

# Tariff policy

Railway freight transportation tariffs were indexed at 9% in 2016.

## Principles of freight transportation tariff policy

Legislation defines the principles for government regulation and establishing a tariff policy for freight transportation with respect to natural monopolies. The Government of the Russian Federation adopts decisions and the federal executive authorities pass departmental regulations establishing the principles of government tariff regulation on the basis of federal laws.

The tariff regulation model for railway transportation transitioned to the establishment of a long-term tariff policy for public railway transportation services in 2014 in accordance with the decisions of the Government of the Russian Federation.

In accordance with the guidelines on the government regulation of tariffs for railway freight transportation services as well as the use of public railway infrastructure for freight transportation approved in 2013, a mechanism is being implemented to determine an economic substantiated level of tariffs for the long-term period of regulation using the method

of return on invested capital as regards transitioning to long-term tariff regulation.

The growth rates for railway freight shipments in 2014-2018 had been set with restrictions on tariff increases based on the inflation level of the previous year.

However, in 2014 the Government of the Russian Federation decided to keep tariffs on railway freight shipments at the 2013 level with their subsequent indexation in accordance with the actual inflation level for the previous year.

Thus, railway freight transportation tariffs were not indexed in 2014, but were indexed at 10% in 2015 and at 9% in 2016.

In 2016, when deciding on the indexation of the level of tariffs for freight rail transport, the rate of marginal growth in the effective yield rate of 7.5% was determined. In 2016, Russian Railways had growth in effective yield of 2.7% in terms of freight traffic. The slowdown in the yield growth rate led to a loss in revenue

for Russian Railways and a reduction in the overall tariff burden on the economy as a whole.

In addition, orders by the Russian Federal Antimonopoly Service made selective changes to Price List No. 10-01 that aims to ensure a balance in the Company's work in 2017.

These decisions envisage:

- the upward revision of reduction factors set depending on the transportation distance with respect to coal and iron ore;
- additional indexation of tariffs for the transportation of container freight;
- the unification of tariffs for the transportation of oil cargo with similar physicochemical properties in the same price range on the respective commodity markets.



## Tariff regulation of passenger transportation

### Suburban transportation

In accordance with clause 23 of the Rules for the Railway Transportation of Passengers, Baggage and Cargo Luggage, which were approved by Order No. 473 of the Russian Ministry of Transportation dated 19 December 2013, the following tariffs are in effect for suburban railway passenger transportation:

- zone tariffs – in the form of a fixed rate for a tariff zone;
- tariffs per km – in the form of a fixed rate per 1 km;
- combined tariffs – (amount of the fixed

rate per 1 trip for a certain tariff distance and when travelling above this tariff distance – payment at a fixed rate for each km).

The average tariff on the network was RUB 24.93 per 10 passenger km in 2016, a 7.7% increase over the tariff level of 2013, or RUB 1.78 per 10 passenger km.

To stabilise the situation and create a mechanism for subsidizing suburban transportation in 2016, Resolution No. 703 of the Government of the Russian Federation dated 21 July 2016 was adopted to require the Russian Federal Antimonopoly Service

to set a coefficient of 0.01 on the tariffs for infrastructure services in suburban passenger transportation with full compensation from the federal budget for losses in income by Russian Railways from the state regulation of tariffs for these services until 2030 inclusive.

Amendments were made to Part 2 of Chapter 21 of the Tax Code of the Russian Federation to establish a zero VAT rate for suburban railway passenger transportation services from 1 January 2015 until 31 December 2017.

### Long haul transportation

As of 1 January 2016, the existing tariffs in the regulated sector were indexed by Order No. 1227/15 of the Russian Federal Tariffs Service dated 10 December 2014:

- tariffs for travel in second-class sleeping railcars and sitting railcars were indexed at 4%;
- tariffs for passenger transportation using first-class rolling stock were indexed at 4%;
- tariffs for owned (leased) railcars that are part of long-haul trains were indexed at 4%;
- tariffs for the transportation of baggage and cargo luggage as well

as fees and charges for additional work (services) related to the transportation of baggage and cargo luggage were indexed at 4%;

- fees and charges for additional work (services) related to passenger transportation were indexed at 4%.

