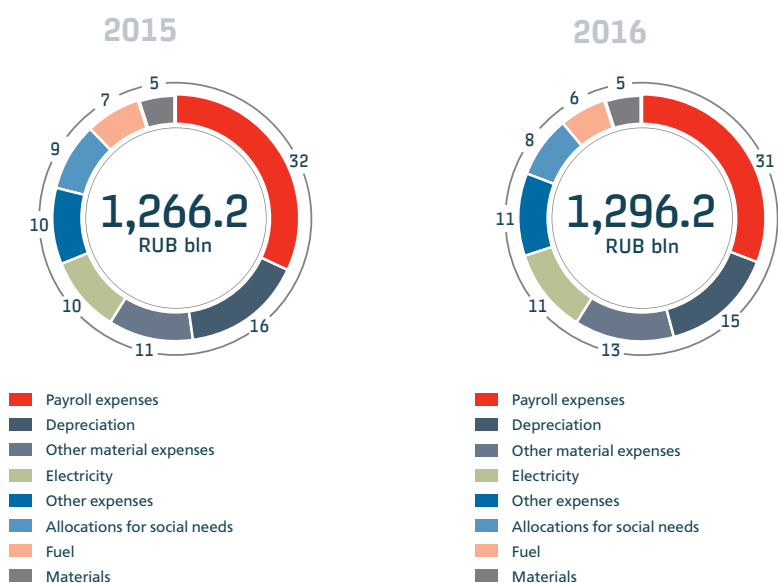


Expenses on transportation activities

Expenses on transportation activities totalled RUB 1,296.2 bln in 2016, a level consistent with the Company's plan and 2.4% higher than in 2015.

Indicator	2015	2016	Change, actual 2016 / actual 2015	
	actual	actual	RUB bln	%
Total expenses on transportation activities	1,266.2	1,296.2	30.1	102.4
Payroll expenses	395.6	400.7	5.1	101.3
Allocations for social needs	110.4	110.8	0.4	100.4
Material expenses	432.7	452.3	19.7	104.5
Materials	55.9	61.7	5.8	110.3
Fuel	83.1	78.7	-4.4	94.7
including for train traction	70.5	68.5	-2.0	97.1
Electricity	128.0	138.0	10.0	107.8
including for train traction	112.5	121.4	8.9	107.9
Other material expenses	165.7	173.9	8.3	105.0
Depreciation	189.8	190.3	0.6	100.3
Other expenses	137.7	142.1	4.4	103.2

Structure of Russian Railways expenses on transportation activities by cost components, %



Payroll expenses totalled RUB 400.7 bln in 2016, an increase of 1.3%, or RUB 5.1 bln, compared with 2015.

The change in expenses was due to the following factors:

- growth in expenses that depend on transportation volume (RUB +1.8 bln);
- growth in payroll expenses due to the indexation of wages at 2.9% starting from 1 March 2016 and at 3.5% starting from 1 October 2016 (3.9% average for 2016 versus 2015) in accordance with clause 4.1.5 of the Russian Railways collective bargaining agreement for 2014-2016 (RUB +13.9 bln) and the corresponding increase in other payments (deductions to the National Pension Fund, payments of a social nature, etc.) (RUB +1.1 bln). The overall increase totalled RUB 15.0 bln;
- an additional increase in major track repair programme with full rail replacement during the track repair period accompanied by average track repair work on 1,500 km of tracks to prevent growth in the number of km with weight exceeding the standard tonnage. Total increase in expenses of RUB 15 bln, including payroll expenses of RUB 2.4 bln. Additional funding for the major track repair programme was provided in accordance

with the decision of the Russian Railways Board of Directors (Minutes No. 23 dated 25 December 2015).

At the same time, due to the optimisation measures, payroll expenses declined by RUB 14.1 bln, including from:

- the effect of the outsourcing of non-core operations (RUB -3.5 bln);
- measures as part of a programme to improve labour productivity (RUB -8.1 bln);
- a decrease in payments for one-off remuneration for Company loyalty and estimated liabilities due to a reduction in the number of employees entitled to such payments (RUB -1.3 bln), among other items.

Allocations for social needs totalled RUB 110.8 bln in 2016, an increase of 0.4%, or RUB 0.4 bln, compared with 2015. The increase in expenses resulted from the corresponding growth in payroll expenses for which insurance premiums are charged.

Fuel expenses amounted to RUB 78.7 bln in 2016, a decrease of 5.3%, or RUB 4.4 bln, from 2015, including:

- fuel expenses on train traction decreased 2.9% (RUB -2.0 bln).

