IMPORTANT NOTICE

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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view this prospectus or make an investment decision with respect to the securities, investors must not be a U.S. person (within the meaning of Regulation S under the Securities Act). This prospectus is being sent at your request and by accepting the e-mail and accessing this prospectus, you shall be deemed to have represented to us that you are not a U.S. person; the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the U.S., its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia; and that you consent to delivery of such prospectus by electronic transmission.

You are reminded that this prospectus has been delivered to you on the basis that you are a person into whose possession this prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this prospectus to any other person. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and J.P. Morgan Securities plc and VTB Capital plc (the "**Joint Lead Managers**") or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of RZD Capital P.L.C. as issuer in such jurisdiction.

Under no circumstances shall this prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this prospectus who intend to subscribe for or purchase the Notes are reminded that any subscription or purchase may only be made on the basis of the information contained in the final form prospectus. This prospectus may only be communicated to persons in the United Kingdom in circumstances where Section 21(1) of the Financial Services and Markets Act 2000 does not apply.

Under Russian law, the Notes are securities of a foreign issuer. The Notes are not eligible for "offering", "advertisement", "placement" and "circulation" in the Russian Federation unless and to the extent otherwise permitted under Russian law.

This prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of RZD Capital P.L.C., Russian Railways, Joint Stock Company, the Joint Lead Managers or any person who controls it nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

PROSPECTUS DATED 27 FEBRUARY 2017

U.S.$500,000,000 4.375 per cent. Loan Participation Notes due 2024

issued by, but with limited recourse to,

RZD CAPITAL P.L.C.

for the sole purpose of financing a loan to

RUSSIAN RAILWAYS, JOINT STOCK COMPANY

Issue Price: 100 per cent.

RZD Capital P.L.C., a company organised and existing as a public limited company under the laws of Ireland (the "**Issuer**"), is issuing an aggregate principal amount of U.S.$500,000,000 4.375 per cent. Loan Participation Notes due 2024 (the "**Notes**") for the sole purpose of financing a loan (the "**Loan**") to Joint Stock Company Russian Railways, a joint stock company organised under the laws of the Russian Federation (the "**Company**", "**RZD**" or the "**Borrower**"), pursuant to a loan agreement dated 27 February 2017 between the Issuer, as lender, and the Borrower (the "**Loan Agreement**"). Interest on the Notes will be payable semi-annually in arrear on 1 March and 1 September in each year, commencing on 1 September 2017, as described under "*Terms and Conditions of the Notes—5 Interest*". The Loan will bear interest of 4.375 per cent. per annum.

Subject to the provisions of the Trust Deed (as defined herein), the Issuer will charge as security for its payment obligations in respect of the Notes and under the Trust Deed (i) its rights to all payments of principal, interest and additional amounts (if any) payable by the Borrower under the Loan Agreement; (ii) its rights to receive all sums which may become payable by the Borrower under any claim, award or judgment relating to the Loan Agreement; and (iii) its rights, title and interest in and to all sums of money held from time to time in an account of the Issuer pursuant to the Loan Agreement, in each case to BNY Mellon Corporate Trustee Services Limited (the "**Trustee**"), as trustee for the benefit of the holders of the Notes (the "**Noteholders**"). Furthermore, under the terms of the Trust Deed, the Issuer will assign all of its rights, interests and benefits under the Loan Agreement, except for any Reserved Rights (as defined in the Trust Deed) and rights subject to the charge, to the Trustee for the benefit of the Noteholders.

The Notes are limited recourse obligations of the Issuer. In each case, where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make such payment will constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Loan Agreement, excluding amounts paid in respect of Reserved Rights. The Issuer will have no other financial obligation under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of the Company in respect of the financial servicing of the Notes.**

Except as set forth herein under "*Taxation*", payments in respect of the Notes (and the Loan) will be made without any deduction or withholding on account of taxes. As set forth more fully in the Loan Agreement, the Company may prepay the Loan at its principal amount, in whole but not in part, together with accrued interest, if (i) the Company or the Issuer must deduct or withhold certain taxes from payments they make in respect of the Loan or the Notes, respectively; or (ii) it becomes illegal for the Notes or the Loan to remain outstanding. Upon such occurrence, the Issuer will, subject to the receipt of the relevant funds from the Company, prepay the principal amount of all Notes outstanding, together with accrued interest.

Except as otherwise expressly provided in this Prospectus and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement, or in any rights that the Issuer may receive by way of assignment in respect of the Loan, exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will be entitled to enforce any provisions of the Loan Agreement or have direct recourse to the Borrower.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" ON PAGE 14.

The Notes and the Loan have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and, subject to certain exceptions, may not be offered and sold within the United States of America (the "**United States**" or "**U.S.**") or to U.S. persons. The Notes are not eligible for "offering", "advertisement", "placement" and "circulation" in the Russian Federation unless and to the extent otherwise permitted under Russian law.

The Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**") as competent authority under Directive 2003/71/EC (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and European Union ("**EU**") law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area.

Application has been made to The Irish Stock Exchange plc (the "**Irish Stock Exchange**") for the Notes to be admitted to the official list and trading on its regulated market (the "**Main Securities Market**"). The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. There is no assurance that a trading market in the Notes will develop or be maintained.

The Notes will be offered and sold in the minimum denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes will initially be represented by interests in a permanent global unrestricted Note in registered form (the "**Global Certificate**"), which will be deposited with a common depositary for, and registered in the name of a nominee of a common depositary for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") on 1 March 2017 (the "**Issue Date**"). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. See "*Summary of the Provisions Relating to the Notes in Global Form*". Individual definitive Notes in registered form ("**Definitive Certificates**") will only be available in certain limited circumstances as described in the Global Certificate.

The Notes have been provisionally rated "BBB-" by Fitch Ratings CIS Ltd ("**Fitch**") and "Ba1" by Moody's Investors Service Ltd ("**Moody's**"). Each of Fitch and Moody's, is established in the EU and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid or paid on a particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

Joint Lead Managers

J.P. Morgan **VTB Capital**

This Prospectus comprises a prospectus for the purposes of the Prospectus Directive as implemented in Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005 (the "**Prospectus Regulations**") and for the purpose of giving information with respect to the Issuer, the Company, the Company and its subsidiaries taken as a whole (the "**Group**"), the Loan and the Notes, which, according to the particular nature of the Issuer, the Company, the Group, the Loan and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, the Company and the Group and of the rights attaching to the Notes.

Each of the Issuer and the Company accepts responsibility for the information given in this Prospectus. To the best of the knowledge and belief of each of the Issuer and the Company (having taken all reasonable care to ensure that such is the case), each of the Issuer and the Company confirms that the information given in this Prospectus is in accordance with the facts and does not omit anything likely to affect its import.

The Company's legal name is Joint Stock Company Russian Railways and the address of its registered office is 2, Novaya Basmannaya St., 107174 Moscow, Russian Federation. The telephone number of the Company's registered office is +7 499 262 99 01. The Issuer's legal name is RZD Capital P.L.C. and the address of its registered office is 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland. The telephone number of the Issuer's registered office is +353 1 905 8020.

The Issuer and the Company have, pursuant to a subscription agreement dated 27 February 2017 (the "**Subscription Agreement**"), appointed J.P. Morgan Securities plc and VTB Capital plc as joint lead managers for the Notes (the "**Joint Lead Managers**") and have authorised and requested the Joint Lead Managers to circulate this Prospectus in connection with the Notes, subject as provided in the Subscription Agreement.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of, any of the Issuer, the Company or any Joint Lead Manager to subscribe for or purchase any Notes. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Company and the Joint Lead Managers to inform themselves about and to observe any such restrictions.

THE NOTES AND THE LOAN HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. SUBJECT TO CERTAIN EXCEPTIONS, THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**Regulation S**")). For a description of these and certain further restrictions on offers, sales and transfers of the Notes and the distribution of this Prospectus, see "*Subscription and Sale*".

In making an investment decision, prospective investors must rely on their own examination of the Issuer and the Company and the terms of this Prospectus, including the risks involved.

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Company or the Joint Lead Managers. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Company since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Company since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Notes is correct as at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

To the fullest extent permitted by law, the Joint Lead Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Joint Lead Manager or on its behalf in connection with the Issuer, the Company or the offering of the Notes pursuant to this Prospectus (the "**Offering**"). Each Joint Lead Manager accordingly disclaims all and any liability, whether arising in tort or contract or otherwise (save as referred to above), which it might otherwise have in respect of this Prospectus or any such statement. The websites of the Company and its subsidiaries do not form any part of the contents of this Prospectus. None of the Trustee, the Registrar, the Principal Paying Agent and the Transfer Agent accept any responsibility for the contents of this Prospectus.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess this Prospectus. Any consents or approvals that are needed in order to purchase any Notes must be obtained. The Issuer, the Company and the Joint Lead Managers are not responsible for compliance with these legal requirements. The appropriate characterisation of the Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase the Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which the Notes constitute a legal investment for investors whose investment authority is subject to legal restrictions. Such investors should consult their legal advisers regarding such matters.

EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN THE NOTES MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF THE ISSUER, THE COMPANY AND THE GROUP AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT, WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE, AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

This Prospectus or information contained therein is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer securities in the Russian Federation to or for the benefit of any Russian person or entity and does not constitute an advertisement or offering of securities in the Russian Federation within the meaning of Russian securities laws. Information contained in the Prospectus is not intended for any person in the Russian Federation who are not "qualified investors" within the meaning of Article 51.2 of the Federal Law No. 39-FZ "On the Securities Market" dated 22 April 1996, as amended (the "**Russian QIs**") and must not be distributed or circulated into Russia or made available in Russia to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law. The Notes have not been and will not be registered in Russia and are not intended for "placement" and "circulation" in Russia (each as defined in Russian securities laws) unless and to the extent otherwise permitted under Russian law. No person should at any time carry out any activities in breach of the restrictions set out in "*Subscription and Sale—Russian Federation*".

In connection with the issue of the Notes, VTB Capital plc (the "**Stabilising Manager**") (or persons acting on its behalf) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on its behalf) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or person(s) acting on its behalf) in accordance with all applicable laws and rules.

This document is only being distributed to and is only directed at (1) persons who are outside the United Kingdom or (2) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (3) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "**Relevant Persons**"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this document or any of its contents.

This document has been filed with and approved by the Central Bank. The Prospectus approved by the Central Bank will be filed with the Irish Companies Registration Office in accordance with Regulation 38(l)(b) of the Prospectus Regulations.

Any investment in the Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank. The Issuer is not and will not be regulated by the Central Bank as a result of issuing the Notes. The Issuer does not intend to provide post-issuance reporting with respect to the Notes or the Loan.

ENFORCEABILITY OF JUDGMENTS

The Company is a joint stock company incorporated under the laws of the Russian Federation. All the Company's directors and executive officers named in this Prospectus reside in the Russian Federation. Moreover, the majority of the assets of the Company and substantially all of the assets of its directors and officers are located in the Russian Federation. As a result, it may not be possible for the Noteholders to:

- effect service of process within the United Kingdom upon any of the Company's directors or executive officers named in this Prospectus; or
- enforce, in the English courts, judgments obtained outside England against the Company or any of its directors and executive officers named in this Prospectus in any action.

In addition, it may be difficult for the Noteholders to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom, liabilities predicated upon English laws. Courts in the Russian Federation will generally recognise judgments rendered by a court in any jurisdiction outside the Russian Federation if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered and/or a federal law is adopted in Russia that provides for the recognition and enforcement of foreign court awards. No such treaty for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between the Russian Federation and certain other jurisdictions (including the United Kingdom) and no relevant federal law on enforcement of foreign court judgments has been adopted in Russia, as a result of which new proceedings may have to be brought in the Russian Federation in respect of a judgment already obtained in any such jurisdiction against the Company or its officers or directors. However, the Company is also aware of some instances in which Russian courts have recognised and enforced foreign court judgments (including a judgment of an English court), on the basis of the principle of reciprocity and (in the case of enforcement of an English court judgment) the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. The courts determined that such treaties constituted grounds for the recognition and enforcement of the relevant English court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce an English court judgment on these grounds.

In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above, including the general procedural grounds set out in Russian legislation for the refusal to recognise and enforce foreign court judgments in the Russian Federation, may significantly delay the enforcement of such judgment or deprive the Issuer and/or the Noteholders of effective legal recourse for claims related to the investment in the Notes.

The Loan Agreement will be governed by English law and will provide for disputes, controversies and causes of action brought by any party thereto against the Company to be settled by arbitration in accordance with the rules of the LCIA (formerly the London Court of International Arbitration) (the "**LCIA Rules**"). The place of such arbitration shall be London, England. The Russian Federation and the United Kingdom are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation).

The Arbitrazh Procedural Code of the Russian Federation (the "**Arbitrazh Procedural Code**") sets out the procedure for the recognition and enforcement of foreign arbitral awards by Russian courts. The Arbitrazh Procedural Code also contains an exhaustive list of grounds for the refusal of recognition and enforcement of foreign arbitral awards by Russian courts, which grounds are broadly similar to those provided by the New York Convention.

The Arbitrazh Procedural Code and other Russian procedural legislation could change, and other grounds for Russian courts to refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the LCIA Rules and the application of English law to the Loan Agreement may be limited by the mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies.

FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are "forward-looking" statements. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words "believe", "expect", "anticipate", "intend", "estimate", "forecast", "project", "will", "may", "should" and similar expressions identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements appear, without limitation, under the headings "Overview", "Risk Factors", "Operating and Financial Review" and "Business". The Company or the Group may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of the Company's or the Group's plans, objectives or goals, including those related to its strategy, products or services;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Forward-looking statements that may be made by the Company or the Group from time to time (but that are not included in this Prospectus) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital expenditures, capital structure or other financial items or ratios.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Prospective investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- the performance of the Russian economy;
- the effects of, and changes in, the policy of the Government;
- the effects of changes in laws, regulations, taxation or accounting standards or practices in Russia;
- the Group's ability to successfully implement the Government-planned target model of the Russian railway market and its ability to operate effectively in the Russian railway transportation industry after the completion of that programme;
- the Group's ability to control expenses;
- the Group's ability to integrate planned business acquisitions into its existing operations or to complete planned divestitures;
- inflation, interest rate and exchange rate fluctuations in Russia; and
- the Group's success at managing the risks associated with the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Company and the Group operate. Such forward-looking statements speak only as at the date on which they are made, and are not subject to any continuing obligations under the listing rules of the Irish Stock Exchange. Accordingly, the Company does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. The Company does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

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OVERVIEW OF THE OFFERING

*The following summary should be read in conjunction with, and is qualified in its entirety by reference to, the more detailed information and the Group's audited consolidated financial statements as at and for the years ended 31 December 2015 and 2014 prepared in accordance with International Financial Reporting Standards ("**IFRS**") (the "**2015 and 2014 Consolidated Financial Statements**") and the Group's unaudited reviewed interim condensed consolidated financial statements as at and for the six months ended 30 June 2016 prepared in accordance with IAS 34 "**Interim Financial Reporting**" (the "**2016 Unaudited Interim Condensed Consolidated Financial Statements**", together with the 2015 and 2014 Consolidated Financial Statements, the "**IFRS Financial Statements**") which are set out elsewhere in this Prospectus. See "Risk Factors" for a discussion of certain factors that should be considered by potential investors prior to an investment in the Notes.*

OVERVIEW

The Group is one of the largest transportation companies in the world. It is the owner and operator of Russia's approximately 85,300 kilometre-long rail system and related infrastructure. See "*Business—The Rail System*". As at 31 December 2015, the rail system was the world's third longest railway network, the world's third largest railway in terms of freight turnover (measured in tonne-kilometres) and the world's fifth largest railway in terms of passenger turnover (measured in passenger-kilometres). The Company has been state-owned since its creation in 2003. In addition to the rail system, the Group owns and operates nearly all of the locomotives in Russia, is one of the largest Russian owners and operators of freight rolling stock and carries virtually all long-haul (to destinations over 200 kilometres) railway passengers. Suburban railway passenger operations (to destinations under 200 kilometres) are mainly carried out by suburban rail passenger companies, which are either the Company's subsidiaries or entities in which the Company holds a minority stake.

The Group engages in full-service freight transportation, locomotive traction, infrastructure operations, rolling stock repair and maintenance, long-haul and suburban passenger transportation, container transportation and logistics. The Group is also engaged in a number of other activities primarily relating to telecommunications, real estate development, residential and commercial construction, engineering as well as research and development. The Group participates in cross-border projects in Azerbaijan, Belarus, China, Finland, France, Germany, Kazakhstan, Slovakia and Ukraine. It is also involved in railway construction and management projects abroad in the following countries: Austria, Armenia, Indonesia, Iran, Mongolia, North Korea, Serbia and other countries. See "*Business—International Joint Ventures and Cooperation*".

In 2015, the Group's total revenues were RUB 1,991.0 billion, which represented an increase of 10.8 per cent. compared with 2014. The Group's total revenues were derived from freight transportation services (which, including logistics services, represented 78.6 per cent. of total revenues), passenger transportation services (which represented 9.7 per cent. of total revenues) and other business activities, which include the Group's non-core operations (which represented 11.7 per cent. of total revenues). The Group's total operating expenses in 2015 were RUB 1,915.1 billion, an increase of RUB 168.5 billion, or 9.6 per cent., compared with 2014. The Group's EBITDA and EBITDA margin in 2015 were RUB 388.5 billion and 19.5 per cent., respectively, compared with RUB 352.6 billion and 19.6 per cent., respectively, in 2014. See "*Operating and Financial Review —Results of Operations*".

In the six months ended 30 June 2016, the Group's total revenues were RUB 1,039.7 billion, which represented an increase of 8.1 per cent. compared with the six months ended 30 June 2015. The Group's total revenues were derived from freight transportation services (which, including logistics services, represented 80.6 per cent. of total revenues), passenger transportation services (which represented 8.9 per cent. of total revenues) and other business activities, which include the Group's non-core operations (which represented 10.5 per cent. of total revenues). The Group's total operating expenses in the six months ended 30 June 2016 were RUB 980.3 billion, an increase of RUB 58.0 billion, or 6.3 per cent., compared with the six months ended 30 June 2015. The Group's EBITDA and EBITDA margin in the six months ended 30 June 2016 were RUB 219.9 billion and 21.2 per cent., respectively, compared with RUB 191.2 billion and 19.9 per cent., respectively, in the six months ended 30 June 2015. See "*Operating and Financial Review—Results of Operations*".

RELATIONSHIP WITH THE GOVERNMENT

The government of the Russian Federation (the "**Government**") exercises substantial influence over the Group through its share ownership, tariff and subsidy policies as well as regulatory and legislative powers. As at the date of this Prospectus, the Russian Federation owned 100 per cent. of the Company's shares and, as the sole shareholder, appoints all twelve members of the board of directors of the Company (the "**Board of Directors**") and the Company's president. See "*Description of the Company Management*". The Government also approves the Company's budget and capital expenditures programme and otherwise participates in the operations of the Company.

The Government regulates tariffs that the Company charges for freight transportation and, specifically, for access to the railway infrastructure, locomotive traction and the use of Company-owned or leased railcars. For passenger services, the Government regulates tariffs for third- and fourth-class long-haul transportation, while the tariffs for suburban passenger transportation are regulated by local authorities. See "*Business —Tariff Regulation and Pricing*". The Company also receives subsidies from the Government. The Government's tariff and subsidy policies are influenced by social, economic and political considerations. Also see "*Risk Factors—Risks Relating to the Group—The Company is Subject to Tariff Regulation by and Dependent on Subsidies, Grants and Other Support from the Government*".

Under Russian law, the Company is a natural monopoly with respect to railway transportation in Russia. As a natural monopoly, the Company is required to provide access to the railway infrastructure, locomotive services and Company-owned railcars on a non-discriminatory basis to all market participants. The Company is also considered to be a strategic entity under Russian law and, as such, is subject to a special insolvency and bankruptcy regime and the sale or dilution of the Russian Federation's interest in the voting share capital of the Company (or its subsidiaries) is restricted. See "*Regulation of Railway Transportation in Russia Applicable Legislation*".

The Government's initiatives relating to the reform of the Russian railway industry also significantly affect the Company and its operations. The reform programme of railway transportation in Russia (the "**Reform Programme**") was approved in May 2001 and lasted for 14.5 years. Between 2001 and 2015, the Reform Programme was implemented through a series of initiatives set out in certain Reform Programme-related documents. Although the Reform Programme was officially completed in 2015, the Government and the Company continue to discuss new initiatives to further develop the Russian rail transportation market. See "*Business —History and Corporate Structure of the Group and the Reform Programme*".

COMPETITIVE STRENGTHS

The Company believes that, as a key strategic component of the Russian economic infrastructure, it is well placed to benefit from, and contribute to, the growth and development of the Russian economy.

Vital Importance for the Russian Federation and the Russian Economy. The Group plays a strategic role in freight and passenger transportation and in the overall Russian economy. The Group owns and operates the rail system which is the primary mode of freight transportation in Russia for all major types of freight (excluding oil and gas), measured by freight turnover. Between 2010 and 2015, the share of railway freight transportation in the total freight turnover in Russia continued to gradually increase from approximately 85 per cent. in 2010 to approximately 87 per cent. in 2015 (excluding oil and gas carried through pipelines). The share of railway freight transportation in the total freight turnover in Russia was 87.5 per cent. in the six months ended 30 June 2016 (excluding oil and gas carried through pipelines).

Freight turnover on the rail system (excluding empty runs) increased by approximately 6.2 billion tonnes-kilometres, or 0.3 per cent., from 2,298.6 billion tonnes-kilometres for the year ended 31 December 2014 to 2,304.8 billion tonnes-kilometres for the year ended 31 December 2015. This increase was primarily due to an increase in export-driven freight transportation volumes and an increase in the average freight transportation distance, which increased by approximately 3.1 per cent. in 2015 compared with 2014. In the six months ended 30 June 2016, freight turnover (excluding empty runs) increased by approximately 17.4 billion tonnes-kilometres, or 1.5 per cent., from 1,123.3 billion tonnes-kilometres in the six months ended 30 June 2015 to 1,140.7 billion tonnes-kilometres for the six months ended 30 June 2016. In 2016, freight turnover (based on preliminary results and excluding empty runs) increased by approximately 37.5 billion tonnes-kilometres, or 1.6 per cent., from 2,304.8 billion tonnes-kilometres in 2015 to 2,342.6 billion tonnes-kilometres in 2016.

Rail transportation is also the primary mode of domestic passenger travel in Russia, with an overall passenger turnover (including long-haul and suburban transportation by both the Group and its associates) of approximately 120.4 billion passenger-kilometres in 2015, compared with 128.9 billion passenger-kilometres in 2014, approximately a 6.5 per cent. period-on-period decrease. Long-haul passenger transportation turnover was 89.5 billion passenger-kilometres and 96.3 billion passenger-kilometres in 2015 and 2014, respectively. In the six months ended 30 June 2016, passenger turnover on the rail system increased by approximately 1.0 billion passenger-kilometres, or 1.9 per cent., from 52.8 billion passenger-kilometres in the six months ended 30 June 2015 to 53.8 billion passenger-kilometres for the six months ended 30 June 2016. In 2016, passenger turnover on the rail system (based on preliminary results) increased by approximately 4.1 billion passenger-kilometres, or 3.4 per cent., from 120.4 billion passenger-kilometres in 2015 to 124.5 billion passenger-kilometres in 2016.

Given the size and reach of the rail system across Russia's territory and the significant distances between suppliers of raw materials and their intermediate or end customers, the Company believes that railway transportation will continue to be the primary mode of freight (excluding oil and gas) and long-haul passenger transportation.

This leading position in the Russian transportation sector positions the Group to benefit from the expected growth of the Russian economy in the medium term. The Company believes that growth in freight turnover historically has been strongly correlated with growth in GDP and industrial production in Russia. Consequently, when Russia's economy recovers from the effects of the current economic slowdown, the Group will benefit from the economic growth.

Wide Geographic Reach. The geographic reach of the rail system also allows the Group to take advantage of evolving regional economic centres, as the Group can divert resources (including rolling stock, locomotives and passenger services) and traffic routing to areas with increasing transportation demand. The Company believes that this geographic reach also allows it to grow and evolve simultaneously with the development of the Russian economy and develop and exploit new trade routes, which increase the rail system's throughput capacity and efficiency by reducing the frequency and distance of empty runs.

Leading Market Position in Freight Transportation. The Group continues to play an important role in the Russian railway freight transportation market. The Company owns and operates the rail system and related infrastructure as well as virtually all of the locomotives in Russia. All private freight railcar operators, including the Company's subsidiaries, pay the Company for access to the rail system and locomotive traction, which together represent approximately 85 per cent. of the total cost of freight transportation (assuming regulated tariffs as set by the Federal Antimonopoly Service of the Russian Federation (the "**FAS**") are applied).

In addition, the Group, through a number of its subsidiaries, is one of the largest owners of railcars in Russia and one of the leading railcar operators, with approximately 196.4 thousand units of freight rolling stock owned as at 31 December 2015 and 179.7 thousand units as at 30 June 2016 (excluding leased railcars). The Group's largest operator of freight rolling stock is JSC Federal Freight ("**Federal Freight**"), which is the second largest freight railcar operator in Russia. As at 31 December 2016, it had a fleet of approximately 156.5 thousand freight railcars, 83.4 thousand of which were owned by Federal Freight and 73.1 thousand were leased.

The Group is also engaged in the operation of specialised rolling stock, such as container platforms. PJSC TransContainer ("**TransContainer**"), established by the Company in 2006, is a leading rail container transportation and logistics company in Russia. As at 30 June 2016, it had a fleet of approximately 23.6 thousand platforms (most of which were owned and approximately 0.1 thousand were leased), which represented a market share of approximately 43.6 per cent. in Russian rail-based container transportation as at that date. In December 2012, to enhance its logistics capabilities the Group acquired a 75 per cent. equity stake in Gefco S.A. ("**GEFCO**"), an international logistics operator. See "*Business—Business Operations—Freight—GEFCO*".

The monopoly over the rail infrastructure, the large size of the Group's fleet and the ability to provide customers with full spectrum of logistics solutions have enabled the Group to maintain its leading positions in the Russian railway freight transportation market despite the growing competition from private rail operators.

Tariff and Subsidy Regulation Providing Financial Stability and Predictable Cash Flows. The Government, through its tariff regulation and subsidy policy, has enabled the Company to generate sufficient cash flows to support the Company's operations, capital expenditures (primarily relating to the railway infrastructure repair and maintenance) and repayment of borrowings. The Government regulates tariffs for access to rail infrastructure and locomotive traction services provided by the Company, as well as certain services provided by its subsidiaries (such as the third- and fourth-class long-haul passenger transportation services provided by JSC Federal Passenger Company ("**Federal Passenger Company**")). In addition, tariffs for suburban passenger transportation services are regulated by regional authorities.

In regulating tariffs through tariff indexation, the Government generally seeks to ensure that tariffs are sufficient to enable the Group to generate necessary financial resources required for sustainable and efficient operation of the Group and repair and maintenance of the rail system, while also minimising the adverse effect of tariff growth on the users of the rail system. In freight tariff indexation, the general approach adopted by the Government in the last several years has been to use the Consumer Price Index (the "**CPI**") level of a preceding year as the main benchmark for tariff indexation for the coming year. However, other factors have also been taken into consideration in annual tariff indexation, which resulted in freight tariff indexation from time-to-time differing from the level of CPI. The annual indexation of regulated freight tariffs approved by relevant decisions of the FAS (and those of the Federal Tariff Service (the "**FTS**"), the federal agency responsible for tariff regulation prior to September 2015) was 9 per cent. in 2016, 10 per cent. in 2015 and nil in 2014, in each case applied starting from 1 January of the respective year. For 2017, the FAS approved a total indexation of 6 per cent., which represented a 4 per cent. basic indexation and an additional 2 per cent. supplemental indexation to support the Company's capital repairs programme in 2017. In passenger transportation tariff indexation, the Government is influenced by social considerations (such as facilitating affordable and reliable long-distance and suburban passenger transportation), which from time-to-time resulted in setting tariffs that were insufficient to cover the Group's expenditures incurred in connection with provision of the relevant services. The annual indexation of passenger tariffs for long-haul passenger service in third- and fourth-class was 4.0 per cent. in 2016, 10 per cent. in 2015 and 4 per cent. in 2014 applied from 1 January of each respective year. In addition, in 2016, there was a further increase of tariffs for long-haul passenger service in third- and fourth-classes by 7 per cent. applied from 1 March 2016. In 2015, the Government also resolved to decrease VAT on long-haul passenger and luggage transportation services from 18 per cent. to 10 per cent. from 1 January 2016. As a result of this change, the indexation of the net-of-VAT part of tariff has been approximately 11.5 per cent. in 2016, while tariffs for end customers increased effectively by 4 per cent. compared to 2015. In 2016, the Government further decreased the VAT rate on long-haul passenger and luggage transportation services to 0 per cent. applicable from 1 January 2017 until 31 December 2029. The respective indexation of the net-of-VAT part of tariff in 2017 was set at 14.3 per cent., with the effective increase of tariffs for end customers of 3.9 per cent. For a further discussion on tariff regulation see "*Business—Tariff Regulation and Prices*".

The Government provides subsidies, grants and other support to the Group to compensate it for the adverse effects of tariff regulation. The Group receives subsidies from federal and regional government authorities to compensate the effects of passenger transportation tariff regulation. In the past, the Government also provided subsidies to compensate the effects of freight transportation tariff regulation but in recent years, the Government used other ways to support Group's operations. Total subsidies from federal and regional budgets received by the Group were RUB 62.6 billion and RUB 50.7 billion in 2015 and 2014, respectively, which comprised: subsidies from federal budget to compensate the effects of tariff regulation on long-distance passenger transportation of RUB 24.7 billion and RUB 23.3 billion in 2015 and 2014, respectively; subsidies from federal budget to compensate the effects of tariff regulation of infrastructure access services for suburban passenger transportation of RUB 27.8 billion and RUB 20.7 billion in 2015 and 2014, respectively; subsidies from federal and regional budgets to compensate the effects of tariff regulation on suburban passenger transportation of RUB 8.7 billion and RUB 6.3 billion in 2015 and 2014, respectively; and other subsidies of RUB 1.4 billion and RUB 0.5 billion in 2015 and 2014, respectively. In addition, the Company received additional compensation of RUB 0.1 billion in 2015 and RUB 0.1 billion in 2016 as a part of the arrangement with the Federal Agency for Railway Transportation to repay to the Group the remaining losses (not covered by the subsidies) from the effects of tariff regulation of infrastructure access services for suburban passenger transportation accumulated between 2011 and 2014. According to the Group's preliminary calculations, in 2016, it received from the federal budget a subsidy of RUB 32.6 billion (including VAT) to compensate the Group for tariff regulation relating to infrastructure access for suburban transportation and a subsidy of RUB 18.9 billion (not subject to VAT) to compensate the Group for tariff regulation relating to long-haul passenger transportation. Additionally, the regional governments compensated the suburban passenger transportation companies for the losses incurred in provision of suburban transportation services. See "*Operating and Financial Review—Significant Factors Affecting Results of Operations—Tariffs and Subsidies*".