Under Order No. 103/16 of the Russian Federal Antimonopoly Service dated 4 February 2016, the following existing tariffs were also indexed starting from March 2016:

- tariffs for travel in second-class sleeping railcars and sitting railcars were indexed at 11.6%;

- tariffs for passenger transportation using first-class rolling stock were indexed at 11.6%;
- tariffs for the transportation of baggage were indexed at 11.6%.

The additional indexation is related to the reduction of the VAT rate in 2016 from 18% to 10% for long haul passenger and baggage transportation services. At the same time, the growth in the tariff burden for passengers was maintained at the level of 4%.

## Implementing the tariff policy in accordance with the international treaties of the Russian

According to existing regulatory documents, tariffs for cargo transit via the railways of the Russian Federation are set in accordance with the international treaties to which the Russian Federation is a party.

One such treaty is the Tariff Agreement of Railway Administrations (Railways) of CIS Member States dated 17 February 1993.

Tariffs for freight transit via the railways of Russia are set based on the rules and rates of the CIS Tariff Policy in effect as part of this agreement.

With the enactment on 1 January 2015 of the Eurasian Economic Union (EAEU) Treaty, which was signed by the presidents of Russia, Belarus and Kazakhstan in Astana on 29 May, freight transit via

Russia's railway network from Kazakhstan to Belarus and back as well as transit from Kazakhstan and Belarus to other countries via Russian ports takes place according to the unified tariff denominated in the national currency contained in Price List No. 10-01 "Tariffs for freight transportation and infrastructure services rendered by Russian railways".

## Tariff policy on transit freight shipments

In accordance with WTO requirements, the tariff policy of the railways of CIS member nations for international freight shipments involving Russian Railways contains only base transit tariff rates starting in 2014 and no longer includes descending indices and special rates.

Special tariff conditions for freight transit via Russia's railway network are established by the Russian Railways Management

Board and information about such rates is posted on the Company's official website.

In accordance with the Tariff Agreement of Railway Administrations (Railways) of CIS Member States dated 17 February 1993 and the Concept for Establishing a Coordinated Railway Transportation Tariff Policy for CIS Member States dated 18 October 1996, Russian Railways engaged in work to improve the tariff policy that

aims to preserve the existing and attract additional freight transport volume.

In particular, competitive tariffs were established for the 2016 freight year on the transportation of cotton, ferrous scrap, alumina, aluminium, non-ferrous metals, coal, mineral fertilisers, oil and oil products, raw sugar, sulphur as well as for contained-based freight transportation.

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**The decisions to use the tariff corridor attracted 5.7 mln t of different freight to railway transportation in 2016.**

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## Implementing a flexible tariff policy within the tariff corridor

Russian Railways is granted the right to modify tariffs for railway freight transportation services within certain price limits as part of international treaties that form the contractual basis for the Common Economic Space and subsequently the Eurasian Economic Union.

Improvements are continuously made to the mechanism for applying the tariff corridor. In particular, amendments were made in 2016 to the rules as regards reducing the lower boundary of the price limits to minus 25% for a distance of up to 3,000 km for freight of the first tariff

class and no restrictions on distance for freight of the second and third tariff classes (Order No. 270/16 of the Russian Federal Antimonopoly Service dated 18 March 2016).

In December 2016, the price limits were reduced to minus 50% for freight of the second and third tariff classes for all length of haul zones, and the validity of multipliers was increased until 2018 inclusive along with their simultaneous reduction from 1.134 to a level not exceeding 1.1 subject to the differentiation of the use of these coefficients by freight type depending

on the price situation on global markets (Orders No. 1756/16 of the Russian Federal Antimonopoly Service dated 13 December and No. 1833/16 dated 23 December 2016).

Having the ability to independently alter tariffs has proved to be highly effective for the Company with respect to attracting freight. In 2016 alone, railway transportation attracted 5.7 mln tonnes of various freight from alternative transportation modes due to the decisions to use the Transport Corridor.

