Committee of JSC FPC’s Board of Directors.

Education:
Graduated from Moscow Institute of Railway Engineers with a degree in Electrification of Railway Transport, and the Academy of National Economy under the Government of the Russian Federation.

Experience:
In 1982, he started his career in the railway transport industry as a foreman at the Moscow-Passazhirsкая – Kievskaya locomotive depot of the Moscow Railway. From 1983 to 1999, he held senior positions at various entities and business units of the Moscow Railway.
From 1999 to 2002, he was First Deputy Head, Head of the South Eastern Railway.

body of the Government Commission for Transport.

In November 2015, he was appointed Vice-President of RZD; he is a member of Russian Railways’ Management Board. Since March 2017, he has been an Advisor to the President of Russian Railways.

Key professional competencies:
PR and marketing, corporate governance, strategic planning and development, finance and audit.

Positions held in other companies:
Chairman of the boards of directors of JSC High-Speed Rail Lines and JSC Federal Freight, a member of the supervisory board of Gefco S.A.

From 2002 to 2003, he acted as Deputy Minister, First Deputy Minister of the Russian Ministry of Transport. From 2004 to 2005, he was Head of the Federal Agency for Railway Transport of the Russian Ministry of Transport. Since 2005, he acted as Vice-President of Russian Railways and a member of Russian Railways’ Management Board. From 2009 to 2016, he acted as General Director of JSC FPC.

Key professional competencies:
Corporate governance, macroeconomic and industry analysis, strategic planning and development, strategic management.

Positions held in other companies:
Member of the board of directors at Oy Karelian Trains Ltd.



Olga Gnedkova

Year of birth: 1960.
Nationality: Russian Federation.

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

Member of the Audit Committee of JSC FPC's Board of Directors.

Education:
Graduated from 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. Since 2005, she has acted as Head of the Corporate Finance Department at Russian Railways and a member of Russian Railways' Management Board. In 2017, she was appointed Economics and Finance Director at Russian Railways.

Key professional competencies:
corporate finance and investor relations, macroeconomic and industry analysis, taxation, strategic planning and development, finance and audit.

Positions held in other companies:
Member of the board of directors at Company TransTeleCom.



Petr Ivanov

Year of birth: 1970.
Nationality: Russian Federation.

Elected to the Board of Directors in March 2016.

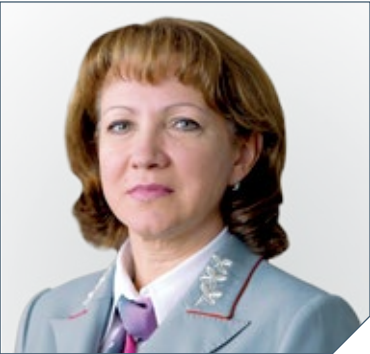
Education:
Graduated from Financial Academy under the Government of the Russian Federation with a degree in International Economic Relations and from Moscow State Law Academy with a degree in Law.

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 JSC FPC.

Key professional competencies:
macroeconomic and industry analysis, law, government relations, strategic management.

Positions held in other companies:
Chairman of the board of directors at FPC-Logistics.



Irina Kostenets

Year of birth: 1961.
Nationality: Russian Federation.

Elected to the Board of Directors in June 2013.

Education:
Graduated from 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. From 2003 to 2005, she acted as Deputy Head of the Planning and Budgeting Department.

In 2005, she was appointed Head of the Organisational and Administrative Department at Russian Railways. Since 2012, she has been Head of the Economics Department at 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:
Member of the board of directors at TransContainer and South Caucasus Railway.



Alla Saltykova

Year of birth: 1970.
Nationality: Russian Federation.

Elected to the Board of Directors in June 2016. Chairwoman of the Audit Committee of JSC FPC's Board of Directors.

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 has been a partner at Deloitte international network of firms.

Since 2014, she has acted as Deputy Executive Director of the not-for-profit foundation Forum Analytical Centre.

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.

Positions held in other companies:
Independent member of the board of directors at JSC 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.



Maxim Shneider

Year of birth: 1979.
Nationality: Russian Federation.

Elected to the Board of Directors in March 2016.

Chairman of the Human Resources, Remuneration and Corporate Governance Committee of JSC FPC’s Board of Directors.

Education:
Graduated from 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 Commuter 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, and from June 2015 to December 2015, as 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.

Key professional competencies:
Government relations, corporate governance, macroeconomic and industry analysis, strategic management.

Positions held in other companies:
Member of the boards of directors at Vagonremmash and Sverdlovsk Commuter Company.



Kirill Yankov

Year of birth: 1962.
Nationality: Russian Federation.

Elected to the Board of Directors in March 2016.

Chairman of the Human Resources, Remuneration and Corporate Governance Committee of JSC FPC’s Board of Directors.

Education:
Graduated from Moscow Institute of Economics and Statistics with a degree in Economy and Mathematics, and from Moscow State Law Academy with a degree in Law. PhD in Economics.

Experience:
From 1990 to 1993, he was a deputy of the Moscow Regional Council of People’s Deputies and Chairman of the Council’s Economic Reform Committee.
From 1994 to 2012, he worked at federal executive bodies, including the Federal Administration for Insolvencies (Bankruptcies), Federal Energy Commission, Ministry of Natural Resources, Federal Agency for Real Estate Cadastre,

Federal Tax Service, and the Government Executive Office.

From 2012 to 2014, he acted as Director for Economic Policy at the Centre for Strategic Research Foundation. Since 2014, he has headed a laboratory at the Institute of Economic Forecasting of the Russian Academy of Sciences.

Key professional competencies:
Government relations, strategic planning and development, law, route network of JSC FPC and other transport carriers.

Positions held in other companies:
Chairman of the Union of Passengers Interregional Public Organisation for the protection of passengers’ rights.

Board of Directors' Report

Structure of the Board of Directors



The Board of Directors is elected every year by JSC FPC's annual General Shareholders Meeting in accordance with the Company's Articles of Association and is composed of nine members.

The composition of the Board of Directors changed two times during 2016.

In March 2016, the extraordinary General Shareholders Meeting of JSC FPC decided on early termination of the mandate of all the Directors and elected the new Board, including six Directors elected for the first time: Petr Ivanov, Sergey Maltsev, Andrey Sergeev, Tamara Stebunova, Maxim Shneider, and Kirill Yankov.

In June 2016, Alla Saltykova, Deputy Executive Director of the not-for-profit foundation Forum Analytical Centre, was elected to JSC FPC's Board of Directors by the annual General Shareholders Meeting.

The mandates of Tamara Stebunova, member of JSC FPC's Board of Directors and Advisor to the President of Russian Railways, were terminated.

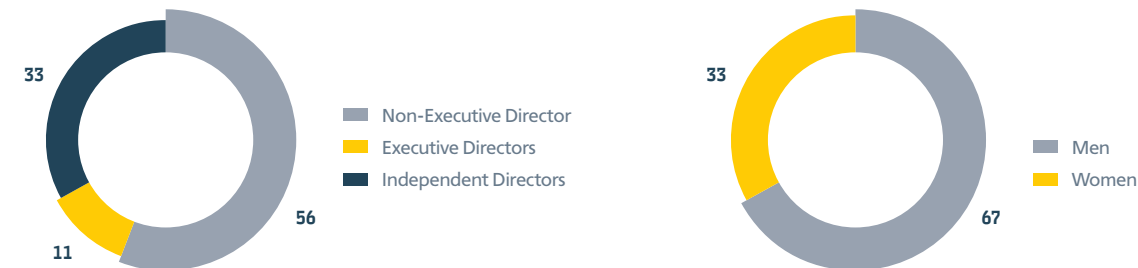
The Board of Directors, therefore, now has 2/3 of new members, and independent directors are all new.

In March 2016, Sergey Maltsev, Senior Vice-President of Russian Railways, was elected Chairman of the Board of Directors, and Mikhail Akulov, Vice-President of Russian Railways, was elected Deputy Chairman of the Board by a unanimous vote of Directors.

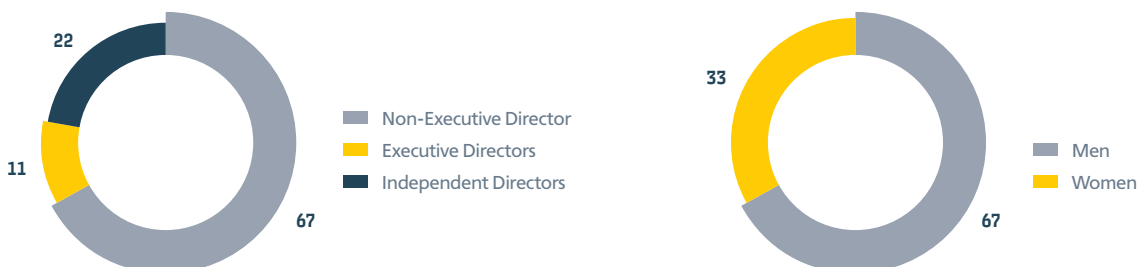
BOARD OF DIRECTORS' MEMBERSHIP IN 2016

From 1 January 2016 to 14 March 2016	From 14 March 2016 to 30 June 2016	From 30 June 2016 to 31 December 2016
Mikhail Akulov	Mikhail Akulov	Mikhail Akulov
Olga Gnedkova	Olga Gnedkova	Olga Gnedkova
Irina Kostenets	Irina Kostenets	Irina Kostenets
Valery Reshetnikov	Sergey Maltsev	Sergey Maltsev
Gennady Verkhovyykh	Petr Ivanov	Petr Ivanov
Valery Veremeev	Maxim Shneider	Maxim Shneider
Semyon Smolyak	Andrey Sergeev	Andrey Sergeev
Irina Shytkina	Kirill Yankov	Kirill Yankov
Yuri Saakyan	Tamara Stebunova	Alla Saltykova

