

Cost optimisation

In the face of ever-changing macroeconomic conditions in 2016, Russian Railways managed to promptly assess the risks to its production, financial and economic indicators prior to the end of 2016. Over the course of the year, the Company held four meetings of the Budget Committee at which it formulated objectives for growth in internal efficiency in 2016.

This work resulted in a Consolidated Action Plan to Optimise Operating and Investment Activities, including cost optimisation through the implementation of the appropriate measures.

These effects were above all achieved through improving energy efficiency, introducing resource-saving technologies, containing price growth as well as implementing organisational and technical measures, including through:

- an additional programme to improve labour productivity by 1.5 p.p. (from 3.5% to 5%);
- restricting growth in the prices of the products (services) purchased by the Company while maintaining the required level of quality, the deadlines for making supplies and guaranteed sustainability (including reducing expenses on materials, payments to outsourcing companies, routine repairs on vehicles, buildings and structures, the maintenance of devices, tools and equipment, among other things);
- reducing the amount of new materials used for track superstructures by applying shaped full-length flattener systems when conducting scheduled and preventive track repairs using a technology to replace part of used ballast;

- stricter specific fuel and energy consumption rates for train traction through the increased efficiency of regenerative braking and the use of regenerative power return, the introduction of resource-saving technologies (systems to register the operational parameters of diesel locomotives and monitoring diesel fuel, automatic train operation in passenger and freight traffic and the heating of diesel locomotives);
- reducing the consumption of fuel and energy resources for other needs (installation of meters for electricity metering at facilities that are recorded in accordance with standard calculations; replacement of used lamps with LED bulbs; a reduction in the average daily mileage of vehicles as well as route optimisation and a reduction in the number of service requests for their use; the installation of fuel consumption meters for vehicles, etc.);
- updates to the commissioning dates of fixed assets as part of the investment programme as well as work to preserve fixed assets;
- optimising locomotive maintenance costs (setting tasks for maintenance companies to install new line equipment only to replace equipment with an expired service life and if it is necessary to create a transitional stock of new series locomotive equipment, meeting the technical availability ratio for locomotives and combining scheduled second and third routine repairs with work to extend service life);
- optimising other costs (expenses on communications activities, consulting services, business trips and communications services, among

other things).

As part of implementing its approach to maintain break-even operations, the Company reduced expenses on transportation activities by RUB 57.2 bln versus the initial plan approved by the Russian Railways Board of Directors and endorsed by the Government of the Russian Federation on 26 November 2015 (Minutes No. 43) (from RUB 1,353.4 bln to RUB 1,296.2 bln).

In comparable conditions, given the failure to adopt a decision in 2016 on maintaining the property tax rate at the 2015 level of 1% with respect to railway infrastructure facilities, which was projected in the initial financial plan, expenses decreased by roughly RUB 63.5 bln.

In addition, by improving the internal efficiency of operations, Russian Railways found an additional RUB 15 bln for major repairs and maintenance of railway infrastructure (tracks), which enabled the Company to not only increase the physical amount of major track repairs, but also prevent growth in track length with tonnage exceeding industry standards.

The Company also spend an additional RUB 0.8 bln on funding measures as part of the Year of the Passenger in an effort to expand the customer base and enhance the efficiency of passenger transportation. As a result of the measures, transportation activity costs only increased by 0.8% versus the 2015 level despite significant price pressure, which is considerably lower than average annual inflation (7.1%).

The adoption of effective and timely anti-crisis measures in 2016 enabled the Company to neutralise all core risks.