In the past, the Government also provided subsidies and grants to compensate the effects of freight transportation tariff regulation and to support railway infrastructure maintenance and development projects. However, according to the Company's estimates, tariff indexation approved in respect of 2016 and 2017, in conjunction with the effect of cost-optimisation measures implemented by the Company, allows it to generate sufficient revenues to cover its operating costs. As a result, no additional support for the freight segment on the operational level was requested by the Company for 2016 and 2017. In 2014, the Group received RUB 56.0 billion in grants for capital repairs and development of railway infrastructure, RUB 26.0 billion and RUB 29.9 billion of which were utilised in 2014 and 2015, respectively.

The Company believes that the Government will continue to provide similar tariff and subsidy support in the future, which, the Group believes, will promote financial stability and enable the Group to continue generating sufficient revenues, profitability and cash flows required for the sustainable and effective operation of the Group and the rail system.

The Government Supports Railway Infrastructure Development Programmes. The Group is an integral part of the Government's long-term national railway transportation development strategy, certain key initiatives of which include the draft Target Model of Freight Railway Transportation Market intended to be achieved by 2020 (the "**Target Model 2020**"), the Railway Transportation Strategy in the Russian Federation 2030 and the Government Transportation Development Strategy 2030, all of which envision significant investment into the maintenance and development of the Russian railway infrastructure.

The Government has continued to provide grants and capital injections to the Group to support railway infrastructure maintenance and development projects. In 2014, the Group received Government grants for capital repairs and development of railway infrastructure of RUB 56.0 billion, RUB 26.0 billion and RUB 29.9 billion of which were utilised in 2014 and in 2015, respectively. In 2015, the Government also contributed to the Company's share capital in the aggregate RUB 123.2 billion (through the Company's issuance of ordinary shares in the amount of RUB 73.2 billion and the Company's issuance of preferred shares in the amount of RUB 50.0 billion), including RUB 121.2 billion in cash for various railway infrastructure construction and maintenance projects and RUB 2.0 billion in assets. In 2016, the Government made cash contributions to the Company's share capital of RUB 61.0 billion in the aggregate through the issue of ordinary shares and approved a further contribution of RUB 8.1 billion in assets (which as at 31 December 2016 was not made). For 2017, the Government approved RUB 31.6 billion in capital injections from the federal budget and confirmed its intention to provide an additional RUB 50.0 billion through an acquisition of the Company's preferred shares using funds of the National Wealth Fund, with the proceeds expected to be invested in the modernisation of the Far East rail infrastructure, amongst other projects.

The Group also receives supplemental financial support from the Government (or Government-related institutions) in the form of financing on terms more favourable than otherwise available on the market, such as, amongst others, a purchase of bonds issued by the Company. In 2012, the Company issued its debut inflation bonds (Rouble-denominated bonds with a CPI-linked interest rate and an extended, as compared with general market terms, maturity) in the aggregate amount of RUB 10.0 billion, which were placed among Government-controlled entities and private investors. As a result of the successful issue of inflation bonds, the Government agreed to support the Company's issuance of another financial instrument, infrastructure bonds, proceeds from which are designated for various railway infrastructure-related projects. In 2013, the Company placed debut infrastructure bonds in the aggregate amount of RUB 150.0 billion. In 2014 and 2015, the Company issued further infrastructure bonds in the aggregate amounts of: RUB 87.0 billion purchased by Vnesheconombank using money of the State Pension Fund; and RUB 60.2 billion purchased by PJSC VTB Bank ("**VTB Bank**") using funds of the National Wealth Fund. The proceeds from the infrastructure bonds were invested in infrastructure development and acquisition of locomotives.

The Group believes that it will continue to receive the Government's support for railway infrastructure development programmes, which will enable it to continue to invest in the maintenance and development of its rail system.

Key Role in Facilitating Eurasian Transportation and Trade. The Group plays an integral role in Eurasian trade by facilitating freight transportation not only within Russia, but also with and among other European countries, Central Asian countries and countries on the Caspian Sea, Persian Gulf and Indian Ocean. Three out of ten pan-European international transport corridors pass through the Russian Federation (including the territory of Kaliningrad) using the rail system. Similarly, the railway track network forms a component of several of the North-South transport corridors that link Russia and Europe with countries of the Caucasus, the Caspian Sea, the Persian Gulf and the Indian Ocean. The Group's East-West corridor provides an overland rail route between Europe and East Asia, which significantly reduces the average length of the journey compared with sea routes through the Suez Canal.

The Group continues to implement measures to further enhance Eurasian railway freight transportation. To increase the efficiency and competitiveness of its network for Eurasian freight customers, the Group has made significant investments into railway infrastructure projects. For example, the Group is engaged in a joint project with European countries, including Austria and Slovakia, to extend the wide (1520 mm) gauge railway tracks from Kosice (Slovakia) to Vienna (Austria) to enable the Group to provide freight transportation to Vienna without transferring cargo to 1435-gauge tracks.

In addition, the Group is engaged in various projects aimed at improving cross-border container transportation services, including by improving the organisation of domestic container shipments and container routes as well as participating in the international cooperation. In 2014, the Group formed United Transportation and Logistics Company ("**UTLC**"), a joint venture between the Company, Kazakhstan Temir Zholy ("**Kazakhstan Railways**") and Belarusian Railways, which is engaged in container transportation and logistics services on the territory of the three countries in which such companies primarily operate. UTLC was established to enhance cooperation between Russia, Belarus and Kazakhstan to coordinate railway container transportation and create a single container transportation route through their respective territories, which, among other things, the Group expects to increase transit freight transportation volumes through the Groups' infrastructure. UTLC currently remains a Company's subsidiary in which it owns over 99.8 per cent. of shares, and the parties are considering alternatives to further develop the project.

STRATEGY

Following the collapse of the Soviet Union in 1991, the Russian railway system experienced significant underinvestment in respect of the maintenance and repair of rolling stock, track and stations, as well as railway infrastructure. The Government subsequently recognised the need for massive reconstruction of the railway sector through investment and modernisation efforts aimed at meeting the demands of Russia's growing economy. Representatives of the railway sector, other ministries and agencies together with the assistance of international advisers developed the Reform Programme, which was approved in May 2001 and lasted for 14.5 years. See "*Business—History and the Corporate Structure of the Group and the Reform Programme*".

The Reform Programme was aimed at improving the efficiency and stability of the transportation sector as well as balancing the interests of the end users of railway transportation, the Russian railway transportation sector and the Government. As a result of the implementation of the Reform Programme, the Group continues to evolve into a multi-faceted provider of rail transportation and related services. The Group also actively participated in the development of the Government Transport Development Strategy 2030 (and the update thereof, the current version of which was approved by the Government in June 2014), which, among other things, outlines the main guidelines for the modernisation and expansion of the rail system, the modernisation of rolling stock, the improvement of railway transportation safety and technological development of the Russian railway sector.

In 2013, the Government, in cooperation with the Group, developed the Russian Railways Development Strategy 2030, which was largely based on the Government's Transportation Development Strategy 2030. The Russian Railways Development Strategy 2030 was approved by the Board of Directors. Certain main goals of the Russian Railways Development Strategy 2030 include maintaining the Group's leading position in rail freight transportation in Russia, broadening the scope and improving the quality of services provided, increasing the Group's capitalisation and facilitating maintenance and renovation of the rail system and the Group's assets.

The Group, in cooperation with the Government also developed the Target Model of Freight Railway Transportation Market, which it had intended to be achieved by 2015 (the "**Target Model 2015**") as a part of the Russian Railways Development Strategy 2030, which was perceived by the market as the fourth and final stage of the Reform Programme (although never formally approved as such by the Government). The Target Model 2015 provided for the Group's strategic priorities in its operations, which the Group continues to adhere to today while developing the Target Model 2020. These are as follows:

- ***Freight Transportation and Logistics:*** to continue diversifying the Group's services offering to reduce the provision of predominantly railway freight transportation services in favour of increasing the provision of a full spectrum of integrated "door-to-door" transportation solutions.
- ***Passenger Transportation:*** to continue improving the speed and quality of passenger transportation services and, particularly, high-speed passenger transportation between main Russian transportation hubs.
- ***Infrastructure Services:*** to reduce infrastructure operating costs; introduce new transportation and logistics services to improve speed, safety and throughput capacity of passenger and freight transportation on the railway system; modernise the existing railway infrastructure and build new railway infrastructure to accommodate growth in transportation volumes on the railway system; all of which is subject to satisfying the legal requirements of providing access to the railway infrastructure on a non-discriminatory basis.
- ***International Engineering and Construction:*** to consolidate and expand the Group's presence on the international railway engineering and infrastructure construction market by offering its unique expertise in engineering and construction of complex railway transportation infrastructure projects, implementation of transportation infrastructure management systems and financial management of railway systems.
- ***Social Activities:*** the Group considers its personnel to be a key asset enabling it to achieve its strategic development goals and, therefore, supporting social activities of its personnel (such as educational, medical or other supplemental social services support) by the Group is an integral part of the Group's business policies.

Certain key initiatives of the Group, intended to achieve the strategic priorities set out above, are:

Investments in the Railway Infrastructure and Related Assets. The Company plans to continue investing in railway infrastructure development projects aimed at increasing the rail system's throughput capacity, reducing bottlenecks to increase freight turnover and increasing railway transportation safety. In many cases, these investments are expected to be supplemented by direct support from the Government or Government-related enterprises. The Company's investment budget (excluding its subsidiaries) was RUB 467.2 billion in 2013, RUB 396.0 billion in 2014 and RUB 365.5 billion in 2015. The Company's final approved investment budget for 2016 was RUB 399.4 billion.

The Company's investment budget has been financed by funds received from the Group's operations and supplemented by direct Government support (such as grants or contributions to share capital) or indirect

Government support by Government controlled or related enterprises (such as the purchase of infrastructure bonds by Vnesheconombank and VTB Bank). See "*Business—Government Support of the Group—Share Capital Injections*". In 2013, 2014 and 2015, the Government contributed RUB 59.5 billion, RUB 29.8 billion and RUB 123.2 billion (including RUB 121.2 billion in cash and RUB 2.0 billion in assets), respectively, to the share capital of the Company. These contributions were designated primarily for the financing of specific railway infrastructure projects, including the 2014 Winter Olympics, the Moscow Rail Hub, Mezdurechensk-Taishet route and Far East rail infrastructure.

In 2013, the Government resolved to provide RUB 260.0 billion to the Company for the development of the Far East rail infrastructure. In 2013 and 2015, as part of the project, the Government contributed RUB 4.6 billion and RUB 16.9 billion, respectively, in exchange for the issuance of ordinary shares by the Company. Further, RUB 50.0 billion was contributed by the Government in 2015 using funds of the National Wealth Fund through the purchase of preferred shares of the Company. The Company expects to receive the remaining funds for the development of the Far East rail infrastructure in the form of RUB 100.0 billion and RUB 88.5 billion as consideration for the issue of its preferred shares and ordinary shares, respectively, at a later stage. While initially planned to be completed by 2017, according to the current schedule submitted by the Company to the relevant Government ministries, the Far East rail infrastructure development project is expected to be completed in 2019. As at the date of this Prospectus, however, the Government has not yet adopted a final resolution in respect of the date of completion of the project. A slowdown in the project development is due in part to an overall reduction in the levels of economic activity in the region, delays in commissioning of the coal and mineral deposits and production plants, and, consequently, reduced urgency for the increase of relevant rail infrastructure capacity.

Between 2013 and 2015, the Company placed infrastructure bonds with Vnesheconombank and VTB Bank for the aggregate amounts of RUB 237.0 billion and RUB 60.2 billion, respectively. The majority of the funds received from the placement of infrastructure bonds to date have been invested in the acquisition of locomotives and infrastructure development to reduce existing bottlenecks.

The Company's initial investment budget for 2016 (as approved by the Board of Directors and the Government in December 2015) was RUB 432.2 billion. In April 2016 and subsequently in July 2016, it was adjusted downwards to RUB 424.1 billion and finally approved at RUB 399.4 billion for 2016, primarily due to a decrease in financing allocated for the Far East infrastructure development project, as well as for some of the Company's other projects, such projects being financed by both, the federal budget as well as the Company's own funds. At the same time, the Government and the Company allocated additional funds for implementation of other projects, such as the development of Moscow Rail Hub, increasing affordability of passenger transportation, among others, which was also reflected in the budget. The Company's investment budget remains subject to change depending on, among other factors, macroeconomic conditions, the availability of alternative funding sources and public needs. A substantial portion of the Company's investment budget for 2016 was allocated for projects relating to the modernisation of the Baikal-Amur and Trans-Siberian rail lines, infrastructure projects related to the 2018 Football World Cup (such as the Moscow Rail Hub project), reduction of bottlenecks, increase of safety and security as well as the acquisition of approximately 500 new locomotives. See "*Business—Investment Projects and Expansion*", "*—Competitive Strengths— The Government Supports Railway Infrastructure Development Programmes*" and "*Risk Factors—Risks Relating to the Group—The Company is Subject to Tariff Regulation by and Dependent on Subsidies, Grants and Other Support from the Government*".

Increasing the Volume of Eurasian Transportation and Developing Integrated Logistics Services. In order to take advantage of Russia's geographic position as a bridge between Asia and Europe, the Group intends to continue modernising and expanding its railway and related infrastructure, establishing new routes and addressing regulatory aspects relating to freight transportation with the aim of increasing trans-Eurasian freight transportation volumes.

One of the Group's key initiatives is improving railway infrastructure and increasing the railway's throughput capacity on the route between Asia and Europe and, specifically, between China and Europe. To achieve this goal, the Group commenced the modernisation of Far East railway infrastructure, including Baikal-Amur and Transsiberian rail lines. See "*Business—Investment Projects and Expansion*", "*Business — Competitive Strengths—The Government Supports Railway Infrastructure Development Programmes*" and "*Risk Factors—Risks Relating to the Group—The Company is Subject to Tariff Regulation by and Dependent on Subsidies, Grants and Other Support from the Government*". The Group is also engaged in an infrastructure project to extend the wide (1520 mm) gauge railway tracks from Kosice (Slovakia) to Vienna (Austria) to enable the Group to provide freight transportation to Vienna without transferring cargo to 1435-gauge tracks.

In 2012, the Company together with JSC RZD Logistics ("**RZD Logistics**"), Schenker China Ltd., JSC Kaztransservice, Chongqing Transportation Holding (Group) Co., Ltd. and China Railway International Multimodal Transport Co., Ltd. established a joint venture YuXinOu (Chongqing) Logistics Co., Ltd. to organise a regular container route between Chongqing (China) and Duisburg (Germany) and to provide a broad range of container transportation and logistics services, eventually becoming a full-service "door-to-door" integrated logistics solutions provider.

The Group's other important initiative in developing the Eurasian railway transportation corridor includes the establishment of UTLC in 2014. The establishment of UTLC is expected to increase container traffic through the territory of Kazakhstan, Russia and Belarus, which, consequently, is expected to increase container transportation between Asia and Europe.

The Group is planning to further develop itself as a vertically-integrated transportation and logistics group of companies operating in those sectors of the transportation industry, in which the Group has or can achieve leading positions. To strengthen the Group's logistics capabilities and expand its global presence in the international logistics segment, in 2012, the Group acquired from PSA Peugeot—Citroen a 75 per cent. equity stake in GEFCO, an international logistics operator, which in 2016 had a network of 70 subsidiaries across five continents. Some of GEFCO's key customers are major automotive and industrial enterprises such as PSA Peugeot—Citroen, General Motors, Renault Nissan, Delphi Automotive, L'Oreal, and CNH Industrial. PSA Peugeot—Citroen is currently GEFCO's largest customer accounting for approximately 41 per cent. of total revenues in 2015. The Group has been successfully integrating GEFCO into its business. See "*Business—Business Operations—Freight—GEFCO*".

The acquisition of GEFCO has significantly increased the portion of logistics operations in the revenues of the Group. In 2015 and the six months ended 30 June 2016, revenues from logistics services represented 15.4 per cent. and 18.3 per cent., respectively, of the Group revenues compared with 12.3 per cent. in 2014.

Reducing Losses in Regulated Fare Passenger Transportation and Increasing the Attractiveness of Unregulated Fare Passenger Transportation. The tariff policy for domestic passenger transportation services is largely influenced by social priorities. The Government regulates tariffs for third- and fourth-class long-haul passenger transportation services, while deluxe-, first- and second-class long-haul passenger transportation services are unregulated and priced at market rates. The provision of third- and fourth-class long-haul transportation and the operation of most suburban railway networks are unlikely to become profitable in the near term due to the Government's commitment to provide affordable passenger transportation to the population.

The Group receives subsidies from federal and municipal government authorities to compensate the effects of passenger transportation tariff regulation. In 2013, 2014 and 2015, subsidies to compensate the effects of long-haul passenger transportation regulation were RUB 23.3 billion, RUB 23.3 billion and RUB 24.7 billion, respectively. In 2016, subsidies originally budgeted in respect of long-haul passenger transportation were up to RUB 20.2 billion (not subject to VAT), which were subsequently reduced to RUB 19.2 billion (not subject to VAT) in line with Government-announced policy to reduce overall federal budget spending by 10 per cent. in 2016. In 2013, 2014 and 2015, federal subsidies to compensate the effects of tariff regulation of infrastructure access services for suburban passenger transportation were RUB 21.2 billion, RUB 20.7 billion and RUB 27.8 billion, respectively. In 2016, federal subsidies originally budgeted in respect of suburban passenger transportation were up to RUB 37.1 billion (including VAT) and were subsequently reduced to RUB 32.5 billion (including VAT). In 2015 and 2014, the Company also received subsidies for other purposes of RUB 1.4 billion and RUB 0.5 billion, respectively. In 2016, the Government decreased the VAT rate on long-haul passenger and luggage transportation services to 0 per cent. applicable from 1 January 2017 until 31 December 2029. The respective indexation of the net-of-VAT part of tariff in 2017 was set at 14.3 per cent., with the effective increase of tariffs for end customers of 3.9 per cent.

In 2015, the Group's losses resulting from the provision of infrastructure access for suburban passenger transportation were fully compensated by the subsidies. From 2011 to 2014, subsidies to compensate the effects of tariff regulation of infrastructure access services for suburban passenger transportation were insufficient to cover expenditures in providing these services. In 2015, the Group entered into an arrangement with Federal Agency for Railway Transportation for the repayment of the remaining (not covered by the subsidies) losses accumulated between 2011 and 2014, which are to be repaid over a 10-year period. Pursuant to the arrangement, the Company received additional compensation of RUB 0.1 billion in 2015 and RUB 0.1 billion in 2016.

In addition to receiving subsidies, the Group continued to take measures to minimise its losses from providing passenger transportation services by partnering with regional authorities to share responsibility for suburban passenger services and otherwise to provide for a more economically sound pricing structure for these services. The Group separated its suburban passenger transportation activities into subsidiaries and associates: 25 suburban passenger transportation companies were established. Such suburban passenger transportation companies entered into agreements with regional authorities for the provision of suburban passenger transportation services. Pursuant to these agreements, the regional authorities are required to reimburse the suburban transportation companies for their lost revenues or losses resulting from the provision of suburban passenger transportation services, but only if tariffs set by local authorities are below economically justifiable level (that is, insufficient to cover the suburban transportation companies' expenditures in providing the relevant service). However, in practice, regional authorities do not always have the necessary funds to reimburse the suburban passenger transportation companies for lost revenues, and as a result, such operations may generate a net loss for the Group. See "*Risk Factors—Risks Relating to the Group—The Company is Subject to Tariff Regulation by and Dependent on Subsidies, Grants and Other Support from the Government*" and "*Business — Business Operations—Passengers—Suburban*".

To mitigate the risk of losses related to suburban passenger transportation, the Group has reduced service frequency on certain unsubsidised or insufficiently subsidised routes and taken other appropriate cost-savings measures. Additionally, the Group contemplates a divestment of some of its regional suburban passenger transportation operations in the future. For example, in January 2013, the Company completed the sale of a 25 per cent. less three shares equity stake in JSC Central Suburban Passenger Company ("**Central Suburban Passenger Company**"). As at 31 December 2016, Central Suburban Passenger Company remained an associate of the Group. The Group may divest the remaining stake in Central Suburban Passenger Company in 2017.

The Group is also committed to increasing the attractiveness of unregulated fare passenger transportation by developing new high-speed routes, improving the quality of services and modernising its passenger rolling stock. In 2009, the Group established its first high-speed train route between Moscow and St. Petersburg. Currently, the Company operates between five and six trains daily in each direction on this route. In 2011, an additional high-speed train route started regular passenger service between St. Petersburg and Helsinki. In 2015, the Group started daily passenger service on the third high-speed train route between Moscow and Nizhniy Novgorod. Each of the three projects were completed by upgrading the existing railway network, without constructing new railroads.

The Group and the Government seek to further develop high-speed railway infrastructure in Russia by constructing new high-speed railways which allow to develop speeds up to 400 km per hour. The Group, in cooperation with the Government, commenced the design and engineering phases for the project to build a 770 km high-speed rail route between Moscow and Kazan. In 2015, the Group received RUB 3.7 billion as a contribution to its share capital for the financing of the design and engineering phase of this project. A memorandum of understanding in respect of the project was signed in 2015 between the Company, the Chinese Railways, the Russian Ministry of Finance and the Chinese Committee for Development and Reform, under which the parties preliminarily agreed, among others, to use Chinese experience of high-speed railways construction in developing high-speed railways in Russia. The proposed high-speed rail route between Moscow and Kazan is expected to be developed on the basis of a public-private partnership model. Currently, the parties are in the process of carrying out a feasibility study and determining the project structure. No definitive documents have been signed to date.

Another major railway transportation infrastructure project undertaken by the Group is the development of the Moscow Rail Hub, the largest passenger transportation hub on the Russian rail system. This project has been financed by Moscow regional government and the Government. One of the key integral parts of this project has been the reconstruction of the Moscow Central Ring, a 54-kilometre light overland railway system that connects the Moscow metro with suburban railway stations systems, which was opened for public use in September 2016. See "*—Investment Projects and Expansion—Moscow Rail Hub*". The construction of the Moscow Central Ring is expected to significantly improve the conditions of public passenger transportation in Moscow and also reduce overall car traffic. Also see "*Business—History and Corporate Structure of the Group and the Reform Programme—Reform Programme—Fourth Stage: the Target Model of Freight Railway Transportation Market 2015—The Group's Key Initiatives in Passenger Transportation*".

Improving Operating Efficiency and Optimising Operating Costs. The Group intends to continue to implement measures aimed at improving its operating efficiency and productivity and reducing costs. In 2012 and 2013, the Group focused its efforts on implementing cost optimisation measures due to rising costs and pressure on EBITDA. In 2014 and 2015, the Group continued to implement cost cutting measures intended to offset reduced demand for freight rail transportation services (caused by generally unfavourable macroeconomic conditions in Russia) as well as to offset a freeze of tariff indexation for freight transportation services effected in 2014 (tariff indexation in 2014 was nil), which contributed to further pressure on the Group's revenues and profitability. In particular, the Company took measures, and intends to continue taking measures to reduce labour costs and otherwise improve operating efficiency. To reduce its labour costs, the Group reduced its headcount by encouraging certain eligible employees to retire and restricting the hiring of new personnel, increasing productivity and limiting salary indexation. To improve operating efficiency, the Group sought to reduce administrative expenses (including travel, communications and relationship management expenses), implement a stricter pricing policy with respect to procurement of products and services from third parties, a stricter policy with regard to fuel and energy resources consumption for train haulage and otherwise reduce fuel and energy consumption for operational activities. These cost reduction measures resulted in the Company's estimated savings of approximately RUB 39.7 billion in 2015. In 2016, the Group's continued efforts to increase efficiency of operations while implementing further cost cutting measures resulted in the Company's estimated savings in the operating expenses of approximately RUB 61.1 billion for 2016.

OFFERING STRUCTURE

*The following table includes basic information about the Notes and the Loan and should be read in conjunction with, and is qualified in its entirety by, the information set forth under "The Loan Agreement" and "Terms and Conditions of the Notes" (the "**Conditions**") appearing elsewhere in this Prospectus.*

The Issuer	RZD Capital P.L.C. (the "**Issuer**"), a public company organised and existing as a public limited liability company under the laws of Ireland.
The Offer	U.S.$500,000,000 4.375 per cent. Loan Participation Notes due 2024.
Issue Price of the Notes	100 per cent. of the principal amount of the Notes.
Issue Date	1 March 2017.
Maturity Date	1 March 2024.
Interest	On each Interest Payment Date, or as soon thereafter as the same is received, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement, which interest under the Loan is equal to 4.375 per cent. per annum.
Form of the Notes	The Notes will be issued in registered form in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes will be represented by the Global Certificate, without interest coupons. The Global Certificate will be exchangeable for Definitive Certificates in the limited circumstances specified in the Global Certificate.
Trustee	BNY Mellon Corporate Trustee Services Limited.
Registrar	The Bank of New York Mellon (Luxembourg) S.A.
Principal Paying Agent and Transfer Agent	The Bank of New York Mellon, London Branch.
Initial Delivery of Notes	On or before the Issue Date, the Global Certificate will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg and will be registered in the name of a nominee of a common depositary for Euroclear and Clearstream, Luxembourg.
Limited Recourse	The Notes are limited recourse obligations of the Issuer. The Notes are secured by a charge and assignment of certain contractual rights, interests and benefits of the Issuer as set out below. The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights (as defined in the Trust Deed). See "*Terms and Conditions of the Notes—1 Status*".
Security	Pursuant to the Trust Deed, the Notes will be secured by a charge (the "**Charge**") in favour of the Trustee for the benefit of the Noteholders, of: (a) all rights to principal, interest and additional amounts (if any) payable by the Company to the Issuer under the Loan Agreement; (b) the right to receive all sums that may be or may become payable by the Company under any claim, award or judgment relating to the Loan Agreement; and (c) all the rights, title and interest in and to all sums of money held from time to time in an account specified in the Loan Agreement, together with the debts represented thereby (including interest earned on the account, if any), provided, in each case, that Reserved Rights (as defined in the Trust Deed), and any amounts in respect thereof, are excluded from the Charge.

	Furthermore, under the terms of the Trust Deed, the Issuer will assign absolutely all of its rights, interests and benefits, both present and future, which have accrued or may accrue to the Issuer under the Loan Agreement, except for rights, title, interests and benefits subject to the Charge, any Reserved Rights (as defined in the Trust Deed) and any amounts relating to the Reserved Rights, to the Trustee for the benefit of the Noteholders.
Redemption by the Issuer	If the Company prepays the Loan pursuant to the Loan Agreement, whether for tax reasons or by reason of increased costs or illegality, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at 100 per cent. of the principal amount, together with the accrued and unpaid interest and additional amounts (if any) all as more fully described in "*Terms and Conditions of the Notes—6 Redemption*".
Optional Redemption by the Noteholders upon a Change of Control	Upon the occurrence of a Change of Control (as defined in "*Terms and Conditions of the Notes—6 Redemption*"), the Notes may be redeemed at the option of a Noteholder at 100 per cent. of their principal amount together with accrued interest, if any, all as more fully described in the "Terms and Conditions of the Notes".
Withholding Tax or Increased Costs	All payments in respect of the Loan and the Notes by or on behalf of the Borrower and the Issuer, as the case may be, will be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Ireland or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law. In such event, the sum payable by the Borrower or the Issuer will be required (subject to certain exceptions) to be increased to the extent necessary to ensure that the Noteholders receive the sum which they would have received had no such deduction or withholding been required. See "*Terms and Conditions of the Notes—8 Taxation*".
Events of Default and Relevant Events	If either an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined in the Trust Deed) occurs, the Trustee may, subject to the provisions of the Trust Deed: (a) in the case of an Event of Default, declare all amounts payable by the Company under the Loan Agreement to be immediately due and payable and to do all such other acts in connection therewith that the Trustee may direct; or (b) in the case of a Relevant Event, enforce the security created by the Trust Deed. Upon repayment of the Loan following an Event of Default, the Notes will be redeemed and repaid at their principal amount, together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.
Selling Restrictions	United Kingdom, United States, Ireland and Russia. See "*Subscription and Sale*".
Further Issuances	The Issuer may, from time to time and without the consent of the Noteholders, create and issue further notes on the same terms as the existing Notes (except for the first payment of interest). Such further notes may be consolidated and form a single series with such existing Notes.
Ratings	The Notes have been provisionally rated "BBB-" by Fitch and "Ba1" by Moody's. Each of Fitch and Moody's is established in the EU and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies. *A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not*

	necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid or paid on a particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.
Use of Proceeds	The proceeds of the Notes will be used by the Issuer for the sole purpose of financing the Loan to the Company. The proceeds of such Loan will be used by the Company in the ordinary course of its business, including for the funding of the Company`s investment programme and the repayment of its indebtedness. For more information see "*Use of Proceeds*".
Negative Pledge	The Issuer will have the benefit of a negative pledge granted by the Company, as fully described in the Loan Agreement.
Listing	Application has been made to the Irish Stock Exchange for the Notes to be admitted to the official list and trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.
Security Codes	ISIN: XS1574068844 Common Code: 157406884 CFI: DYFXXR
Governing Law	The Notes, the Loan Agreement and the Trust Deed, and any non-contractual obligations arising out of or in connection with them, shall be governed by and construed in accordance with English law.

An investment in the Notes involves a high degree of risk. See "*Risk Factors*".

RISK FACTORS

An investment in the Notes involves a high degree of risk. Prospective investors should consider carefully, among other things, the risks set forth below and the other information contained in this document prior to making any investment decision with respect to the Notes. The risks highlighted below could have a material adverse effect on the Group's business, financial position, results of operations or prospects which, in turn, could have a material adverse effect on the Company's ability to service payment obligations under the Loan Agreement and, as a result, the Issuer's ability to service payment obligations under the Notes. In addition, the value of the Notes could decline due to any of these risks, and the Noteholders may lose some or all of their investment. Prospective investors should note that the risks described below are not the only risks the Group and the Issuer face. The Group has described only the risks it considers to be material. However, there may be additional risks that the Group currently considers immaterial or of which it is currently unaware, and any of these risks could have the effects set forth above. The order in which the following risks are presented is not intended to be an indication of the probability of their occurrence or the magnitude of their potential effects.

RISKS RELATING TO THE GROUP

The Group's results of operations and financial position have been and could continue to be adversely affected by a deterioration in economic conditions.

The Group's results of operations are significantly influenced by the general economic conditions in Russia. Railway freight transportation volumes in Russia are strongly correlated with the GDP and industrial production. Between 2013 and 2015, the Russian economy experienced a slowdown. According to the Russian Federal Service for State Statistics ("**Rosstat**"), Russian GDP demonstrated a marginal growth of 1.3 per cent. in 2013 and 0.6 per cent. in 2014. In 2015, Russian GDP decreased by approximately 3.7 per cent. and continued to decrease by 0.2 per cent. in 2016. Industrial production demonstrated similar dynamics, marginally increasing by 0.4 per cent. in 2013 and 1.7 per cent. in 2014, and subsequently decreasing by 3.4 per cent. in 2015. As the largest provider of railway transportation services in Russia, the Group has been significantly affected by the decline in industrial production and trade. The economic slowdown has impacted the Group's principal customers causing a decline in demand for railway freight transportation services. Between 2013 and 2014, the Group's railway freight transportation volume decreased by approximately 0.8 per cent., measured in tonnes, and further decreased between 2014 and 2015, by approximately 1.0 per cent., measured in tonnes, which adversely affected its revenues and profits; although, between 2015 and 2016, the Group's railway freight transportation volume increased by approximately 0.6 per cent., measured in tonnes (according to the Group's estimates).