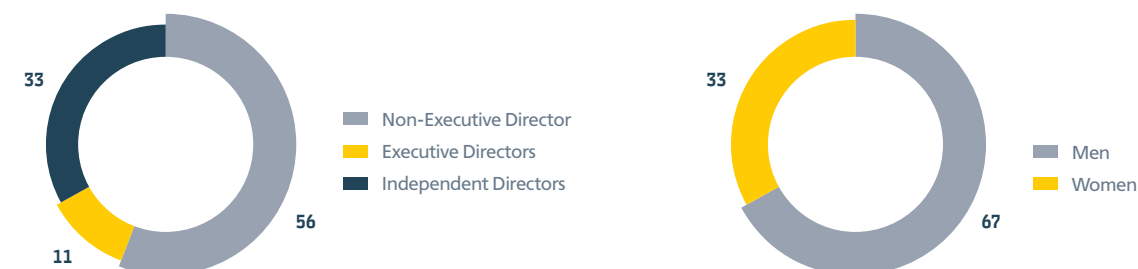
Structure of the Board of Directors from 1 January to 14 March 2016, %



Structure of the Board of Directors from 14 March to 30 June 2016, %



Structure of the Board of Directors from 30 June to 31 December 2016, %





JSC 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

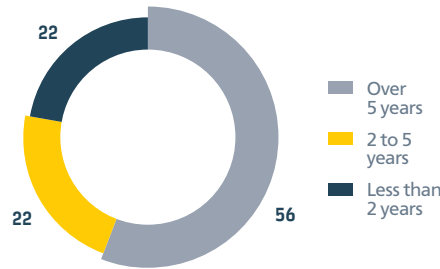
decisions. The Company generally meets the Code's recommendations as to members of the Board of Directors: the share of executive directors on the Board is less than 1/4, and the share of independent directors is 1/3.

To gain a prompt and efficient insight into FPC's production, financial and business operations, all new independent directors have had an introductory 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 introductory training, the Company organised office meetings with the General Director and Deputy General Directors and site visits to FPC's facilities (Moscow and Moscow-3 passenger carriage depots).

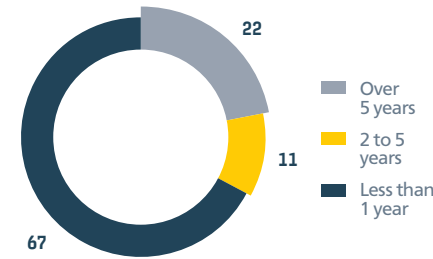
Length of service on the Board, %

Board of Directors' Membership from 1 January to 14 March 2016



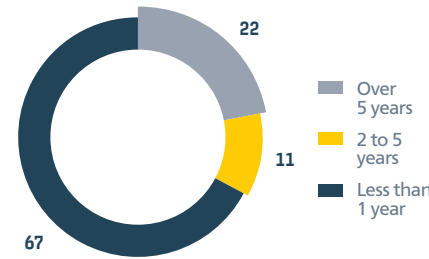
Directors Mikhail Akulov and Olga Gnedkova have been on the Board since first elected by the founders' meeting in 2009.

Board of Directors' Membership from 14 March to 30 June 2016



Director Irina Kostenets has over three years' experience on JSC FPC's Board of Directors.

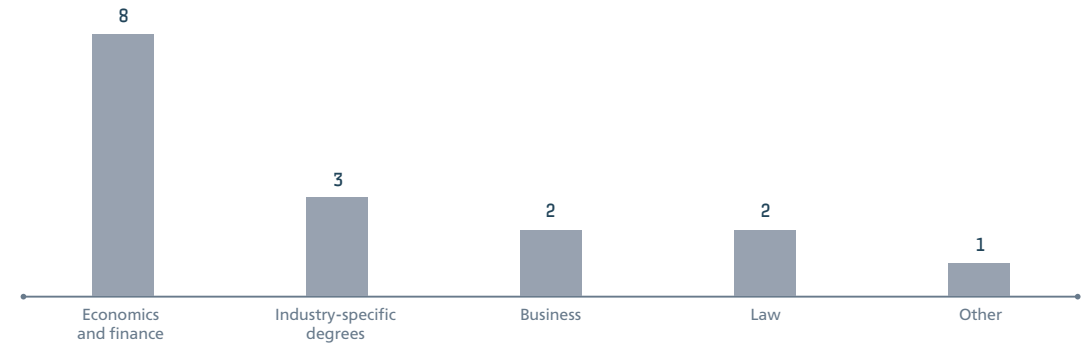
Board of Directors' Membership from 30 June to 31 December 2016



Educational background, skills and experience of the Board members

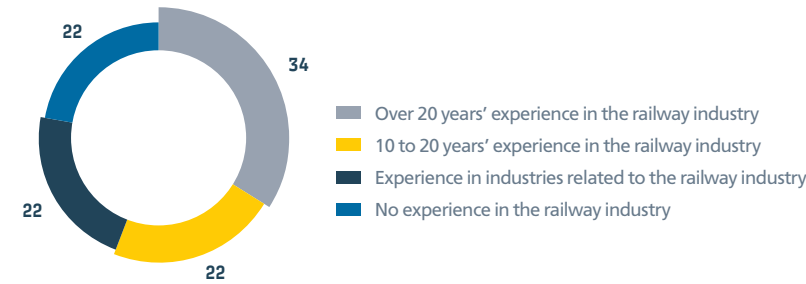
Members of JSC FPC's Board of Directors have an impeccable business and personal reputation and an extensive track-record in the rail transport and related industries, which ensures effective decision-making within the jurisdiction of the Board.

Educational background¹



Five Directors have a track-record in the rail transport, including three Directors with over 20 years' experience in the railway industry.

Experience in the railway industry², %



¹ Directors Mikhail Akulov, Petr Ivanov, Irina Kostenets, Alla Saltykova, and Kirill Yankov each have two higher education degrees. Director Olga Gnedkova has an academic degree.

² Data shown covers the current Board of Directors.



Meetings of the Board of Directors

In 2016, 23 meetings of JPC FPC's Board of Directors were held, including 16 meetings in absentia and seven meetings

in person. The Board reviewed 164 issues during 2016

Statistics of the Board meetings in 2016



KEY RESOLUTIONS OF THE BOARD OF DIRECTORS IN 2016

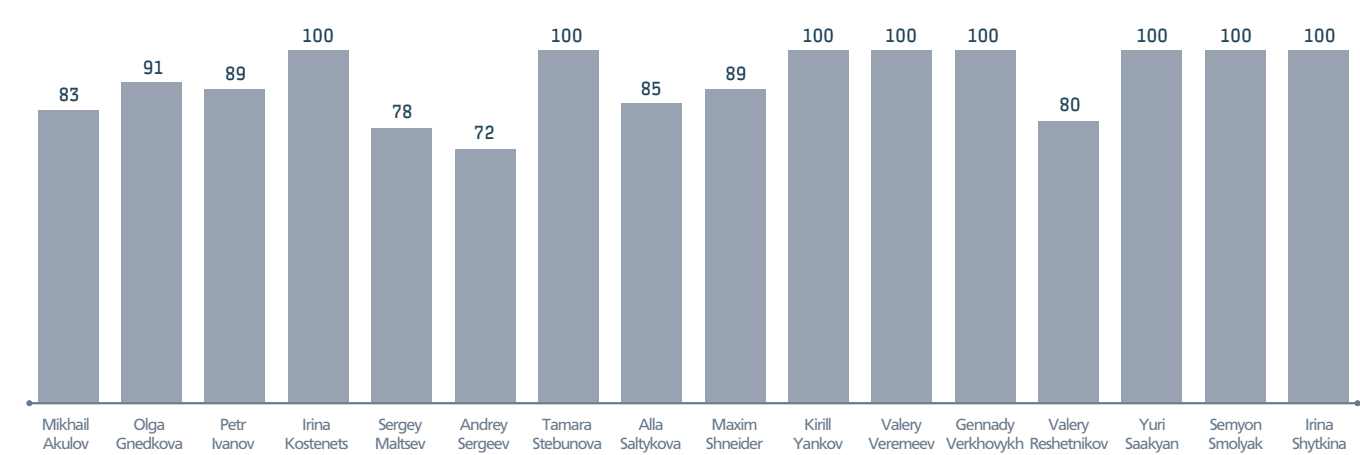
1. Approve JSC FPC's Investment Programme for 2016.
2. Approve Regulations on Incentives for the Person Acting as JSC FPC's Sole Executive Body.
3. Approve JSC FPC's Insurance Coverage Programme for 2017.
4. Set traffic safety targets for 2016.
5. Adopt Regulations on the Internal Audit Organisation at RZD Holding.
6. Approve Procedure for Reorganisation of Business Units of FPC's branches.
7. Approve candidates to the boards of directors and audit commissions of FPC's subsidiaries and affiliates.
8. Approve target framework of key performance indicators at FPC.
9. Approve candidate Deputy General Directors and Heads of FPC's Branches approved; changes to FPC's organisational structure.
10. Approve Regulations on Conflict of Interest Resolution at FPC.
11. Approve JSC FPC's Programme for the Reduction of Scope and Costs of Consumed Services in 2016, and JSC FPC's Programme of Additional Cost Optimisation Initiatives in 2016.
12. Approve competence profiles of FPC's independent directors for the 2017–2018 corporate year.

