

Transportation and logistics services

One of the Russian Railways Group's strategic objectives is to transition from providing freight shipment services to establishing integrated door-to-door services, expanding the range of 2PL, 3PL and 4PL services and establishing global logistics chains.

Given the limited opportunities to increase the scale and profitability of business in transportation segments regulated by the government, the Group is performing active work to expand activities in de-regulated segments of the transportation and logistics market,

strengthen the positions of Russian Railways on Russian and foreign logistics markets and introduce modern 3PL/4PL logistics technologies on the network.

Performance results of Federal Freight Company

In 2016, Federal Freight Company implemented measures to renovate the railcar fleet, enhance the fleet's efficiency in loading and increase the share of rolling stock, which enabled the Company to not only maintain its previous positions on the market, but also become the largest operator on the entire 1520 gauge space.

Federal Freight Company increased its share in freight shipments to 13.4% of the overall transportation volume on the railway network in 2016. Its share of the network freight turnover market totalled 15.5%

in 2016. The Company's share of the freight railcar fleet in Russia was 14.2% in 2016.

Federal Freight Company shipped 183.1 mln tonnes of freight in 2016 (up 10.6% from 2015), or 2.8 mln railcar shipments. The biggest growth was seen in the segment of shipments in gondola cars owned by Federal Freight Company: 168.3 mln tonnes were shipped in 2016 (17.2 mln tonnes more than in 2015).

The year 2016 was a turning point on the rolling stock operation market. After several years of a surplus of gondola

cars on the network, the decommissioning of freight cars with expired service life as well as the growing volume of traffic resulted in a local gondola deficit, which led to an increase in rental rates for rolling stock. The current favourable market situation and measures that have been implemented to increase the technological efficiency of the fleet and to optimise costs led to an increase in the Company's revenue and a positive financial result.

Key financial and economic performance indicators of Federal Freight Company

Indicator	Measurement unit	2015	2016
Revenue	mln RUB	46,484.7	73,240.0
Net profit	mln RUB	-8,548.6	5,759.2



Performance results of international logistics company GEFCO

The GEFCO Group is a global player on the transportation and logistics services market and operates on five continents.

The GEFCO network includes 44 representative offices around the world, including in key regions for the international business development of Russian Railways such as Central and Eastern Europe, the CIS and China.

The Company specialises in supply chain management (3PL services) as well as integrated services for the management of all logistics processes at client companies (4PL services), which are virtually non-existent in Russia right now.

The Company's customer base includes more than 40,000 counterparties around the world, including transnational industrial corporations, many of which are represented on the Russian market (PSA Peugeot Citroën, General Motors, Renault, Ford, BMW, L'Oréal, Phillips and Electrolux).

In November 2016, GEFCO S.A. signed an additional agreement with PSA Peugeot Citroën to renew the exclusive rights to provide the concern with logistics services. The agreement runs from 2017 until the end of 2021. The signing of this agreement confirms the high level of services offered by the GEFCO Group of companies and the long-term nature of cooperation with this key client.

GEFCO jointly implements a number of projects Russian Railways that aim to improve the efficiency of the Group's supply chains and use assets for joint operations, including by attracting additional freight flows for processing and storage at freight yards and also to provide integrated transportation and logistics services.

GEFCO generated revenue of EUR 4.228 bln in 2016, an increase of 1.3% compared with 2015. Operating profit from continuing operations totalled EUR 114 million in 2016, a 35% increase from the previous year.

Performance results of United Transportation and Logistics Company

In early 2016, the heads of three railway companies of EAEU member nations (Russian Railways, Kazakhstan Temir Zholy and Belarusian Railways) agreed on the basic principles for the development of United Transportation and Logistics Company (UTLC) as an operator of transit services on the 1520 space and identified the primary route of Dostyk/Altynkol – Brest – Dostyk/Altynkol.

UTLC drafted a development strategy for the company for the period until 2025, which has been submitted for approval

to the structures of Russian Railways, Kazakhstan Temir Zholy and Belarusian Railways. The strategy envisages reaching container transportation of up to 1 mln TEU by 2025.

The company drafted and approved operating procedure standards in 2016 as well as a regulation for UTLC to interact with its customers and agents, which simplifies the procedure for customers to place orders for transit container shipment. As of the end of 2016, UTLC had started providing

customers with information services for transit shipments of containers. As part of improvements to container shipment technologies, UTLC has established a regular information exchange with the Chinese companies that generate the main cargo flows.

UTLC doubled its main indicators in 2016 as a result of comprehensive measures it carried out last year. UTLC shipped 101,000 TEU and dispatched 177 container trains.