Anatoly Krasnoshchek

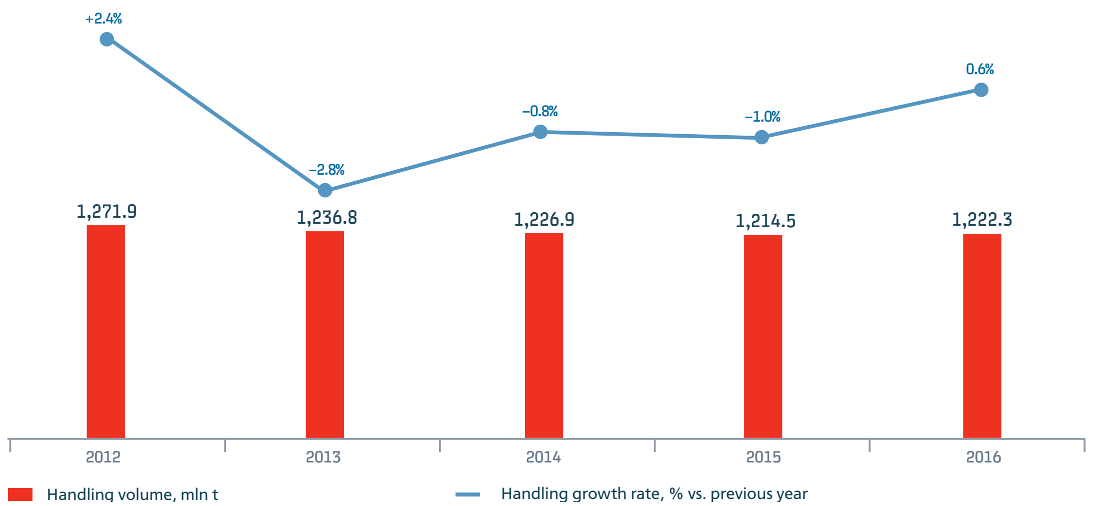
> In 2016, we managed to see growth in handling volume for the first time in four years. Total freight turnover increased by 1.5% versus 2015, while loaded freight turnover grew by 1.6% to 2.343 billion tkm – the highest level in the Company's history. The positive trend in volume indicators was achieved through the increased efficiency of railway transportation operations, among other things. Specifically, freight delivery speed increased at a significant rate of 20.7% over the last two years.

Handling

The activities of Russian Railways largely mirror the situation in the Russian economy and industry since they are connected with the work of major manufacturers. In particular, according to the Russian Federal State Statistics Service, the industrial production index totalled 1.1% in 2016.

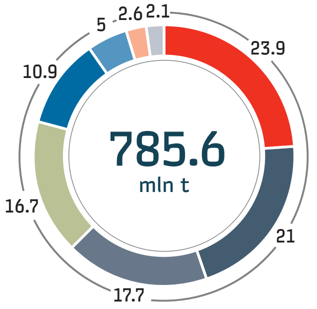
Handling throughout the Russian railways network totalled 1,222.3 mln tonnes (3,339.5 tonnes per day on average), an 0.6% increase from the 2015 level. These dynamics are primarily due to growth in handling for construction freight and coal.

Handling volume dynamics



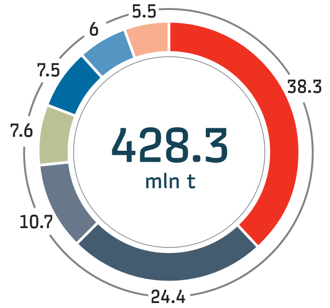
For the year, an 0.1% decrease was seen in domestic handling (to 785.6 mln tonnes), while handling volume for export increased by 2.2% (to 428.3 mln tonnes). As a result, the share of domestic transportation in the handling structure decreased from 64.8% to 64.3% in 2016 along with a simultaneous increase in the specific share of exports from 34.5% to 35.0%. Coal, oil, construction and ore freight made up the bulk of handling. Their total share in overall cargo handling totalled 66.7%.