ATTENDANCE AT MEETINGS OF JSC FPC'S BOARD OF DIRECTORS BY MEMBERS OF JSC FPC'S BOARD OF DIRECTORS IN 2016

Name	In-person Board meeting	In absentia Board meeting
Mikhail Akulov	5(1)/7	13/16
Olga Gnedkova	3(2)/7	16/16
Petr Ivanov	7/7	9/11
Irina Kostenets	2(5)/7	16/16
Sergey Maltsev	4/7	10/11
Alla Saltykova	4(1)/5	6/8
Andrey Sergeev	4(1)/7	8/11
Maxim Shneider	4(2)/7	10/11
Kirill Yankov	6(1)/7	11/11
Valery Veremeev	–	5/5
Gennady Verkhovyykh	–	5/5
Valery Reshetnikov	–	4/5
Yuri Saakyan	–	5/5
Semyon Smolyak	–	5/5
Irina Shytkina	–	5/5
Tamara Stebunova	1(1)/2	3/3

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 2016¹, %



¹ Extraordinary General Shareholders Meeting of JSC FPC (Resolution No. 30 dated 14 March 2016) resolved to elect a new Board of Directors of FPC. Mandates of Valery Veremeev, Gennady Verkhovyykh, Valery Reshetnikov, Yuri Saakyan, Semyon Smolyak, and Irina Shytkina were early terminated.

The annual General Shareholders Meeting (Resolution No. 31 dated 30 June 2016) elected Alla Saltykova to the Board of Directors. Mandate of Director Tamara Stebunova was early terminated.

Key items discussed by the Committee

1. Agreed and recommended for approval to FPC's Board of Directors the Master Agreement for Revolving Framework Credit Facility with differentiated interest rates between FPC and Sberbank.

2. Reviewed and took note of performance reports of FPC's Internal Audit Centre for 6M and 9M 2016.

3. Reviewed the progress of FPC's risk management system and amended FPC's Risk Management Policy.

4. Agreed and recommended for approval to FPC's Board of Directors the Guidelines for Corruption Risk Assessment at FPC, taking account of
- Russian Railways' recommendations (approvals).

5. Reviewed and note of interim audit results of FPC's accounting (financial) statements and FPC's consolidated financial statements for 2016.

6. Reviewed and recommended for approval to FPC's Board of Directors FPC's draft Financial Plan and Investment Programme for 2017, and forecasts for 2018–2019.

7. Reviewed and took note of information on FPC's Credit Policy, Borrowing Programme, and risk management system.
8. Agreed and recommended for approval to FPC's Board of Directors the Loan Agreement between FPC and FPC-Logistics and the Facility Agreement between VTB Bank and FPC.

9. Agreed and recommended for approval to FPC's Board of Directors FPC's Budgeting Methodology and amendments to the structure of the Budget Explanatory Note.

10. Reviewed and recommended for approval to FPC's Board of Directors the Regulations on FPC's Debt Policy.

The Committee's plans for 2017

1. Review the General Director's report on FPC's financial and business performance in 2016.

2. Review the audit reports on RAS accounting (financial) statements and on IFRS consolidated financial statements of FPC for 2016.

3. Review FPC's accounting statements for 2016, including the Profit and Loss
- Statements, and provide opinion on whether and how FPC's net profit for 2016 can be distributed.

4. Consider payment of the full year dividend for 2016.

5. 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.

6. Review a Report on risk management system performance at FPC, discuss recommendations on system enhancements.

The Committee was set up by resolution of FPC's Board of Directors to enhance oversight of the Company's financial and business operations by the Board of Directors. In March 2016, all Directors

were removed from office before the expiration of their term. Pursuant to the Regulations on the Audit Committee, if FPC's Directors are removed from office, powers of the Committee

members shall also terminate. In September 2016, the Board of Directors resolved to elect a new Audit Committee. The Committee is led by Alla Saltykova as an independent director.

CHANGES IN THE COMMITTEE'S MEMBERSHIP IN 2016

Members of the Committee in January–March 2016	Members of the Committee in September–December 2016
Olga Gnedkova , Chair of the Committee, Head of the Corporate Finance Department at Russian Railways, member of FPC's Board of Directors	Alla Saltykova , Chair of the Committee, Deputy Executive Director of the Forum Analytical Centre, independent director
Oleg Ivanov , Director for Internal Control and Audit, Russian Railways	Olga Gnedkova , Chair of the Committee, Head of the Corporate Finance Department at Russian Railways, member of FPC's Board of Directors ¹
Natalia Lem , Head of the Accounting Department, Russian Railways	Elena Chamortseva , Deputy Head of Zheldorkontrol Internal Control Centre, a business unit of Russian Railways
Tamara Andranovich , Deputy Head of the Department of Economics, Russian Railways	Sergey Milokhin , Head of the IFRS Consolidated Statements Department at the Accounting Service of Russian Railways
Andrey Derin , Deputy Head of the Subsidiaries and Affiliates Management Department, Russian Railways	Andrey Derin , Deputy Head of the Subsidiaries and Affiliates Management Department, Russian Railways ¹
Alexander Muslovets , Deputy General Director of FPC for Economics and Finance	Alexander Muslovets , Deputy General Director of FPC for Economics and Finance
Semyon Smolyak , CEO of PF Capital, an Independent Director	Alexander Ananyev , Deputy Head of the Department of Economics, Russian Railways, Head of Unit

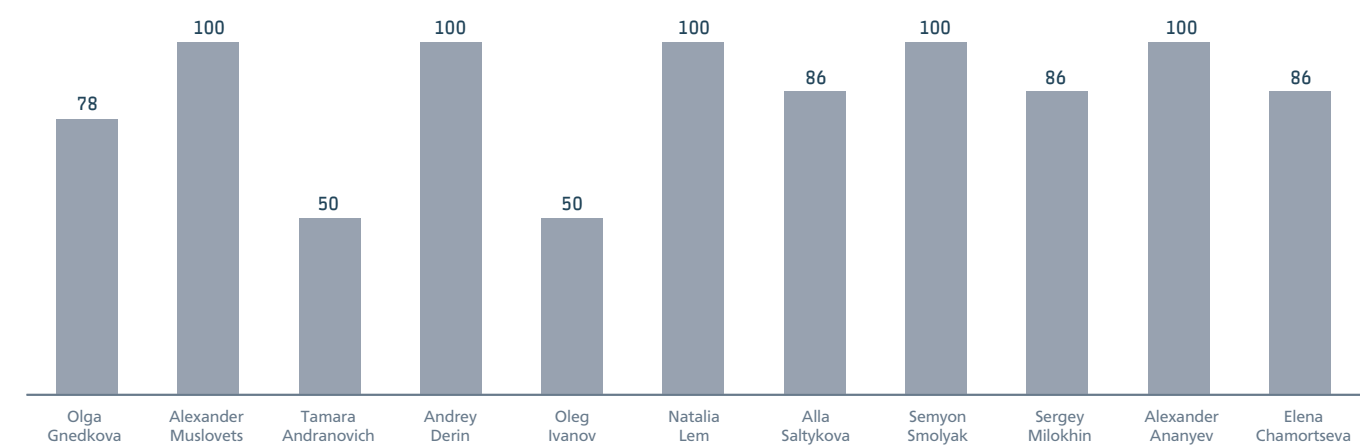
¹ Positions as at the date of election to FPC's Audit Commission.

The Audit Committee acting in January–March 2016 held two meetings in absentia.

No in person meetings were held. The Audit Committee acting in September–December 2016 held five

meetings in person and two meetings in absentia.

Statistics on individual attendance of the Committee meetings in 2016, %



The remuneration paid to members of the Committee in 2016 totalled RUB 553,192.

Report of the Human Resources, Remuneration and Corporate Governance Committee

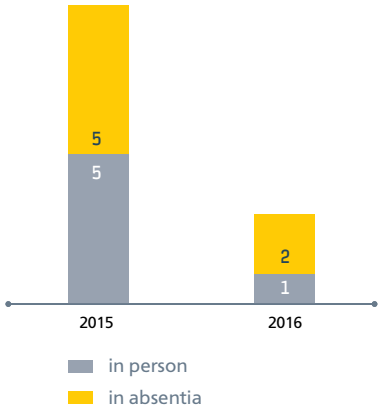


Roles of the Committee

Effective and transparent remuneration practice	Develop and regularly review the Company's Policy on remuneration of members of the Board of Directors, executive bodies and other key managers; make recommendations on the levels of remuneration and reimbursement for members of the Board of Directors and Audit Commission of the Company and its subsidiaries and affiliates; set material terms of contracts with executive officers of the Company; authorise the Company's General Director to serve in governing bodies or hold other paid positions elsewhere; 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 the website of the Company
	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 in terms of 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
	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 the Company's compliance with Russian laws on corporate governance; determine the Conflict of Interest Management Policy and review and assess its implementation

Statistics on the Committee meetings

Since the appointment in September 2016, the Committee held three meetings, including two meetings in person and one meeting in absentia. During the period, the Committee discussed 13 agenda items.