Economic conditions may also influence the Government and, consequently, the Group's results of operations. In challenging economic environment, the Government has taken, and may continue to take, measures intended to support the national economy and/or stimulate economic growth in a particular Russian region. For example, the Government may freeze or even reduce tariffs for some or all regulated services provided by the Group, as it did in 2014, when, in order to stimulate economic growth, the Government froze freight transportation tariffs applicable to the Company for 2014 at the levels of 2013. Also, to stimulate the development of a particular industry or region, the Government may reduce tariffs for transportation of a particular type of freight or transportation between particular destinations. Such Government measures would be intended to reduce shippers' railway transportation costs and, consequently, may stimulate trade, but they may also adversely affect the Group's revenues and/or profitability from its tariff regulated operations. Although in 2014 the Government provided financial support to the Group to offset the effects of tariff regulation, there can be no assurance that such support will be provided in the future. See "*—The Company is Subject to Tariff Regulation by and Dependent on Subsidies, Grants and Other Support from the Government*".

The Government's economic policy, as influenced by economic conditions, also affects the Group's overall investment budget and the Government's investments in specific railway infrastructure projects. The Group's investment budget may be reduced during economic downturns. For example, the Group's investment budget decreased from RUB 396.0 billion in 2014 to RUB 365.5 billion in 2015. The initially approved budget for 2016 of RUB 432.2 billion was subsequently reduced to RUB 424.1 billion and finally approved at RUB 399.4 billion, which was primarily attributable to the Government-announced policy to generally cut federal budget spending in 2016 by up to 10 per cent. Also see "*Business—Investment Projects and Expansion*." Such changes in the Group's investment budget may adversely affect the Group's revenues or profitability. Also, as a result of changes in economic conditions in Russia, the Government may change its investment priorities (including by shifting its resources from one project to another), reduce investments into certain projects and/or extend their execution schedule or cancel projects. For example, between 2013 and 2016, the Government continued to re-evaluate its priorities in respect of the Far East Rail Infrastructure project, which resulted in generally extending the project execution schedule. See "*Business—Strategy—Investments in the Railway Infrastructure and Related*

Assets". Such changes in the Government's investment policy may result in unanticipated project management, financial planning and other challenges, which may affect the Group's operations and, consequently, its revenues and profitability.

In addition, economic conditions may also have an effect on the Group's customers and other contractual counterparties (including regional authorities), and consequently on the Group's results of operations. Customers may reduce shipments of goods, which could result in a reduction in the Group's revenues. Also, contractual counterparties may be unable to pay in full or in a timely manner for services provided by the Group. For example, regional authorities' ability to reimburse the Group for the provision of its suburban passenger transportation services may be reduced in challenging economic conditions and could hinder their inability to pay in full (or to pay in a timely manner) for services provided by the Group. While in the past, the Government partially compensated such Group's losses by providing subsidies, there can be no assurance that similar compensatory measures will be provided in the future. See "*Business—Tariff Regulation—Passenger Tariffs—Suburban Passenger Service*".

If general economic conditions in Russia continue to decline, that may have an adverse effect on the Group's revenues and profitability or other undesired consequences, including a negative impact on the Group's capital expenditure programme, which in turn could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes. See also "*Risk Factors—Risks Relating to the Russian Federation—Economic Risks—Instability in the Russian Economy Could Negatively Impact the Group's Business*".

The Company is subject to tariff regulation by and dependent on subsidies, grants and other support from the Government.

The Group's business activities are subject to regulation by the Government. Because the Company is classified as a natural monopoly under Russian law, the Government, through the FAS, regulates tariffs that the Company charges for some of its services. Specifically, the FAS has the power to set maximum tariffs charged by the Company for access to its railway infrastructure, locomotive traction, freight transportation using the Company-owned or leased railcars as well as third- and fourth-class long-haul passenger transportation. Also, tariffs for suburban passenger transportation are regulated by local government authorities. See "*Business—Tariff Regulation and Pricing*". Because the Government's tariffs policies are heavily influenced by social and/or economic considerations, such as facilitating affordable long-distance and suburban passenger transportation or stimulating national economic growth, tariffs are often set below the actual costs of providing the relevant services and therefore are insufficient to cover the Group's expenditures in proving such regulated services. Furthermore, revenues generated by the Group's unregulated operations may be insufficient to cover deficiencies in revenues generated from regulated operations, which may result in the Group operating at a net loss. See "*Operating and Financial Review — Significant Factors Affecting Results of Operations—Tariffs and Subsidies*".

The Group receives subsidies, grants and other support from the Government and/or regional authorities to compensate it for the effects of tariff regulation as well as to undertake capital repairs of railway infrastructure, acquire operating assets and for other purposes. In 2013, 2014 and 2015, subsidies received by the Group from federal and municipal budgets were RUB 50.0 billion, RUB 50.7 billion and RUB 62.6 billion, respectively. The Government also provides grants for capital repairs and development of railway infrastructure. For example, in 2014, the Group received a grant for capital repairs and development of railway infrastructure in the amount of RUB 56.0 billion, of which RUB 26.0 billion was utilised in 2014 and RUB 29.9 billion was utilised in 2015. However, if the Government discontinues providing subsidies, grants and other financial support to the Group, or if the support that the Group receives from the Government is insufficient to fully compensate it for the effects of tariff regulation, the Group's operations will be adversely affected. In addition, regional authorities may be unable to pay in full (or to pay in a timely manner) for the suburban passenger transportation services provided by the Group through its regional transportation companies. For example, by the end of 2015 all regional authorities entered into the necessary agreements with the Group's suburban passenger transportation companies for the provision of suburban passenger transportation services. However, some suburban passenger transportation companies did not receive full compensation for their services. The Group sought supplemental compensation (in addition to that provided by the federal government) in court and in many instances received such compensation. See "*Business—Tariff Regulation and Pricing—Passenger Tariffs—Suburban Passenger Service*". However, there can be no assurance that the Group will receive such supplemental compensation in the future or, even if received, that such compensation would be sufficient to fully cover the Group's losses from providing suburban passenger transportation services.

In addition, the Group receives supplemental financial support from the Government, or Government-related institutions, in the form of financing on terms more favourable than otherwise available on the market (in terms of interest rate and maturity) designated for projects that the Government deems particularly important for the development of the Russian railway sector (such as, for example, the Far East Rail Infrastructure project). In 2013, the Company placed debut infrastructure bonds in the aggregate amount of RUB 150.0 billion. In 2014 and 2015, the Company issued further infrastructure bonds in the aggregate amounts of RUB 87.0 billion purchased by Vnesheconombank (with the funds of the State Pension Fund) and RUB 60.2 billion purchased by VTB Bank (with the funds of the National Wealth Fund). The proceeds from infrastructure bonds were invested in infrastructure development (including in the Far East Rail Infrastructure project) and acquisition of locomotives. If funding from such Government-related sources as the National Wealth Fund or the State Pension Fund were not made available for the Group's use in the infrastructure projects for which such funds were designated by the Government, the Group would generally not undertake such projects, which could have an adverse effect on the Russian railway sector as a whole and on the Group's revenues.

Another important tariff-related Government initiative aimed at supporting the Company's freight transportation operations is the introduction by the FTS of new freight tariff rules in 2013. Pursuant to these new freight tariff rules, the Company may increase or decrease tariffs charged for its tariff-regulated freight transportation services within a so-called "tariff spread". The currently approved tariff spread allows the Company to reduce tariffs by up to 50 per cent. or increase by up to 10 per cent. (subject to certain conditions such as, for example, available throughput capacity on a particular route) compared with the base tariff rate. The use of the tariff spread allows the Group to attract additional customers by offering discounts as well as increase the Group's efficiency (for example, when the Group offers discounted tariffs and thereby earns revenues on runs that could otherwise be empty runs). Although tariff spread is applicable to both domestic and export freight transportation, to date, it has been mainly applied to export-related freight transportation (such as for export of coal and crude oil). However, there can be no assurance that the relevant regulation will not be repealed resulting in the loss by the Company of this pricing flexibility and benefits associated with it. See "*Business—Tariff Regulation and Pricing—Determining the Tariff-Transportation in the Company's Rolling Stock—Tariff Spread*".

If the Government discontinues its support to the Group without alleviating it from the application of tariff regulation and performance of the social function (as discussed below), or if subsidies and grants received by the Group become insufficient to fully compensate the Group for the effects of tariff regulation, or other sources of financial support that the Group receives become unavailable (or otherwise insufficient), the Group's operations may be adversely affected, which could have a material adverse effect on the Group's business, financial position, results of operations, prospects and the value of the Notes.

The Company is controlled by the Government which may cause it to engage in business practices that may conflict with its commercial interests and the interests of Noteholders.

The Government exercises substantial influence over the Group through Russian Federation's share ownership in the Company. As at the date of this Prospectus, the Russian Federation owned 100 per cent. of the Company's shares. All members of the Board of Directors, as well as the president of the Company, were nominated and appointed by the Government. The members of the Board of Directors appointed by the Government approve the Company's budget, capital expenditures and investment programme, and otherwise participate in the operations of the Company. The Government's policies are heavily influenced by social and/or national economic considerations and, consequently, the Group's operations, strategy and budget, as well as capital expenditure programme have been, and may continue to be, influenced by such social and national economic factors. The Group, as a result of these factors, has engaged and may continue to engage in activities that may be in conflict with its commercial interest. For example, due to social considerations, the Group has provided passenger transportation (including for certain classes of long-haul passenger transportation and suburban passenger transportation) at tariffs that are below the costs of providing such transportation services, or engaged in the construction, operation and maintenance of certain infrastructure or other assets that carry predominantly a social function (such as educational and medical facilities), any of which could have an adverse effect on the Group's revenues and profitability, which in turn could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

The railway infrastructure that the Group operates requires significant maintenance and modernisation.

Russia's rail infrastructure and related assets require significant maintenance and modernisation. Implementation of maintenance and modernisation projects requires significant investment and may be possible only in favourable market conditions and/or with the support of the Government. The Company funds its maintenance and modernisation projects from revenues generated from the Group's operations, borrowings, the Government support and other sources. There can be no assurance that these sources of funding will remain available in the future. Funding for maintenance and modernisation projects has been, and could continue to be, adversely affected by deteriorating market conditions and/or rising interest rates. During economic downturns, the Group's revenues and profits have been adversely affected and the Government support (such as subsidies, grants and other support such as infrastructure bonds) provided to the Company for maintenance and modernisation of infrastructure may be significantly reduced, which could result in the reduction and/or postponement of infrastructure maintenance and modernisation projects. For example, due to the slowdown of Russian economy beginning from 2013, and consequent pressure on revenues from Group's freight transportation services (the main source of the Group's total revenues), the Company launched a cost optimisation programme, which included the postponement of certain maintenance and repairs projects. Similarly, external sources of financing, such as banking or capital markets, may become more costly, if available at all, including due to market volatility or rising interest rates, which, consequently, could affect the Group's results of operations.

Other sources of funding for railway infrastructure maintenance and modernisation include injections in the Company's share capital in the form of equity funding (through the issue of ordinary and preferred shares in favour of the sole shareholder) and purchase of Company's infrastructure bonds by Government-controlled institutions (using funds of the State Pension Fund and the National Wealth Fund). See "*Business—Strategy—Investments in the Railway Infrastructure and Related Assets*". The Company also anticipates raising funds for its maintenance and modernisation projects, in part, through sale of equity stakes in certain subsidiaries and associates. See "*Operating and Financial Review—Recent Developments—Auctions and/or Disposals Planned for 2017*" and "*Business—History and Corporate Structure of the Group and the Reform Programme—Fourth Stage: the Target Model of Freight Railway Transportation Market 2015*". However, the future capital injections and other funding are subject to the general economic situation and the Government may be forced to use funds of the State Pension Fund and the National Wealth Fund and similar additional sources of Government funding on other more urgent programmes; the planned disposal of interests in subsidiaries and associates is subject to market conditions, among other factors, and may be delayed or, if completed, may generate less proceeds than expected, all of which would have an adverse effect on the Group's ability to fund its maintenance and modernisation projects.

In addition to funding requirements, railway infrastructure maintenance and modernisation projects could also be affected by other factors. Major repair activities on high traffic routes could reduce throughput capacity of such routes and, consequently, adversely affect the Group's revenues. Also, maintenance and modernisation activities could be hampered by unforeseen challenges (due to, among others, operational, technological and/or environmental factors), any of which could result in unanticipated cost increases and/or delays in completing projects.

If sources of funding for development of the railway infrastructure are either not available or are delayed, or if the Group is otherwise unable to compete its maintenance and modernisation projects in a timely manner and further deterioration of rail infrastructure and related assets occurs, it could result in an increase in equipment failures and accidents, an increase in costs associated with repairing railway infrastructure following accidents and a decrease in throughput of railway network, any of which could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

The operating assets of certain subsidiaries of the Company are ageing and may require repair or replacement, which will continue to require significant capital expenditures.

The Group operates various freight and passenger transportation assets, including rolling stock, locomotives and other equipment. A significant portion of these assets has been approaching the end of its useful life and requires in the short- to medium-term significant expenditures for the maintenance and repairs of such ageing assets and/or acquisition of replacement assets.

During economic downturn, the Group's investment programme has been, and could continue to be, significantly reduced and, as a result, the Group could seek to postpone maintenance and repairs (including of its rolling stock and other assets). For example, as a result of the deterioration of economic conditions in Russia and the consequent pressure on the Group's revenues, it postponed certain repairs of its rolling stock in 2008 and 2009, and in 2013 launched a cost optimisation programme, which included the reduction of the investment programme and postponement of certain maintenance and repairs projects. In the medium term, however, the Group has been required to restart maintenance and repairs of such assets, which resulted in the Group's requiring to incur increased expenditures on maintenance and repairs. Additionally, due to the postponement of maintenance and repairs, certain assets may require unplanned repairs, which has resulted, and could continue to result, in additional expenditures and/or interruption of service to the Group's customers. Any additional expenditures, increases in unplanned repairs or interruption of service to customers may have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

The Group faces numerous operating risks that may result in losses and additional expenditures, which may not be fully covered by insurance.

The Group is one of the largest transportation companies in the world. It is the owner and operator of Russia's approximately 85,300 kilometre-long rail system and related infrastructure. In addition to the rail system, the Group owns and operates nearly all of the locomotives in Russia; is one of the largest Russian owners and operators of freight rolling stock; the Group carries virtually all long-haul (to destinations over 200 kilometres) railway passengers. The Group's infrastructure and transportation operations may be adversely affected by many factors, including the breakdown or failure of equipment or processes, natural disasters, acts of terrorism or sabotage of the Group's extensive infrastructure and related assets. An accident, derailment or other incident involving the Group's railway operations could result in damage to the Group's track network, locomotives and railcar fleet and also disrupt the Group's services and give rise to potential claims by freight shippers, injured passengers and others.

Although the Group carries insurance for the majority of its operational assets (including, among others, its locomotives, rolling stock and other operating equipment) in line with market practice in Russia, there can be no assurance that the respective insurance payouts would cover any of its losses in full. If a significant adverse event were to occur, it could cause the Group to incur additional expenditures, for which it would not be compensated, which could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

The Group is exposed to terrorist attacks and bears costs in connection with implementation of security measures.

The Group, as a leading freight and passenger transportation services provider and owner of nationwide railway infrastructure, is exposed to terrorist attacks. In the past, the Group's facilities were a target of terrorist attacks: two high-speed trains operated by the Company were attacked, which resulted in the derailment of the trains that caused passenger injuries and fatalities as well as damages to the trains and railway infrastructure. Also, other public transportation facilities (such as airport, underground train networks and railways facilities, among others) were targeted by acts of terrorism.

Although the Group implements security measures intended to prevent acts of terrorism and expands significant resources to enhance security, there can be no assurance that any such measures would be sufficient in preventing an act of terrorism. If further acts of terrorism targeting the Group's passengers or assets occur, it could lead to major disruptions in services provided by Group, legal action against the Group for damages caused by the terrorist activity, stricter regulation of the Group's security operations, reputational damage and other adverse consequences, any of which could cause the Group to incur material losses and have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes. See also "*—Risks Relating to the Russian Federation—Political Risks—Political Campaigns, Changes in Government policy, other Government Actions or Adverse Social and Political Factors Could Adversely Affect the Value of Investments in Russia*".

The Group conducts business outside Russia which exposes the Group to a range of political, economic and social risks arising in other countries.

The Group conducts business outside the Russian Federation. In particular, it has been involved in a number of international projects in the CIS, Iran, Libya, Mongolia, North Korea and Serbia, among other jurisdictions. See "*Business—International Joint Ventures and Cooperation*". As a result of participating in such international projects, the Group becomes exposed to a variety of political and economic risks. For example, in 2009 the Group was engaged in the construction of a 554-kilometre railway between Sirt and Benghazi in Libya. In early 2011, more than 200 employees of the Group worked in Libya in connection with this construction project. Due to the civil war that broke out in Libya in February 2011, the Group had to suspend its activities in Libya and evacuate its personnel. The Group may be unable or unwilling to resume its operations in Libya.

The Group has conducted, and may conduct in the future, business in countries or regions (such as Libya) that in the past faced social unrest and military conflicts. The Group's operations in such regions may be significantly affected if political conflict, social disturbance or other hostilities occur (or, if already occurring, continue), which could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

The Group as a large employer may be adversely affected by wage increases and labour disruptions.

The Group is the largest employer in Russia (except for the state) with approximately 1 million employees as at 30 June 2016. Wage costs currently represent the Group's single most significant cost item, accounting for a substantial portion of the Group's total costs. The Group's wage costs continued to increase in the past several years from RUB 700.8 billion in 2013 to RUB 734.1 billion in 2015, while the Group's profitability was adversely affected by the general decline in economic conditions in Russia during the same period. See "*—Risk Relating to the Group—The Group's Results of Operations and Financial Position Have Been and Could Continue to Be Adversely Affected by a Deterioration in Economic Conditions*". In response to such conditions, the Group sought to reduce its wage costs by optimising its workforce. The Company has introduced part-time employment from time-to-time (for those employees who are not involved in ensuring security of rail operations). Although the Company has not laid off, and does not plan to lay off, any significant number of employees, it has introduced a hiring freeze, pursuant to which it limited the hiring of new employees to replace those resigning or retiring. As a result of these measures, among other things, the Group's wage costs marginally decreased from RUB 370.6 billion for the six month ended 30 June 2015 to RUB 370.4 billion in the six month ended 30 June 2016.

While the Group has taken, and may continue to take, measures intended to optimise its work force, it may be unable to materially reduce its workforce and, consequently, its wage costs due to a number of factors. As the largest employer in Russia that is controlled by the Russian Federation, the Group is subject to social and political constraints with respect to its labour force, and therefore, may be unable to make rapid or significant reductions in the number of its employees or wage costs, if required. In addition, most of the Group's employees are members of labour unions and/or are parties to collective bargaining agreements. The Group also conducts operations in countries, such as France, in which influence of trade unions on employers is particularly strong. If the Group seeks to reduce wages of employees or otherwise is unable to maintain satisfactory employee relations or negotiate acceptable labour agreements in the future, the results could include work stoppages, strikes or other industrial action or labour difficulties (including higher labour costs), any of which could adversely affect the Group's operations.

Finally, due to increasing levels of competition in the Russian railway industry, the Group may experience challenges in recruiting and retaining employees with appropriate skills. The Group may need to increase the levels of its employee compensation more rapidly than in the past to remain competitive. There can be no assurance that the Group will be able to effect commensurate increases in the efficiency and productivity of its employees, or to pass on the extra costs to customers through increases in its prices.

Accordingly, if the Group is unable to reduce its wage costs or to pass along the costs to its customers, there can be no assurance that the Group will be able to maintain or increase its margins, which could have a material adverse effect on its business, results of operations or financial position.

The Group's operational efficiency depends on the expertise and experience of its key managers and its ability to recruit, retain and motivate qualified personnel.

The Group's business is dependent on retaining the services of, or in due course promptly obtaining equally qualified replacements for, key members of its staff. Competition in Russia for personnel with relevant expertise is intense due to a limited number of qualified individuals with professional knowledge and suitable practical experience in the railway transportation industry. Although the Group has respective employment agreements with its key staff, their retention cannot be guaranteed. Should they decide to discontinue their employment by the Group, it may be difficult to replace them promptly with other personnel of sufficient expertise and experience. Furthermore, changes in the Group's management and culture could have a destabilising effect on personnel and a negative effect on retention of key employees. Should the Group lose any of its key senior managers without prompt and equivalent replacement or if the Group is otherwise unable to attract or retain such qualified personnel, this could have a material adverse effect on the Group's business, results of operations or financial position.

The Group could incur significant costs for violations of applicable environmental laws and regulations.

The territorial footprint covered by the rail transportation industry is significant, with the primary impact on the environment coming from the construction of rights-of-way, which can lead to the alteration and fragmentation of natural habitat. At an operational level, the industry attends to the management of air emissions, wastewater, hazardous/non-hazardous waste, as well as the handling and transportation of hazardous materials. The Group's operations are subject to extensive federal, regional and local environmental laws and regulations, including with respect to air pollution, wastewater emissions, handling of non-hazardous and hazardous waste, impact on the environment coming from the construction of railway rights-of-way as well as handling and transportation of hazardous materials. In seeking to meet its environmental law obligations, the Group seeks to adhere to international standards and best practices, in particular the Company where possible seeks to comply with the international standard ISO 14001 for environmental protection. Since 2008, the Company has been conducting ecological audits of its facilities to assess environmental risks related to such sites, with a focus on soil and groundwater contamination as well as asbestos-contaminated materials. Although there have been no material violations of environmental regulations (other than a claim in respect of a contamination with environmentally harmful substances, including petrochemicals, of a right-of-way area of the Orekhovo-Zuevo railway station in the Moscow Region, which the Group does not consider to be material and in respect of which the Group has already begun undertaking remedial measures), compliance with environmental regulations is an on-going process: the enactment of new laws and regulations that may be broader or stricter than previous laws and regulations relating to the environment and/or the imposition of increasingly strict enforcement of environmental laws and regulations may require the Group to modify its operations, incur substantial unbudgeted costs to comply with current or future regulations or incur penalties for violations of environmental regulations, any of which could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

Accidents involving the handling of hazardous materials could disrupt the Group's operations and subject it to environmental and other liabilities.

As the operator of the national railway network, the Group regularly transports hazardous materials over its network. Accidents in the handling of hazardous materials on the Group's railway network could disrupt its operations during a remediation period (if such remediation becomes necessary). There can be no assurance that the Group's compliance with applicable environmental regulations will prevent any such accident or resolve such incidents without damage to the rail infrastructure or the Group's other assets, contamination or other environmental damage or reputational damage. Although the risks to which the Group is exposed in connection with transportation of hazardous materials are insured, the relevant insurance coverage may be insufficient to entirely compensate the losses which the Group may incur as a result of major incidents involving transportation of hazardous materials. Any failure to avoid, mitigate or resolve such incidents successfully or any such damage or contamination could adversely affect the Group's revenues, lead to reputational damage and/or subject the Group to liability in connections with environmental damages, any of which could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

The Group relies heavily on IT systems to operate its business and any failure of these systems could have an adverse effect on its business.

The Group relies heavily on its computer and telecommunications systems in all aspects of its operations. See "*Business—Information Technology*". The Group's computer and telecommunications systems may be susceptible to damage by natural disasters, human error, sabotage and other events. Any failure or breakdown in these systems could interrupt the Group's normal business operations and result in a significant slowdown in operational and management efficiency for the duration of the failure or breakdown. Any prolonged failure or breakdown could dramatically affect the Group's ability to offer its transportation services to its customers.

The Group's operations may also be vulnerable to system failures of independent third-party service providers with whom the Group's operations are closely linked, such as utilities providers, telecommunication services providers and financial services providers. If any of these third-party service providers were to fail or cease to operate their systems effectively, and the Group was unable to timely replace such providers, it could significantly impact the Group's operations and business.

Furthermore, the Group intends to continue increasing the use of advanced technologies in its operations, such as implementing automated operation system on selected key routes of the railway network as well as upgrading its computer systems to increase safety of railway transportation and improve energy efficiency. There can be no assurance that the Group will be able to successfully implement any such advanced technologies. If the Group is unable to implement new technologies or effectively safeguard (or, if affected, rehabilitate in a timely manner) its computer and telecommunications networks, it may have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

The Company and certain subsidiaries of the Company may be subject to increasing competition from other transportation and logistics companies, and railway transportation may be subject to increasing competition from other modes of transportation.

The Russian rail transportation and logistics industries are becoming increasingly competitive. The Company's freight transportation subsidiaries (which, unlike the Company, are not subject to tariff regulation) compete with privately-owned railcar operators. Private companies have significantly increased their market share in recent years. In 2012, the Group disposed of its stake in JSC Freight One ("**Freight One**"). Since then, Freight One has become the largest private railcar operator and the main competitor of Federal Freight, the Group's freight transportation subsidiary. In addition, the Group's competition with smaller private railway freight transportation providers operating in certain higher-margin rail freight transportation segments (such as oil, oil products and cement) has intensified. As a result of Freight One disposal and increased competition with smaller private railway freight transportation providers, the Group's share of the rail operators' market (measured by fleet size) decreased from 69.3 per cent. as at the end of 2006 to 22.3 per cent. as at the end of 2012, and further decreased to 16.3 per cent. in 2016. Also, if the Government permits private operators to provide locomotive traction services (which are currently provided predominantly by the Company), the Company's leading position in that segment may be challenged by private carriers, which may adversely affect the Group's revenues and/or profitability.

Certain of the Company's subsidiaries may face increased competition in the future from existing and new competitors with better access to a particular types of customers (such as large industrial customers or customers requiring transportation of cargo that generates higher profit margin for the Group). Such competitors may also be more successful at adopting their fleet to carrying higher-margin cargo. In addition, some of the Group's competitors may merge in the future, potentially creating a large competitor to the Group's subsidiaries in freight transportation business. Increased competition may lead to adverse changes in the prevailing pricing conditions, which could adversely affect the Group's profitability.

Rail transportation is subject to increasing competition from other types of transportation. The Group faces competition in the transportation of oil products from the operators of pipelines. Additionally, in long-haul passenger segment the Group faces competition from airlines, especially where the Government subsidises air fares to certain destinations, such as the Russian Far East. The Government also continues to develop the highway system to foster short- and medium-distance truck transportation. While most of these initiatives are long-term projects, should they succeed, the level of competition in the transportation industry could significantly increase.

Although the Company believes that it, to date, has been able to compete successfully, there can be no assurance that it will be able to do so in the future. If competition continues to intensify and the Group is unable to compete successfully with other market participants, it could adversely affect the Group's revenues and profitability, which could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

The Group's operations depend on obtaining and maintaining licences, certifications and permits necessary for the operation of its business.

The Group's operations are subject to extensive laws and regulations. The Group's ability to operate its business is contingent on its ability to comply with these laws and regulations and to obtain, maintain and renew as necessary related permits and licences from governmental agencies and authorities in the countries in which the Group operates.

The Group's failure to comply with all applicable regulations and obtain and maintain requisite certifications, permits and licences could lead to substantial penalties, other punitive measures and/or increased regulatory scrutiny. The Group could also incur civil liabilities, such as abatement and compensation for loss, in amounts in excess of, or that are not covered by, its insurance. For the most serious violations, the Group could also be forced to suspend operations until it obtains such certifications, permits or licences or otherwise bring its operations into compliance.

In addition, changes to existing regulations and/or licencing requirements or the introduction of new regulations, procedures or licensing requirements are beyond the Group's control and may be influenced by political or commercial considerations not aligned with the Group's interests. Any such regulations and/or licensing requirements could adversely affect the Group's business by reducing its revenue, increasing its operating costs or both, and it may be unable to mitigate the impact of such changes.

The Company as a natural monopoly and as a state-owned enterprise may be subject to regulatory interference by the Government and as a strategic entity may be restricted in divesting some of its assets.

The Company is classified as a natural monopoly under Russian law and, therefore, it is heavily regulated. The FAS regulates tariffs for a large part of the Company's services. See "*Business—Tariff Regulation and Pricing*". The FAS and local antimonopoly authorities also have an effect on the Group's operations. As a natural monopoly, the Company must provide its freight transportation services on a non-discriminatory basis, and therefore, may not refuse to transport freight on its rolling stock even if such transportation would result in a net loss to the Company. See "*Operating and Financial Review—Significant Factors Affecting Results of Operations—Tariffs and Subsidies*". In addition, the Company is required to obtain an approval of the FAS prior to entering into certain transactions or making certain investments, including those valued at more than 10 per cent. of the Company's share capital. Such regulatory interference could result in the Group's inability to realise certain otherwise available synergies common in vertically integrated businesses.

Additionally, the FAS may investigate activities of the Company and of some of its subsidiaries which have a material market share in certain markets, at the request of any market participant in order to determine if any of them have dominant position in a particular market and/or abuse their dominant position in the relevant market.

If the FAS determines that any such abuse occurred, it may impose fines or require the Company or the relevant subsidiary to enter into agreements with designated terms which may be contrary to the Company's or the subsidiary's best interests and which may adversely impact the Group's profitability. In the past, the FAS regularly investigated the Group's activities and in some cases imposed fines, which the Group in many cases successfully challenged in court. However, there can be no assurance that in the future the courts will continue to support the Group's position and that the Group will not be subject to fines or other sanctions imposed by the FAS.

As a natural monopoly and a state-owned enterprise, the Company is also obligated to follow certain public procurement rules and procedures in selecting its suppliers and service providers. Because the relevant rules and procedures are vague and subject to different interpretation, there is a risk that certain transactions may be challenged and/or declared invalid by a Russian court on the basis that the Company did not fully comply with the relevant public procurement rules. In addition, such public procurement rules and procedures could restrict the Group's commercial flexibility.

As a strategic entity under Russian law, the Company may be restricted from disposing of some of its assets. In particular, certain infrastructure assets, classified under Russian law as strategic assets, may only be pledged, sold or otherwise disposed of with the consent of the Government, while some of such assets may not be disposed of at all. These restrictions may limit the Group's ability to enter into commercial dealings with counterparties or re-organise its business.

Finally, any transactions entered into by the Company as a state-owned enterprise, may be challenged by a public prosecutor's office, which could adversely affect the willingness of commercial counterparties to enter into dealings with the Company.

If the Government's regulatory involvement described above continues or increases, it could have a material adverse effect on its business, results of operations, financial position, prospects and the value of the Notes.

The Group depends on land rights relating to rail infrastructure.

The Company leases from the Russian Federation land plots on which railway track, stations and other railway infrastructure facilities are located. The Company has a statutory right to lease any land plot on which its railway infrastructure is situated for a term of up to 49 years from the date of the relevant lease agreement. Most of these lease agreements were entered into between 2003 and 2007. The Company leases these land plots at below market prices. If the Government increases prices at which the Company leases these land plots, it could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

Fluctuations in the foreign currency exchange rates may expose the Group to foreign currency exchange rate risks.

While the majority of the Company's services are priced in Roubles, some of its services as well as certain receivables, payables and borrowings are denominated in the U.S. Dollars, the Euros and the Swiss Francs. As a result, the Company has exposure to foreign currency exchange rate risks on such receivables, payables and borrowings.