The change in expenses occurred due to:

- an increase in transportation volume as measured in gross tkm in diesel traction by 1.2% (RUB +0.8 bln);
- a decrease in diesel fuel prices (RUB -1.5 bln);
- optimisation measures that aim to fuel consumption by decreasing the specific rates of fuel consumption on diesel train traction by 1.7%, which made it possible to cut costs by RUB 1.3 bln;
- expenses on other production needs decreased by 18.5% (RUB -2.4 bln).

The change in expenses occurred due to:

- the additional increase in major track repairs (RUB +0.2 bln);
- a decrease in diesel fuel prices (RUB -0.4 bln);
- a decrease in fuel consumption as part of optimisation measures (regulation of heating modes for locomotives that are temporarily out of service, the optimisation boiler equipment modes, etc.) (RUB -2.2 bln).

RUB **400.7** bln
payroll expenses in 2016

RUB **78.7** bln
fuel expenses in 2016

RUB **138.0** bln
electricity expenses in 2016

Electricity expenses amounted to RUB 138.0 bln in 2016, an increase of 7.8%, or RUB 10.0 bln, from 2015, including:

- electricity expenses on train traction grew 7.9% (RUB +8.9 bln).

The change in expenses resulted from:

- an increase of 1.7% (RUB +1.9 bln) in transportation volume as measured in gross tkm in electric traction;
- growth of 6.2% (RUB +7.1 bln) in the average electricity tariff for train traction;
- optimisation measures that aim to cut electricity consumption by reducing specific electricity consumption rates for train traction in electric traction by 0.1%, which resulted in cost-cutting of RUB 0.1 bln;
- expenses on other needs increased 7.3% (RUB +1.1 bln).

The change in expenses resulted from:

- growth in the average electricity tariff by 6.9% (RUB 1.0 bln);
- an additional increase major track repairs (RUB +0.1 bln).

All other material expenses (materials and other material expenses) amounted

to RUB 235.6 bln in 2016, an increase of 6.3%, or RUB 14.0 bln, from the 2015 level.

The change in expenses resulted from:

- growth in expenses that depend on transportation volume (RUB +1.4 bln);
- growth in expenses due to the implementation of the 'Year of the Passenger' programme (RUB +0.8 bln);
- an additional increase in major track repairs (RUB +11.4 bln);
- other factors (RUB +0.4 bln) - cost-optimisation measures were implemented despite growth in costs due to a RUB 16.0 bln increase in prices for the products consumed by the Company, which made it possible to reduce expenses by RUB 15.6 bln.

Depreciation amounted to RUB 190.3 bln in 2016, an increase of 0.3%, or RUB 0.6 bln, from 2015. The change in expenses is due to both the commissioning of new fixed assets as part of the Russian Railways Investment Programme as well as the retirement of a number of facilities and ongoing work to preserve fixed assets not involved in the transportation process.

Other expenses amounted to RUB 142.1 bln, an increase of 3.2%, or RUB 4.4 bln, compared with 2015.

The main factors affecting the changes in other expenses were:

- growth in property tax expenses (RUB +5.8 bln) due to an increase in the tax rate (from 1% to 1.3%) starting from 1 January 2016 for public railways as well as structures that constitute an integral part of such facilities, etc.;
- growth in expenses to fund a programme to lease advanced track maintenance equipment for a wide range of track repair work in order to ensure the efficient operation of railway infrastructure (RUB +1.3 bln);
- an additional increase in major track repairs (RUB +0.3 bln);
- a decrease in expenses through optimisation measures (RUB -0.3 bln), including a reduction in expenses on lease payments, communications support, software, communications and other items.

Reference: Spending on transportation activities in connection with the commissioning of the new MCR increased by a total of RUB 2.5 bln in 2017.

Railway transportation costs totalled 415.2 kopecks per 10 equivalent tkm, which is 0.8% higher than in 2015 (with average annual inflation of 7.1% in the country).

Major repairs of fixed assets

Russian Railways spent almost RUB 72.3 bln on major repairs to its fixed assets in 2016. Among other things, these funds were used to repair 3,762.8 km of tracks, 1,600 electric locomotive units and 653 diesel locomotive units, more than 524.5 km of automatic

and semi-automatic blocking devices, 990 interlocking switches, 146 railcar retarders, more than 2,048 km of contact network, over 1,153 km of overhead and cable electricity transmission lines and 54 traction substations in 2016.

In addition, investment programme funds were used to rebuild 2,200.2 km of tracks in 2016. The total volume of track rehabilitation (reconstruction and major repairs of railway tracks) amounted to almost 6,000 km (5,963 km) in 2016.