Key items discussed by the Committee

1. Approved nominee heads of FPC's branches.

2. Approved competence profiles of FPC's independent directors for the 2017–2018 corporate year.

3. Made a number of organisational decisions on evaluation of performance by FPC's Board of
- Directors, committees of the Board of Directors and members of the Board of Directors.

4. Reviewed the outcomes of FPC's Action Plan for the Integration of Key Provisions of the Corporate Governance Code.
5. Reviewed proposed changes to the organisational structure of the Company's administration.

6. Reviewed the General Director's Report on FPC's performance in 9M 2016 (implementation of the Board's resolutions).

The Committee's plans for 2017

1. Review the General Director's report on FPC's performance in 2016 and Q1 2017;

2. Determine the levels of remuneration for members of audit commissions and boards of directors of FPC's subsidiaries;
3. Determine the levels of remuneration for members of FPC's Audit Commission and the Board of Directors;
4. Review the outcomes of performance evaluation of FPC's Board of Directors, Committees of the Board of Directors and members of the Board of Directors;

The Committee was set up by resolution of the Board of Directors to assist the Board of Directors in developing and improving the corporate governance system and practice; managing relationships between the Company's shareholders, the Board of Directors, executive bodies, and interaction with the Company's subsidiaries; HR planning, professional composition and

efficiency of the Board of Directors; and the development of 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 Board members' proposals.

In September 2016, the Company's Board of Directors resolved to reduce the number of Committee members from seven to six.

The Committee is led by Maxim Shneider, member of the Board of Directors.

Key items discussed by the Committee

1. Reviewed a draft version of the updated FPC's Development Strategy until 2030;
2. Reviewed the Investment Programme for 2017–2019 and adjustments for 2016.
3. Reviewed the budget for 2017–2019 and adjustments for 2016.
4. Reviewed drafts of FPC's Financial Plan for 2017 and forecasts for 2018–2019.
5. Approved the approach to running the Innovative Mobility project.

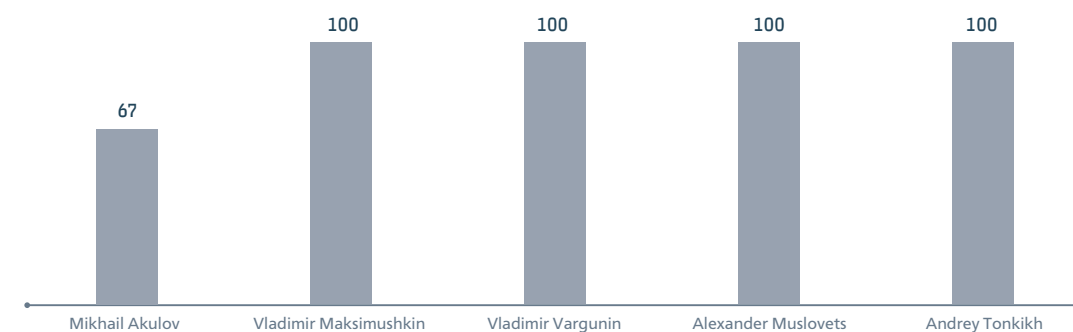
The Committee's plans for 2017

1. Review a Progress Report on FPC's Strategy implementation in 2016.
2. Review the General Director's Report on FPC's performance in 2016.
3. Review FPC's draft Annual Report for 2016.
4. Consider payment of the full year dividend for 2016.

The Committee's membership in 2016

In September 2016, FPC's Board of Directors resolved to reduce the number of Committee members from nine to five.

Statistics on individual attendance of the Committee meetings in 2016, %



The remuneration paid to members of the Committee in 2016 totalled RUB 269,452.

CHANGES IN THE COMMITTEE'S MEMBERSHIP IN 2016

Members of the Committee in January–March 2016	Members of the Committee in September–December 2016
Valery Veremeev , Member of FPC’s Board of Directors, Chairman of the Committee	Mikhail Akulov , Vice-President of Russian Railways, Member of FPC’s Board of Directors, Chairman of the Committee
Maxim Artemov , Deputy Head of the Passenger Services Management Department, Russian Railways	Alexander Muslovets , Deputy General Director, FPC
Vladimir Vargunin , First Deputy Head of the Transport and Logistics Management Department, Russian Railways	Vladimir Vargunin , First Deputy Head of the Transport and Logistics Management Department, 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
Vadim Mishanin , Deputy General Director for Strategic Development and Corporate Governance at FPC	Andrey Tonkikh , Head of the Department of Business Project Management, Russian Railways
Yuri Saakyan , CEO at the Institute of Natural Monopolies Research, Independent Director	
Vasily Shipilov , Deputy Director of the Department for the State Regulation of Tariffs, Infrastructure Reforms and Energy Efficiency, Russian Ministry of Economic Development	
Igor Zyablitsky , Head of the Economics and Finance Directorate, Federal Agency for Railway Transport	
Aleksandr Romanov , Deputy Head of the Corporate Finance Department, Russian Railways	

External evaluation of corporate governance

Since 2013, FPC has engaged an independent expert to conduct external qualitative assessment of its corporate governance.

In 2016, RAEX (Expert RA) affirmed the Company's 2015 rating A+.gq 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:

- high ownership concentration (RZD's shareholding in FPC's authorised capital amounts to 100% less one share);
- highly organised risk management system;
- highly organised system for control over financial and business activities of the Company;
- highly organised Board of Directors;
- high credit ratings;

- highly organised activities of the Board of Directors' committees;
- high level of cooperation between the Company's governing bodies;
- high level of disclosure;
- highly organised corporate social responsibility;
- ISO 9001 certificates.

General Director



The management of FPC's day-to-day operations is delegated to the General Director as a 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 terms of 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 nominated FPC's General Director for a three-year term by resolution of the Board of Directors.

Deputy General Directors

FPC's governance structure provides for the division of responsibilities across

the key areas of the Company's activities among Deputy General Directors.





Petr Ivanov,
General Director

Year of birth: 1970.

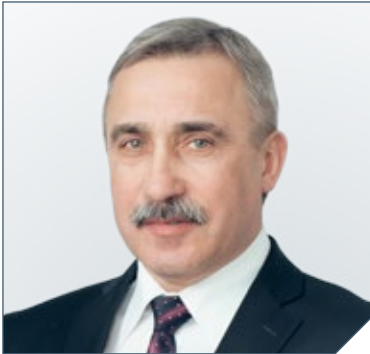
Education:

Graduated from the Finance Academy under the Government of the Russian Federation in 1993 with a degree in International Economic Relations. In 2005, graduated from the Moscow State Law Academy with a degree in Law.

Experience:

From 1998 to 2005, he served 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 served 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.



Aleksandr Petrunin
Deputy General Director for Business Development and Operations

Year of birth: 1958.

Education:

Graduated from Moscow Institute of Railway Engineers with a degree in Electrification of Railway Transport. Holds a degree from the Academy of National Economy under the Government of the Russian Federation.

Experience:

Started his career in railways in 1977. From 2009 to 2011, he was Chief Engineer at the Traction Rolling Stock Repair Directorate of Russian Railways. From 2011 to 2012, he served as Deputy Head of the Technical Policy Department at FPC and headed the Engineering Office. From 2012 to 2013, he was Deputy Chief Engineer at FPC. Since 2013, he has held the post of Deputy General Director of FPC.



Konstantin Torubarov,
Deputy General Director for Transportation Support

Year of birth: 1962.

Education:

Graduated from Moscow Institute of Railway Engineers in 1985 with a degree in Carriage-Building and Rolling Stock.

Experience:

Started his career in railways in 1985. In February 2010, he was appointed Head of the Moscow Branch of FPC. Since 2015, he 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.

Education:

Graduated from Moscow Institute of Railway Engineers with a degree in Railway Operation.

Experience:

Started her career in railways in 1983. 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 2009 to 2010, she served as Head of the Agents Network Department at the Federal Passenger Directorate, a branch of Russian Railways. 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.



Alexander Muslovets,
Deputy General Director for Economics and Finance

Year of birth: 1977.

Education:

Graduated from Far Eastern State Transport University with a degree in Economics and Management at Railway Transport Enterprises; PhD in Economics.

Experience:

He has worked in railway transport since 1999.

From 2004 to 2005, he headed the Finance Department at the Moscow-Ryazan Division at 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.



Stanislav Zotin
Deputy General Director for Maintenance Services

Year of birth: 1979.

Education:

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.

Experience:

Started his career in railways in 1998. 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.



Dmitry Gorbatov
Deputy General Director for Marketing, Head of the Marketing and Tariff Policy Department

Year of birth: 1969.

Education:

Graduated from Moscow State Aviation Institute with a degree in Economics and Management at Engineering Enterprises.

Experience:

From 2004 to 2006, he served as Advisor to the Sales Director of Aeroflot – Russian Airlines.

From 2006 to 2007, he served as Head of the Revenue Loss Prevention and Cost Control Service at Aeroflot – Russian Airlines Global Distribution Systems.

From 2007 to 2009, he served as Director of the Revenue Management and Tariff Policy Department at Aeroflot – Russian Airlines.

From 2010 to 2012, he was Head of the Centre for Revenue and Loyalty Programme Management of FPC.

From 2012 to 2014, he served as Head of the Revenue and Loyalty Programme Management of FPC.

In December 2014, he was appointed Deputy General Director for Marketing and Head of the Marketing and Tariff Policy Department of FPC.



Oleg Nikitin
Deputy General Director for External Relations and Legal Affairs

Year of birth: 1957.

