

Dynamics of the loan portfolio in 2016

The Company attracted medium- and long-term borrowed funds¹ for a total of RUB 121.2 bln in 2016. The bulk of borrowings were made in the form of public debt instruments placed among Russian and foreign investors. Russian Railways repaid a total of RUB 114.6 bln in obligations in the reporting year. The volume of the Company's loan portfolio was significantly impacted by the appreciation of the rouble, which

led to the revaluation of foreign currency-denominated debt and a reduction in its rouble-equivalent amount by the end of the year.

In addition, the Company attracted bilateral short-term (ranging from a few days to two months) bank loans throughout 2016 for the day-to-day management of liquidity. The turnover of short-term loans attracted and repaid totalled

RUB 219.4 bln over the course of the year. As of the end of the year, debt on short-term loans totalled RUB 18 bln.

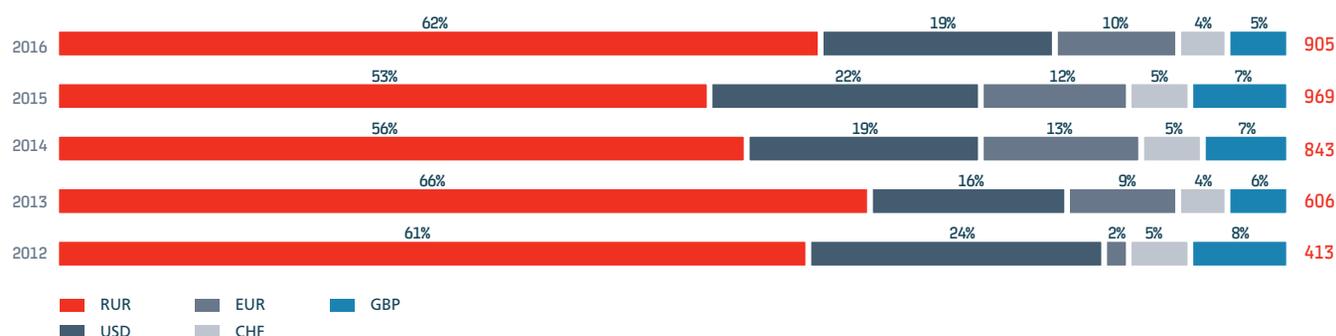
For the year, the Company's total debt under borrowed liabilities amounted to RUB 921.0 bln (down 6.9% versus the start of the year), including arrears on the body of the debt of RUB 905.3 bln (down 6.6% from versus the start of the year).

Structure of the loan portfolio and debt policy

As of 31 December 2016, the Russian Railways Group's loan portfolio was characterised by the following indicators that describe the key targets in the Company's debt policy:

Share of foreign-currency denominated borrowings	Share of short-term debt	Average borrowing maturity
38%	8%	10 years
The presence of foreign currency-denominated liabilities in the Company's loan portfolio creates risks associated with fluctuations in currency exchange rates. However, the interest rates on foreign-currency denominated borrowings are lower than the rouble-denominated borrowing rates. Achieving a balance between the foreign currency- and rouble-denominated borrowings is one of the key objectives of the debt policy.	The presence of short-term liabilities in the loan portfolio creates pressure on the Company's liquidity.	The Company carries out systematic work to increase and maintain the average maturity of liabilities in the loan portfolio, which is consistent with the long-term nature of the payback period for the investment projects financed at their expense.
The debt policy sets the maximum share of foreign-currency denominated borrowings at 40%.	Russian Railways maintains the volume of short-term borrowings in the portfolio at a level of no more than 15%.	The average maturity period of the loan portfolio is stably maintained at 9-10 years.

Dynamics of the Russian Railways loan portfolio structure by currency²





Vadim Mikhailov



We placed RUB 40 bln from the Sovereign Wealth Fund that we had planned to receive in 2016 in the form of infrastructure bonds using market sources, thus easing the burden on the federal budget.

In addition, effective actions on financial markets resulted in improvements to the structure of the loan portfolio in terms of reducing the volume of foreign currency-denominated obligations through their partial replacement with rouble-denominated sources as well as slashing the overall cost of debt.

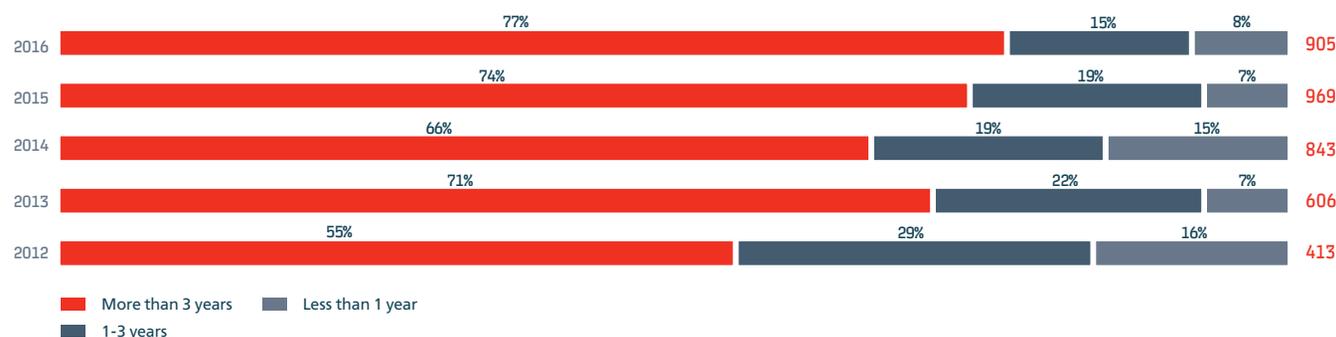
In 2016, Russian Railways became the only company over the last three years to attract funds from foreign investors in rouble-denominated bonds issued on the international market. The rate of the Eurobonds was set at a level below the cost of borrowing on the local market.

