

Analysis of income from transportation activities

Income from transportation totalled RUB 1,387.0 bln in 2016, up 4.6% from the 2015 level (RUB +61.0 bln).

Indicator	Measurement units	2015	2016		Change			
			plan	actual	actual vs. plan		2016 vs. 2015	
			+/-	%	+/-	%		
Income from transportation, infrastructure services and locomotive traction	RUB bln	1,326.0	1,378.7	1,387.0	8.3	100.6	61.0	104.6
freight transportation	RUB bln	1,203.9	1,247.1	1,254.5	7.3	100.6	50.5	104.2
passenger transportation, including	RUB bln	11.7	15.8	17.0	1.1	107.0	5.2	144.4
long-haul transportation	RUB bln	11.2	13.9	14.9	0.9	106.7	3.6	132.5
suburban transportation	RUB bln	0.5	1.9	2.1	0.2	109.3	1.6	4x
provision of infrastructure services including	RUB bln	99.8	104.7	104.6	-0.1	99.9	4.85	104.9
for freight transportation	RUB bln	8.1	8.0	7.4	-0.6	92.1	-0.7	91.9
long-haul transportation	RUB bln	63.1	66.6	66.7	0.1	100.2	3.7	105.8
suburban transportation	RUB bln	28.7	30.0	30.5	0.5	101.5	1.8	106.4
provision of locomotive traction services	RUB bln	10.5	11.0	10.9	-0.1	99.3	0.4	103.9

Income from freight transportation

Russian Railways had total income of RUB 1,254.5 bln in 2016, an increase of RUB 50.5 bln, or 4.2%, compared with 2015.

An additional RUB 17.5 bln in income was generated from a 1.5% increase in freight turnover versus last year, while a 9% indexation of tariffs for freight transportation produced an additional RUB 101.2 bln.

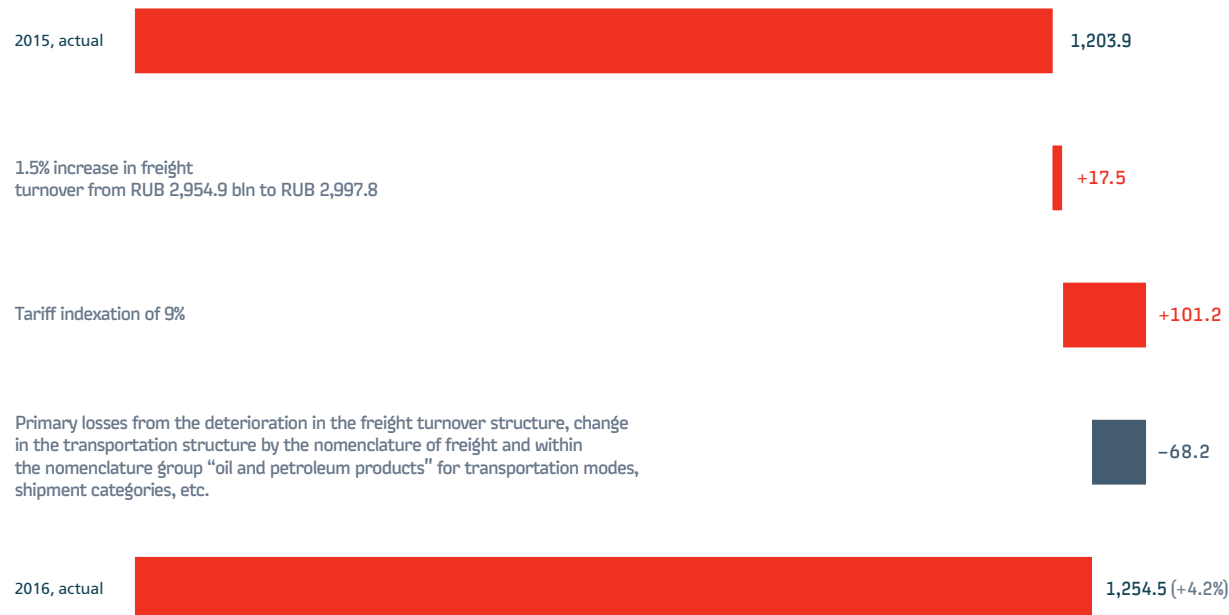
The following negative changes posed the key challenge to the Company in 2016:

- in the structure of freight transportation by the nomenclature of freight and within the nomenclature group 'oil and petroleum products' (an increase in the share of low-profit freight for Russian Railways);
- in terms of transportation mode (a decrease in the share of freight turnover for transit, domestic and, international transportation via border crossings combined with an increase in the share of less profitable freight transportation through ports of the Russian Federation);

- by shipment categories, etc.

These changes in the transportation structure resulted in lower growth rates in the average rate of return. In particular, for 2016 the growth in the average rate of return for Russian Railways totalled 2.7% versus the previous year, while growth of 7.5% in the effective rate was envisaged when determining the indexation level for freight transportation in 2016. The decrease in the growth rates of the rate of return led to a reduction tariff revenue for Russian Railways and also to a decline in the overall tariff burden on the economy as a whole.

Factor analysis of the increase in income from freight transportation, 2016 vs. 2015, RUB bln



Income from long-haul passenger transportation

Russian Railways provides long-haul passenger transportation on the Sapsan, Lastochka (Desiro RUS) and Allegro rapid-transit trains.

Income from such transportation totalled RUB 14.9 bln over the reporting period, an increase of RUB 3.6 bln, or 32.5%, versus last year's level.

The growth in income from long-haul passenger transportation via rapid-transit trains was impacted by a 27% increase in

the volume of passengers transported in 2016 versus 2015, which is related to a 14% increase in assignments, including:

- a 27% increase for Sapsan trains (48% for single-unit trains and 18% for double-set trains);
- a 5% increase for Allegro trains;
- a 23% increase for Lastochka (Desiro RUS) long-haul trains.

Income from suburban passenger transportation

Income from suburban passenger transportation totalled RUB 2.1 bln.

Until October 2016, Russian Railways provided suburban passenger transportation as a carrier in the Krasnodar Territory via Lastochka electric trains

on sections of the Sochi operating domain. Income from such transportation totalled RUB 0.7 bln.

Starting from 1 October 2016, the carrier in the Sochi operating domain is Kuban Express Suburb.

Starting from 10 September 2016, Russian Railways has provided suburban transportation services on the Moscow Central Ring, which generated income of RUB 1.4 bln over the period prior to the end of the year.

Income from the provision of infrastructure services

Income from the provision of infrastructure services totalled RUB 104.6 bln, an increase of RUB 4.85 bln, or 4.9%, from last year, including:

- income from the provision of infrastructure services during freight transportation decreased by RUB 0.7 bln versus last year for the following reasons:
 - a change in the tariff level for services to use railway transportation infrastructure in connection with the introduction on 7 June 2015 of new rates established by Order No. 127-t/1 of the Federal Tariffs

Service dated 29 April 2015, which are 63% lower than the previous contractual tariffs of Russian Railways (RUB -0.3 bln);

- a decrease in the number of railcars left on infrastructure in connection with a 4.6% reduction in the operating railcar fleet in 2016 (-44,000 units) versus the 2015 level (RUB -0.4 bln);
- income from the provision of infrastructure services during passenger transportation increased by RUB 5.5 bln versus the 2015 level, including:

- an increase of RUB 3.7 bln compared with 2015 in long-haul transportation due to 4% indexation, growth in the share of rapid-transit and high-speed long-haul trains as well as an 0.4% increase in railcar-km work;
- an increase of RUB 1.8 bln in suburban transportation versus last year due to 4% indexation and a 1.7% an 0.4% increase in railcar-km work.

Income from locomotive traction services

Income from locomotive traction services totalled RUB 10.9 bln. Income increased by RUB 0.4 bln, or 3.9%, versus last year.