Education:

Graduated from Moscow Institute of Railway Engineers 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.



Boris Suvorov
Deputy General Director for Safety and Security

Year of birth: 1967.

Education:

Graduated from the Moscow Higher Combined-Arms Command School with a degree in Automotive Engineering. In 2008, he graduated from the Moscow Academy of Public and Municipal Administration of the Russian Presidential Academy of National Economy and Public Administration with a degree in Public and Municipal Administration.

In 2012, he graduated from the Academy of Security and Special Programs, a private educational institution, with a degree in Anti-Corruption Practices at Federal and Local Government Authorities, Entities, Institutions and Organisations.

Experience:

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 November to December 2013, he was Member of the Management Board and Deputy Chairman At-Large of the Management Board of the State Company Russian Highways.

From December 2013 to December 2016, he acted as Deputy Chairman At-Large of the Management Board of the State Company Russian Highways.

In December 2016, he was appointed Deputy General Director of FPC.



Aleksey Zhigunov
Deputy General Director for Transport Management, Head of the Transport Management Department

Year of birth: 1979.

Education:

Graduated from Moscow State University of Railway Engineering (MIIT) in 2003 with a degree in Railway Operation and Logistics. Graduated from Moscow State University of Railway Engineering (MIIT) in 2014 with a degree in Corporate Management.

Experience:

From 2006 to 2010, he was passenger traffic operator of the operation and regulation unit at the Passenger, Baggage, and Unaccompanied Baggage Transport

Department of the Federal Passenger Directorate, a branch of Russian Railways. From November 2012 to December 2014, he served as Head of the Transport Management Department at FPC. From December 2014 to June 2016, he acted as Head of the Passenger Transport and Logistics Centre at FPC. Since June 2016, he has been Deputy General Director for Transport Management and Head of the Transport Management Department.

In March 2016, the employment contract with Oleg Stelmachenko, Deputy General Director, was terminated.

In April 2016, FPC's Board of Directors approved nomination of Stanislav Zotin as

Deputy General Director for Maintenance Services.

In June 2016, FPC's Board of Directors approved nomination of Aleksey Zhigunov as Deputy General Director for Transport

Management and Head of the Transport Management Department. In December 2016, FPC's Board of Directors approved nomination of Boris Suvorov as Deputy General Director to lead the Safety and Security Section.



Report on compliance with the Bank of Russia’s Corporate Governance Code

In 2016, FPC continued to improve its corporate governance practice in line with FPC’s Action Plan for the Integration of Key Provisions of the Corporate Governance Code in 2015–2016, as approved by the Board of Directors.

In 2016, to follow recommendations of the Corporate Governance Code, the Company:

- reviewed and assessed the current motivation system for executive bodies and other key officers, followed by development and approval of a target KPI system;

- followed 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;
- continued to shape the risk management and internal control system by way of:
 - general coordination of risk management processes and alignment of internal controls to minimise risks affecting the Company’s financial and business results, including information sharing and advising for all risk management and internal control

phases, through FPC’s stand-alone Risk Management and Internal Control Unit. As part of the system formation, the Company develops and updates internal regulatory documents;

- reviewed the Company’s website to check whether it provides all necessary information, is regularly updated and whether disclosed information is easy to find. The Company implements recommendations on website enhancement prepared following the review.

STATISTICS OF COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE IN 2016*

Sections	Corporate Governance Principles Recommended by the Code	Compliance with corporate governance principle		
		Full	Partial	None
Shareholder Rights	13	6	5	2
Board of Directors	36	9	18	9
Corporate Secretary	2	1	1	–
Compensation System	10	7	–	3
Risk Management System	6	5	1	–
Information Disclosure	7	1	4	2
Material Corporate Actions	5	1	2	2
Total	79	30	31	18

* In line with Letter of the Bank of Russia dated 17 February 2016 No. N-06-52/8 On Reporting on Compliance with the Corporate Governance Code by Public Joint-Stock Companies.

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 management bodies and administrative units to ensure compliance with laws of the Russian Federation, the Articles of Association, and the Company’s internal regulations.

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 management bodies and administrative units.

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 2016, the annual General Shareholders Meeting of FPC elected members of the Audit Commission as follows:

- Andrey Zhakov;
- Natalia Lem;
- Olesya Chernysheva;
- Anastasia Dolgaleva;
- Elena Yudina.

Incentives for members of the Audit Commission are established by the Regulations on Remuneration and Reimbursement for Members of the 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.

For each audit, the Audit Commission member receives remuneration which equals three times the minimum wage at Russian Railways.

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 2016, members of the Audit Commission were paid remuneration totalling RUB 363,272.

The Company's external auditor

To audit and verify the Company's annual financial statements the General Shareholders Meeting approves an Auditor on an annual basis.	In June 2016, the Annual General Shareholders Meeting approved OOO ERNST&YOUNG as the Company's Auditor for 2016 to audit FPC's financial	statements prepared under RAS, IFRS, and the Group's IFRS consolidated financial statements.
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Internal Audit Centre

<p>FPC has set up the Internal Audit Centre¹, a separate business unit which helps the Board of Directors and executive bodies to enhance the Company's governance practice, improve its financial and business operations through a systemic and consistent approach to the analysis and assessment of the risk management and internal control systems and corporate governance as tools to provide reasonable assurance that the Company will achieve its goals.</p> <p>Objectives of the Internal Audit Centre:</p> <ul style="list-style-type: none">organise and carry out internal audits of FPC's business processes (including passenger services and their documentation); ensure asset integrity; ensure compliance	<p>with the requirements of Russian laws and corporate documents of FPC;</p> <ul style="list-style-type: none">monitor and assess the reliability and effectiveness of internal control, risk management and corporate governance systems;promptly supply FPC's management with reliable information on financial and business operations and effectiveness of business processes, reliability of internal control and risk management procedures in the administrative and business units of FPC, its branches and their business units and, in line with an established procedure, in FPC's subsidiaries and affiliates. <p>Under the Regulations on the Audit Committee of the Board of Directors,</p>	<p>to ensure independent and unbiased approach to the internal audit function, the Audit Committee reviews the Company's Internal Audit Policy and Internal Audit Plan, existing restrictions on the powers or budget constraints of the internal audit function that may adversely affect the internal audit function, and evaluates effectiveness of the internal audit function.</p> <p>The Head of the Internal Audit Centre reports to the Audit Committee at the Board of Directors on internal audits in the Company.</p> <p>The Head of the Internal Audit Centre is appointed by the Company's General Director.</p>	<div><div>Alexander Mizon</div><div>Head of the Internal Audit Centre</div></div> <div><div>Year of birth:</div><div>1961.</div></div> <div><div>Education:</div><div>Graduated from Kharkov Higher Military Logistics School of the USSR Ministry of Internal Affairs in 1982 majoring in Command and Tactics, Artillery Weapons;</div></div> <div><div>Graduated from the Military Academy of Logistics and Transportation in 1991 majoring in Staff Command, Tactical Control and Logistics.</div><div>Graduated from the Military Academy of the General Staff of the Armed Forces of Russia in 1997 majoring in Staff Command and Strategic Control.</div></div>
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¹ As instructed by the Audit Committee of the Board of Directors and in line with the Corporate Governance Code, the Company is working to spin the internal audit function off into a dedicated internal audit unit accountable to the Committee in 2017.



14

Sustainable Development



65.9
thousand staff



RUB 86.9
million

spent on training, re-training,
and professional development of
employees in 2016



18.8
thousand FPC
employees
received training in 2016



776
FPC employees
awarded for their professional
achievements in 2016



Sustainable Development

Personnel

FPC regards its staff as its main asset and most valuable resource. The key priorities of the Company’s HR Policy are to recruit and retain people with required skills, ensure their continuous development, and provide social support to them. To this end, the Company has adopted and implements programmes to motivate and provide social support to its employees and their families, as well as retired employees.

Staff profile

The Company employs 65.9 thousand people.

Most employees (40.6 thousand, or 62%) are directly involved in providing

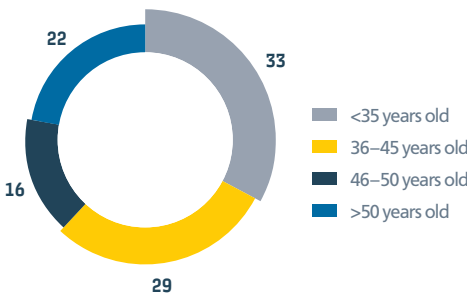
services to passengers. The HR-related organisational measures and the increased number of routes serviced by new rolling stock (including double-decker carriages and Strizh higher-speed trains) resulted

in a decrease of the staff headcount by 2.6% year-on-year.