The Rouble has depreciated significantly against the U.S. Dollar since 31 December 2013 from RUB 32.73 for U.S.$ 1.00 to RUB 56.26 for U.S.$ 1.00 as at 31 December 2014, further depreciated to RUB 72.88 for U.S.$ 1.00 as at 31 December 2015, and appreciated to RUB 60.66 for U.S.$ 1.00 as at 31 December 2016, each exchange rate as published by the Central Bank of the Russian Federation (the "**CBR**"). Furthermore, between 1 January 2016 and 31 December 2016, the Rouble fluctuated within the range from the high of RUB 83.59 for U.S.$ 1.00 as at 22 January 2016 to the low of RUB 60.27 as at 30 December 2016 for U.S.$ 1.00.

Although both the Group's revenues and costs are to a large extent denominated in Roubles, future exchange rate fluctuations may affect its results of operations to the extent there are revenues derived or expenses incurred in foreign currency, and economic hedges the Group has in place for its foreign currency expenses may not prove to be adequate protection. In addition, to the extent the Group incurs expenses in one currency and generates revenues for its services in another currency, its profit margins may be affected by exchange rate fluctuations. Finally, if the Group obtains additional non-Rouble-denominated financing, the Group will be subject to further foreign currency exchange rate risk on such borrowings. Although the application of hedge accounting, to a certain extent, reduces the effect of currency exchange fluctuations on the Group's results of operations, any of the risks described above could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

A significant increase in prices for electricity, fuel and other raw materials and assets required by the Group for its operations, as well as inflation, could increase the Group's cost base.

The Group's revenues are generated to a large extent from operations in Russia and, consequently, the majority of its direct costs is incurred in Russia. The Russian economy has recently experienced relatively high rates of inflation: 6.5 per cent. in 2013, 11.4 per cent. in 2014, 12.9 per cent. in 2015 and 5.4 per cent. in 2016, according to Rosstat. The Russian economy is closely tied to the performance of the oil and gas sector and, following a rapid fall of oil prices in the world markets beginning in the second half of 2014, the Rouble lost a significant part of its value, causing the CBR to hike its benchmark rate in response to the fast currency devaluation. As a consequence of that, inflation in Russia accelerated each year between 2013 and 2015. Although, inflation rate decreased in 2016 compared to 2015, there can be no assurance that inflation rate will not continue to grow in the future, which could result in a further increase in the Group's costs.

The Group tends to experience increases in some of its costs, such as wages costs, materials, repairs and maintenance costs and energy costs, among others, all of which are linked to the general price levels in Russia. In addition, prices for certain commodities or products required by the Group for its operations may increase at a higher rate than inflation due to an increase in demand for such commodities or products (such as an increase in the prices of rolling stock above the rate of inflation in 2010 and 2011 resulting from a significant increase in demand and a relative shortage of supply). Although some of the Group's costs may be linked to general price levels in Russia and, consequently, to inflation rates, the Group may be unable to pass along the increased costs to its customers in order to preserve existing operating margins. Accordingly, high rates of inflation in Russia could increase the Group's costs, decrease its operating margins, any of which could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

The Group's management information system, accounting systems and internal controls may be inadequate to ensure timely and accurate financial reporting, and any such shortcomings in these systems could potentially have a material adverse effect on the Group's business, financial position and results of operations.

The Group's management information systems and financial reporting functions are relatively less developed in certain respects than those of similar companies in more developed markets and may not provide the Group's management with as much or as accurate information as that in similar companies in more developed markets. The Group's system of internal control is primarily designed to ensure preparation of financial reporting under local GAAP based on which the Group's consolidated IFRS financial statements are then prepared. The Group does not have an integrated information system supporting preparation of its consolidated IFRS financial statements and its management and financial accounting and reporting systems are not unified. The preparation of IFRS consolidated financial statements is, predominantly, a manual process that involves, first, the transformation of the Company's and its subsidiaries' statutory financial statements into IFRS financial statements through accounting adjustments and, second, a consolidation of the Company's and its subsidiaries' financial statements. While this process is complicated and time-consuming, and each Company's subsidiary has its own accounting platform, the preparation of the Company's consolidated IFRS financial statements relies on two control levels: internal control system of each individual subsidiary and additional manual and, to a lesser extent, automated controls and procedures established at consolidation level designed to address potential risks inherent to non-integrated information system.

The Group's independent auditors have noted a number of significant deficiencies in the system of internal control over the preparation of the consolidated IFRS financial statements, including an insufficient number of qualified personnel in the Group's IFRS department and a lack of an integrated information system supporting preparation of the consolidated IFRS financial statements. International Standards on Auditing define a significant deficiency as a deficiency or a combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

The Group has taken steps to improve its accounting systems and internal controls, including the development and documentation of control procedures over the financial statements closing process and hiring qualified personnel in the field of financial reporting. Notwithstanding these steps, the risk that the Group may not be able to detect or prevent a material misstatement of its IFRS consolidated financial statements or to ensure that the Group's consolidated IFRS financial statements are prepared in a timely manner in accordance with the applicable requirements remain. While the Group strives to employ and retain the best personnel, a potential risk of shortages of qualified accounting staff may substantially increase both the difficulty in preparing the Group's consolidated IFRS financial statements and the likelihood that such financial statements would not be reported on a timely basis. The Group's inability to develop an effective IFRS financial reporting function and system of internal controls may have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

The Group may be exposed to unexpected risks and experience problems realising the intended benefits of potential acquisitions and joint ventures and alliances.

The Group has engaged in acquisitions and established joint ventures and may, in the future, expand its operations through further acquisitions and joint ventures. See "*Business—International Joint Ventures and Cooperation*". In 2014, the Group formed UTLC, a joint venture between the Company, Kazakhstan Railways and Belarusian Railways, which is engaged in container transportation and logistics services on the territory of the three states. The Company contributed 50 per cent. plus two shares in TransContainer and 100 per cent. less one share in RZD Logistics to the share capital of UTLC and remains the controlling shareholder of UTLC holding more than 99.8 per cent. of its shares. Currently, the parties are considering alternatives to further develop the project.

Any future acquisitions that the Group may undertake entail certain risks, including the failure to realise the expected benefits of the acquisitions and the incurrence of unexpected risks and obligations. The Group conducts due diligence in preparation for acquisitions, however it is possible that legal, tax and operational risks, some of which may be unknown to the Group at the time of the acquisition, may materialise or have more severe consequences than expected, which are not covered by contractual indemnities from the sellers. Acquisitions are also subject to the risk that the target is overvalued and thus the Group could pay consideration that is greater than the acquired entity's actual value. Acquiring additional businesses or entering into joint ventures could also place increased pressure on the Group's cash flows, the incurrence of significantly higher than anticipated financing-related risks and operating expenses, especially if the acquisition is paid for in cash. Further, if an acquisition is not completed, this may adversely impact the Group's strategic objectives. In addition, the Group may experience problems in integrating acquisitions into its business and managing them optimally and such integration may place a strain on management and financial resources or sales, logistics, administrative and technical capabilities. The acquisition of operations located outside of the areas in which the Group currently operates can expose the Group to the risks of operating in new geographies.

If any of the above risks were to materialise, they could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

The Group's operations may be restricted by its loan covenants.

The Group is obliged to comply with various covenants and restrictions contained in its financing arrangements, including the Loan. It may become impossible or difficult to comply with these covenants, which could require the Group to restructure its indebtedness, obtain waivers of non-compliance or refinance its existing debt. Such actions could be costly and could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

The Group may be subject to the laws and regulations relating to activities in countries and/or regions subject to sanctions.

The continuing significant civil and political crisis in Ukraine and the armed conflict in Eastern Ukraine have affected Russia's relations with the European Union, the United States and certain other countries (including Canada, Australia and Norway). In March 2014, a referendum on the status of Crimea was held which resulted in a majority of votes in favour of seceding from Ukraine and joining the Russian Federation as a federal constituent entity. On 18 March 2014, Russia and Crimea signed an agreement on the accession of the Republic of Crimea to the Russian Federation. On 21 March 2014, the Russian parliament passed legislation extending the effect of Russian laws and operation of governmental authorities to the territory of Crimea.

These events have resulted in the Russian Federation, on the one hand, and the United States, the European Union and certain other countries, on the other hand, imposing economic sanctions against certain entities and individuals, as well as on the import or export of certain products, technology and services. In addition, the United States and European Union have applied "sectoral" sanctions, whose principal consequences are that several leading Russian banks have been restricted from accessing Western capital. Similar sanctions have been imposed on companies in the oil and gas sector and on defence companies. The current sanction regime is a result of multiple extensions in the term and scope of sanctions, the most recent of which were taken in September 2016 and related to expanding sanctions to cover a number of additional Russian individuals and legal entities.

No individual or entity currently within the Group has been designated for sanctions under any competent sanctions authority of the United States, the European Union, United Nations and others (each "**Sanctions Authorities**"). However, the former president of the Company and former member of the Board of Directors, Vladimir Yakunin, has been the subject of individual sanctions of the United States since March 2014. Mr. Yakunin is no longer the Company's president or a member of the Board of Directors (or employed by, or otherwise associated with, the Group). The Group is not, nor it expects it would be, the subject of any such sanctions designated against Mr. Yakunin. Additional designations may be made, or additional categories of sanctions may be created, at any time, and the Group can give no assurance that any member of the Group, or individuals holding positions in the Group, will not be affected by future sanctions designations. The Group, like a large number of Russian companies, has commercial relationships with entities that are subject to sanctions imposed by the United States and European Union. If the Group becomes subject to sanctions imposed by the United States or European Union, either as a result of the above, or through the targeting of a broader segment of the Russian economy, in particular state-owned enterprises, investors in the Notes may be restricted in their ability to sell, transfer or otherwise deal in or receive interest payments with respect to the Notes due to the sanctions regime, which could result in such Notes becoming partially or completely illiquid, which would have a material adverse effect on their market value.

The sanctions imposed by the United States and the European Union in connection with the Ukrainian crisis so far have resulted in a significant reduction in foreign trade between the countries involved and have also limited new investment projects that depend on access to foreign capital and certain types of products, technology and services. Limitations imposed by foreign governments on the ability of their financial institutions and other parties to provide funding to certain Russian banks and entities have also impaired their access to international bank and capital markets financing in certain currencies (which has required Government measures to recapitalise certain financial institutions in 2014 and 2015). The related political and economic tensions have contributed to capital outflows and the depreciation of the Rouble, which in turn (together with lower oil and gas prices) have reduced the Russian Federation’s foreign exchange reserves. Consequently, the sanctions contributed to an increased market volatility and sharply reduced investment into Russian businesses by both foreign and domestic investors, which could impact future economic growth. The imposition of further sanctions, or continued uncertainty regarding the scope thereof, could have a prolonged adverse impact on the Russian economy. These impacts could be more severe than those experienced to date. In particular, should either the United States or the European Union expand their respective sanctions on the Group’s existing or future customers, suppliers or other counterparties, a large sector of the Russian economy or otherwise, such an expansion could result in the Group’s dealings with designated persons, if any, being materially adversely impacted. This could result in the suspension or potential curtailment of business operations between the Group and the designated persons, and substantial legal and other compliance costs and risks relating to the Group’s business operations.

Furthermore, the Group is subject to the laws and regulations of the various countries and regions in which it does business. Certain of the countries or regions in which the Group currently carries out its business operations, or may carry out operations in the future, including (but not limited to) Iran (where the Group has completed the construction of rail lines but has some outstanding obligations in relation to the defects liability bond and provision of spare maintenance parts under the respective construction contract), and North Korea (where the Group has formed a company, in which it holds 70 per cent. of share capital, to perform the reconstruction and subsequent operation of a railway line between the station of Hasan in the Russian Far East and a container terminal at the port of Rajin in North Korea, which is used to transport coal, among other cargoes) are the subject of sanctions regulations and export controls administered by Sanctions Authorities. In particular, the Sanctions Authorities have recently significantly expanded sanctions targeting North Korea in response to its nuclear and missile tests. In March and April 2016, the United Nations and EU issued new sanctions targeting additional North Korean companies and individuals, prohibiting, among other activities, the procurement of coal from North Korea (with exceptions for coal that originated outside of North Korea and was transported through North Korea solely for export from the port of Rajin), and providing for inspection of all cargoes going to and from North Korea. In March 2016, the United States imposed comprehensive new sanctions against North Korea, which prohibit direct and indirect exports to North Korea of any goods, services or technology from the United States or by U.S. persons and any new investment by U.S. persons in North Korea. Such Executive Order also specifies that the U.S. Secretary of the Treasury may block the property of, and prohibit dealings by U.S. persons with, any individual or entity determined, among other criteria, to operate in the transportation sector of the North Korean economy or to have transferred coal to or from North Korea for or on behalf of the Government of North Korea or the Workers’ Party of Korea.

Whilst the Group believes that its business in other countries or regions does not violate any economic sanctions or export controls (to the extent applicable to the Group or its activities), that it has not been designated under such sanctions and none of the proceeds of the issue of the Notes will be used to fund activities that are subject to regulations of the Sanctions Authorities, there can be no assurance that the Sanctions Authorities will not take a different view regarding the status of the Group or the compliance measures taken by it. Furthermore, laws, regulations or licensing policies on economic sanctions and export controls could change in a way that could adversely affect the Group’s business. Extension of the sanctions administered by any Sanctions Authorities to the Group could result in debarment of the Group from raising funds in international capital markets, the Group being unable to transact in U.S. dollars or to access Group assets abroad and other restrictions, while non-compliance with any such extension of sanctions and export control laws and regulations (to the extent applicable to the Group) could result in subjecting the Group or any its directors and employees to liability, imposition on the Group of significant fines and penalties, as well as negative publicity and reputational damage. Any of the risks described above, if materialised, could result in a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

Assessment of the Company by rating agencies and credit ratings assigned by them to the Company and the Notes may change.

The credit ratings of the Company and the Notes represent the rating agencies' perception of the Company's credit quality and are assigned on the basis of assessment methodology and procedures as applied by particular rating agencies.

Rating agencies take into account a wide range of factors to arrive at their ratings decisions, including credit ratios, as well as a methodological approach to determining ratings, and their decision-making process is largely outside the scope of the Company's control. For instance, the Company's credit ratings are influenced by factors such as the rating agencies' perception of, and future expectations for, the Company's business performance, market dynamics, regulatory environment, evolution of the Company's financials, as well as Russian country risks and railway transportation industry risks generally. Furthermore, the Company's ratings are currently linked to and capped by the Russian sovereign rating. As such, the Company's corporate and bond ratings (including those which may be assigned to the Notes) may be affected by a revision of the Russian sovereign ratings by any of the rating agencies. Should the Russian sovereign ratings be downgraded, the Company ratings would likely also be downgraded regardless of its perceived stand-alone credit profile, which could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

The Group has not independently verified information it has sourced from third parties.

In preparing the Prospectus, the Group has relied on and referred to information from various third-party sources, including certain private companies and institutes, international organisations and governmental agencies, and it has relied on the accuracy of this information without independent verification. For example, a significant portion of the information concerning the Group's competitors and the freight rail industry, including the container industry, has been derived from publicly available sources published by third parties. This information and statistics may at times be less complete or reliable than those of some of the more developed market economies of North America and Europe, as well as be produced on a basis that differs from those used in Western countries. Any discussion of matters relating to Russia herein is therefore subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

RISKS RELATING TO THE RUSSIAN FEDERATION

General

Emerging markets, such as Russia, are subject to greater risks than more developed markets.

The Group's operations are conducted, and assets are located, to a large extent in Russia and therefore it has significant exposure to risks relating to the country which is an emerging market. Generally, investments in emerging markets are only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. In particular, investors should be aware that emerging markets such as Russia are subject to greater risk than more developed markets, including certain political, economic and legal risks. Prospective investors should also note that emerging economies are subject to rapid change and that some or all of the information set out in this document may become outdated relatively quickly. Changes in the political or economic policies of the government, or the overall political or economic environment may result in heightened volatility. Moreover, financial turmoil in any emerging market tends to adversely affect prices in debt and equity securities, as investors usually move their money to more stable, developed markets for greater safety of investment. In case of a global economic downturn, financial problems caused by the global economic slowdown and an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in emerging markets such as Russia, resulting in an outflow of capital and an adverse effect on the Russian economy. Similarly, decisions by central banks of the leading developed countries, such as the Federal Reserve System, to increase their lending rates may have a negative impact on emerging markets, prompting certain classes of investors to sell their assets in countries such as Russia to invest in more developed countries' securities and assets. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide whether, in light of those risks, their investment is appropriate.

Additionally, there are generally lower levels of investors' confidence and allegedly higher levels of corruption in emerging markets. As with any investment, there exists a risk of unpredictable adverse political or regulatory developments, including, but not limited to, nationalisation, appropriation without fair compensation, adoption of foreign exchange restrictions and other administrative constraints which could have a material adverse effect on the Group's business, financial position, results of operations, future prospects or the value of the Notes. This risk is compounded in certain countries where political instability has been an inherent part of the country's development.

Political Risks

Political campaigns, changes in Government policy, other Government actions or social and political factors could adversely affect the value of investments in Russia.

Although the political situation in Russia has stabilised since 2000 under the presidencies of Vladimir Putin (between 2000 and 2008 and from 2012 until the present) and Dmitry Medvedev (between 2008 and 2012), deterioration in political stability could result in a worsening economic situation, including capital flight and a slowdown of investment and business activity. Future shifts in governmental policy and regulation in Russia could lead to political instability and have a material adverse effect on the value of investments relating to Russia and the Notes in particular, as well as on the Group's business, its ability to obtain financing in the international markets and its financial position or prospects.

Emerging markets such as Russia are sometimes subject to heightened volatility based on political and economic conflicts. Any recurrence of political or governmental instability or lack of domestic security may lead to a deterioration in Russia's investment climate and trading volatility, which could have a material adverse effect on the Group's ability to raise equity or debt capital in the international markets, as well as its business, results of operations, financial position, prospects and the value of the Notes. See also "*—Economic Risks—Instability in the Russian Economy Could Negatively Impact the Group's Business*", "*—Risks Relating to the Russian Legal System and Russian Legislation*" and "*—Risks Relating to Taxation in the Russian Federation*".

In particular, while relatively stable during the last decade, the Russian political system may become vulnerable to a dissatisfaction of the population with the recent decrease in living standards resulting from the ongoing economic downturn. See also "*—Social Risks—Economic Instability Could Lead to Social Tensions and Unrest*". Such dissatisfaction may result, among other things, in social and political tension which will adversely affect the stability of the Russian political system and, consequently, the Group's operations. See "*—Economic Risks—Instability in the Russian Economy Could Negatively Impact the Group's Business*".

Besides that, government authorities may adopt policies that could adversely affect Russian companies generally or in any particular sector or in which there is significant government support (for example, in the form of subsidies, a form of government support also received by the Group). If, as a result of a shift in government policies, Russia were to adopt restrictive economic measures or limit or cease its subsidies and/or other support the Group receives, its business could be materially and adversely affected.

These uncertainties, tensions, conflicts and/or shifts in the Government's policy, if they occur, will have a negative impact on the investment climate, trading conditions and liquidity in Russia and on the ability of Russian companies to raise financing on commercially acceptable terms and, as a result, could have a material adverse effect on the Group's business, results of operations or financial position.

Economic Risks

Instability in the Russian economy could negatively impact the Group's business.

Russia is a developing economy, with a large portion of its GDP being supported by export activity. This makes it particularly vulnerable to global market downturns or slowdowns.

The Russian economy has been subject to abrupt downturns in the past. At the onset of the global financial and economic crisis in the second half of 2008 and the early part of 2009, commodity prices on the world market plunged, with the price of crude oil, for example, decreasing by more than 70 per cent. between July 2008 and the beginning of 2009. Oil prices subsequently partly recovered in the first half of 2009. While from 2010 to the beginning of 2014 commodity prices generally continued to recover, oil prices started to decline rapidly and substantially in mid-2014, with the global benchmark Brent crude falling from over U.S.$110/bbl in June 2014 to less than U.S. $27/bbl in February 2016. Correspondingly, in 2014, as a consequence of the Ukrainian crisis and the falling oil prices, Russian GDP increased by 0.6 per cent., decreased by 3.7 per cent. in 2015 and continued to decrease by 0.2 per cent. in 2016, according to Rosstat. Between 2014 and 2016, the Rouble has depreciated significantly against the U.S. Dollar: from RUB 32.73 for U.S.$ 1.00 as at 31 December 2013 to RUB 56.26 for U.S.$ 1.00 as at 31 December 2014, further to RUB 72.88 for U.S.$ 1.00 as at 31 December

2015, and appreciated to RUB 60.66 for U.S.$ 1.00 as at 31 December 2016, each exchange rate as published by the CBR. Furthermore, between 1 January 2016 and 31 December 2016, the Rouble fluctuated within the range of RUB 83.59 and RUB 60.27 for U.S.$ 1.00. In addition, the Russian economy has recently experienced relatively high rates of inflation: 6.5 per cent. in 2013, 11.4 per cent. in 2014, 12.9 per cent. in 2015 and 5.4 per cent. in 2016, according to Rosstat. The Government has also acknowledged that in 2015 the Russian economy has entered a recession: the GDP contraction by 3.7 per cent. in 2015 was the worst result for the Russian economy since 2009, when Russian GDP fell 7.8 per cent. in real terms. In response to high inflation and a depreciating Rouble, the CBR progressively increased its key interest rate from 5.5 per cent. to 7.0 per cent. in March 2014, to 7.5 per cent. in April 2014, to 8.0 per cent. in July 2014, to 9.5 per cent. in November 2014, to 10.5 per cent. and subsequently to 17.0 per cent. in December 2014. As a result of the unexpected and significant increase in the CBR's key interest rate in December 2014 as well as the overall decline in the Russian economy, the domestic financial and banking markets have experienced and continue to experience substantial volatility and periodic shortages of liquidity persist in the domestic money market. In particular, in December 2014 the Russian interbank lending rates soared to levels comparable with the levels in early 2009 during the global economic crisis. In February 2015 the key interest rate was decreased from 17.0 per cent. to 15.0 per cent., to 14.0 per cent. in March 2015, to 12.5 per cent. in May 2015, to 11.5 per cent. in June 2015, and subsequently to 11.0 per cent. in August 2015, 10.5 per cent. in June 2016 and 10 per cent. in September 2016. No assurance could be given that the key interest rate will not be increased by the CBR again.

As a major oil producer, Russia is particularly vulnerable to such oil price fluctuations. Russia is also a major producer and exporter of coal, other raw materials as well as metal products and its economy is vulnerable to fluctuations in world commodity prices and the imposition of tariffs and/or anti-dumping measures by the United States, the European Union or by other principal export markets. The sustained decline in the prices of crude oil, natural gas and other commodities (including metals, coal and other raw materials) has had a substantial adverse impact on the Russian economy. Any further decrease or volatility in world commodity prices in the future would have a materially adverse impact on the Russian economy, which, in turn, could have a material adverse effect on the Group's operations, affecting its business, results of operations or financial position.

Continued instability in global credit markets may adversely affect the Group's business, financial position, results of operations and prospects.

The credit markets, both globally and in Russia, have faced significant volatility and liquidity constraints since the summer of 2008. Global credit markets tightened initially as a result of concerns over the United States sub-prime mortgages crisis, the valuation and liquidity of mortgage-backed securities and other financial instruments, such as asset-backed commercial paper. Significant mark-to-market write-downs of asset values followed, initially in respect of mortgage-backed securities, but such write-downs then spread to other financial instruments, such as syndicated loans, and other classes of assets. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger financial institutions and, in some cases, to fail, such as in the case of the U.S. investment bank Lehman Brothers. More recently, the 2011 European debt crisis, 2013 banking crisis in Cyprus and the imposition of the "sectoral sanctions" on a number of major Russian banks have contributed to the tightening of credit environment and general market instability in most major credit markets. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders have reduced and, in some cases, ceased to provide funding to borrowers, including other financial institutions.

In response to the global economic downturn which affected the global banking sector and financial markets and the which threatened the ability of investment banks and other financial institutions to continue their activities, governments in the United States, in many of the largest countries in Europe and elsewhere implemented a range of measures to support their respective economies. These measures included, among other things, the recapitalisation of banks through state purchases of common and preferred equity securities, the state guarantee of certain forms of bank debt, the purchase of distressed assets from banks and other financial institutions by the state and the provision of state guarantees in respect of distressed assets held by banks and other financial institutions. Despite these proposals and actions, the volatility and market disruption in the global banking sector has continued to a degree unprecedented in recent history.

There can be no assurance that such measures will succeed in returning stability to the global banking sector and financial markets in the short term or beyond. Continued instability in global credit markets could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

Social Risks

Economic instability could lead to social tensions and unrest.

A deterioration of economic conditions and turmoil in the financial markets in Russia, such as caused by the recent economic downturn, may result in high unemployment, failure of state and private enterprises to pay employees' salaries in full and/or in a timely manner as well as inadequate increases in salaries and benefits to keep pace with the increases in the cost of living, any of which could result in social unrest. Such social unrest could have political, social and economic consequences, such as increased support for re-nationalisation of privatised property, or expropriation of or restrictions on foreign ownership of Russian assets or other restrictions adversely affecting foreign investment in the Russian economy. Any of these could have an adverse effect on confidence in Russia's social environment and the value of investments in Russia, could restrict the Group's operations, and could otherwise have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

Risks relating to the Russian Legal System and Russian Legislation

Weaknesses relating to the Russian legal system and Russian law create an uncertain environment for investment and business activity.

At the heart of a successful transition to a market economy is a comprehensive and well-developed legal system. Russia's legal framework is still under development and large portions of this framework have only recently become operational. The relatively recent enactment of many laws and the lack of consensus about the aims, scope, content and pace of economic and political reforms have resulted in ambiguities, inconsistencies and anomalies in the Russian legal system. The enforceability and underlying constitutionality of more recently enacted laws are in doubt, and many new laws remain untested. Any or all of these weaknesses could affect the Group's ability to determine whether, for example, the Group has adequate property rights, or whether the Group can enforce its legal rights in Russia, including rights under its contracts, or to defend against claims by others in Russia.

Furthermore, the independence of the Russian judicial system remains largely untested. The court system is understaffed and underfunded and not immune to external influences. Judges and the courts are often inexperienced in interpreting and applying many aspects of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all court decisions are readily available to the public. Enforcement of court judgments can, in practice, be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict, and effective redress uncertain. Additionally, court claims and prosecutions are sometimes influenced by, or used in furtherance of, private interests. The Group may be subject to such claims and may not be able to receive a fair trial.

In addition, the current status of the Russian legal system makes it uncertain whether the Group would be able to enforce its rights in disputes with its contractual partners or other parties. The Budget Code sets additional requirements for enforcing rights against the federal budget, which may potentially delay the payment of sums due to the Group from the federal budget. Furthermore, the dispersion of regulatory power among a number of government agencies in Russia has resulted in inconsistent or contradictory regulations and unpredictable enforcement. The Group's ability to operate in Russia could thus be adversely affected by difficulties in protecting and enforcing the Group's rights and by future changes to local laws and regulations.

The risks of the current legal system in Russia include, but are not limited to:

- inconsistencies between and among the constitution, laws, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- limited judicial and administrative guidance on interpreting legislation;
- gaps in the regulatory structure due to the absence of or delay in implementing regulations;
- the relative inexperience of judges and courts in interpreting new principles of Russian law, particularly in relation to business and commercial law;
- bankruptcy procedures that are still under development;
- a lack of judicial independence from political, social and commercial forces;
- problematic and time-consuming enforcement of both domestic and foreign judicial orders and international arbitration awards;

- a high degree of discretion on the part of governmental authorities, leaving significant opportunities for arbitrary government action; and
- a tendency to formalism in interpreting procedural requirements.

All of the above risks could affect the Group's ability to ascertain its rights or to seek or obtain effective redress in the Russian courts, which could have a material adverse effect on the Group's business, financial position or results of operations.

The state of the judiciary and the difficulty of enforcing court decisions could prevent investors in the Notes from obtaining effective redress in a court proceeding.

Judgments rendered by a court in any jurisdiction outside Russia are likely to be recognised by courts in Russia only if: (i) an international treaty providing for the recognition and enforcement of judgments in civil cases exists between Russia and the country where the judgment is rendered; and/or (ii) a federal law of Russia providing for the recognition and enforcement of foreign court judgments is adopted. No such federal law has been passed and no such treaty exists between the United Kingdom or the United States and Russia for the reciprocal enforcement of foreign courts' judgments. In the absence of an applicable treaty or convention providing for the recognition and enforcement of judgments in civil and commercial matters between the United Kingdom or the United States and Russia, a judgment of an English or U.S. court may be recognised and enforced in Russia only on the grounds of reciprocity. In each case, reciprocity must be established and, in the absence of a developed court practice, it is difficult to predict whether a Russian court will be inclined to recognise and enforce an English or U.S. court judgment on the grounds of reciprocity in any particular instance. See "*Enforceability of Judgments*".

Shareholder liability under Russian legislation could cause the Company to become liable for the obligations of its Russian subsidiaries.

Under Russian law, the Company may become liable for the obligations of its Russian subsidiaries or joint venture entities if it was determined that: (i) the Company had the ability to make, or exert influence on, decisions for such subsidiaries or joint venture entities as a result of its equity interest, the terms of a binding contract with such Russian subsidiary or joint venture entity or in any other way; and (ii) the relevant Russian subsidiary or joint venture entity concluded the transaction giving rise to the obligations pursuant to the Company's instructions or consent. In addition, the Company may have secondary liability for the obligations of its Russian subsidiaries or joint venture entities in a situation where the respective Russian subsidiary or joint venture entity becomes insolvent or bankrupt and this was a result of, or was otherwise attributable to, actions of the Company (i.e., the Company has issued its instructions or given its consent knowing that this would result in insolvency or bankruptcy of the relevant Russian subsidiary or joint venture entity). This type of liability could result in significant losses, and could have a material adverse effect on the Group's business, results of operations or financial position, prospects and the value of the Notes.

Some of the Company's transactions may require approval by the Board of Directors or the shareholder.

Under Russian law, some of the Company's transactions (including, in particular, "interested party" and "major" transactions as defined by the Joint Stock Companies Law) may require approval by the Board of Directors or the shareholder of the Company. In addition, the Company's charter requires certain types of transactions (including transactions exceeding an equivalent of RUB 3 billion with the exception of transactions entered into in the ordinary course of business) to be approved by the Board of Directors. Failure to obtain the requisite approvals may result in the invalidation of the relevant transaction by the courts. If any of the Company's transactions are successfully challenged and declared invalid by the court, it could have a material adverse effect on the Company's business, financial position, results of operations, prospects and the value of the Notes.

Risks relating to Taxation in the Russian Federation

Weaknesses and changes in the Russian tax system could negatively impact the Group's business.

A significant part of the Group's assets and operations is located in Russia and, therefore, weaknesses in the Russian tax system could adversely affect the Group. The Russian subsidiaries of the Group are subject to a broad range of Russian taxes and charges imposed at the federal, regional and local levels, including, but not limited to, corporate income tax, value added tax ("**VAT**"), property tax and payroll related social security contributions.