Structure of domestic freight handling in 2016, %



- Other
- Coal
- Construction freight
- Oil and petroleum products
- Iron and manganese ore
- Ferrous metals
- Chemical and mineral fertilisers
- Timber

Structure of export freight handling in 2016, %

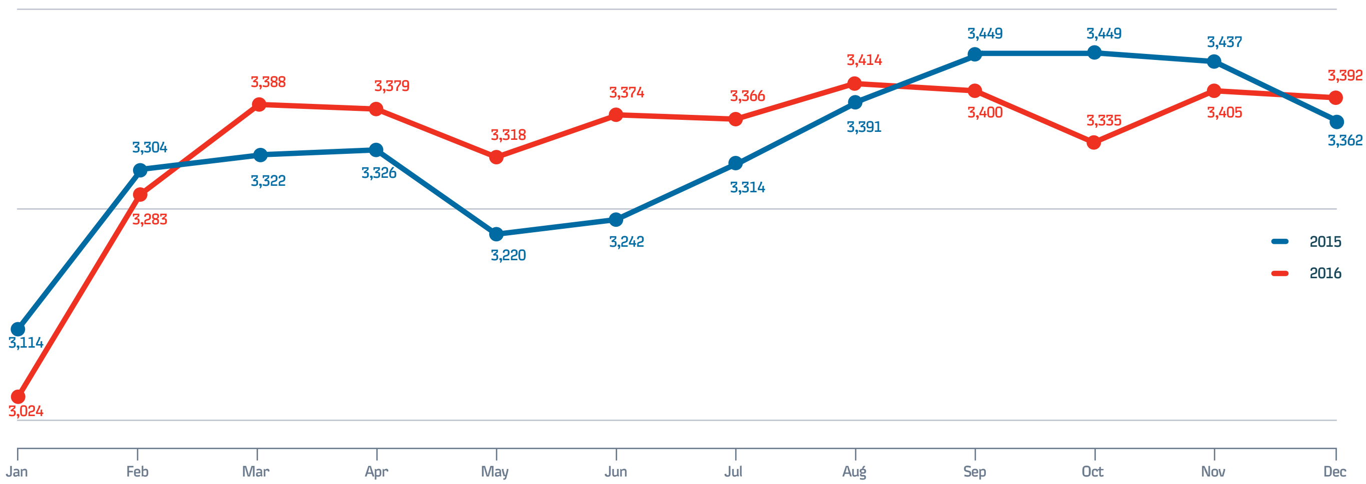


- Coal
- Oil and petroleum products
- Other
- Chemical and mineral fertilisers
- Ferrous metals
- Timber
- Iron and manganese ore

A variety of trends was seen in the breakdown of freight classes in 2016: growth was seen in the handling volume of first tariff class freight (by 2.4% or 17.1 mln tonnes) and third tariff class freight (by 0.7% or 0.9 mln tonnes), while the handling volume of second tariff class freight decreased (by 2.8% or 10.2 mln tonnes).

In terms of assortment, low-margin freight made up the biggest share – 60.2% of total handling volume. Average-margin freight accounted for 29.4%, and high-margin freight for 10.4%.

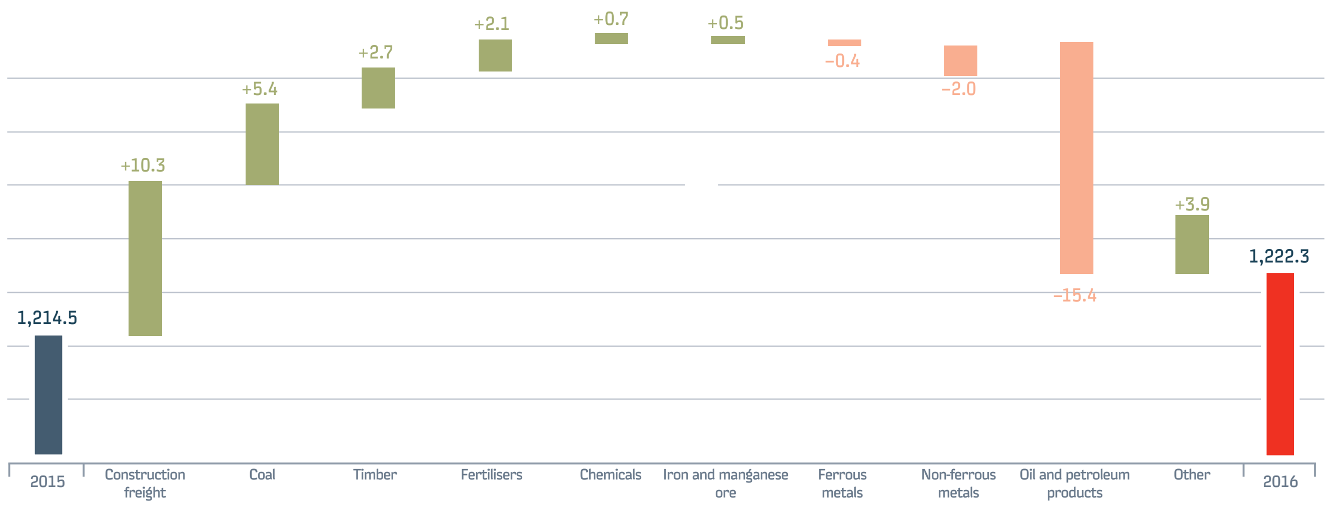
Dynamics of average daily handling, '000 t