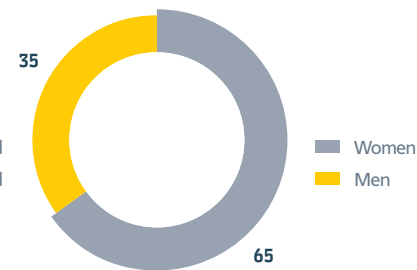
PERSONNEL BY OCCUPATION, EMPLOYEES

Employees by occupation	As at 31 December 2015	As at 31 December 2016
Employees involved in on-train services	37,005	35,806
Employees involved in ticket sales	4,767	4,754
Employees involved in maintenance and repair of rolling stock	6,377	6,375
Other employees	19,528	18,993
Total	67,677	65,928

FPC personnel by age, %

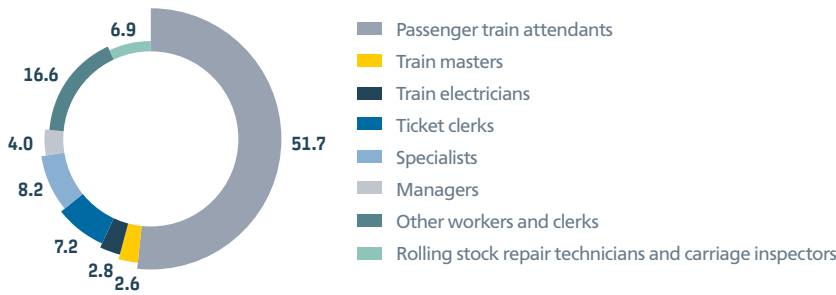


FPC personnel by gender, %



The Company maintains a balance between young and more experienced employees. The average age of FPC employees is 40 years. Young people under 35 years account for 33% of the total headcount. Most employees (65%) are women.

FPC personnel by position/profession, %

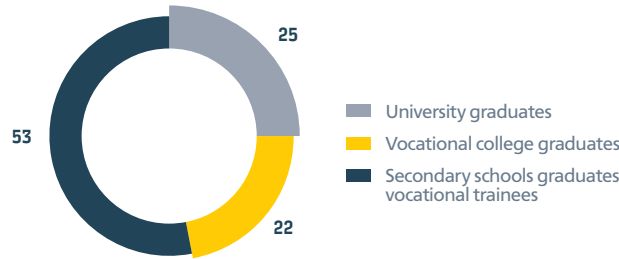


In 2016, the Company paid specific attention to the development and retention of its employees. Staff turnover fell by 0.3 p.p. from 8.4% in 2015 to 8.1% in 2016. The employee stability index¹, at 68%, has not changed since last year.

Staff recruitment

The Company regularly assesses corporate competences in an effort to improve management decision-making practice as part of personnel recruitment and development. In 2015, nearly 28 thousand employees were assessed, 80% of which are front-line personnel. Managers and specialists are assessed in accordance with the 5C+L corporate competence model.

FPC personnel by educational background, %



Corporate competence profile for managers / specialists (5C+L)

Competence	Ability to develop. Employee development
Customer focus	Development of CRM system
Corporate culture and responsibility	Teamwork promotion. Drive for results
Quality and Safety	Safety assurance
Creativity and drive for innovations	Creation of an innovative environment
Leadership	Leadership as a management style

¹ Ratio between the number of persons employed for more than five years with the Company and overall headcount.

Given their job profiles, the corporate competence model for front-line personnel was modified into 4C+L.

In 2016, FPC was recognised with the Best Employer for Young People 2016 award

Corporate competence profile for front-line personnel (4C+L)		
Ticket clerk	4C+L	Carriage attendant
Ability to develop (intelligence)	Competence	Ability to develop (intelligence)
Focus on customer satisfaction	Customer focus	Focus on customer satisfaction
Drive for results	Corporate culture and responsibility	Teamwork
High performance	Quality and safety	High performance
Leadership skills	Leadership	Leadership skills

During the reporting year, the Company closely collaborated with the Moscow Centre for Youth Employment and

the Moscow Department for Labour and Social Security, and participated in vacancy fairs attended by over 10 thousand

students and young specialists from Moscow and the Moscow Region.

Based on the results of the year, the Moscow Centre for Youth Employment recognised FPC with the Best Employer for Young People 2016 award in the Reliable Partnerships category. The Company also received a recognition letter from V.A. Petrosyan, a Moscow Government Minister and the Head of the Moscow Department for Labour and Social Security, for its caring attitude, support, and responsiveness in providing employment opportunities to young people.

Personnel training and development

FPC has in place an effective personnel training and development system.

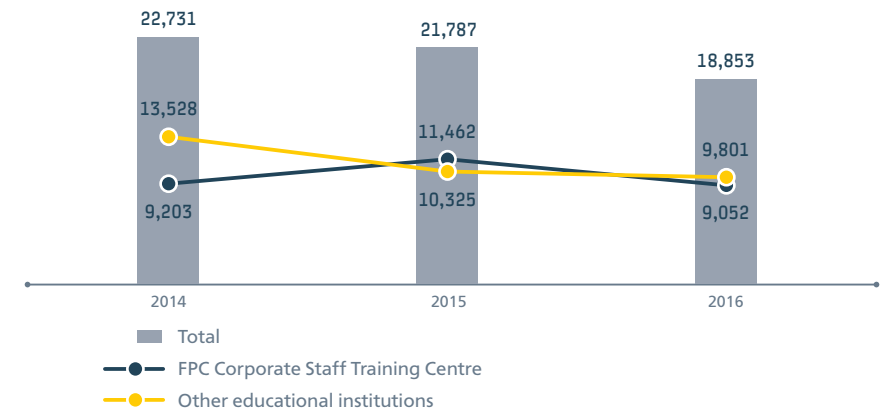
In 2016, 18.8 thousand employees, or 28.5% of FPC's total headcount, received training.

18.8 thousand FPC employees received training in 2016

TRAINING SYSTEM PERFORMANCE

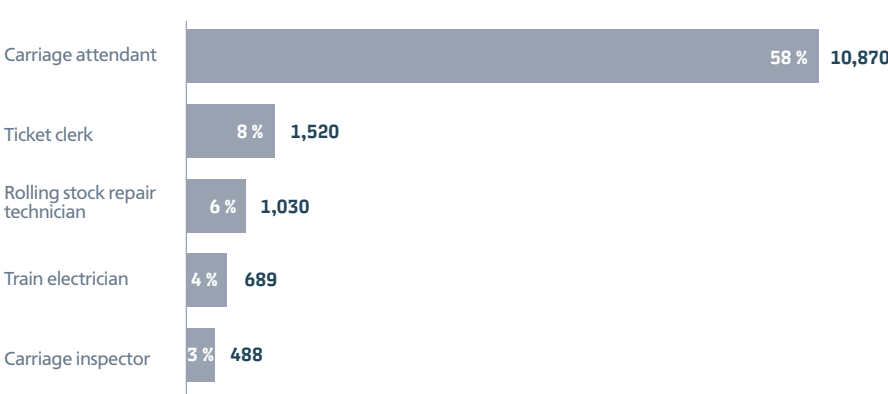
Indicator	2014	2015	2016
FPC headcount, people	73,935	67,677	65,928
Total employees trained, people	22,731	21,787	18,853
Share of employees trained at FPC's Corporate Staff Training Centre, %	37.0	41.4	48
Budget, RUB million	113.6	97.5	86.9

Performance of training centers, people



2.6 thousand people completed training as railway or office workers in 2016

Training by profession, people



In 2016, more than 2.6 thousand people were trained as railway and office workers, while around 14 thousand employees completed professional development courses.

14 thousand people completed professional development courses in 2016

Personnel training courses covered the following areas:

- Ticket sales via the Ticket Clerk Workplace firmware;
- Operation and maintenance of Strizh higher-speed trains manufactured by Patentes Talgo S.L. on Moscow – Berlin – Moscow international route;
- Operation, maintenance and fault diagnostics of systems and assemblies in double-decker carriages;
- Data input into the passenger carriage operation and maintenance system;
- Operation and maintenance of air brake control valves;
- Marketing as a promotion tool for passenger transportation;
- Organising induction training using the TWI (Training Within Industry) method;
- Business ethics code as part of corporate culture;
- Building a safety culture in passenger services.



The Company constantly updates its existing training programmes and develops new ones: we updated around 20% of our existing programmes in 2016, and are developing the inventory base of our Corporate Staff Training Centre (the Centre).

Training facilities and programmes available in the Centre allow for:

- Training effective customer-focused service and communication skills;
- Improving knowledge of corporate service standards.

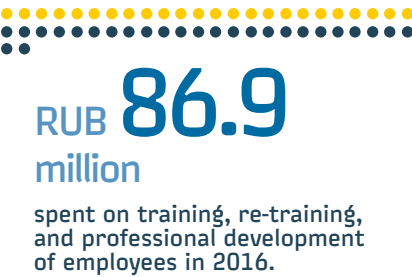
The Centre has a personal image laboratory and a make-up studio for training train crews in building

customer-focused behaviour models and improving passenger service quality.

The personal image laboratory is equipped with a simulation of a passenger carriage with seats, a baggage rack, and hand luggage racks, allowing train crews to develop their passenger service skills in situations of various complexity, including catering services, with the use of portable ATLAS trolleys, widely used in aviation.

Employees are trained in basic service behaviour, business etiquette, positive communication skills, and services to disabled passengers.

Professional training programmes were delivered for 2.8 thousand managers and office workers in order to achieve the Company’s strategic objectives and increase business efficiency. Expenses on training, re-training, and professional development courses reached RUB 86.9 million in 2016.



Targeted training programmes for young talent

To attract young talent, FPC cooperates with nine universities offering railway-related degrees. 523 students opted for targeted training courses in professional colleges and universities.

Full-time students doing targeted training courses had an opportunity to attend public lectures and professional days to learn about the Company’s operations and objectives.

54 train crew members are currently taking distance learning courses for a Bachelor’s degree in Management.