Russian laws and regulations related to these taxes, such as the Tax Code of the Russian Federation (the "**Russian Tax Code**"), have been in force for a relatively short period of time in comparison with tax legislation in more developed market economies. The implementation of Russian tax laws and regulations is often unclear or inconsistent. Historically, the system of tax collection in Russia has been relatively ineffective, resulting in continual changes to the tax legislation, some of which apply retrospectively and occur with little notice.

Although Russia's tax climate and the quality of Russian tax legislation have generally improved with the introduction of the Russian Tax Code, there can be no assurance that the Russian Tax Code will not be changed or interpreted in the future in a manner adverse to the stability and predictability of the Russian tax system. The possibility exists that Russia may impose arbitrary or onerous taxes, levies, fines and penalties in the future, which could adversely affect the Group's business.

Since Russian federal, regional and local tax laws and regulations have been subject to frequent changes and some of the sections of the Russian Tax Code relating to the aforementioned taxes are comparatively new, the interpretation and application of these laws and regulations is often unclear, unstable or non-existent. Differing interpretations of tax laws and regulations may exist both among and within government bodies at federal, regional and local levels, increasing the amount of uncertainty and tax risks and leading to the inconsistent enforcement of these laws and regulations in practice.

Furthermore, taxpayers, the Russian Ministry of Finance and the Russian tax authorities often interpret tax laws and regulations differently. In some instances, the Russian tax authorities have applied new interpretations of tax laws and regulations retroactively. Private clarifications to specific taxpayers' queries in respect of particular situations issued by the Russian Ministry of Finance are not binding on the Russian tax authorities. There can be no assurance, therefore, that the representatives of the local Russian tax authorities will not take positions contrary to those set out in the private clarification letters issued by the Russian Ministry of Finance. Moreover, there can be no assurance that the Russian legislation and regulations will not be altered, in whole or in part, or that Russian tax authorities and/or Russian courts or other regulatory authorities will not interpret these rules and regulations in such a way that the arrangements described in this Prospectus would be subject to different tax treatment than the treatment described herein, whether retroactively or otherwise, or would be adversely affected in some other way. During the past several years the Russian tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax assessments issued by them as a result of tax audits of Russian companies operating in various industries.

In practice, taxpayers often have to resort to court proceedings to defend their position against the Russian tax authorities. In the absence of binding precedent, court rulings on tax or other related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory. The Russian tax system is, therefore, impeded by the fact that, at times, it continues to be characterized by inconsistent judgment of local tax authorities and the failure by the Russian tax authorities to address many of the existing problems. It is, therefore, possible that transactions and activities of the Company and/or the Group that have not been challenged in the past may be challenged in the future, which may have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the Notes.

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued ruling No. 53 ("**Ruling No. 53**") which introduced a concept of "unjustified tax benefit" defined mainly by reference to specific examples of such tax benefits (for example, tax benefits obtained as a result of a transaction that has no reasonable business purpose) which may lead to disallowance of their application. The "unjustified tax benefit" concept is aimed to prohibit taxpayers from deducting expenses for corporate income tax purposes and the relevant amount of input VAT in cases where a business transaction was primarily aimed at tax avoidance, the primary documents were signed by an unauthorised or unidentified person or signed on behalf of the entity that does not sell goods (perform work or render services) or transfer property rights. Based on the available court practice relating to Ruling No. 53, it is apparent that the Russian tax authorities have been actively seeking to apply this concept when challenging tax positions taken by taxpayers. Although the intention of this ruling was to combat the abuse of tax law, based on the available judicial interpretations relating to Ruling No. 53, the Russian tax authorities have started applying the "unjustified tax benefit" concept in a broader sense than may have been intended by the Supreme Arbitration Court of the Russian Federation. The available court practice is contradictory. Importantly, the Group is aware of cases where this concept has been applied by the Russian tax authorities in order to disallow benefits granted by double tax treaties.

Tax returns, together with related documentation are subject to review and investigation by a number of Russian authorities, which are empowered by Russian law to impose fines and penalties on taxpayers. A repeat tax audit may be conducted under certain conditions. Previous tax audits may not preclude subsequent claims relating to the audited period. Additionally, the Russian Tax Code provides for possible extension of the three-year statute of limitations under certain conditions. Since there are precedents in which the Russian tax authorities tend to apply new interpretations of tax laws retroactively, tax audits of periods for which the statute of limitations has expired as well as repeated tax audits may have a material adverse effect on the Group's business, financial condition and results of operations.

Each of the foregoing factors creates tax risks in Russia that may be substantially more significant than those typically found in countries with more developed tax systems. Although the Group undertakes measures aimed at minimising tax risks, there can be no assurance that the Group will not be required to make substantially larger tax payments in the future that would affect the financial results of the Group. Furthermore, Russian tax legislation is consistently becoming more sophisticated; it is possible that new revenue raising measures could be introduced. These risks and uncertainties, as well as new measures complicate the Group's tax planning and related business decisions, potentially exposing the Group to significant fines, penalties and enforcement measures, and could materially adversely affect the Group's business, results of operations or financial condition.

Russian tax anti-avoidance initiatives may have an adverse impact on the Group's business, financial condition and results of operations.

The Russian Federation is actively involved in discussing measures against aggressive tax planning by the use of low tax jurisdictions and other structures. Starting from 1 January 2015 the following rules (concepts) (introduced into the Russian Tax Code) became effective: (1) "controlled foreign companies" (CFC) rules, pursuant to which undistributed profits of certain foreign organisations as well as foreign structures (not being legal entities) controlled by Russian tax residents should be subject to taxation in Russia; (2) the concept of tax residency for legal entities whereby foreign legal entities would be deemed Russian tax residents if their place of management is located in Russia; and (3) beneficial ownership concept which provides that treaty relief should be available to foreign legal entities which qualify for the beneficial owners of income. The Group includes companies incorporated and operating outside of Russia. It is possible that with the introduction of the these rules (concepts) the Group might become subject to additional taxation in Russia in respect of its operations performed outside of the Russian Federation.

Implementation of the abovementioned new rules (concepts) and some other tax anti-avoidance initiatives are likely to impose additional administrative burden on the Group. No assurance can be given as to the practical application of these new rules and concepts by the Russian tax authorities and, consequently, their potential impact (including additional tax liability, if any) on the Group. Therefore, the Group cannot exclude that the Group might be subject to additional tax liabilities as a result of the application of the new anti-avoidance rules to transactions carried out by the Group, which could have a material adverse effect on the Group's business, financial condition and results of operations and the value of the Notes.

Russian transfer pricing rules may affect the Group's results of operations.

The Russian transfer pricing legislation allows the Russian tax authorities to make transfer pricing adjustments. Due to uncertainties in the interpretation of Russian transfer pricing legislation and the absence of court practice, no assurance can be given that the Russian tax authorities will not challenge prices of transactions of the Group and make adjustments which could adversely affect the Group's tax position. The imposition of additional tax liabilities under the Russian transfer pricing legislation may have a material adverse effect on the Group's business, results of operations or financial condition. See also "*—Weaknesses and Changes in the Russian Tax System Could Negatively Impact the Group's Business*".

Weaknesses in the tax systems and legislation in some of the countries in which the Group operates create an uncertain environment for business activity and could subject the Group to material liabilities.

The Group operates in a number of jurisdictions outside of Russia. Tax legislation in some of these jurisdictions may be subject to frequent change, varying interpretation and inconsistent and selective enforcement by the local authorities. The Group believes that it is currently in compliance with all applicable tax laws and regulations in the jurisdictions in which it conducts business. However, there can be no assurance that tax authorities in relevant jurisdictions will not take positions contrary to those held by the Group in their assessment of the Group's compliance with tax legislation and/or assessment of the Group's tax liabilities. Moreover, there can be no assurance that the relevant jurisdictions' tax legislation and regulations will not be altered, in whole or in part, or that tax authorities and/or courts or other regulatory authorities will not interpret these rules and regulations in such a way that the Group's operations would be subject to different tax treatment, whether retroactively or otherwise, or would be adversely affected in some other way, which could have a material adverse effect on the Group's business, financial performance, prospects and the value of the Notes.

Interest payments on the Loan may become subject to Russian withholding tax.

In general, interest payments on borrowed funds made by a Russian legal entity to a non-Russian legal entity or organisation having no registered presence, i.e. no permanent establishment or no tax residency, in Russia are subject to Russian withholding tax at the rate of 20 per cent. (or such other rate that may be effective at the time of payment), which could be reduced or eliminated pursuant to the terms of an applicable double tax treaty.

Generally, no withholding tax should arise on interest on the loan provided to the Russian borrower in connection with the issuance of the notes by a foreign entity (the "**Eurobond structure**") by virtue of the special exemption envisaged by the Russian Tax Code. Specifically, the Russian Tax Code provides, among other things, that Russian borrowers should be fully released from the obligation to withhold income tax from interest and other payments on debt obligations made to foreign entities provided that certain conditions are met throughout the term of the loan and the notes. See "*Taxation—Russian Federation.*"

Importantly, the Russian Tax Code does not provide for the exemption of the foreign interest income recipients from Russian withholding tax. Currently there is no requirement and mechanism in the Russian tax legislation for the foreign legal entities to self-assess and pay the tax to the Russian tax authorities in case the tax was not withheld at source. There can be no assurance that the respective requirements and mechanism will not be introduced in the future or that the Russian tax authorities would not make attempts to collect the income tax from the foreign income recipients, including the Issuer or the Noteholders.

If interest due under the Loan becomes payable to the Trustee pursuant to the Trust Deed, there is some residual uncertainty whether the Trustee can qualify for the "entity authorized to receive interest income payable on the issued bonds" and hence the release from the obligation to withhold tax under the Russian Tax Code would be available to the Company. See "*Taxation—Russian Federation*". While the tax treaty benefits are available to the beneficial owners of income only, it is not expected that the Trustee will, or will be able to, claim the exemption from or reduction in the standard Russian withholding tax rate applicable to interest payments based on the applicable double tax treaty. In addition, whilst some Non-Resident Noteholders may be eligible for the exemption from or the reduction in Russian withholding tax or personal income tax, as applicable, under applicable double tax treaties entered into between their countries of tax residence and Russia, where such treaties exist and to the extent they are applicable, there can be no assurance that the respective treaty relief will be available to them (and, particularly, to the non-Russian tax residents which are individuals) due to difficulties related to the advance tax relief. See "*Taxation—Russian Federation*".

In November 2016, the Organisation for Economic Co-operation and Development (the "**OECD**") published the draft Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (the "**Draft Multilateral Convention**"). The Draft Multilateral Convention is expected to implement a series of tax treaty measures to update international tax rules and lessen the opportunity for tax avoidance by multinational enterprises. In particular, the Draft Multilateral Convention sets forth certain provisions with respect to tax treaty abuse and other matters. It is not yet clear how the Russian Federation will implement the Draft Multilateral Convention and what impact it may have with respect to taxation of payments under the Loan made by the Company to the Issuer or to the Trustee.

If interest payments due under the Loan become subject to Russian withholding tax (as a result of which the Issuer would reduce payments made under the corresponding Notes by the amount of the tax withheld), the Company will be obliged (subject to certain conditions) under the terms of the Loan Agreement to increase payments or to make such additional payments, respectively, as may be necessary to ensure that the net amount of payments received by the Issuer and the Noteholders will not be less than the amount they would have received in absence of such withholding tax. There is a risk that gross up for Russian withholding tax may not take place and that payments made by the Company under the Loan Agreement will be reduced by the amount of the Russian income tax withheld by the Company at the rate of 20 per cent. (or such other rate as may be in force at the time of payment) or Russian personal income tax at a rate of 30 per cent. (or such other rate as may be in force at the time of payment).

Disposal of the Notes in Russia may be subject to Russian taxes.

Where proceeds from the sale or other disposal of the Notes (including proceeds attributable to accrued and paid interest on the Notes) are deemed to be received from a source within Russia by the Non-Resident Noteholder-Individual Russian personal income tax at the rate of 30 per cent. (or such other tax rate as could be effective at the time of such sale or other disposal) will apply to the gross amount of the proceeds from the sale or other disposal of the Notes decreased by duly documented cost deductions (including the acquisition cost of the Notes and other documented expenses related to the acquisition, holding and the sale or other disposition of the Notes), provided that the duly executed documentation supporting cost deductions is made available in a timely manner to the tax agent that is obliged to calculate and withhold Russian personal income tax.

Although technically Russian personal income tax rate on proceeds from disposition of the Notes may be reduced or eliminated based on provisions of an applicable double tax treaty concluded between Russia and the country of tax residency of a particular Non-Resident Noteholder Individual, subject to timely compliance by that Non-Resident Noteholder Individual with the treaty clearance formalities, in practice such Non-Resident Noteholder Individual may not be able to obtain the advance treaty relief in relation to sales or disposal proceeds, as may be relevant, received from a source within Russia, whilst obtaining a refund of Russian personal income tax withheld at source could be difficult, or impossible in some cases. Further, even though the Russian Tax Code requires only a Russian professional asset manager or broker, acting in a similar capacity to withhold the tax from payment to an individual associated with disposition of securities, there is no guarantee that other Russian companies or foreign companies operating in Russia or an individual entrepreneur located in Russia would not seek to withhold the tax.

Generally, there should be no Russian tax on gains from sale or other disposition of the Notes imposed on Non-Resident Noteholder—Legal Entity. There is some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds, if any, attributable to accrued interest (coupon) on the Notes (i.e. debt obligations) where proceeds from sale or other disposition of the Notes are received from a source within Russia by a Non-Resident Noteholder–Legal Entity which is caused by isolated precedents in which the Russian tax authorities challenged the non-application of the Russian tax to the amount of accrued interest (coupon) embedded into the sale price of Eurobonds. Although the Russian Ministry of Finance in its most recent clarification letters opined that the amount of sale or other disposal proceeds attributable to the accrued interest on Eurobonds paid to a non-Russian organisation should not be regarded as Russian source income and on this basis should not be subject to taxation in Russia, there remains a possibility that a Russian entity or a foreign entity having registered tax presence in Russia which purchases the Notes or acts as an intermediary may seek to assess Russian withholding tax at the rate of 20 per cent. (or such other rate as could be effective at the time of such sale or other disposal) on the accrued interest portion of the disposal proceeds of the Notes.

The imposition or possibility of imposition of Russian withholding tax, as applicable, under such circumstances could adversely affect the value of the Notes. See "*Taxation — The Russian Federation*".

RISKS RELATING TO THE NOTES

The expansion or extension of U.S. or EU sanctions to the Group could adversely impact the trading market for the Notes.

If U.S. or EU sanctions are extended to the Group as described above under "—*Risks Relating to the Group—The Group may be subject to the laws and regulations relating to activities in countries and/or regions subject to sanctions*", the trading market for the Notes and the rights of the Noteholders could be adversely affected. If U.S. or EU sanctions programme are expanded to include additional existing or future clients, shareholders, suppliers or other counterparties of the Group, some Noteholders may sell their interests at a loss in any Notes due to internal compliance requirements or any laws or regulation applicable to such Noteholders.

The introduction of any large-scale sanctions on the Group may negatively impact its ability to make scheduled payments of principal and interest under the Loan Agreement, as any such payments could be frozen as a consequence of such sanctions before receipt by the Issuer. Any such freezing of payments would be beyond the Group's control as it would result from the enforcement of sanctions by the relevant payment processing banks. Consequently, the Issuer's and the Agents', or the Trustee's, as the case may be, ability to make scheduled payments of principal and interest under the Notes may be impaired. While the Group would consider and, to the extent possible, take available measures to discharge its obligations under the Loan Agreement, or facilitate the discharge of the Issuer's obligations under the Notes, as the case may be, the imposition of sanctions against the Group could result in the Noteholders not receiving timely scheduled payments under the Notes or not receiving such payments at all and/or as a consequence an Event of Default may occur under the Loans. Moreover, should any member of the Group become subject to either U.S. or EU sanctions, the relevant clearing systems, brokers and other market participants as well as the Irish Stock Exchange may refuse to permit trading in or otherwise facilitate transfers of the Notes and certain Noteholders may be unable to continue to hold the Notes as a result of applicable law or internal compliance requirements all of which could compound to significantly reduce the trading market for the Notes or may otherwise materially impact the value of the Notes.

The Loan may be prepaid at the option of the Company in certain circumstances which will result in early redemption of the Notes.

The Company may at its option prepay the Loan at its principal amount in whole but not in part together with accrued interest, if (i) the Company or the Issuer must deduct or withhold certain taxes from payments they make in respect of the Loan or the Notes, respectively, as more fully described in Clause 5.2 of the Loan Agreement; or (ii) it becomes illegal for the Notes or the Loan to remain outstanding, as more fully described in Clause 5.3 of the Loan Agreement. Upon such occurrence, the Issuer will, subject to the receipt of the relevant funds from the Company, prepay the principal amount of all Notes outstanding, together with accrued interest.

Noteholders have limited recourse to the Issuer, as payments under the Notes are limited to the amount of certain payments received by the Issuer under the Loan Agreement.

The Issuer has an obligation under the Conditions and the Trust Deed to pay such amounts of principal, interest and additional amounts (if any) as are due in respect of the Notes. However, the Issuer's obligation to pay is limited to the amount of principal, interest and additional amounts (if any) actually received and retained (net of tax) from the Company by or for the account of the Issuer pursuant to the Loan Agreement. Consequently, if the Company fails to meet its payment obligations under the Loan Agreement in full, this will result in the Noteholders receiving less than the scheduled amount of principal, interest or other amounts, if any.

Noteholders have no direct recourse to the Company.

Except as otherwise expressly provided in the Conditions and the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder can enforce any provision of the Loan Agreement or have direct recourse to the Company as borrower except through an action by the Trustee pursuant to the rights granted to the Trustee in the Trust Deed. Under the Trust Deed and the Conditions, the Trustee shall not be required to take proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured and/or prefunded by the Noteholders to its satisfaction. In addition, neither the Issuer nor the Trustee is required to monitor the Company's financial performance. See "*Terms and Conditions of the Notes*".

Payment in full of principal and interest by the Company pursuant to the Loan Agreement, to, or to the order of, the Trustee or the Principal Paying Agent will satisfy the Issuer's obligations in respect of the Notes. Consequently, Noteholders will have no further recourse against the Issuer or the Company after such payment is made in full.

The lack of a public market for the Notes could reduce the value of your investment.

There may not be an existing market for the Notes at the time they are issued. The Notes are expected to be listed on the Irish Stock Exchange and traded on the Main Securities Market. However, there can be no assurance that a liquid market will develop for the Notes, that holders of the Notes will be able to sell their Notes or that such holders will be able to sell their Notes for a price that reflects their value.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to investment laws and regulations, or to the review by, or regulation of, certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) the Notes are legal investments for it; (ii) the Notes can be used as collateral for various types of borrowings; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk based capital or similar rules.

The proposed financial transactions tax ("FTT").

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

RISKS RELATING TO THE ISSUER

The Issuer is subject to certain legal risks, including the location of its centre of main interest ("**COMI**"), the appointment of an examiner in the event the Issuer experiences financial difficulties, the claims of examiners, preferred creditors under Irish law and floating charges.

The Issuer has its registered office in Ireland. As a result, there is a rebuttable presumption that its COMI is in Ireland and consequently that any main insolvency proceedings applicable to it would be governed by Irish law. In the decision by the European Court of Justice (the "**ECJ**") in relation to Eurofood IFSC Limited, the ECJ restated the presumption in Council Regulation (EC) No. 1346/2000 of 29 May 2000 on Insolvency Proceedings that the place of a company's registered office is presumed to be the company's COMI and stated that the presumption can only be rebutted if "factors which are both objective and ascertainable by third parties enable it to be established that an actual situation exists which is different from that which locating it at the registered office is deemed to reflect". As the Issuer has its registered office in Ireland, has Irish directors, is registered for tax in Ireland and has an Irish corporate services provider, the Issuer does not believe that factors exist that would rebut this presumption, although this would ultimately be a matter for the relevant court to decide, based on the circumstances existing at the time when it was asked to make that decision. If the Issuer's COMI is not located in Ireland, and is held to be in a different jurisdiction within the European Union, main insolvency proceedings may not be opened in Ireland.

Examinership.

Examinership is a court moratorium/protection procedure which is available under Irish company law to facilitate the survival of Irish companies in financial difficulties. Where a company, which has its COMI in Ireland is, or is likely to be, unable to pay its debts an examiner may be appointed on a petition to the relevant Irish court under Section 509 of the Companies Act 2014.

The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of the Issuer are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power to halt, prevent or rectify acts or omissions, by or on behalf of the company after his appointment and, in certain circumstances, negative pledges given by the company prior to his appointment will not be binding on the company. Furthermore, where proposals for a scheme of arrangement are to be formulated, the company may, subject to the approval of the court, affirm or repudiate any contract under which some element of performance other than the payment remains to be rendered both by the company and the other contracting party or parties.

During the period of protection, the examiner will compile proposals for a compromise or scheme of arrangement to assist in the survival of the company or the whole or any part of its undertaking as a going concern. A scheme of arrangement may be approved by the relevant Irish court when a minimum of one class of creditors, whose interests are impaired under the proposals, has voted in favour of the proposals and the relevant Irish court is satisfied that such proposals are fair and equitable in relation to any class of members or creditors who have not accepted the proposals and whose interests would be impaired by implementation of the scheme of arrangement and the proposals are not unfairly prejudicial to any interested party.

The fact that the Issuer is a special purpose entity, and that all its liabilities are of a limited recourse nature and the structure of the transaction, means that it is unlikely that an examiner would be appointed to the Issuer.

If however, for any reason, an examiner were appointed while any amounts due by the Issuer under the Notes were unpaid, the primary risks to the holders of Notes would be as follows:

(i) the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against the Issuer during the period of examinership; and

(ii) a scheme of arrangement may be approved involving the writing down of the debt due by the Issuer to the Noteholders irrespective of the Noteholders' views.

Preferred Creditors.

If the Issuer becomes subject to an insolvency proceeding and has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular:

(i) under the terms of the Trust Deed, the Notes will be secured in favour of the Trustee for the benefit of itself and the Noteholders by security over the Loan Agreement and sums held in the related account with the Principal Paying Agent. Under Irish law, the claims of creditors holding fixed charges may rank behind other creditors (namely fees, costs and expenses of any examiner appointed and certain capital gains tax liabilities) and, in the case of fixed charges over book debts, may rank behind claims of the Irish Revenue Commissioners for PAYE and VAT;

(ii) under Irish law, for a charge to be characterised as a fixed charge, the charge holder is required to exercise the requisite level of control over the assets purported to be charged and the proceeds of such assets including any bank account into which such proceeds are paid. There is a risk therefore that even a charge which purports to be taken as a fixed charge, such as the Charge, may take effect as a floating charge if a court deems that the requisite level of control was not exercised; and

(iii) in an insolvency of the Issuer, the claims of certain other creditors (including the Irish Revenue Commissioners for certain unpaid taxes), as well as those of creditors mentioned above, will rank in priority to claims of unsecured creditors and claims of creditors holding floating charges.

DOCUMENTS INCORPORATED BY REFERENCE

The audited financial statements of the Issuer for the years ended 31 December 2015 and 31 December 2014 together with the audit reports thereon, have been filed with the Irish Stock Exchange and shall be deemed to be incorporated in, and to form part of, this Prospectus. The financial statements for the years ended 31 December 2015 and 31 December 2014 may be obtained from the website of the Irish Stock Exchange at http://ise.ie/app/announcementDetails.aspx?ID=12958952 and http://ise.ie/app/announcementDetails.aspx?ID=12869174, respectively.

CURRENCY PRESENTATION AND EXCHANGE RATE INFORMATION

In this Prospectus, certain amounts have been expressed in U.S. Dollars. The following table sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Rouble and the U.S. Dollar. This information is based on the official exchange rate quoted by the CBR, which is set by the CBR without the CBR assuming any obligations to buy or sell the foreign currency at the exchange rate. Fluctuations in the exchange rate between the Rouble and the U.S. Dollar in the past are not necessarily indicative of fluctuations that may occur in the future. The Group's inclusion of the exchange rates is not meant to suggest that the Rouble amounts actually represent such U.S. Dollar amounts or that such amounts could have been converted into U.S. Dollars at any particular rate, or at all.

	(RUB per U.S.$1.00)			
	High	**Low**	**Period[(1)] average**	**Period end**
Year ended 31 December				
2010	31.78	28.93	30.38	30.48
2011	32.20	27.50	29.38	32.20
2012	34.04	28.95	31.09	30.37
2013	33.47	29.93	31.98	32.73
2014	67.79	32.66	39.14	56.26
2015	72.88	49.18	61.87	72.88
2016	83.59	60.27	66.35	60.66
January 2017	60.66	59.15	59.69	60.16
February 2017	60.31	56.77	58.30	57.48

Source: the CBR

Note:

(1) The period average in respect of a year is calculated as the average of the exchange rates on the last business day of each month for the relevant annual period. The period average in respect of a month is calculated as the average of the exchange rates for each business day in the relevant month.

No representation is made that the Rouble or U.S. Dollar amounts referred to in this Prospectus could have been or could be converted into Roubles or U.S. Dollars, as the case may be, at these rates, at any particular rate or at all. The exchange rate between Rouble and U.S. Dollar has fluctuated significantly during the period covered by the IFRS Financial Statements. The official exchange rate quoted by the CBR per U.S.$1.00 for 27 February 2017 is RUB 57.48.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The Group's financial information set forth herein has, unless otherwise indicated, been derived from its IFRS Financial Statements, starting on page F-1 of this Prospectus.

The Rouble is the presentation currency for the IFRS Financial Statements.

Subsidies for 2016 and investment programme budgets for 2016 are presented on the basis of Company plans approved by the Government and may be different from the figures in the Group's IFRS financial statements to be published in the future.

Auditors

The 2015 and 2014 Consolidated Financial Statements have been audited and the 2016 Unaudited Interim Condensed Consolidated Financial Statements have been reviewed, in accordance with International Standards on Auditing and International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", respectively, by Ernst & Young LLC, independent auditors, who have expressed their opinion on the 2015 and 2014 Consolidated Financial Statements and conclusion on the 2016 Unaudited Interim Condensed Consolidated Financial Statements, as stated in their reports appearing herein. The address of Ernst & Young LLC is Sadovnicheskaya Naberezhnaya 77, Building 1, Moscow 115035, Russian Federation. Ernst & Young LLC is a member of the Russian Union of Auditors.

Alternative Performance Measures

In this Prospectus, the Group uses in the analysis of its business, financial position and results of operations the following metrics which it considers to constitute Alternative Performance Measures as defined in the European Securities and Markets Authority Guidelines ("**ESMA Guidelines**").

Metric	**Definition**	**Reconciliations**[1]	**Rationale for inclusion**
EBITDA	Financial measure to express profitability before the effects of income taxes, depreciation, amortisation, finance expenses and certain other items considered non-recurring and/or of non-cash nature	In the 2016 Unaudited Interim Condensed Consolidated Financial Statements: Operating profit after subsidies from federal and municipal budgets *plus* Depreciation and amortisation *plus* Loss on impairment of property, plant and equipment ("**PP&E**"), net; In the 2015 and 2014 Consolidated Financial Statements: Operating profit after subsidies from federal and municipal budgets *plus* Depreciation and amortisation *plus* Loss on impairment of PP&E and intangible assets, net	Measure of operating performance

Interim LTM EBITDA	Financial measure to express profitability before the effects of income taxes, depreciation, amortisation, finance expenses and certain other items considered non-recurring and/or of non-cash nature for a period of the preceding 12 months	EBITDA for the year ended 31 December 2015 *less* EBITDA for the six months ended 30 June 2015 *plus* EBITDA for the six months ended 30 June 2016	Measure of operating performance
EBITDA margin	Financial measure to express operating profitability as a percentage of the Group's total revenues for the period	EBITDA *divided* by Total revenues	Measure of operating profitability
Adjusted EBITDA margin	Financial measure to express operating profitability as a percentage of the Group's total revenues for the period excluding freight forwarding and logistics services	EBITDA *divided* by (Total revenues *less* Purchased freight forwarding and logistics services)	Measure of operating profitability expressing Group's profitability primarily as a provider of infrastructure access, and cargo and passenger transportation services
Net Debt	Financial measure to express aggregated debt less cash	Long-term borrowings and finance lease obligations, net of current portion, *plus* Short term borrowings and finance lease obligations, current portion, *less* Cash and cash equivalents	Measure of indebtedness and borrowing capacity
Net Debt/ EBITDA	Financial measure to express the ratio between Net Debt and EBITDA	Net Debt *divided* by EBITDA	Measure of financial leverage to demonstrate the Group's ability to repay its debt obligations
Net Debt/ Interim LTM EBITDA	Financial measure to express the ratio between Net Debt as at an interim date and EBITDA for a period of the preceding 12 months	Net Debt *divided* by Interim LTM EBITDA	Measure of financial leverage to demonstrate the Group's ability to repay its debt obligations
Capital expenditures	Financial measure to express capital expenditures of the Group	Cash outflows for Purchases of PP&E *plus* cash outflows on Acquisition of subsidiaries, net of cash acquired	Measure of investment activities
Net Financial Items	Financial measure to express net result of finance income and expenses and changes in the fair value of the Group's derivative financial instruments	An aggregate of Finance income and similar items, Finance expense and similar items *and* Changes in fair value of derivative financial instruments, net	Measure of financing activities

Note:

(1) Reconciliations are made to the Group's IFRS Financial Statements and the notes thereto as at, and for the period ending on, the date as at which the relevant Alternative Performance Measure is provided. For further information on the reconciliation of Alternative Performance Measures to measures disclosed in the IFRS Financial Statements, see "*Selected Consolidated Financial Information—Alternative Performance Measures*".

EBITDA, Interim LTM EBITDA, EBITDA margin, adjusted EBITDA margin, Net Debt, Net Debt/EBITDA, Net Debt/Interim LTM EBITDA, Capital expenditures and Net Financial Items (the "**APMs**") are presented as supplemental measures of the Group's operating performance, which the Company believes are frequently used by securities analysts, investors and other interested parties in the evaluation of companies' performance in the railway transportation sector. All of these supplemental measures have limitations as analytical tools, and investors should not consider any one of them in isolation, or any combination of them together, as a substitute for analysis of the Group's operating results as reported under IFRS.

Some of these limitations are as follows:

- EBITDA, Interim LTM EBITDA, EBITDA margin and adjusted EBITDA margin do not reflect the impact of net finance expenses (including interest income/(expense) and similar items, net), which can be significant and could further increase if the Group incurs more borrowings, on the Group's operating performance;
- EBITDA, Interim LTM EBITDA, EBITDA margin and adjusted EBITDA margin do not reflect the impact of income taxes on the Group's operating performance;
- EBITDA, Interim LTM EBITDA, EBITDA margin, adjusted EBITDA margin, Net Debt/EBITDA and Net Debt/Interim LTM EBITDA do not reflect the impact of depreciation and amortisation as well as effects of impairment of property, plant and equipment and intangible assets on the Group's performance. The assets of the Group's business that are being depreciated or amortised will need to be replaced in the future and such depreciation and amortisation expense may approximate the cost of replacing these assets in the future. By excluding this expense from EBITDA or Interim LTM EBITDA, these measures do not reflect the Group's future cash requirements for these replacements. The effects of impairment of property, plant and equipment and intangible assets are also excluded from EBITDA, Interim LTM EBITDA, EBITDA margin, adjusted EBITDA margin measures, Net Debt/EBITDA and Net Debt/Interim LTM EBITDA;
- EBITDA, Interim LTM EBITDA, EBITDA margin, adjusted EBITDA margin, Net Debt/EBITDA and Net Debt/Interim LTM EBITDA do not reflect the impact of "gain on disposal of controlling interest in subsidiaries, net"; "equity income from associates and joint ventures, net"; "changes in fair value of financial instruments, net"; "other income"; "other expenses"; "foreign exchange gain/(loss), net"; and "hedge accounting effects"; and
- EBITDA, Interim LTM EBITDA, EBITDA margin, adjusted EBITDA margin, Net Debt/EBITDA and Net Debt/Interim LTM EBITDA exclude items that the Group considers to be one-offs or unusual, but such items may in fact recur.