Handling by traffic type

Indicator	2015		2016		Change in volume, %
	mln t	share, %	mln t	share, %	
Handling	**1,214.5**	**100.0**	**1,222.3**	**100.0**	**0.6**
Domestic traffic	786.4	64.8	785.6	64.3	−0.1
Export, including	419.2	34.5	428.3	35.0	2.2
via ports	259.6	21.4	273.3	22.4	5.3
via border crossings	159.6	13.1	155.0	12.7	−2.9
Import and transit	8.8	0.7	8.4	0.7	−4.3

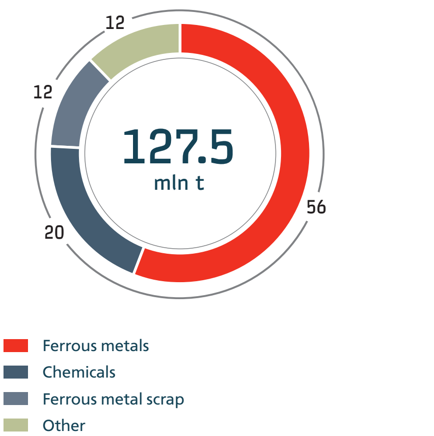
Change in freight handling volume in 2016, mln t



Structure of freight handling in 2016, %

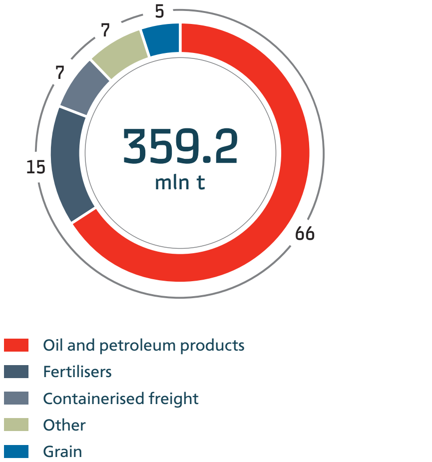
High-margin freight, %

Handling – 127.5 mln t (+0.7.%)
Share of overall handling – 10.4% (+0.01 p.p.)



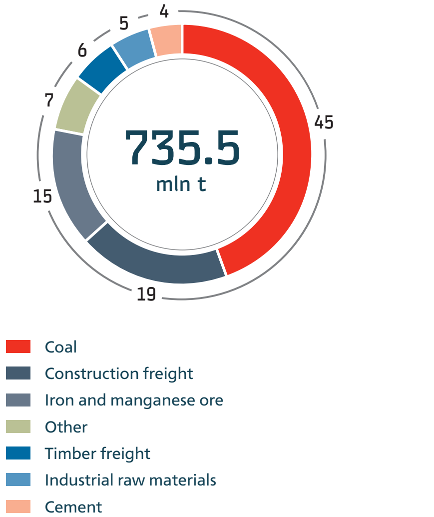
Average-margin freight, %

Handling – 359,2 mln t (–2,8 %)
Share of overall handling – 29.4% (–1.0 p.p.)



Low-margin freight, %

Handling – 735,5 mln t (+2,4 %)
Share of overall handling – 60.2% (+1.0 p.p.)

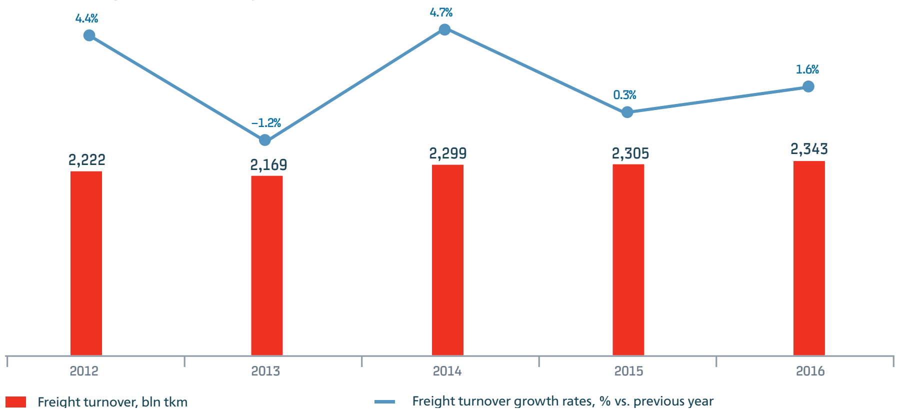


Freight turnover

Loaded railway freight turnover grew by 1.6% to 2,342.6 bln tkm in 2016.