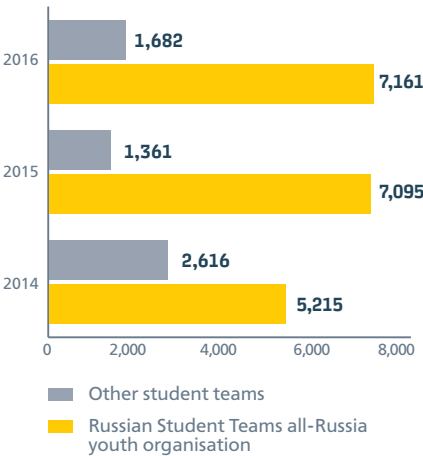
Development of student train teams

Starting from 2010, the Company has been annually engaging students as train attendants, to ensure adequate train crew staffing during summer holiday

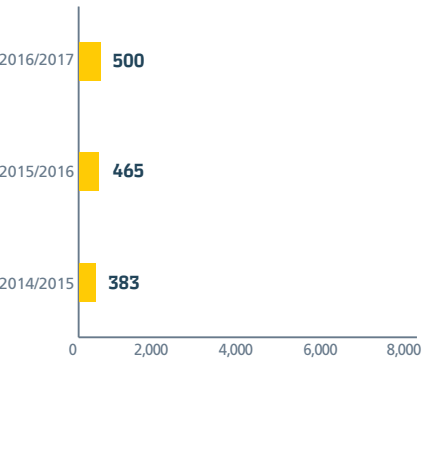
period. In 2016, some 8.8 thousand students from over 300 non-railway educational institutions were employed for the summer season by the Company’s

branches. For three years in a row, FPC has been employing students during winter holidays.

Summertime services



Wintertime services



In 2016, the Company spent RUB 60.5 million on student train teams working under service contracts.

Staff remuneration and motivation system

The Company improves the competitiveness of its salaries through enhancing the effectiveness of motivation mechanism taking into account FPC’s growing efficiency.

The Company’s staff motivation system is aimed at creating financial incentives for the staff to improve the quality of passenger service and comfort on trains,

including maintenance of the next-generation rolling stock and proficiency in foreign languages.

Extra bonuses are offered for high performance on railway traffic safety and maintenance and repairs of carriages reducing the number of incidents caused by breaches of traffic or railway safety rules, technical malfunctions, and

the number of unscheduled carriage repairs.

In a bid to improve customer experience and boost revenue from other activities, the Company pays bonuses for on-board sales and providing services to passengers on trains. In 2016, average bonus payments per employee increased 1.2 times.

Social Policy

Implementation of the Collective Bargaining Agreement

In 2016, the Company pursued its Social Policy in accordance with FPC’s Collective Bargaining Agreement.	measures beyond social guarantees specified in the labour law.	In 2016, FPC’s individual social package for each employee was RUB 52.2 thousand; the package of benefits for FPC’s retired pensioners was worth RUB 6.2 thousand.
The benefits and guarantees set out in the Collective Bargaining Agreement and corporate regulations of the Company provide for additional social security	The Company’s system of social benefits and guarantees is centred on sustaining, stimulating, and improving the employees’ performance and maintaining social stability among the staff.	In 2016, the Company’s expenses under the Collective Bargaining Agreement totalled RUB 7.1 billion.

Housing policy

The Company has adopted and is carrying out the Mortgage Subsidy Programme for its employees in need of improving their housing conditions.	Monthly subsidies are paid to more than 860 of the Company’s employees to repay their mortgage loans. In 2016, the Company spent RUB 146.9 million on its Housing Policy	(RUB 116.2 million for subsidised mortgages and RUB 30.7 million for free childbirth subsidies and to persons in particular categories).
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Healthcare

The Company has in place the Employee Healthcare Programme aimed at creating conditions for proper recreation and treatment, thereby improving employees’ work efficiency. Under the Programme, over 3 thousand employees and retired pensioners of FPC enjoyed subsidised tours to health centres and resorts in 2016.	The Company is committed to protecting and improving the health of its employees’ children, preventing children’s diseases, and providing conditions for proper rest and engagement of children in the summer. In the reporting year, the summer health improvement campaign involved 2,415 children	of FPC employees. The Company spent RUB 65.2 million (compensating from 10% to 20% (depending on shift) of parents’ expenses for tours to the children’s health resorts, and 10% of tour costs for large and disadvantaged families, regardless of shift).
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Competition

Based on the results of the 2016 FPC staff team competition, the following teams were announced winners:	<ul style="list-style-type: none">● Kaliningrad passenger carriage depot of the Northwest Branch;● Moscow Railway Agency of the Moscow Branch.	and 58 employees, awarding the titles of the FPC Best Master, FPC Best Middle Manager, and FPC Best in Profession.
<ul style="list-style-type: none">● Northern Branch;● Pskov carriage site of the Northwest Branch;	In 2016, FPC’s Central Contest Commission recognised the achievements of 13 teams	

The 2016 First Among the Best corporate competition was won by the crew of Passenger Train 55/56 Krasnoyarsk – Moscow headed by the train master Alla Shuvarova (Krasnoyarsk passenger carriage depot of the Yenisey Branch).

CREW OF PASSENGER TRAIN NO. 55/56
KRASNOYARSK – MOSCOW



A.V. Shuvarova, **train master**.

Carriage attendants:
M.V. Doronina, L.V. Ivantsova, I.Yu. Kosalapova,
O.O. Litvinova, G.V. Mantikova, N.A. Markelova,
D.I. Rukosueva, K.A. Ryndina, I.A. Skachilova,
N.N. Smirnova.



During 2016, 776 employees were awarded with all types of awards for their achievements in the workplace and dedicated work, including:

- Russian Federation Government awards – 1 person;
- awards of the Head of the Administration of the Federation

- Council of the Federal Assembly of the Russian Federation – 8 persons;
- awards of the Ministry of Transport of the Russian Federation – 144 persons;
 - RZD awards – 158 persons;
 - FPC awards – 465 persons.



Occupational health

The Company takes care of the occupational health of its front-line employees, having introduced the Health Management system that assesses the psychoemotional condition of employees and prevents professional burnout. In 2016, over 4.5 thousand employees had their psychoemotional condition assessed (71% of which are

front-line personnel), thus maintaining the optimal level of staff working capacity.

The Company pays specific attention to preventing occupational stress and maintaining professional reliability of the personnel. As part of this effort, several branches established psychological support offices fitted out to diagnose

and treat PES and relieve psychological and physiological stresses in employees (Sensorium system). Psychological support offices are particularly popular with carriage attendants during the summer peak season and right afterwards since these offices enable them to restore their psychoemotional balance and high performance within 15 to 20 minutes.

The Sensorium psychophysiological anti-stress system enables quick relief and deep muscle and mind relaxation within 15 to 30 minutes. The system relieves physical tension caused by stress, lowers the level of chronic psychoemotional stress, anxiety, and depression, improves attention and effectiveness of information processing, and quickly restores working capacity.

Youth policy

The seventh annual FPC Youth Assembly was held in Sochi in October 2016. The Assembly was attended by young employees from FPC branches and administration. The participants presented their ideas for achieving the Company's strategic objectives to managers and an expert panel. Based on the results of the Assembly, the third prize was given

to a team which presented the "Carriage of the Future" concept; the second prize was awarded to a team with the "Just-In-Time Repairs" concept, providing for a new approach to creating designs of future carriages; and the first prize went to a team which proposed the "HUBS and New Service Technology.

The Z Project" concept, suggesting the implementation of a multi-level transport system with a built-in retail service. In addition, the winners of the Assembly proposed creating personal online accounts for passenger carriage attendants.

Corporate pension system

Corporate pensions are included in employees' social security packages. At the end of the reporting period, around 24 thousand employees participated in the corporate private pension plan, accounting for 35% of the Company's total staff.

Based on the principle of matched funding of private pension plans, FPC, on a monthly basis, pays pension contributions for each participant, until he/she is assigned corporate pension, and additional pension contributions for participants when they are assigned corporate pensions.

In 2016, the Company invested a total of RUB 624.2 million in private pension plans.

The Company continues to provide comprehensive support to all of its 64 thousand pensioners.

Corporate research

The Company is fully aware of the importance of employee feedback. To obtain this feedback, around 1.5 thousand employees are covered annually by social surveys of motivation, social and psychological environment in employee teams, social surveys of young employees, and corporate culture surveys.

Based on the results of the surveys, the employee satisfaction index is stable, amounting to 65.5 in 2016. At the same time, employees show a high level of loyalty towards the Company: 64% of employees are committed to building long-term labour relations with the Company.

In comparison with the previous year's result (62%), the number of loyal employees increased by 2%.





Environmental Impact Management

Environmental protection

Environmental protection and negative impact mitigation are among FPC’s priorities. In its environmental activities, the Company is guided by the applicable laws of the Russian Federation and the Environmental Strategy of Russian Railways until 2017 and, for the longer term, until 2030.

To reduce the man-made impact of passenger services, the Company took efforts to upgrade its rolling stock and facilities across its branches.