Other companies in the railway transportation industry may calculate the APMs differently or may use each of them for different purposes than the Group, limiting their usefulness as comparative measures.

The Group relies primarily on its IFRS operating results and uses the APMs only supplementally. See the IFRS Financial Statements included elsewhere in this Prospectus. The APMs are not defined by, or presented in accordance with, IFRS. The APMs are not measurements of the Group's operating performance under IFRS and should not be considered as alternatives to revenues, operating profit after subsidies from federal and municipal budgets, net income/(loss) for the period, net cash from operating activities or any other measures of performance under IFRS or as measures of the Group's liquidity. In particular, EBITDA or Interim LTM EBITDA should not be considered as a measure of discretionary cash available to the Group to invest in the growth of its business.

Currency

In this Prospectus, the following currency terms are used:

- "**RUB**" or "**Rouble**" means the lawful currency of the Russian Federation;
- "**U.S. Dollar**"" or "**U.S.$**" means the lawful currency of the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia;
- "**CHF**" or "**Swiss Francs**" means the lawful currency of Switzerland;
- "**Sterling**" or "**GBP**" means the lawful currency of the United Kingdom; and
- "**€**", "**EUR**" or "**Euro**" means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Community (as amended).

References to the Russian Federation and Government

In this Prospectus, references to the "State" or "Russia" are to the Russian Federation and/or the Russian federal government as the context requires. References to the "Government" are to the Russian federal government.

Industry and Market Data

In this Prospectus, the Borrower refers to information regarding its business, the business of its Group and its competitors and the market in which it operates and competes. The Borrower obtained this information in part from various third party sources and in part from the Borrower's own internal estimates. The Borrower has obtained market and industry data relating to its business from providers of industry and market data, namely Rosstat and the CBR.

Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable. The Group has relied on the accuracy of the information from industry publications, surveys and forecasts without carrying out an independent verification thereof and cannot guarantee their accuracy or completeness. Such information appears in the sections of this Prospectus entitled "*Risk Factors*", "*Operating and Financial Review*", "*Industry*" and "*Business*". Where information has been sourced from a third party, this information has been accurately reproduced and, so far as the Borrower or the Issuer is aware and is able to ascertain from information published by the third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. See "*Risk Factors—Risks Relating to the Group—The Group Has Not Independently Verified Information It Has Sourced from Third Parties*".

In addition, in many cases, the Borrower has made statements in this Prospectus regarding the Russian rail transportation and infrastructure industry and the Group's position in this industry based on its own experience and investigation of market conditions. There can be no assurance that any of the Borrower's assumptions are accurate or correctly reflect the Borrower's position in the industry, and such statements have not been verified by any independent sources. See "*Risk Factors—Risks Relating to the Group—The Group Has Not Independently Verified Information It Has Sourced from Third Parties*".

Language of the Prospectus

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

References to "Freight" and "Cargo"

In this Prospectus, "**freight**" and "**cargo**" have the same meaning and are used interchangeably.

Legal Entities Abbreviations and Notions

In this Prospectus, "LLC" means a Russian limited liability company, "P.L.C." or "PLC" means a public limited company, "PJSC" means a Russian public joint stock company, "JSC" means a Russian non-public joint stock company.

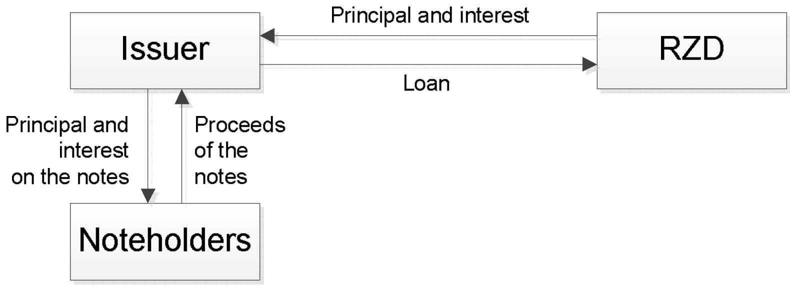
In this Prospectus, "joint venture" (other than in the context of IFRS Financial Statements, to which IFRS 11 *Joint arrangements* applies) means a commercial enterprise or a business arrangement organised by two or more parties, irrespective of equity proportions of such parties or their ability to exercise control over such enterprise.

Rounding

Some numerical figures included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.

DESCRIPTION OF TRANSACTION

The following summary contains basic information about the Notes and the Loan and should be read in conjunction with, and is qualified in its entirety by, the information set forth under "The Loan Agreement", "Terms and Conditions of the Notes", as appropriate appearing elsewhere in this Prospectus.



The transaction will be structured as a loan from the Issuer as lender to the Company as borrower. The Issuer will issue the Notes, which will be secured limited recourse loan participation notes issued for the sole purpose of funding the Loan to the Company. The Notes are limited recourse obligations and the Issuer will not have any obligation to the Noteholders other than the obligation to account to the Noteholders for payment of principal, interest and additional amounts (if any) received and retained (net of tax) by it under the Loan. In the event that the amount due and payable by the Issuer under such Notes exceeds the sums so received or recovered and retained (net of tax), the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

The Notes will have the benefit of, and be constituted by, the Trust Deed. As provided in the Trust Deed, the Issuer will charge, by way of a charge in favour of the Trustee, for the benefit of the Noteholders as continuing security for its payment obligations in respect of the Notes (the "**Charge**"):

- all rights to principal, interest and additional amounts (if any) payable to the Issuer by the Company under the Loan Agreement;
- the right to receive all sums that may be or become payable by the Company under any claim, award or judgment relating to the Loan Agreement; and
- all the rights, title and interest in and to all sums of money held from time to time in an account specified in the Loan Agreement, together with the debts represented thereby (including interest earned on the account, if any), provided, in each case, that Reserved Rights (as defined in the Trust Deed), and any amounts in respect thereof, are excluded from the Charge. In addition, the Issuer will assign to the Trustee certain administrative rights under the Loan Agreement. See "*Terms and Conditions of the Notes*".

In addition, the Issuer will assign absolutely to the Trustee for the benefit of itself and the Noteholders all the rights, title, interest and benefits, both present and future, that may accrue to the Issuer as lender under or pursuant to the Loan Agreement (including, without limitation, the right to declare the Loan immediately due and payable and to commence proceedings to enforce the obligations of the Company thereunder), other than any rights, interests or benefits that are subject to the Charge and other than Reserved Rights (as defined in the Trust Deed), and any amounts relating to the Reserved Rights. As a consequence of such assignment, the Trustee will assume the rights of the Issuer under the Loan Agreement, as set forth in the provisions of the Trust Deed.

The Issuer will agree in the Trust Deed not to agree to any amendments to or modification or waiver of, and not to authorise any breach of, the Loan Agreement unless the Trustee has given its prior written consent or unless authorised to do so by an Extraordinary Resolution or a Written Resolution (as defined in the Trust Deed) of the Noteholders, except in respect of Reserved Rights. The Issuer will agree to act at all times in accordance with any instructions of the Trustee with respect to the Loan Agreement, except as provided in the Trust Deed and except in respect of Reserved Rights. The Trustee will notify the Noteholders of any amendments, modifications, waivers or authorisations made with the Trustee's consent in accordance with "*Terms and Conditions of the Notes—Condition 16 Notices*", which amendments, modifications, waivers or authorisations will be binding on the Noteholders. The Issuer does not intend to provide post-issuance transaction information regarding the Notes or the performance of the Loan.

Payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes imposed and levied by or on behalf of Ireland, except as required by law. If any deduction or withholding is required by law, the Issuer must, except in certain limited circumstances, pay additional amounts to the extent it receives corresponding amounts from the Company pursuant to the Loan Agreement. In addition, payments under the Loan Agreement will be made without deduction or withholding for or on account of Taxes (as defined in the Loan Agreement), except as required by law. If any deduction or withholding is required by law with respect to payments under the Notes or the Loan Agreement, the Company must, except in certain limited circumstances, increase the amounts payable under the Loan Agreement to ensure that the Issuer receives a net amount equal to the full amount it would have received had payment not been made subject to Taxes.

The Company may prepay the Loan at its principal amount, together with accrued and unpaid interest and additional amounts (if any) if the Company must increase the amount payable or pay additional amounts on account of the Taxes in respect of which it is required to pay additional amounts under the Loan Agreement or if it must pay additional amounts on account of certain costs incurred by the Issuer. As set forth in the Loan Agreement, the Issuer may, at its own discretion, require the Company to prepay the Loan if it becomes unlawful for the Loan or the Notes to remain outstanding. The Loan has characteristics that demonstrate a capacity to produce funds to service any payments due and payable on the Notes.

USE OF PROCEEDS

The proceeds of the Notes will be used by the Issuer for the sole purpose of financing the Loan to the Company. The proceeds of the Loan will be used by the Company in the ordinary course of its business, including for the funding of the Company`s investment programme and for the repayment of its indebtedness.

The Group will not directly or indirectly use the proceeds of the offering of the Notes, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture, partner or other person or entity (i) to fund or facilitate any activities of or business with any person that, at the time of such funding or facilitation, is the subject or the target of EU or U.S. sanctions, (ii) to fund or facilitate any activities of or business in any country or territory that is the subject or target of EU or U.S. sanctions or (iii) in any other manner that will result in a violation by any person (including any person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of EU or U.S. sanctions.

CAPITALISATION

The following table sets forth the Group's cash and cash equivalents, short-term debt, long-term debt and total capitalisation as at 30 June 2016 on a consolidated basis.

Prospective investors should read this table in conjunction with "*Selected Consolidated Financial Information*", "*Operating and Financial Review*" and the IFRS Financial Statements, which are included elsewhere in this Prospectus.

	As at 30 June 2016
	(unaudited)
	(RUB millions)
Cash and cash equivalents	**160,588**
Short-term debt[(1)]	**212,919**
Long-term debt[(2)]	**815,739**
Share capital	2,144,315
Revaluation reserve on hedging instruments	(20,471)
Revaluation reserve on investment property	19,782
Retained earnings and other reserves	54,334
Equity attributable to shareholders of the parent	**2,197,960**
Non-controlling interests	**19,286**
Total equity	**2,217,246**
Total capitalisation[(3)]	**3,245,904**

Source: 2016 Unaudited Interim Condensed Consolidated Financial Statements

Notes:

(1) Short-term debt is the sum of short-term borrowings and finance lease obligations, current portion. Short-term debt finance has changed since 30 June 2016. See "*Operating and Financial Review—Recent Developments and Outlook—Borrowings*".

(2) Long-term debt is the sum of long-term borrowings and finance lease obligations, net of current portion. Long-term debt finance has changed since 30 June 2016. See "*Operating and Financial Review— Recent Developments and Outlook—Borrowings*".

(3) Total capitalisation is the sum of short-term debt, long-term debt and total equity.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present selected consolidated financial information as at and for the years ended 31 December 2015 and 2014, which has been derived from the 2015 and 2014 Consolidated Financial Statements, and as at and for the six months ended 30 June 2016 and 2015, which has been derived from the 2016 Unaudited Interim Condensed Consolidated Financial Statements.

The financial information set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the IFRS Financial Statements and related notes thereto included elsewhere in this Prospectus as well as the sections entitled "*Presentation of Financial and Other Information*", "*Capitalisation*" and "*Operating and Financial Review*".

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	For the six months ended 30 June	
	2016	**2015**
	(unaudited)	**(unaudited)**
	(RUB millions)	
Revenues		
Cargo and infrastructure access revenues	648,475	626,228
Logistics revenues	190,235	148,102
Passenger revenues	92,180	83,813
Other revenues	108,851	103,840
Total revenues	**1,039,741**	**961,983**
Operating expenses		
Wages, salaries and related contributions	(370,369)	(370,554)
Materials, repairs and maintenance	(103,193)	(101,825)
Fuel	(42,242)	(46,431)
Purchased freight forwarding and logistics services	(141,960)	(109,255)
Electricity	(70,484)	(64,154)
Depreciation and amortisation	(107,205)	(113,449)
Taxes other than income tax	(30,220)	(28,036)
Commercial expenses	(2,848)	(2,738)
Bad debt expense, net	(2,258)	(2,136)
Social expenses	(3,512)	(3,632)
Loss on impairment of property, plant and equipment	(25,109)	(8,449)
Other operating expenses	(80,886)	(71,630)
Total operating expenses	**(980,286)**	**(922,289)**
Operating profit before subsidies from federal and municipal budgets	**59,455**	**39,694**
Subsidies from federal and municipal budgets	28,165	29,592
Operating profit after subsidies from federal and municipal budgets	**87,620**	**69,286**
Finance expense and similar items	(43,289)	(29,289)
Finance income and similar items	7,832	6,654
Finance expense and similar items, net	**(35,457)**	**(22,635)**
Gain on disposal of controlling interest in subsidiaries, net	–	2,072
Changes in fair value of derivative financial instruments, net	(5,020)	(10,419)
Other income	13,810	9,953
Other expenses	(14,782)	(24,086)
Foreign exchange gain, net	22,854	11,768
Hedge accounting effects	(2,726)	–
Income before taxation	**66,299**	**35,939**
Income taxes		
Current taxes	(13,847)	(18,379)
Deferred taxes	(7,601)	8,477
Total income taxes	**(21,448)**	**(9,902)**
Net income/(loss) for the period	**44,851**	**26,037**
Attributable to:		
Equity holder of the parent	46,309	25,595
Non-controlling interests	(1,458)	442

	For the year ended 31 December	
	2015	**2014**
	(RUB millions)	
Revenues		
Cargo and infrastructure access revenues	1,258,638	1,168,811
Logistics revenues	307,443	221,340
Passenger revenues	192,754	193,629
Other revenues	232,124	212,380
Total revenues	**1,990,959**	**1,796,160**
Operating expenses		
Wages, salaries and related contributions	(734,070)	(697,461)
Materials, repairs and maintenance	(248,993)	(215,034)
Fuel	(92,904)	(95,516)
Purchased freight forwarding and logistics services	(229,488)	(162,942)
Electricity	(132,688)	(127,221)
Depreciation and amortisation	(218,644)	(220,669)
Taxes other than income tax	(58,127)	(47,816)
Commercial expenses	(7,171)	(6,667)
Gain on release of bad debt allowance, net	8,876	8,939
Social expenses	(7,854)	(9,311)
Loss on impairment of property, plant and equipment and intangible assets	(31,350)	(31,635)
Other operating expenses	(162,653)	(141,222)
Total operating expenses	**(1,915,066)**	**(1,746,555)**
Operating profit before subsidies from federal and municipal budgets	**75,893**	**49,605**
Subsidies from federal and municipal budgets	62,578	50,721
Operating profit after subsidies from federal and municipal budgets	**138,471**	**100,326**
Finance expense and similar items	(76,734)	(41,642)
Finance income and similar items	15,952	4,544
Finance expense and similar items, net	**(60,782)**	**(37,098)**
Gain on disposal of controlling interest in subsidiaries, net	2,369	6,030
Equity income from associates and joint ventures, net	197	1,763
Changes in fair value of derivative financial instruments, net	(15,513)	(4,113)
Other income	25,955	19,107
Other expenses	(40,891)	(43,040)
Foreign exchange loss, net	(27,414)	(143,930)
Income/(loss) before taxation	**22,392**	**(100,955)**
Income taxes		
Current taxes	(7,733)	(5,514)
Deferred taxes	(6,477)	7,149
Total income taxes	**(14,210)**	**1,635**
Net income/(loss) for the period	**8,182**	**(99,320)**
Attributable to:		
Equity holder of the parent	4,658	(98,966)
Non-controlling interests	3,524	(354)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June	As at 31 December	
	2016	2015	2014
	(unaudited)		
	(RUB millions)		
ASSETS			
Non-current assets			
Property, plant and equipment	3,398,554	3,356,025	3,120,418
Investment property	16,794	16,882	14,156
Goodwill	21,534	23,796	18,292
Intangible assets other than goodwill	88,816	99,636	85,979
Investments in associates and joint ventures	13,557	14,436	32,319
Other non-current financial assets	26,499	26,952	21,513
Deferred tax assets	17,135	16,918	13,964
Derivative financial assets	3,058	4,093	2,984
Other non-current assets	7,301	7,024	8,162
Total non-current assets	**3,593,248**	**3,565,762**	**3,317,787**
Current assets			
Inventories	106,012	96,390	99,281
Prepayments and other current assets	56,102	45,727	55,676
Income tax receivable	1,387	16,267	16,583
Receivables	129,196	117,656	95,130
Other current financial assets	3,718	2,755	5,397
Derivative financial assets	22	524	1,784
Cash and cash equivalents	160,588	177,460	129,280
	457,025	**456,779**	**403,131**
Assets classified as held for sale	14,835	10,010	84,519
Total current assets	**471,860**	**466,789**	**487,650**
Total assets	**4,065,108**	**4,032,551**	**3,805,437**

	As at 30 June	As at 31 December	
	2016	2015	2014
	(unaudited)		
	(RUB millions)		
EQUITY AND LIABILITIES			
Equity attributable to equity holder of the parent			
Share capital	2,144,315	2,100,163	1,976,932
Revaluation reserve on hedging instruments	(20,471)	(52,293)	–
Revaluation reserve on investment property	19,782	19,858	16,395
Retained earnings and other reserves	54,334	24,508	21,263
	2,197,960	**2,092,236**	**2,014,590**
Non-controlling interests	19,286	23,381	21,797
Total equity	**2,217,246**	**2,115,617**	**2,036,387**
Non-current liabilities			
Deferred tax liabilities	30,703	24,927	25,789
Long-term borrowings	785,581	899,530	737,950
Finance lease obligations, net of current portion	30,158	32,871	31,416
Net employee defined benefit liabilities	196,971	187,380	185,172
Derivative financial liabilities	29,627	25,844	21,783
Other non-current liabilities	14,068	12,959	13,233
Total non-current liabilities	**1,087,108**	**1,183,511**	**1,015,343**
Current liabilities			
Trade and other payables	279,274	327,656	267,043
Advances received for transportation	75,215	80,134	75,620
Finance lease obligations, current portion	17,533	18,910	17,466
Income tax payable	2,353	1,037	1,378
Taxes and similar charges payable (other than income tax)	56,901	50,437	53,554
Short-term borrowings	195,386	125,765	176,950
Derivative financial liabilities	15,920	14,455	10,351
Provisions and other current liabilities	113,010	111,542	138,593
	755,592	**729,936**	**740,955**
Liabilities, directly associated with the assets classified as held for sale	5,162	3,487	12,752
Total current liabilities	**760,754**	**733,423**	**753,707**
Total equity and liabilities	**4,065,108**	**4,032,551**	**3,805,437**

SUMMARY CASH FLOW DATA

	For the six months ended 30 June		For the year ended 31 December	
	2016	2015	2015	2014
	(unaudited)	(unaudited)		
	(RUB millions)			
Net cash from operating activities	**167,551**	**134,282**	**374,204**	**311,606**
Net cash used in investing activities	**(193,414)**	**(153,325)**	**(384,082)**	**(436,958)**
Net cash from/(used in) financing activities	**12,768**	**(3,553)**	**53,289**	**137,854**

ALTERNATIVE PERFORMANCE MEASURES

	As at 30 June and for the six months then ended		As at 31 December and for the year then ended	
	2016	2015	2015	2014
	(unaudited)	(unaudited)		
	(RUB millions, except for percentages and multiples)			
EBITDA[(1)]	219,934	191,184	388,465	352,630
Interim LTM EBITDA[(2)]	417,215	N/A	N/A	N/A
EBITDA margin[(1)]	21.2%	19.9%	19.5%	19.6%
Adjusted EBITDA margin[(1)]	24.5%	22.4%	22.1%	21.6%
Net Debt[(3)]	868,070	820,630	899,616	834,502
Net Debt/EBITDA[(4)]	N/A	N/A	2.3	2.4
Net Debt/Interim LTM EBITDA[(5)]	2.1	N/A	N/A	N/A
Capital expenditures[(6)]	198,150	157,841	409,281	462,400
Net Financial Items[(7)]	(40,477)	(33,054)	(76,295)	(41,211)

Notes:

(1) EBITDA, EBITDA margin and adjusted EBITDA margin are non-IFRS financial measures that are calculated by the Group as follows:

- EBITDA is operating profit after subsidies from federal and municipal budgets before the effects of depreciation, amortisation and loss on impairment of PP&E and intangible assets for the period;
- EBITDA margin is EBITDA divided by total revenues; and
- Adjusted EBITDA margin is EBITDA divided by (Total revenue less Purchased freight forwarding and logistics services).

(2) Interim LTM EBITDA is a non-IFRS financial measure which is calculated by the Group as follows: EBITDA for the year ended 31 December 2015 less EBITDA for the six months ended 30 June 2015 plus EBITDA for the six months ended 30 June 2016.

(3) Net Debt is a non-IFRS financial measure which is calculated by the Group as follows: Long-term borrowings and finance lease obligations, net of current portion, *plus* Short term borrowings and finance lease obligations, current portion, *less* Cash and cash equivalents.

(4) Net Debt/EBITDA is a non-IFRS financial measure which is calculated by the Group as follows: Net Debt as at 31 December 2015 and 2014 divided by EBITDA for the years ended 31 December 2015 and 2014, respectively.

(5) Net Debt/Interim LTM EBITDA is a non-IFRS financial measure which is calculated by the Group as follows: Net Debt as at 30 June 2016 divided by Interim LTM EBITDA.

(6) Capital expenditures is a non-IFRS financial measure which is calculated by the Group as follows: cash outflows for Purchases of PP&E *plus* cash outflows for Acquisition of subsidiaries, net of cash acquired.

(7) Net Financial Items is a non-IFRS financial measure which is calculated by the Group as follows: an aggregate of Finance income and similar items, Finance expense and similar items *and* Changes in fair value of derivative financial instruments, net.

APMs are presented as supplemental measures of the Group's operating performance, which the Company believes are frequently used by securities analysts, investors and other interested parties in the evaluation of companies' performance in the railway transportation sector. All of these supplemental measures have limitations as analytical tools, and investors should not consider any one of them in isolation, or any combination of them together, as a substitute for analysis of the Group's operating results as reported under IFRS.

Some of these limitations are as follows:

- EBITDA, Interim LTM EBITDA, EBITDA margin and adjusted EBITDA margin do not reflect the impact of net finance expenses (including interest income/(expense) and similar items, net), which can be significant and could further increase if the Group incurs more borrowings, on the Group's operating performance;
- EBITDA, Interim LTM EBITDA, EBITDA margin and adjusted EBITDA margin do not reflect the impact of income taxes on the Group's operating performance;
- EBITDA, Interim LTM EBITDA, EBITDA margin, adjusted EBITDA margin, Net Debt/EBITDA and Net Debt/Interim LTM EBITDA do not reflect the impact of depreciation and amortisation as well as effects of impairment of property, plant and equipment and intangible assets on the Group's performance. The assets of the Group's business that are being depreciated or amortised will need to be replaced in the future and such depreciation and amortisation expense may approximate the cost of replacing these assets in the future. By excluding this expense from EBITDA or Interim LTM EBITDA, these measures do not reflect the Group's future cash requirements for these replacements. The effects of impairment of property, plant and equipment and intangible assets are also excluded from EBITDA, Interim LTM EBITDA, EBITDA margin, adjusted EBITDA margin measures, Net Debt/EBITDA and Net Debt/Interim LTM EBITDA;
- EBITDA, Interim LTM EBITDA, EBITDA margin, adjusted EBITDA margin, Net Debt/EBITDA and Net Debt/Interim LTM EBITDA do not reflect the impact of "gain on disposal of controlling interest in subsidiaries, net"; "equity income from associates and joint ventures, net"; "changes in fair value of financial instruments, net"; "other income"; "other expenses"; "foreign exchange gain/(loss), net"; and "hedge accounting effects"; and

- EBITDA, Interim LTM EBITDA, EBITDA margin, adjusted EBITDA margin, Net Debt/EBITDA and Net Debt/Interim LTM EBITDA exclude items that the Group considers to be one-offs or unusual, but such items may in fact recur.

Other companies in the railway transportation industry may calculate the APMs differently or may use each of them for different purposes than the Group, limiting their usefulness as comparative measures.

The Group relies primarily on its IFRS operating results and uses the APMs only supplementally. See the IFRS Financial Statements included elsewhere in this Prospectus. The APMs are not defined by, or presented in accordance with IFRS. The APMs are not measurements of the Group's operating performance under IFRS and should not be considered as alternatives to revenues, operating profit after subsidies from federal and municipal budgets, net income/(loss) for the period, net cash from operating activities or any other measures of performance under IFRS or as measures of the Group's liquidity. In particular, EBITDA or Interim LTM EBITDA should not be considered as a measure of discretionary cash available to the Group to invest in the growth of its business.

EBITDA reconciliation

	Six months ended 30 June		Year ended 31 December	
	2016	**2015**	**2015**	**2014**
	(unaudited)	**(unaudited)**		
	(RUB millions)			
Operating profit after subsidies from federal and municipal budgets	87,620	69,286	138,471	100,326
Plus:				
Depreciation and amortisation	107,205	113,449	218,644	220,669
Plus:				
Loss on impairment of PP&E and intangible assets	25,109	8,449	31,350	31,635
EBITDA	**219,934**	**191,184**	**388,465**	**352,630**

Interim LTM EBITDA reconciliation

	(RUB millions)
EBITDA for the year ended 31 December 2015	388,465
Less:	
EBITDA for the six months ended 30 June 2015	191,184
Plus:	
EBITDA for the six months ended 30 June 2016	219,934
Interim LTM EBITDA	**417,215**

EBITDA margin reconciliation

	Six months ended 30 June		Year ended 31 December	
	2016	**2015**	**2015**	**2014**
	(unaudited)	**(unaudited)**		
	(RUB millions, except for percentages)			
EBITDA	219,934	191,184	388,465	352,630
Divide by:				
Total revenues	1,039,741	961,983	1,990,959	1,796,160
EBITDA margin	**21.2%**	**19.9%**	**19.5%**	**19.6%**

Adjusted EBITDA margin reconciliation

	Six months ended 30 June		Year ended 31 December	
	2016	**2015**	**2015**	**2014**
	(unaudited)	**(unaudited)**		
	(RUB millions, except for percentages)			
EBITDA	219,934	191,184	388,465	352,630
Divide by the result of subtraction of:				
Total revenues	1,039,741	961,983	1,990,959	1,796,160
Less:				
Purchased freight forwarding and logistics services	(141,960)	(109,255)	(229,488)	(162,942)
Adjusted EBITDA margin	**24.5%**	**22.4%**	**22.1%**	**21.6%**

Net Debt reconciliation

	As at 30 June		As at 31 December	
	2016	**2015**	**2015**	**2014**
	(unaudited)	**(unaudited)**		
	(RUB millions)			
Long-term borrowings	785,581	756,962	899,530	737,950
Plus:				
Finance lease obligations, net of current portion	30,158	29,493	32,871	31,416
Plus:				
Short-term borrowings	195,386	124,635	125,765	176,950
Plus:				
Finance lease obligations, current portion	17,533	17,523	18,910	17,466
Less:				
Cash and cash equivalents	160,588	107,983	177,460	129,280
Net Debt	**868,070**	**820,630**	**899,616**	**834,502**

Net Debt/EBITDA reconciliation

	As at 31 December and for the year then ended	
	2015	**2014**
	(RUB millions, except for multiples)	
Net Debt	899,616	834,502
Divide by:		
EBITDA	388,465	352,630
Net Debt/EBITDA	**2.3**	**2.4**

Net Debt/Interim LTM EBITDA reconciliation

	(RUB millions, except for multiple)
Net Debt as at 30 June 2016	868,070
Divide by:	
Interim LTM EBITDA	417,215
Net Debt/Interim LTM EBITDA	**2.1**

Capital expenditures reconciliation

	Six months ended 30 June		Year ended 31 December	
	2016	**2015**	**2015**	**2014**
	(unaudited)	**(unaudited)**		
	(RUB millions)			
Cash outflows for purchases of property, plant and equipment	(198,150)	(157,786)	(405,824)	(461,802)
Plus:				
Cash outflows for acquisition of subsidiaries, net of cash acquired	-	(55)	(3,457)	(598)
Capital expenditures	**198,150**	**157,841**	**409,281**	**462,400**

Net Financial Items reconciliation

	Six months ended 30 June		Year ended 31 December	
	2016	**2015**	**2015**	**2014**
	(unaudited)	**(unaudited)**		
	(RUB millions)			
Finance income and similar items	7,832	6,654	15,952	4,544
Finance expense and similar	(43,289)	(29,289)	(76,734)	(41,642)
Changes in fair value of derivative financial instruments, net	(5,020)	(10,419)	(15,513)	(4,113)
Total Net Financial Items	**(40,477)**	**(33,054)**	**(76,295)**	**(41,211)**

OPERATING AND FINANCIAL REVIEW

The following discussion and analysis of the Group's financial position and results of operations has been derived from the 2015 and 2014 Consolidated Financial Statements and the 2016 Unaudited Interim Condensed Consolidated Financial Statements. It should also be read in conjunction with the report of the Group's auditors on the 2015 and 2014 Consolidated Financial Statements and the report on review of 2016 Unaudited Interim Condensed Consolidated Financial Statements included elsewhere in this Prospectus, as well as the sections entitled "Overview of the Offering" and "*Risk Factors".*

The following discussion contains forward-looking statements. The Group's actual results could differ materially from those that are discussed in these forward-looking statements. The results of the Group's operations and its year-to-year comparability are affected by various external factors. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this Prospectus, particularly under the sections entitled "Risk Factors" and "Forward-Looking Statements". The results of the Group's operations and their year-to-year comparability are further affected by certain internal factors. These effects should be taken into account when reviewing the Group's results of operations and financial position from year to year. See "—Significant Factors Affecting Results of Operations". In the periods presented in this section, the Group has completed implementing the Reform Programme, including by disposing of various subsidiaries. These effects should be taken into account when reviewing the Group's results of operations and financial position from year to year. For more details concerning the Reform Programme, see "Business—History and Corporate Structure of the Group and the Reform Programme—Reform Programme".

OVERVIEW OF THE GROUP

The Group is one of the largest transportation companies in the world. It is the owner and operator of Russia's approximately 85,300 kilometre-long rail system and related infrastructure. See "*Business—The Rail System*". As at 31 December 2015, the rail system was the world's third longest railway network, the world's third largest railway in terms of freight turnover (measured in tonne-kilometres) and the world's fifth largest railway in terms of passenger turnover (measured in passenger-kilometres). The Company has been state-owned since its creation in 2003. In addition to the rail system, the Group owns and operates nearly all of the locomotives in Russia, it is one of the largest Russian owners and operators of freight rolling stock and it carries virtually all long-haul (to destinations over 200 kilometres) railway passengers. Suburban railway passenger operations (to destinations under 200 kilometres) are mainly carried out by suburban rail passenger companies, which are either the Company's subsidiaries or entities in which the Company holds a minority stake.