Total freight turnover (including empty runs by the railcars of other owners) on Russian Railways infrastructure increased by 1.5% compared with 2015 and totalled 2,997.8 bln tkm, while empty freight turnover edged up 0.8% (to 655.2 bln tkm).

Loaded freight turnover dynamics



The growth rates in freight turnover outpaced the handling growth rates, which is attributable to growth in the average distance of freight transportation. The reduction in the volume of short-distance domestic freight transportation was compensated by growth in exports via port railway stations (by 68.1 bln tkm, or 8.3%).

In 2016, the average transportation distance was 1,599 km, which is 1.8%, or 28 km, more than the 2015 indicator, including 1,764 km for loaded shipments (up 1.7%) and 1,199 km in freight on its own axes (up 1.8%).

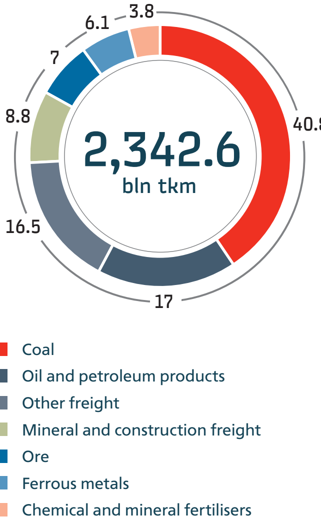
Average distance of freight shipments, km

Indicator	2015	2016	Change, %
Loaded shipment	1,734	1,764	1.7
Empty shipment	1,177	1,199	1.8
Average total for network	**1,570**	**1,599**	**1.8**

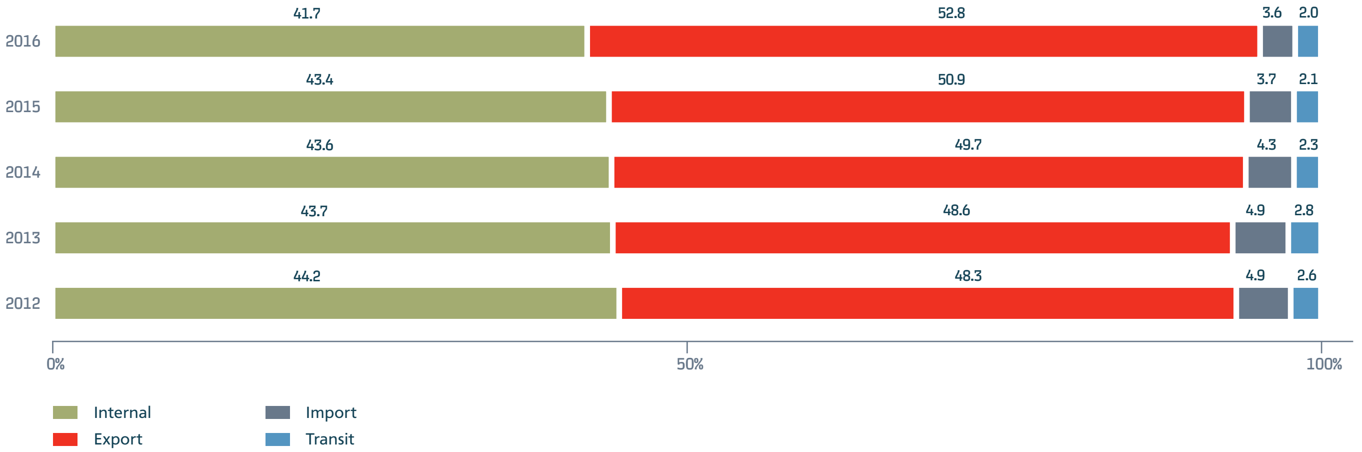
Domestically, loaded freight turnover declined by 2.4% to 976.7 bln tkm. A decrease was also seen in import freight turnover (by 0.9% to 83.8 bln tkm) and transit freight turnover (by 5.3% to 46 bln tkm). Meanwhile, loaded freight turnover for export increased by 5.5% to 1,236.1 bln tkm.

The changes led to a further reduction in the share of domestic shipments within the loaded freight turnover structure and growth in the share of exports.

Structure of loaded freight turnover in 2016, %



Structure of loaded freight turnover, %



Over the last five years, the share of export shipments in freight turnover increased by 4.5 p.p. and reached 52.8% in 2016, while the share of domestic shipments declined to 41.7% by contrast.

Coal accounted for the lion's share of loaded freight turnover in 2016 (40.8%, up 1.6 p.p. versus 2015) followed by petroleum products (17.0%, down 2.2 p.p.) and mineral and construction freight (8.8%, the same as in 2015).