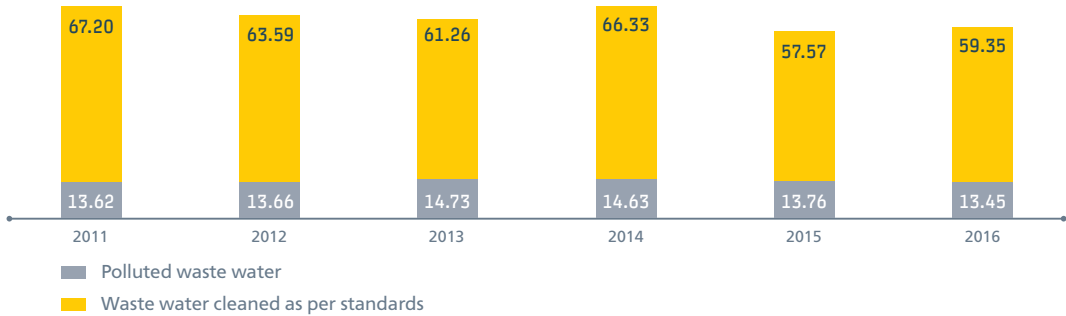
Aiming to prevent tracks from being polluted and maintain an adequate level of sanitation at infrastructure facilities, the Company acquires only carriages equipped with environmentally friendly toilet facilities. In addition, old carriages are being fitted out with environmentally friendly toilet facilities during overhauls.

In an effort to reduce air pollution, the Company is installing boilers fired with environmentally friendly fuels, switching its carriages to electricity, and purchasing carriages with central power supply.

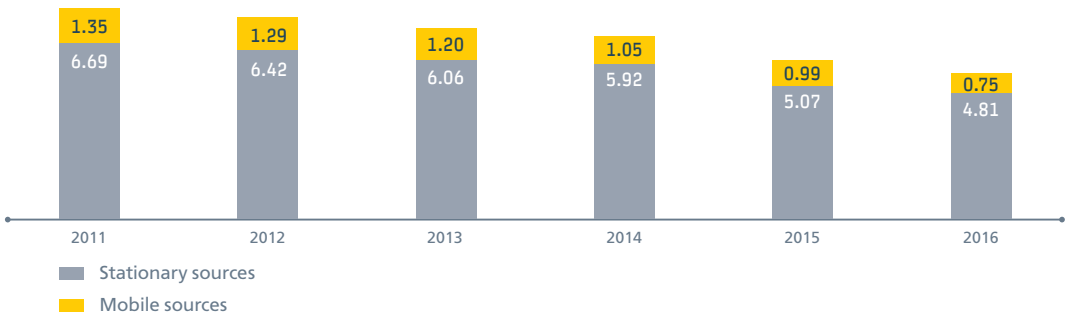
In 2016, discharge of polluted waste water decreased by 2.3% year-on-year, to 13.45 thousand cubic metres. Air emissions were reduced by 8.3% in 2016.

Aiming to reduce the sources of discharge negatively affecting the centralised water discharge systems and the environment, the Company implements annual programmes involving modernisation of water treatment and carriage-washing facilities, including the installation of water recirculation systems and on-site water treatment facilities.

Waste water discharge to the environment, thousand cubic meters



Air emissions, thousand tonnes



In 2016, FPC developed its Environmental Management System standard (FPC 1.16.001–2016 Company Standard).

Energy consumption

In 2016, fuel savings achieved under FPC’s Energy Conservation and Energy Efficiency Improvement Programme were 5,744.4 t c.e. against the actual 2015 baseline vs planned 4,402.4 t c.e., which amounts to RUB 46.4 million in monetary terms. By type of fuel and energy resources (excluding water and heat), savings were as follows:

- coal – 3,652.4 tonnes against the planned 2,533.5 tonnes, or RUB 1.0 million;
- fuel oil – 474.5 tonnes against the planned 411.4 tonnes, or RUB 4.5 million;
- gasoline – 75.9 tonnes against the planned 64.2 tonnes, or RUB 2.9 million;
- diesel fuel – 190.8 tonnes against the planned 154.6 tonnes, or RUB 6.0 million;
- natural gas – 612.4 thousand cubic meters against the planned 294.5 thousand cubic meters, or RUB 2.9 million;
- electricity – 4,015.3 thousand kWh against the planned 3,995.4 thousand kWh, or RUB 20.1 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 socially focused programmes.

Since 2012, FPC has been providing support to the Safonovsky Children’s Home – School (Smolensk Region state educational institution). Numerous events were held at the children’s home, including charitable projects “Realising Children’s Dreams”, “Do the Good”, and “For a Better Future”, as well as a New Year Charity Fair, a Knowledge Day event, etc. In 2016, in keeping with good tradition, the Company organised a New Year charity event for orphans, with the school students visiting the Chekhov Moscow Art Theatre and the Living Systems, a human being museum. In addition, the Company’s employees organised a donation campaign to purchase confectionery as New Year presents for all students of the school.

Given the high social importance of voluntary blood donorship,

the Company resumed its Donor’s Day charity event in July 2016. Our employees took active part in the event, with nine litres of blood and over RUB 60 thousand collected in donations to the Podari Zhizn (Gift of Life) charity foundation. The blood received from FPC employees was used for treatment of patients of the municipal perinatal centre and multi-purpose adult and children’s hospitals. The funds donated to Podari Zhizn (Gift of Life) foundation were spent to provide treatment for two-year-old Lisa K. and replenish the “Courage Box”. Taking into account the wishes of the Company’s employees to create a corporate donorship system and given the success of the event, decision was taken to make it a regular event.

As part of celebrations of the Day of the Railway Worker,

the VDNKh exhibition complex hosted the Achieving the Goal! charity run, with 240 FPC employees taking part in the event. Donation boxes were installed at the event. The funds collected at the sports event were given to the Life Line charity foundation for treating severely ill children.

The total amount approved by FPC’s General Shareholders Meeting in 2016 for allocation to charitable activities from the 2015 net profit was RUB 2.8 million. Out of previously allocated amounts, RUB 20.7 million were spent on charity in 2016 based on the decisions by FPC’s Commission on Donations to Non-Governmental, Religious, and Other Organisations, and Citizens.



Appendix

Glossary and List of Abbreviations

Abbreviation	Description
Carriage-kilometre performance	An indicator based on the distance travelled by carriages as part of the train.
RIC carriages	Passenger carriages conforming to the requirements of the International Union of Railways (Regolamento Internazionale delle Carrozze) and used on railways within the European countries – members of the International Union of Railways. These carriages are suitable for 1,435 mm gauge.
First-class carriage (Pullman car)	A luxury sleeping carriage used for passenger transportation and providing adequate facilities for passengers. The Russian abbreviation SV dates back to the times before the 1917 Revolution and was originally used to denote carriages designated for the Emperor’s entourage.
Carrier's revenue shortfall	The loss in the carrier’s revenue resulting from state regulation of long-distance passenger fares for third-class sitting and sleeping carriages.
Global prices	Passenger fare in international trains which includes the ticket cost and seat reservation.
Unaccompanied baggage	An item accepted in the prescribed manner from an individual or a legal entity for transportation on a passenger, postal-baggage, or passenger-freight train.
Deregulated segment	A segment covering passenger transportation in first-class carriages and compartment carriages, as well as international passenger transportation. Fares in this segment are set by FPC.
Natural monopoly	A market situation where, due to technological characteristics of production (unit cost is significantly reduced as production volume increases), demand is more efficiently met in the absence of competition. At the same time, demand for products of a natural monopoly is less dependent on price fluctuations than demand for any other type of products, as products of a natural monopoly cannot be replaced with other products. FPC is a natural monopoly as it provides services pertaining to a natural monopoly.
RZD infrastructure	An integrated network of technological facilities which includes public railways and other structures, railway stations, power supply systems, communication networks, centralisation, blocking and signalling systems, information systems, traffic management system, and other buildings, structures, devices and equipment that ensure the functioning of this integrated network.

Abbreviation	Description
KVR	Overhaul with service life extension. Intended to extend the design life of a passenger carriage using refurbished bodies and bogies, as well as renovation of on-board equipment and installation of modern interiors.
KR	Overhaul. Intended to recover the good working condition and fully or nearly fully restore the capacity of a passenger carriage by replacing or restoring any of its components, including basic components.
UIC	International Union of Railways.
Multimodal transportation	Transportation of goods, passengers and baggage by two or more modes of transport. As a rule, multimodal transportation is carried out on the basis of a single transport document drawn up for the entire route.
OSJD	Organisation for Cooperation of Railways.
Passenger turnover	An indicator reflecting passenger traffic measured in passenger-kilometres. It is calculated by multiplying the number of passengers carried by the average distance covered.
Loyalty Programme	RZD Holding’s RZD Bonus Programme enabling passengers to collect points for completed trips in FPC trains and carriages and exchange them for bonus trips.

Disclaimer

This Annual Report of Federal Passenger Company (the “Company”) for 2016 (the “Annual Report”) has been prepared using the information available to the Company at the time of its preparation.	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 not take place in the future.	not the only possible scenario of future events.
The Annual Report contains information about the results of the Company’s activities in 2016, 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 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 using the forward-looking statements contained in this Annual Report due to any reason, either directly or indirectly. These persons should not rely entirely on the forward-looking statements contained herein as they are	The sum of the parts may not add up to the total due to rounding.
		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.

■ ■ ■ ■ ■ FPC's Registrar Details

To ensure protection of their interests and rights the Company's shareholders are provided with a reliable method for recording their rights in shares – the share register is maintained by an independent entity, JSC STATUS.

On 28 April 2014 (Minutes No. 15), JSC 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>.



■ ■ ■ ■ ■ Contacts

Full name: Joint Stock Company Federal Passenger Company.

Abbreviated name: JSC FPC.

Location: 34 Mashi Poryvaevoy St., Moscow, 107078, Russia.

Tel.: +7 495 988 1000 (IVR);
+7 499 260 8474.
Fax: +7 499 262 3349.

Website: www.fpc.ru.