The share of foreign currency-denominated borrowings approached 50% at the start of 2016 due to the substantial weakening of the rouble exchange rate and surpassed the maximum level prescribed by the debt policy. In this regard, the Company decided to conduct measures to reduce the amount of debt in foreign currency through the partial replacement of foreign

currency-denominated borrowings with rouble-denominated borrowings. As part of this plan, Russian Railways conducted a series of transactions throughout the year for the early buyback of previously placed Eurobonds (see the 'Landmark transactions of 2016' section) and reduced the amount of foreign currency-denominated liabilities by more

than USD 250 mln (in the equivalent of all currencies). As a result of these measures and also taking into account the rouble's gradual appreciation over the course of the year, the share of foreign currency-denominated borrowings was reduced to 38% by the end of the year.

Dynamics of the Russian Railways loan portfolio structure by maturity³



¹ Excluding short-term loans for the day-to-day management of liquidity that were attracted and repaid throughout 2016.

² For the body of debt. As of 31 December of the corresponding year.

³ For the body of debt. As of 31 December of the corresponding year.

A substantial portion of the Company's loan portfolio (roughly a third of all borrowings) is made up of long-term borrowings provided by infrastructure bonds placed in favour of state-owned funds (the Pension Fund of the Russian Federation and the National Wealth Fund). The maturity of the infrastructure bonds ranges from 15 to 30 years.

The bulk of the loan portfolio is comprised of the Company's Eurobonds placed for an average of 7 to 10 years and rouble-denominated bonds generally placed on the local market for 5 to 7 years.

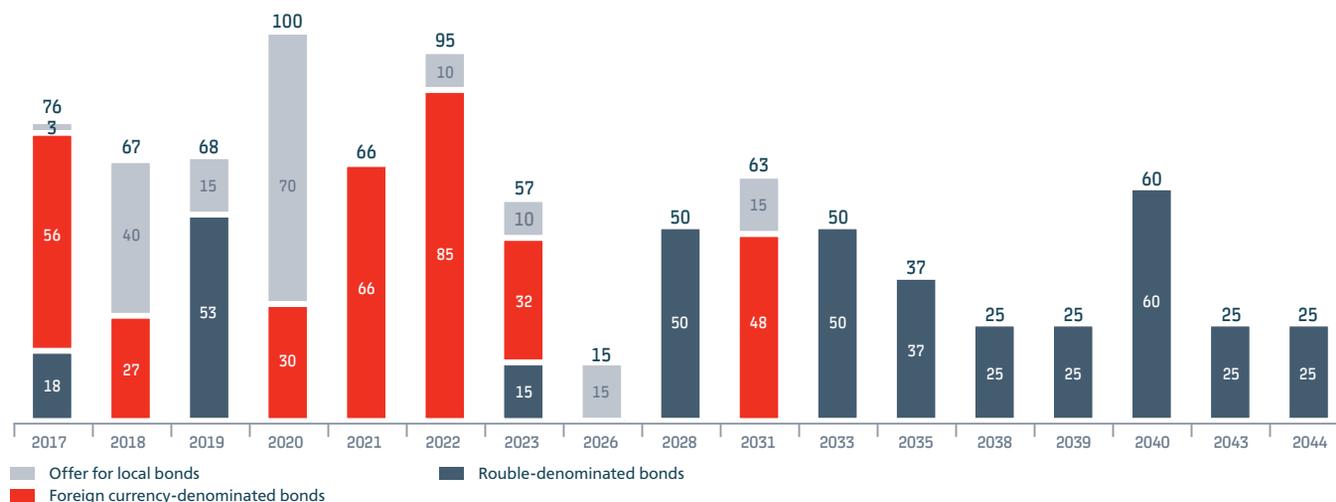
As the maturity dates approach for the respective obligations, the Company replaces them with new long-term borrowings, determines their maturity taking into account the existing repayment schedule and maintaining the share of short-term liabilities for the entire scheduled horizon at a level not exceeding 15%. The presence of a certain amount of short-term loans makes it possible to promptly manage the Company's debt while reducing it in the event unplanned income is received.

The long-term portion of the loan portfolio (maturity of more than 3 years) increased

to 77% as of the end of 2016, while the share of short-term remained roughly at last year's level of 8%.

The average maturity of liabilities in the Russian Railways loan portfolio was approximately 10 years as of the end of 2016, while payments were evenly distributed over the long term, thus minimising risks associated with refinancing.

Debt repayment schedule of Russian Railways¹



¹ For the body of debt. Liabilities as of 31 December 2016. Currency payments calculated using the currency exchange rates as of 31 December 2016.