The Group engages in full-service freight transportation, locomotive traction, infrastructure operations, rolling stock repair and maintenance, long-haul and suburban passenger transportation, container transportation and logistics. The Group is also engaged in a number of other activities primarily relating to telecommunications, real estate development, residential and commercial construction, engineering as well as research and development. The Group participates in cross-border projects in Azerbaijan, Belarus, China, Finland, France, Germany, Kazakhstan, Slovakia and Ukraine. It is also involved in railway construction and management projects abroad in the following countries: Austria, Armenia, Indonesia, Iran, Mongolia, North Korea, Serbia and other countries. See "*Business —International Joint Ventures and Cooperation*".

The Company conducts most of the Group's operations. In addition, the Company's main operating subsidiaries include GEFCO, a parent company of a group of companies engaged in providing logistics services, Federal Passenger Company, a company engaged in providing long-haul passenger transportation, Federal Freight, a company engaged in providing freight transportation, and TransContainer, a company engaged in providing rail-based container transportation. See "*Business—Business Operations*".

In 2015, the Group's total revenues were RUB 1,991.0 billion, which represented an increase of 10.8 per cent. compared with 2014 despite the worsening economic conditions. The Group's total revenues in 2015 were derived from freight transportation services (which, including logistics services, represented 78.6 per cent. of total revenues), passenger transportation services (which represented 9.7 per cent. of total revenues) and other business activities, which include the Group's non-core operations (which represented 11.7 per cent. of total revenues). In the six months ended 30 June 2016, the Group's total revenues were RUB 1,039.7 billion, which represented an increase of 8.1 per cent. compared with the same period ended 30 June 2015.

The Group's total operating expenses in 2015 were RUB 1,915.1 billion, an increase of RUB 168.5 billion, or 9.6 per cent., compared with 2014. The Group's total operating expenses for the six months ended 30 June 2016 were RUB 980.3 billion, an increase of RUB 58.0 billion, or 6.3 per cent. compared with the same period ended 30 June 2015. In each of the periods described an increase was primarily attributable to an increase in purchased freight forwarding and logistics services which mostly reflected the effect of currency translation from the Euro to the Rouble and an increase in the volume of respective operations. Wages, salaries and related contributions as well as materials, repairs and maintenance costs also contributed to the increase.

The Group's EBITDA in 2015 was RUB 388.5 billion, which represents an increase of 10.2 per cent. compared with 2014; EBITDA margin in 2015 was 19.5 per cent., which represents a slight decrease of 0.1 per cent. compared with 2014. In the six months ended 30 June 2016, EBITDA and EBITDA margin were RUB 219.9 billion and 21.2 per cent., respectively, representing an increase of 15.0 per cent. and 1.3 per cent., respectively, compared with the same period ended 30 June 2015. See "*—Results of Operations*".

SIGNIFICANT FACTORS AFFECTING RESULTS OF OPERATIONS

The Group's results of operations have been, and will continue to be, affected by a number of factors, including those set out below. See also the notes to the IFRS Financial Statements, the reports of the Group's auditors on these financial statements, and "*Risk Factors*".

Tariffs and Subsidies

The Government regulates tariffs for access to rail infrastructure and locomotive traction services provided by the Company, as well as certain services provided by its subsidiaries (such as the third- and fourth-class long-haul passenger transportation services provided by Federal Passenger Company). In addition, tariffs for suburban passenger transportation services are regulated by regional authorities. See "*Business—Tariff Regulation and Pricing*". In freight tariff indexation, the general approach adopted by the Government during the last several years has been to use the CPI level of a preceding year as the main benchmark for tariff indexation for the coming year. However, other factors have also been taken into consideration in annual tariff indexation, which resulted in freight tariff indexation from time-to-time differing from the level of CPI. The annual indexation of regulated freight tariffs approved by relevant decision of the FAS as the federal executive agency currently regulating rail tariffs (and those of the FTS, the federal executive agency which was responsible for tariff regulation prior to September 2015) was 9 per cent. in 2016, 10 per cent. in 2015 and nil in 2014, in each case applied starting from 1 January of the respective year. For 2017, the FAS approved a total indexation of 6 per cent., which represented a 4 per cent. basic indexation and an additional 2 per cent. supplemental indexation to support the Company's capital repairs programme in 2017. The actual average indexation may be lower, since the Company has the right to apply lower tariffs to increase the demand for its services. See "*Risk Business—Tariff Regulation and Pricing—Freight Tariffs—Determining the Tariff—Transportation in the Company's Rolling Stock—Tariff Spread*". In passenger transportation tariff indexation, the Government is influenced by social considerations, such as facilitating affordable and reliable long-distance and suburban passenger transportation. The annual indexation of passenger tariffs for long-haul passenger service in third- and fourth-class was 4.0 per cent. in 2016, 10 per cent. in 2015 and 4 per cent. in 2014 applied from 1 January of a respective year. In addition, in 2016, there was a further increase of tariffs for long-haul third- and fourth-class passenger service by 7 per cent. applied from 1 March 2016. In 2015, the Government also resolved to decrease VAT on long-haul passenger and luggage transportation services from 18 per cent. to 10 per cent. from 1 January 2016. The Group estimates that in 2016, the indexation of net-of-VAT part of tariff has been approximately 11.5 per cent. as a result of this change, while tariffs for end customers increased effectively by 4 per cent. In 2016, the Government further decreased the VAT rate on long-haul passenger and luggage transportation services to 0 per cent. applicable from 1 January 2017 until 31 December 2029. The respective indexation of the net-of-VAT part of tariff in 2017 was set at 14.3 per cent., with the effective increase of tariff for end customers of 3.9 per cent.

Because the Government's tariffs policies are influenced by social and/or economic considerations, such as stimulating national economic growth or facilitating affordable rail transportation for people, tariffs are often set below the actual costs of providing the relevant services and therefore are insufficient to cover the Group's expenditures incurred in connection with provision of such regulated services, which adversely affects the Group's revenues and profitability. To compensate the effects of passenger and freight transportation tariff regulation, the Government provides to the Group subsidies and grants from federal budget. Also, regional government authorities provide the Group with subsidies from regional budgets.

Total subsidies from federal and regional budgets received by the Group were RUB 62.6 billion and RUB 50.7 billion in 2015 and 2014, respectively, which comprised the following: subsidies from federal budget to compensate the effects of tariff regulation on long-distance passenger transportation were RUB 24.7 billion in 2015 and RUB 23.3 billion in 2014; subsidies from federal budget to compensate the effects of tariff regulation of infrastructure access services for suburban passenger transportation were RUB 27.8 billion in 2015 and RUB 20.7 billion in 2014; subsidies from federal and regional budgets to compensate the effects of tariff regulation on suburban passenger transportation were RUB 8.7 billion in 2015 and RUB 6.3 billion in 2014. Other subsidies of RUB 1.4 billion and RUB 0.5 billion were received by the Group in 2015 and 2014, respectively, including subsidies to compensate the Company for tariff regulation relating to transportation of passengers to and from the Kaliningrad region and other regions of the Russian Federation. According to the Group's preliminary calculations, in 2016, it received from the federal budget a subsidy of RUB 32.6 billion (including VAT) to compensate the Group for tariff regulation relating to infrastructure access for suburban transportation and a subsidy of RUB 18.9 billion (not subject to VAT) to compensate the Group for tariff regulation relating to long-haul passenger transportation.

Government Support of Rail Infrastructure Projects and Fleet Modernisation

In addition to subsidies, which in the recent years have been provided to compensate the Group for the effects of tariff regulation, the Group receives from the Government grants and capital injections to undertake capital repairs of railway infrastructure, acquire operating assets and for other purposes. In 2014, the Group received Government grants for capital repairs and development of railway infrastructure of RUB 56.0 billion of which RUB 26.0 billion and RUB 29.9 billion was utilised in 2014 and 2015, respectively. In 2015, the Government also contributed to the Company's share capital in the aggregate RUB 123.2 billion (through the Company's issuance of ordinary shares in the amount of RUB 73.2 billion and the Company's issuance of preferred shares in the amount of RUB 50.0 billion), including RUB 121.2 billion in cash for various railway infrastructure construction and maintenance projects and RUB 2.0 billion in assets. In February 2016, the Government approved an increase in the Company's share capital of RUB 47.4 billion through the issue of ordinary shares. The decision was subsequently changed to acquire shares only in the amount of RUB 44.2 billion thus reducing the equity injection by RUB 3.2 billion in line with the Government-announced policy to generally cut budget spending in 2016 by up to 10 per cent. In December 2016, the Government approved a further share capital increase of RUB 25.0 billion, 16.9 billion of which were contributed to share capital in 2016. Thus, in 2016, the Government made cash contributions to the Company's share capital of RUB 61.0 billion in the aggregate through the issue of ordinary shares and approved a further contribution of RUB 8.1 billion in assets (which as at 31 December 2016 was not made).

The Group also receives supplemental financial support from the Government (or Government-related institutions) in the form of financing on terms more favourable than otherwise available on the market, such as, amongst others, a purchase of bonds issued by the Company. In 2012, the Company issued its debut inflation bonds (Rouble-denominated bonds with a CPI-linked interest rate and an extended, as compared with general market terms, maturity) in the aggregate amount of RUB 10.0 billion, which were placed among Government-controlled entities and private investors. As a result of the successful issue of inflation bonds, the Government agreed to support the Company's issuance of another financial instrument, infrastructure bonds, proceeds from which are designated for various railway infrastructure-related projects. In 2013, the Company placed debut infrastructure bonds in the aggregate amount of RUB 150.0 billion. In 2014 and 2015, the Company issued further infrastructure bonds in the aggregate amounts of: RUB 87.0 billion purchased by Vnesheconombank using money of the State Pension Fund; and RUB 60.2 billion purchased by VTB Bank using funds of the National Wealth Fund. The proceeds from infrastructure bonds were invested in infrastructure development and acquisition of locomotives.

The Government's support through subsidies, grants, capital injections and other forms of support, offset the adverse effect of tariff regulation on the Group's revenues, improve its profitability and enable it to generate sufficient cash flows to support the Company's operations, capital expenditures and repayment of borrowings.

Russian Economy

The Group's results of operations are significantly influenced by the general economic conditions in Russia. Railway freight transportation volumes in Russia are strongly correlated with the GDP and industrial production. As the largest provider of railway transportation services in Russia, the Group is significantly affected by changes in industrial production and trade, primarily because economic conditions impact demand for railway freight transportation services of the Group's principal customers. For example, in 2010, as the Russian economy began to recover from a 2008-2009 downturn, the Group's freight transportation volumes also began to grow. In 2010 and 2011, freight transportation turnover (excluding empty runs of the Company-owned and leased railcars) increased by approximately 7.8 and 5.8 per cent. compared with freight turnover in 2009 and 2010, respectively, as economic conditions continued to improve, which in turn had a favourable effect on the Group's revenues and profitability. Conversely, in 2014 and 2015, the Russian economy experienced a decline in the GDP and industrial production. According to Rosstat, Russian GDP decreased by approximately 3.7 per cent. between 2014 and 2015, while industrial production decreased by 3.6 per cent. over the same period. Correspondingly, in 2014 and 2015, demand for railway freight transportation services of the Group's principal customers decreased, which resulted in a decrease in the Group's railway freight transportation volumes by approximately 1 per cent., measured in tonnes (although, between 2015 and 2016, the Group's railway freight transportation volume marginally increased by approximately 0.6 per cent., measured in tonnes, according to the Group's estimates). Therefore, because economic conditions in Russia impact demand for railway freight transportation services of the Group's principal customers, the Group's revenues are significantly affected by changes in economic conditions.

In challenging economic environment, the Government takes measures intended to stimulate national economic growth and/or economic growth of a particular Russian region. To stimulate such economic growth, the Government may freeze tariff indexation for a certain period (for example, freight tariff indexation was nil in 2014) for some or all regulated services provided by the Company. Further, to stimulate the development of a particular industry or region, the Government may freeze or even reduce tariffs for transportation of a particular type of freight or transportation to or from a particular locale. Such measures reduce shippers' transportation costs and, consequently, may stimulate national trade and economic growth, however, they may adversely affect the Group's revenues and/or profitability. In addition, as a consequence of adverse economic conditions and the resulting budgetary constraints, the Government may reduce financial support (such as subsidies, grants or capital contributions) that the Group receives to compensate it for the effects of tariff regulation and to support the Group's investment programme, which could also adversely affect the Group's revenues as well as its operations and investment programme. See "*Risk Factors—Risks Relating to the Group—The Railway Infrastructure that the Group Operates Requires Significant Maintenance and Modernisation*".

Finally, the Group takes measures in response to the prevailing economic conditions. For example, to improve revenues and profitability in challenging economic conditions, the Group may offer attractive pricing on non-regulated services provided by the Company's subsidiaries (such as services of Federal Freight, TransContainer and GEFCO) or implement costs savings measures. The Group may also reduce investments into the maintenance and renovation of the rail system and its other assets (such as rolling stock or locomotives), which could further reduce its operating expenses and cash outflows during the relevant period. However, such measures will result in merely postponing the incurrence of the relevant expenditures at a future date, and would result in higher capital expenditures in the future.

Because the Group is the largest provider of railway transportation services in Russia, its operations and, consequently, revenues and profitability will continue to be significantly influenced by the general economic conditions in Russia.

Application of Hedge Accounting

In July 2015, the Group designated certain financial instruments as hedging instruments and started to apply hedge accounting, which allowed it to limit the impact of currency fluctuations on the results of its operations reported in the statement of profit or loss. The Group has applied hedge accounting in accordance with IAS 39 *Financial instruments: recognition and measurement* and its approved currency risk management policy, which takes into consideration the increased risk of fluctuations of the Rouble against foreign currency, including U.S. Dollar, Euro and Swiss Francs in which some of Group's borrowings are denominated.

The Group has designated the combination of certain foreign currency denominated borrowings, in particular, loan participation notes denominated in U.S. Dollars and Swiss Francs and related swap contracts as the hedging instruments for future forecasted cash flows from revenues denominated in Swiss Francs, which the Group receives for its services related to transportation in transit through Russia, as well as to and from certain countries. See "*Business—Tariff Regulation and Pricing*". In addition, the Group has designated a part of loan participation notes denominated in Euro as a hedging instrument for net investment in GEFCO.

As a result of the application of hedge accounting, the effective portion of gain or loss on the hedging instrument represented by the exchange rate effects on hedging instruments is recognised directly in equity in other comprehensive income as opposed to being recognised through profit or loss had the hedge accounting not been applied. The effective portion of gain or loss on the hedging instrument is recognised in other comprehensive income within revaluation reserve on hedging instruments, while any ineffective portion is recognised immediately in the statement of profit or loss. For cash flow hedges represented by hedges of future revenues, gain or loss on hedging instruments recognised in other comprehensive income is reclassified to profit or loss when the forecasted hedged cash flow affects profit or loss, that is when a forecasted sale occurs.

In 2015, as a result of the application of hedge accounting, a loss of RUB 52.3 billion (net of income tax) was recognised in equity within the revaluation reserve on hedging instruments. For the six months ended 30 June 2016, a gain of RUB 31.8 billion (net of income tax) was recognised in equity decreasing the accumulated loss on revaluation of hedging instruments recognised in equity to RUB 20.5 billion (net of income tax) as at 30 June 2016. Also see Notes to IFRS Financial Statements.

RECENT DEVELOPMENTS AND OUTLOOK

Trading Update

Since 31 December 2015, the Group has performed broadly in line with its management's expectations and its management believes that the Group's financial and operating performance in 2016 should be broadly in line with expectations. The Company expects that, apart from one-off effects, if any, there will be no significant changes in net income for the year ended 31 December 2016 compared with the year ended 31 December 2015. At the same time, despite recent marginal improvement of macroeconomic indicators and Group's efforts to increase the freight turnover, the Group expects the challenging market conditions to continue.

In 2016, the Group's freight transportation volumes (measured in tonnes) have marginally increased. The increase was primarily attributable to an increase in transportation volumes of construction materials, mineral coal, grains and timber, which was partially offset by a decrease in transportation volumes of oil and gas products and ferrous metals. Freight transportation turnover has marginally increased primarily due to an increase in the average freight transportation distance on the rail network. The overall passenger turnover has marginally increased primarily due to a decrease in suburban passenger transportation, which was partially offset by a marginal increase in long-haul passenger transportation.

Operating performance has been aided by tariff indexation, including approved indexation for regulated freight transportation of 10 per cent. in 2015 and 9 per cent. in 2016, continued subsidies support from the Government for passenger transportation. For 2017, the FAS approved a total indexation of 6 per cent., which represented a 4 per cent. basic indexation and an additional 2 per cent. supplemental indexation to support the Company's capital repairs programme in 2017. In 2015, the Government also resolved to decrease VAT on long-haul passenger and luggage transportation services from 18 per cent. to 10 per cent. from 1 January 2016. In 2016, the Government further decreased the VAT rate on long-haul passenger and luggage transportation services to 0 per cent. applicable from 1 January 2017 until 31 December 2029. See also "*—Significant Factors Affecting Results of Operations—Tariffs and Subsidies*" and "*—Recent Developments and Outlook—Government Subsidies*".

The Group continues to implement Government-approved projects to upgrade Russian rail infrastructure and modernise Company's rolling stock fleet. Such projects are primarily financed by the proceeds from equity capital injections and other forms of Government support for specific projects (such as for the construction of transportation facilities and infrastructure for the Moscow Rail Hub, Far East infrastructure development and other infrastructure development projects principally aimed at reducing bottlenecks and traffic congestion on the rail system). See also "*—Significant Factors Affecting Results of Operations— Government Support of Rail Infrastructure Projects and Fleet Modernisation*" and "*—Recent Developments and Outlook —Share Capital*".

Government Subsidies

The Government approved the following federal subsidies for 2016:

- a subsidy of up to RUB 37.1 billion (including VAT) to compensate the Company for tariff regulation relating to infrastructure access for suburban transportation. The subsidy was subsequently reduced to RUB 32.5 billion (including VAT) due to the federal budget spending cuts. For the six months ended 30 June 2016, the Company recognised in the 2016 Unaudited Interim Condensed Consolidated Financial Statements the subsidy in the amount of RUB 14.6 billion (excluding VAT); and
- a subsidy of up to RUB 20.2 billion (not subject to VAT) to compensate the Company for tariff regulation relating to long-haul passenger transportation. The subsidy was subsequently reduced to RUB 19.2 billion in line with the overall federal budget spending cuts. For the six months ended 30 June 2016, RUB 9.7 billion has been recognised by the Company.

Share Capital

In February 2016, the Government approved an increase in the Company's share capital of RUB 47.4 billion through the issue of ordinary shares. RUB 44.2 billion was received by the Company in April 2016, and in July 2016 the Government repealed its decision to acquire shares for the remaining RUB 3.2 billion in line with the Government's announced cost cutting policy by up to 10 per cent. in 2016. The respective shares were cancelled in September 2016. In December 2016, the Government approved a further share capital increase of RUB 25.0 billion, 16.9 billion of which were contributed to share capital in 2016. Thus, in 2016, the Government made cash contributions to the Company's share capital of RUB 61.0 billion in the aggregate through the issue of ordinary shares and approved a further contribution of RUB 8.1 billion in assets (which as at 31 December 2016 was not made).

The funds received from the Government in 2016 were designated for:

- RUB 20.1 billion for the reconstruction of Maxim Gorky – Kotelnikovo – Tikhoretskaya – Krymskaya route;
- RUB 24.4 billion for the construction of Prokhorovka – Zhuravka – Chertkovo – Bataysk railway line;
- RUB 16.4 billion for the development of public railway infrastructure including in the Moscow region; and
- RUB 0.1 billion for the construction of high speed railway between Moscow and Kazan.

For 2017, the Government approved RUB 31.6 billion in capital injections from the federal budget and confirmed its intention to provide an additional RUB 50.0 billion through an acquisition of the Company's preferred shares using funds of the National Wealth Fund, with the proceeds expected to be invested in the modernisation of the Far East rail infrastructure, amongst other projects.

Significant Purchase and Supply and Other Agreements

In July and August 2016, the Group entered into several agreements mainly for the purchase of rolling stock and railway equipment for an aggregate amount of RUB 12.0 billion (including VAT).

Auctions and/or Disposals Planned for 2017

In 2017, the Group plans (subject to market conditions), to sell the following equity stakes in the following of the Company's subsidiaries and associates:

- A 25 per cent. equity stake in JSC BetElTrans, which is engaged in manufacturing and sale of concrete sleepers and reinforced concrete beams;
- A 25 per cent. plus one share equity stake in Central Suburban Passenger Company, which is engaged in suburban passenger transportation services;
- A 75 per cent. less one share equity stake in JSC Kaluga plant Remputmash, which is engaged in manufacturing and repair of railway equipment; and
- A 100 per cent. equity stake in JSC Carriage Repair Company-3, which is engaged in repair of rolling stock.

The Government approved the sale of equity stakes in JSC Kaluga plant Remputmash and JSC Carriage Repair Company-3 through an auction. A Government approval is still expected in respect of the sale of JSC BetElTrans to the same entity which won the auction in 2015 for a 50 per cent. less two shares.

Borrowings

- In December 2016, the Company placed new long term bonds series 41 with the aggregate nominal value of RUB 15 billion and face value of RUB 1 thousand each, providing for semi-annual coupon payments at the interest rate of 9.4 per cent., and maturing in 2031;
- In November 2016, the Company redeemed bonds series 30 in the total nominal value of RUB 12.8 billion;
- In November 2016, the Company redeemed bonds series 12 in the total nominal value of RUB 14.9 billion;
- In October 2016, the Group redeemed approximately U.S.$581 million (in principal amount) of its U.S.$1,500 million 5.739 per cent. loan participation notes due 2017 and approximately CHF70 million (in principal amount) of its CHF525 million 2.177 per cent. loan participation notes due 2018;
- In October 2016, the Group issued U.S.$500 million 3.45 per cent. loan participation notes due 2020 and RUB 15 billion 9.20 per cent. loan participation notes due 2023;
- In July and August 2016, the Group entered into a number of credit facility agreements with PJSC Sberbank ("**Sberbank**") and VTB Bank (both related parties of the Group) for up to 1.5 years each and aggregate credit limits of RUB 2.2 billion and RUB 0.7 billion, respectively;
- In July 2016, the Company purchased and redeemed its domestic bonds series 18 in the aggregate amount of RUB 8.6 billion;
- In July and August 2016, the Group repaid borrowings in the aggregate amount of RUB 5.3 billion;
- In July and August 2016, the Group took out new borrowings in the aggregate amount of RUB 7.9 billion, both under new and existing loan agreements; and

- As at 30 June 2016, the Company was a party to framework loan agreements with major Russian and international banks, with the aggregate credit limits of up to approximately RUB 310 billion. In August 2016, within the limits of its existing framework arrangements, the Company entered into a revolving credit facility agreement with Sberbank (a related party of the Group), with the aggregate credit limit of RUB 50.0 billion available until 31 December 2020.

Dividends

In June 2016, the sole shareholder of the Company approved the dividend in the total amount of RUB 302 million, including RUB 297 million in respect of ordinary shares and RUB 5 million in respect of preferred shares. The dividend was paid in July 2016.

SIGNIFICANT ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with IFRS requires the Group to select appropriate accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. For a full description of the Group's significant accounting policies, see Note 2 to the 2015 and 2014 Consolidated Financial Statements and Note 2 to the 2016 Unaudited Interim Condensed Consolidated Financial Statements. Some of these accounting policies involve judgements and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts would have been reported under different conditions or if different assumptions had been used, and actual amounts may differ from these estimates.

RESULTS OF OPERATIONS

For the Six Months Ended 30 June 2016 compared with the Six Months Ended 30 June 2015

Revenues

The following table sets forth a breakdown of the Group's total revenues for the six months ended 30 June 2016 and 2015:

	Six months ended 30 June	
	2016	2015
	(unaudited)	(unaudited)
	(RUB millions)	
Cargo and infrastructure access revenues	648,475	626,228
Logistics revenues	190,235	148,102
Passenger revenues	92,180	83,813
Other revenues	108,851	103,840
Total revenues	**1,039,741**	**961,983**

The Group's total revenues increased by RUB 77.7 billion, or 8.1 per cent., from RUB 962.0 billion for the six months ended 30 June 2015 to RUB 1,039.7 billion for the six months ended 30 June 2016. This increase was primarily driven by an increase in the revenues from cargo and infrastructure access and logistics services.

Cargo and infrastructure access revenues increased by RUB 22.3 billion, or 3.6 per cent., from RUB 626.2 billion for the six months ended 30 June 2015 to RUB 648.5 billion for the six months ended 30 June 2016 primarily due to tariff indexation, which was set by the FAS at 9.0 per cent. starting from 1 January 2016 and an increase in cargo turnover by 1.6 per cent. The increase in revenues due to tariff indexation was partially offset by changes in the composition of cargo transported, in particular, an increase in the total turnover of Class 1 cargoes (such as construction materials and coal), which, generally is a lower margin cargo segment, and a decrease in the turnover of Class 3 cargoes (such as oil and oil products) due to the total turnover increase being primarily on less profitable transportation routes; in addition, a share of transit transportation which is nominated in Swiss Francs and benefits from the appreciation thereof, has decreased. As a percentage of total revenues, cargo and infrastructure access revenues decreased marginally from 65.1 per cent. for the six months ended 30 June 2015, to 62.3 per cent. for the six months ended 30 June 2016.

Logistics revenues increased by RUB 42.1 billion, or 28.4 per cent., from RUB 148.1 billion for the six months ended 30 June 2015 to RUB 190.2 billion for the six months ended 30 June 2016, primarily due to higher revenues from GEFCO which were received in EUR and continued depreciation of the Rouble against the Euro (GEFCO's functional currency), resulting in an increase in GEFCO's revenues in Rouble terms, and an increase in the volumes of respective operations. As a percentage of total revenues, logistics revenues increased from 15.4 per cent. for the six months ended 30 June 2015 to 18.3 per cent. for the six months ended 30 June 2016.

Passenger revenues increased by RUB 8.4 billion, or 10.0 per cent., from RUB 83.8 billion for the six months ended 30 June 2015 to RUB 92.2 billion for the six months ended 30 June 2016, primarily due to an increase in tariffs (through tariff indexation) in the regulated segment of passenger transportation and an increase in the regulated segment of the passenger turnover by 3.5 per cent. An increase in high-speed rail transportation turnover by 21.2 per cent. also contributed to the increase in the passenger revenues. As a percentage of total revenues, passenger revenues increased from 8.7 per cent. for the six months ended 30 June 2015 to 8.9 per cent. for the six months ended 30 June 2016.

Other revenues, which included revenues from ancillary services provided by the Company and its subsidiaries, increased by RUB 5.1 billion, or 4.9 per cent., from RUB 103.8 billion for the six months ended 30 June 2015 to RUB 108.9 billion for the six months ended 30 June 2016. The increase in revenues from these ancillary activities was primarily due to the revenues from construction which increased by 127.7 per cent., primarily due to construction of the Moscow Central Ring. The increase was partially offset by a decrease in revenues from sales of railway equipment manufactured by the Group's subsidiary to VEB-Leasing. As a percentage of total revenues, other revenues decreased marginally from 10.8 per cent. for the six months ended 30 June 2015 to 10.5 per cent. for the six months ended 30 June 2016.

Operating Expenses

The following table sets forth a breakdown of the Group's operating expenses for the six months ended 30 June 2016 and 2015:

	Six months ended 30 June	
	2016	**2015**
	(unaudited)	**(unaudited)**
	(RUB millions)	
Operating expenses		
Wages, salaries and related contributions	(370,369)	(370,554)
Materials, repairs and maintenance	(103,193)	(101,825)
Fuel	(42,242)	(46,431)
Purchased freight forwarding and logistics services	(141,960)	(109,255)
Electricity	(70,484)	(64,154)
Depreciation and amortisation	(107,205)	(113,449)
Taxes other than income tax	(30,220)	(28,036)
Commercial expenses	(2,848)	(2,738)
Bad debt expense, net	(2,258)	(2,136)
Social expenses	(3,512)	(3,632)
Loss on impairment of property, plant and equipment and intangible assets	(25,109)	(8,449)
Other operating expenses	(80,886)	(71,630)
Total operating expenses	**(980,286)**	**(922,289)**

The Group's total operating expenses increased by RUB 58.0 billion, or 6.3 per cent., from RUB 922.3 billion for the six months ended 30 June 2015 to RUB 980.3 billion for the six months ended 30 June 2016. This increase was primarily attributable to the growth in purchases of freight forwarding and logistics services from third parties which in turn is attributable to a significant growth in the revenues from logistics operations and correlated with an increase in the revenues from logistics segment, as well as to the increase in loss on impairment of property, plant and equipment. The growth in these operating expenses was partially offset by a reduction in depreciation and amortisation and fuel costs.

Wages, salaries and related contributions decreased by RUB 0.2 billion, or 0.1 per cent., from RUB 370.6 billion for the six months ended 30 June 2015 to RUB 370.4 billion for the six months ended 30 June 2016, primarily due to a decrease in bonus payments to the Company's management and employees incentive payments, which was partially offset by the annual indexation of salaries in accordance with the collective bargaining agreement. As a percentage of total operating expenses, wages, salaries and related contributions decreased from 40.2 per cent. for the six months ended 30 June 2015 to 37.8 per cent. for the six months ended 30 June 2016.

Materials, repairs and maintenance expenses increased by RUB 1.4 billion, or 1.4 per cent., from RUB 101.8 billion for the six months ended 30 June 2015 to RUB 103.2 billion for the six months ended 30 June 2016, which was primarily due to a general increase in prices for materials. An increase was partially offset by the management efforts to optimise procurement of the required materials. As a percentage of total operating expenses, materials, repairs and maintenance expenses marginally decreased from 11.0 per cent. for the six months ended 30 June 2015 to 10.5 per cent. for the six months ended 30 June 2016.

Expenses for purchased freight forwarding and logistics services increased by RUB 32.7 billion, or 29.9 per cent., from RUB 109.3 billion for the six months ended 30 June 2015 to RUB 142.0 billion for the six months ended 30 June 2016, primarily due to the depreciation of the Rouble against the Euro (GEFCO's functional currency) and the resulting increase in GEFCO's expenses in Rouble terms and to an increase in the volumes of respective operations. As a percentage of total operating expenses, purchased freight forwarding and logistics services increased from 11.9 per cent. for the six months ended 30 June 2015 to 14.5 per cent. for the six months ended 30 June 2016.

Electricity expenses increased by RUB 6.3 billion, or 9.8 per cent., from RUB 64.2 billion for the six months ended 30 June 2015 to RUB 70.5 billion for the six months ended 30 June 2016, primarily due to an overall increase in electricity tariffs and an increase in the transportation turnover. The increase in electricity expenses was partially offset by an optimisation of power consumption. As a percentage of total operating expenses, electricity expenses increased marginally from 7.0 per cent. for the six months ended 30 June 2015 to 7.2 per cent. for the six months ended 30 June 2016.

Fuel expenses decreased by RUB 4.2 billion, or 9.1 per cent., from RUB 46.4 billion for the six months ended 30 June 2015 to RUB 42.2 billion for the six months ended 30 June 2016, primarily due to a decrease in diesel prices and outsourcing of motor transportation services.

Depreciation and amortisation expenses decreased by RUB 6.2 billion, or 5.5 per cent., from RUB 113.4 billion for the six months ended 30 June 2015 to RUB 107.2 billion for the six months ended 30 June 2016, which was primarily due to an increase in the number of fully depreciated and impaired assets.

Taxes other than income tax increased by RUB 2.2 billion, or 7.9 per cent., from RUB 28.0 billion for the six months ended 30 June 2015 to RUB 30.2 billion for the six months ended 30 June 2016, primarily due to a gradual reduction of property tax relief available to the Group pursuant to Russian tax law.

Other operating expenses, which included security costs, automotive transportation services, services related to construction, services provided by foreign railroads, business trips, operating rent of rolling stock (including freight railcars), consulting services and telecommunication services, among other expenses, increased by RUB 9.3 billion, or 13.0 per cent., from RUB 71.6 billion for the six months ended 30 June 2015 to RUB 80.9 billion for the six months ended 30 June 2016. The increase in other operating expenses was primarily attributable to outsourcing of motor transportation services and an increase in costs of construction-related services. As a percentage of total operating expenses, other operating expenses increased from 7.8 per cent. for the six months ended 30 June 2015 to 8.3 per cent. for the six months ended 30 June 2016.

Subsidies from Federal and Municipal Budgets

Total subsidies from federal and municipal budgets decreased by RUB 1.4 billion, or 4.7 per cent., from RUB 29.6 billion for the six months ended 30 June 2015 to RUB 28.2 billion for the six months ended 30 June 2016. This decrease was attributable to a significant decrease in subsidies to compensate the effects of tariff regulation on long-haul passenger transportation, which resulted from a significant increase in tariffs through tariff indexation approved by the Government for 2016 (4 per cent. indexation applicable from 1 January 2016 and subsequent additional indexation by 7 per cent. applicable from 1 March 2016) and a decrease of the VAT rate applicable to long-haul passenger transportation services from 18 per cent. to 10 per cent. The decrease was partially offset by an increase in subsidies compensating the Company for revenue losses from services related to the provision of infrastructure access to suburban transportation companies. See Note 18 to the 2016 Unaudited Interim Condensed Consolidated Financial Statements.

Net Financial Items

Total net loss on financial items (see "*Selected Consolidated Financial Information—Alternative Performance Measures*") increased by RUB 7.4 billion, or 22.4 per cent., from RUB 33.1 billion for the six months ended 30 June 2015 to RUB 40.5 billion for the six months ended 30 June 2016, primarily attributable to a significant increase in finance expense and similar items, which increased due to an increase in Rouble equivalent of foreign currency denominated liabilities, an increase in variable interest rates linked to consumer price index on infrastructure bonds, an increase in borrowings and a decrease in finance expenses eligible for capitalisation.

Other Income

Other income increased by RUB 3.8 billion, or 38.0 per cent., from RUB 10.0 billion for the six months ended 30 June 2015 to RUB 13.8 billion for the six months ended 30 June 2016. The increase was primarily attributable to an increase in revenues generated from leased-out property mainly attributable to an increase in rates on property rentals.

Other Expenses

Other expenses decreased by RUB 9.3 billion, or 38.6 per cent., from RUB 24.1 billion for the six months ended 30 June 2015 to RUB 14.8 billion for the six months ended 30 June 2016. The decrease was primarily due to a decrease in the loss on impairment of investments in associates and joint ventures as well as a decrease in provision for legal claims reflecting an overall increase in the probability of successful outcome of litigations in which the Group is involved in the ordinary course of business.

Foreign Exchange Gain

Foreign exchange gain (net) increased by RUB 11.1 billion, or 94.0 per cent., from a net gain of RUB 11.8 billion for the six months ended 30 June 2015 to a net gain of RUB 22.9 billion for the six months ended 30 June 2016. This was primarily due to a further depreciation of the Rouble against the currencies in which some of the Group's borrowings are denominated and effect of application of hedge accounting. See "*—Significant Factors Affecting Results of Operations—Application of Hedge Accounting*".

Income Taxes

Income tax expenses increased by RUB 11.5 billion, from an income tax expense of RUB 9.9 billion for the six months ended 30 June 2015 to an income tax expense of RUB 21.4 billion for the six months ended 30 June 2016.

The Group's effective income tax rate, including deferred taxes, increased from 27.6 per cent. for the six months ended 30 June 2015 to 32.4 per cent. for the six months ended 30 June 2016.

Net Income for the Period

As a result of the above, the Group's net income for the period increased by RUB 18.9 billion from a net income of RUB 26.0 billion for the six months ended 30 June 2015 to a net income of RUB 44.9 billion for the six months ended 30 June 2016.

For the Year Ended 31 December 2015 compared with the Year Ended 31 December 2014

Revenues

The following table sets forth a breakdown of the Group's total revenues for the years ended 31 December 2015 and 2014:

	Year ended 31 December	
	2015	**2014**
	(RUB millions)	
Cargo and infrastructure access revenues	1,258,638	1,168,811
Logistics revenues	307,443	221,340
Passenger revenues	192,754	193,629
Other revenues	232,124	212,380
Total revenues	**1,990,959**	**1,796,160**

The Group's total revenues increased by RUB 194.8 billion, or 10.8 per cent., from RUB 1,796.2 billion for the year ended 31 December 2014 to RUB 1,991.0 billion for the year ended 31 December 2015. This increase was primarily driven by an increase in cargo and infrastructure access revenues and logistics revenues. Also contributing to the increase in the Group's total revenues was an increase in other revenues.

Cargo and infrastructure access revenues increased by RUB 89.8 billion, or 7.7 per cent., from RUB 1,168.8 billion for the year ended 31 December 2014 to RUB 1,258.6 billion for the year ended 31 December 2015 primarily due to the annual indexation of tariffs by 10 per cent., as well as increasing tariffs, within the bounds of the relevant tariff spread, for certain types of freight, such as transportation of crude oil for export at a higher tariff rate. See "*Business—Tariff Regulation and Pricing—Freight Tariffs —Tariff Spread*". As a percentage of total revenues, cargo and infrastructure access revenues decreased marginally from 65.1 per cent. for the year ended 31 December 2014 to 63.2 per cent. for the year ended 31 December 2015.

Logistics revenues increased by RUB 86.1 billion, or 38.9 per cent., from RUB 221.3 billion for the year ended 31 December 2014 to RUB 307.4 billion for the year ended 31 December 2015, primarily due to the effect of translation to presentation currency and the acquisition of a logistics operator by GEFCO. In 2015, the Euro (GEFCO's functional currency) significantly appreciated against the Rouble, which resulted in an increase in GEFCO's revenues in Rouble terms. The Group also generated U.S. Dollar-denominated revenues from some of its major customers, which, as a result of the Rouble's depreciation against the U.S. Dollar, further contributed to an increase in logistics revenues in Rouble terms. Additionally, the Group acquired Far East Landbridge Ltd. in 2015 and consolidated its financial results into the Group's financial statements, which contributed to an increase in the Group's logistics revenues. As a percentage of total revenues, logistics revenues increased from 12.3 per cent. for the year ended 31 December 2014 to 15.4 per cent. for the year ended 31 December 2015.

Passenger revenues decreased by less than 1 per cent., from RUB 193.6 billion for the year ended 31 December 2014 to RUB 192.8 billion for the year ended 31 December 2015 primarily due to the decrease of passenger turnover. Decrease of passenger revenues was partially offset by the tariffs indexation by 10 per cent. in the regulated and 5.0 per cent. in the unregulated segment. As a percentage of total revenues, passenger revenues decreased from 10.8 per cent. for the year ended 31 December 2014 to 9.7 per cent. for the year ended 31 December 2015.

Other revenues, which included revenues from ancillary services provided by the Company and its subsidiaries, increased by RUB 19.7 billion, or 9.3 per cent., from RUB 212.4 billion for the year ended 31 December 2014 to RUB 232.1 billion for the year ended 31 December 2015. The increase in revenues from these ancillary activities was primarily due to an increase in revenues from construction of railway and other infrastructure assets. Also contributing to such increase was an increase in revenues received from the sale of railcars for dismantlement (which was a result of the enactment of new regulations restricting the statutory useful life of certain types of cargo railcars). As a percentage of total revenues, other revenues decreased marginally from 11.8 per cent. for the year ended 31 December 2014 to 11.7 per cent. for the year ended 31 December 2015.

Operating Expenses

The following table sets forth a breakdown of the Group's operating expenses for the years ended 31 December 2015 and 2014:

	Year ended 31 December	
	2015	**2014**
	(RUB millions)	
Operating expenses		
Wages, salaries and related contributions	(734,070)	(697,461)
Materials, repairs and maintenance	(248,993)	(215,034)
Fuel	(92,904)	(95,516)
Purchased freight forwarding and logistics services	(229,488)	(162,942)
Electricity	(132,688)	(127,221)
Depreciation and amortisation	(218,644)	(220,669)
Taxes other than income tax	(58,127)	(47,816)
Commercial expenses	(7,171)	(6,667)
Gain on release of bad debt allowance, net	8,876	8,939
Social expenses	(7,854)	(9,311)
Loss on impairment of property, plant and equipment and intangible assets, net	(31,350)	(31,635)
Other operating expenses	(162,653)	(141,222)
Total operating expenses	**(1,915,066)**	**(1,746,555)**

The Group's total operating expenses increased by RUB 168.5 billion, or 9.6 per cent., from RUB 1,746.6 billion for the year ended 31 December 2014 to RUB 1,915.1 billion for the year ended 31 December 2015. This increase was principally attributable to an increase in wages, salaries and related contributions, materials, repairs and maintenance costs, purchased freight forwarding and logistics services and taxes other than income tax.

Wages, salaries and related contributions increased by RUB 36.6 billion, or 5.2 per cent., from RUB 697.5 billion for the year ended 31 December 2014 to RUB 734.1 billion for the year ended 31 December 2015 primarily due to payroll indexation by approximately RUB 17.5 billion, or 5.1 per cent., on average, in 2015, and an increase in related social contributions. As a percentage of total operating expenses, wages, salaries and related contributions decreased from 39.9 per cent. for the year ended 31 December 2014 to 38.3 per cent. for the year ended 31 December 2015.

Materials, repairs and maintenance expenses increased by RUB 34.0 billion, or 15.8 per cent., from RUB 215.0 billion for the year ended 31 December 2014 to RUB 249.0 billion for the year ended 31 December 2015, which was primarily due to the expenditures related to locomotives repair and maintenance, which were outsourced to third parties beginning from the second half of 2014. As a percentage of total operating expenses, materials, repairs and maintenance expenses increased marginally from 12.3 per cent. for the year ended 31 December 2014 to 13.0 per cent. for the year ended 31 December 2015.

Purchased freight forwarding and logistics services increased by RUB 66.6 billion, or 40.9 per cent., from RUB 162.9 billion for the year ended 31 December 2014 to RUB 229.5 billion for the year ended 31 December 2015 primarily due to the depreciation of the Rouble against the Euro (GEFCO's functional currency) and the resulting increase in GEFCO's expenses in Rouble terms. As a percentage of total operating expenses, purchased freight forwarding and logistics services increased from 9.3 per cent. for the year ended 31 December 2014 to 12.0 per cent. for the year ended 31 December 2015.

Electricity expenses increased by RUB 5.5 billion, or 4.3 per cent., from RUB 127.2 billion for the year ended 31 December 2014 to RUB 132.7 billion for the year ended 31 December 2015 primarily due to an overall increase in electricity tariffs by 8.4 per cent. and an increase in electricity tariffs for train haulage by 7.7 per cent. As a percentage of total operating expenses, electricity expenses decreased marginally from 7.3 per cent. for the year ended 31 December 2014 to 6.9 per cent. for the year ended 31 December 2015.

Other operating expenses, which included security costs, services related to construction, foreign railroads services, business trips, operating rent of rolling stock (including freight railcars), consulting services and telecommunication services, among other expenses, increased by RUB 21.5 billion, or 15.2 per cent., from RUB 141.2 billion for the year ended 31 December 2014 to RUB 162.7 billion for the year ended 31 December 2015. The increase in other operating expenses was primarily attributable to an increase in expenditures on the construction and electrification of a 15-kilometre railway between Belgrade and Panchevo in Serbia, as well as reconstruction of the railway infrastructure of the Taman Peninsula (including the Port of Taman). Also contributing to the increase in other operating expenses was an increase in operating rent of rolling stock incurred by Federal Freight due to increased volume of operations. As a percentage of total operating expenses, other operating expenses increased from 8.1 per cent. for the year ended 31 December 2014 to 8.5 per cent. for the year ended 31 December 2015.

Subsidies from Federal and Municipal Budgets

Total subsidies from federal and municipal budgets increased by RUB 11.9 billion, or 23.5 per cent., from RUB 50.7 billion for the year ended 31 December 2014 to RUB 62.6 billion for the year ended 31 December 2015. This increase was attributable to an increase in subsidies to compensate the Group for the effects of regulation of tariffs for long-haul passenger transportation and suburban passenger transportation companies. See Note 23 to the 2015 and 2014 Consolidated Financial Statements.

In addition to the subsidies from federal and municipal budgets, in 2014 the Group also received government grants for capital repairs of railway infrastructure in the amount of RUB 56.0 billion. As at 31 December 2015, the Group utilised RUB 55.9 billion of these grants.

Net Financial Items

Total net loss on financial items increased by RUB 35.1 billion, or 85.2 per cent., from RUB 41.2 billion for the year ended 31 December 2014 to RUB 76.3 billion for the year ended 31 December 2015, which was due to an increase in finance expense and similar items by RUB 35.1 billion, or 84.4 per cent., from a RUB 41.6 billion in the year ended 31 December 2014 to RUB 76.7 billion in the year ended 31 December 2015. This was primarily attributable to an increase in interest expense on borrowings from RUB 23.1 billion in the year ended 31 December 2014 to RUB 61.2 billion in the year ended 31 December 2015, driven by an increase in interest rates on Rouble-denominated loans with CPI linked variable interest rates which reflected volatility in Russian markets; as well as new borrowings, including newly issued domestic bonds for the aggregate nominal value of RUB 82.0 billion. The increase in interest expense was also driven by a continued depreciation of the Rouble against U.S. Dollar, EURO and Swiss Francs, in which the Company's loan participation notes are denominated, and the resulting increase in respective interest rates in Rouble terms. Also contributing to the increase in net financial items was an increase in the loss on changes in the fair value of financial instruments, which increased by RUB 11.4 billion, from RUB 4.1 billion for the year ended 31 December 2014 to RUB 15.5 billion for the year ended 31 December 2015 primarily due to changes in forward exchange rates of U.S. Dollar, EURO and Swiss Francs.

The increase in losses attributable to total net financial items was partially offset by an increase in finance income and similar items, by RUB 11.5 billion, from RUB 4.5 billion for the year ended 31 December 2014 to RUB 16.0 billion for the year ended 31 December 2015, which was primarily attributable to an increase in cash balances held on current accounts and higher interest income on bank deposits.

Other Income

Other income increased by RUB 6.9 billion, or 36.1 per cent., from RUB 19.1 billion for the year ended 31 December 2014 to RUB 26.0 billion for the year ended 31 December 2015. The increase was primarily attributable to a reversal of a provision for guarantee of RUB 5.4 billion under the agreement for a construction project in Libya, which was due to the Group's reassessment of the likelihood of its execution. *See Note 16 to the 2015 and 2014 Consolidated Financial Statements*.

Other Expenses

Other expenses decreased by RUB 2.1 billion, or 4.9 per cent., from RUB 43.0 billion for the year ended 31 December 2014 to RUB 40.9 billion for the year ended 31 December 2015. The decrease was primarily due to a decrease in the penalties charged by customers, change in provision for legal claims and impairment of assets classified as held for sale recognised in 2014. The decrease in other expenses was partially offset by an increase in the loss on impairment of investments an associates and joint ventures and a decrease in the loss on disposal of property, plant and equipment and intangible assets. See Note 26 to the 2015 and 2014 Consolidated Financial Statements.

Foreign Exchange Loss

Foreign exchange loss (net) decreased by RUB 116.5 billion, from a net loss of RUB 143.9 billion for the year ended 31 December 2014 to a net loss of RUB 27.4 billion for the year ended 31 December 2015, which was primarily due to the application of hedge accounting in 2015 (see "*—Significant Factors Affecting Results of Operations—Application of Hedge Accounting*") as well as Rouble depreciating against foreign currencies (in which the Group's liabilities were denominated) at a slower pace in 2015 compared with 2014.

Income Taxes

Income tax expenses increased by RUB 15.8 billion, from an income tax benefit of RUB 1.6 billion for the year ended 31 December 2014 to an income tax expense of RUB 14.2 billion for the year ended 31 December 2015. This increase was attributable to a decrease in deferred tax assets on tax loss carry forward, an increase in deferred tax liabilities on capitalised repairs and income tax effects due to the application of hedge accounting.

The Group's effective income tax rate, including deferred taxes, increased from 2 per cent. for the year ended 31 December 2014 to 63 per cent. for the year ended 31 December 2015.

Net Income for the Period

As a result of the above, the Group's net income for the period increased by RUB 107.5 billion from a net loss of RUB 99.3 billion for the year ended 31 December 2014 to a net income of RUB 8.2 billion for the year ended 31 December 2015.

LIQUIDITY AND CAPITAL RESOURCES

The Group's operations, including maintenance and repair of the rail system and related infrastructure, as well as maintenance and repair of the locomotives and rolling stock and other types of property, plant and equipment, are capital intensive activities. The Group requires external financing primarily for investments into its core assets, such as infrastructure and related assets, as well as refinancing of its financial obligations as they fall due. The Company also uses short-term bilateral credit facilities for liquidity management, including for working capital requirements.

The Group's current liabilities increased by RUB 27.4 billion, or 3.7 per cent., from RUB 733.4 billion as at 31 December 2015 to RUB 760.8 billion as at 30 June 2016. This increase was primarily attributable to an increase in short-term borrowings, including due to the reclassification of certain long-term borrowings into short-term borrowings. This increase was partially offset by a decrease in the accounts payable primarily attributable to a seasonal decrease in construction.

The Group's current assets increased by RUB 5.1 billion, or 1.1 per cent., from RUB 466.8 billion as at 31 December 2015 to RUB 471.9 billion as at 30 June 2016. This increase was primarily attributable to an increase in inventories of track repair and maintenance materials, which the Group accumulated for the utilisation during the seasonal repair works to be undertaken in the summer months. Also, contributing to the increase of the current assets was a prepayment made to LLC Transyuzhstroy for the construction of a dry bulk area in the Port of Taman. Finally, the increase was partially due to an increase in receivables for logistic services mainly denominated in Euros. Partially offsetting the increase in current assets was a decrease in the income tax receivable, which was attributable to a utilisation of tax losses carried forward and offsetting of income tax payable against income tax prepayments as at 31 December 2015.

Due to the factors described above, the Group's current liabilities as at 30 June 2016 exceeded its current assets by RUB 288.9 billion. During the periods discussed in this section, the Group financed investment activities through cash generated from operations and disposal of equity stakes in subsidiaries, cash received as proceeds from additional share issues and current and non-current borrowings and Government support.

Management is currently addressing the Group's liquidity needs by implementing the following measures:

- continuous monitoring and management of credit portfolio structure aimed at extending duration and maintaining even flows of borrowings repayment in future periods;
- maintaining diversified sources of external funding, including international and local capital markets and commercial banks;
- entering into long-term and medium-term agreements with domestic lending institutions to ensure sufficient liquidity reserves as needed;
- gradually decreasing the foreign currency-denominated share of the loan portfolio, including by means of planned and early repayment of borrowings denominated in foreign currencies, for the purposes of reducing currency risks; and
- using short-term bridge facilities to ensure sufficient cash flows to finance its operations and investments.

The Company believes that existing funds, cash generated from its operations, borrowed funds, supplemented by additional debt and Government support, should be sufficient to fund the Group's liquidity and capital expenditures needs.

Cash Flows

The following table summarises the Group's cash flows for years ended 31 December 2015 and 2014, and for the six months ended 30 June 2016 and 2015:

	Six months ended 30 June		**Year ended 31 December**	
	2016	**2015**	**2015**	**2014**
	(unaudited)			
	(RUB millions)			
Operating income before working capital changes	223,805	192,860	360,330	318,280
Net cash from operating activities	167,551	134,282	374,204	311,606
Net cash used in investing activities	(193,414)	(153,325)	(384,082)	(436,958)
Net cash from/(used in) financing activities	12,768	(3,553)	53,289	137,854
Net (decrease)/increase in cash and cash equivalents	**(13,095)**	**(22,596)**	**43,411**	**12,502**
Net foreign exchange differences	(1,690)	(744)	1,643	4,228
Cash and cash equivalents at the beginning of the period	**175,706**	**130,652**	**130,652**	**113,922**
Cash and cash equivalents at the end of the period	**160,921**	**107,312**	**175,706**	**130,652**

Source: IFRS Financial Statements.

Net Cash from Operating Activities

Net cash from operating activities increased by RUB 33.3 billion, or 24.8 per cent., from a cash inflow of RUB 134.3 billion for the six months ended 30 June 2015 to a cash inflow of RUB 167.6 billion for the six months ended 30 June 2016. This increase was primarily due to an increase in income before taxation by RUB 30.4 billion, from an income before taxation of RUB 35.9 billion in the six months ended 30 June 2015 to an income before taxation of RUB 66.3 billion in the six months ended 30 June 2016, partially offset by an increase in non-cash adjustment related to foreign exchange gain (net) by RUB 11.1 billion, from RUB 11.8 billion for the six months ended 30 June 2015 to a RUB 22.9 billion for the six months ended 30 June 2016. Also partially offsetting the increase in net cash from operating activities was an increase in loss on impairment of property, plant and equipment by RUB 16.7 billion, from RUB 8.4 billion for the six months ended 30 June 2015 to RUB 25.1 billion for the six months ended 30 June 2016, as well as an increase in finance expense and similar items, net by RUB 12.9 billion, from RUB 22.6 billion in the six months ended 30 June 2015 to RUB 35.5 billion in the six months ended 30 June 2016.

Net cash from operating activities increased by RUB 62.6 billion, or 20.1 per cent., from a cash inflow of RUB 311.6 billion for the year ended 31 December 2014 to a cash inflow of RUB 374.2 billion for the year ended 31 December 2015. This increase was primarily due to an increase in income before taxation by RUB 123.4 billion, from a loss before taxation of RUB 101.0 billion in the year ended 31 December 2014 to an income before taxation of RUB 22.4 billion in the year ended 31 December 2015 partially offset by the negative non-cash adjustment related to foreign exchange loss (net) of RUB 116.5 billion, from RUB 143.9 billion for the year ended 31 December 2014 to a RUB 27.4 billion for the year ended 31 December 2015 attributable to application of hedge accounting in 2015. See "*—Significant Factors Affecting Results of Operations—Application of Hedge Accounting*". Also partially offsetting the increase in net cash from operating activities was a decrease in taxes and similar charges payable (other than income tax) by RUB 19.1 billion, from a cash inflow of RUB 14.9 billion for the year ended 31 December 2014 to a cash outflow of RUB 4.2 billion for the year ended 31 December 2015, which was primarily due to the Group's payment of VAT related to the assets exchange agreement signed with the Federal Property Management Agency regarding Adler-Krasnaya Polyana highway. See Note 14 to the 2015 and 2014 Consolidated Financial Statements.

Net Cash Used in Investing Activities

Net cash used in investing activities increased by RUB 40.1 billion, or 26.2 per cent., from a cash outflow of RUB 153.3 billion in the six months ended 30 June 2015 to a cash outflow of RUB 193.4 billion in the six months ended 30 June 2016. This increase was primarily due to an increase in cash expenditure on purchases of property, plant and equipment by RUB 40.4 billion, or 25.6 per cent., from a cash outflow of RUB 157.8 billion in the six months ended 30 June 2015 to a cash outflow of RUB 198.2 billion in the six months ended 30 June 2016.

Net cash used in investing activities decreased by RUB 52.9 billion, or 12.1 per cent., from a cash outflow of RUB 437.0 billion in the year ended 31 December 2014 to a cash outflow of RUB 384.1 billion in the year ended 31 December 2015. This decrease was primarily due to a decrease in cash expenditure on purchases of property, plant and equipment by RUB 56.0 billion, or 12.1 per cent., from a cash outflow of RUB 461.8 billion for the year ended 31 December 2014 to a cash outflow of RUB 405.8 billion for the year ended 31 December 2015, which is primarily attributable to a decrease in investment programme financing.

Also contributing to the decrease in net cash used in investing activities was an increase in cash inflow from the proceeds from sale and decrease of equity interest in associates and joint ventures by RUB 13.4 billion, from a cash inflow of RUB 0.7 billion for the year ended 31 December 2014 to a cash inflow of RUB 14.1 billion for the year ended 31 December 2015, which was primarily attributable to the sale of a 25 per cent. plus one share equity stake in Breakers Investments B.V., a parent company of JSC Transmashholding ("**Transmashholding**").

The changes described above were partially offset by changes in loans issued, deposits placed and acquisition of other financial assets (net) from a cash inflow of RUB 10.3 billion for the year ended 31 December 2014 to a cash outflow of RUB 0.7 billion for the year ended 31 December 2015, which was primarily due to a decrease in deposits placed by the Company.

Net Cash from Financing Activities

Net cash from financing activities increased by RUB 16.4 billion, from a cash outflow of RUB 3.6 billion in the six months ended 30 June 2015 to a cash inflow of RUB 12.8 billion in the six months ended 30 June 2016. This was primarily attributable to an increase in repayment of/proceeds from short-term borrowings by RUB 51.8 billion, from a cash outflow of RUB 49.0 billion for the six months ended 30 June 2015 to a cash inflow of RUB 2.8 billion for the six months ended 30 June 2016 due to the repayment of short-term bridge loans in the beginning of 2015.

Net cash from financing activities decreased by RUB 84.6 billion, or 61.3 per cent., from a cash inflow of RUB 137.9 billion in the year ended 31 December 2014 to a cash inflow of RUB 53.3 billion in the year ended 31 December 2015. This was primarily attributable to an increase in repayment of/proceeds from short-term borrowings by RUB 159.2 billion, from a cash inflow of RUB 56.8 billion for the year ended 31 December 2014 to a cash outflow of RUB 102.4 billion for the year ended 31 December 2015, which was due to the repayment of a significant part of short term debt in 2015. Also contributing to the decrease in net cash from financing activities was an increase in interest paid by RUB 30.1 billion, from a cash outflow of RUB 51.7 billion for the year ended 31 December 2014 to a cash outflow of RUB 81.8 billion for the year ended 31 December 2015, which was primarily attributable to higher interest payments on the borrowings.

The decrease in net cash from financing activities was partially offset by a decrease in repayment of long-term borrowings by RUB 71.8 billion, from a cash outflow of RUB 123.2 billion for the year ended 31 December 2014 to a cash outflow of RUB 51.4 billion for the year ended 31 December 2015 and an increase in proceeds from the contributions to share capital by the shareholder by RUB 91.4 billion from a cash inflow of RUB 29.8 billion for the year ended 31 December 2014 to a cash inflow of RUB 121.2 billion for the year ended 31 December 2015.

Capital Expenditures

The vast majority of the Group's capital expenditures are currently made by the Company, Federal Freight and Federal Passenger Company. The Company's capital expenditures relate primarily to investments in the rail system and related infrastructure and purchases of locomotives, rolling stock and operating equipment. Federal Freight's and Federal Passenger Company's capital expenditures relate primarily to purchasing of rolling stock.

The Group's capital expenditures, representing cash outflows for purchases of property, plant and equipment and the acquisition of subsidiaries (net of cash acquired) in the statement of cash flows of the 2015 and 2014 Consolidated Financial Statements, decreased by RUB 53.1 billion, or 11.5 per cent., from RUB 462.4 billion in the year ended 31 December 2014 to RUB 409.3 billion in the year ended 31 December 2015. This decrease was primarily attributable to a budget cut in financing of the Company's investment programme. See also "*Business—Investment Projects and Expansion*" and "*Business—Strategy*". Capital expenditures increased by RUB 40.4 billion, or 25.6 per cent., from RUB 157.8 billion in the six months ended 30 June 2015 to RUB 198.2 billion in the six months ended 30 June 2016. This increase was primarily attributable to an increase in costs related to the Government funded projects, as well as works to eliminate infrastructure bottlenecks.

The following table sets forth estimates of the Company's and its major subsidiaries' capital expenditures for the periods indicated:

	Six months ended 30 June		**Year ended 31 December**	
	2016	**2015**	**2015**	**2014**
	(RUB millions)			
Group[(1)]	198.2	157.8	409.3	462.4
Company and major subsidiaries[(2)]				
Company[(3)]	117.4	114.7	365.5	396.0
Federal Freight[(3)]	0.8	0.3	1.4	4.2
TransContainer[(4)]	0.9	0.3	2.4	4.2
Federal Passenger Company[(5)]	10.2	8.9	17.8	24.5
TransTelecom[(3)]	0.3	0.6	2.3	4.5

Notes:

(1) RUB 462.4 billion, RUB 409.3 billion, RUB 157.8 billion and RUB 198.1 billion are the amounts of the Group's total investment programme, representing cash outflows for purchases of property, plant and equipment, as well as acquisition of subsidiaries, net of cash acquired as presented in the statement of cash flows for 2014 and 2015 and for six months ended 30 June 2015 and 2016, respectively. See "*Selected Consolidated Financial Information—Alternative Performance Measures*" for reconciliation of the capital expenditures.

(2) The sum of the capital expenditures of the Company and major subsidiaries may not equal the total sum for the Group as capital expenditures of other Company's subsidiaries are excluded.

(3) Investment programmes of separate entities represented in the Russian Accounting Standards financial statements and analytical reports of respective entities.

(4) Consolidated financial statements of TransContainer prepared in accordance with IFRS.

(5) Consolidated financial statements of Federal Passenger Company prepared in accordance with IFRS.

Borrowings

The Group's main sources of borrowings are bond issues (including U.S. Dollar-, Sterling-, EUR-, CHF- and Rouble-denominated Eurobond issues and domestic bond issues, and other debt securities issues) and bank loans from Russian and foreign banks. The following table sets forth the Group's short-term and long-term borrowings as at 30 June 2016:

30 June 2016	Original currency	Principal amount in original currency	Interest rate	Maturity of non-current portion	Current	Non-current
		(millions)			(RUB millions)	
Short-term bank loans						
Fixed rates						
Other banks	RUB	6,670	12.1%-19.0%		6,674	—
Variable rates						
Central Bank of Russia key rate +	RUB	300	2.7%		302	—
EURIBOR+	EUR	15	1.3%		1,067	—
Long-term bank loans						
Fixed rates						
Other banks(3)	RUB	31,669	8.4%-15.0%	2017-2022	19,536	12,219
Other banks(3)	U.S.$	45	8.4%-8.5%		2,898	—
Other banks(3)	EUR	5	6.3%		370	—
Variable rates						
Central Bank of Russia key rate +(3)	RUB	8,614	2%-3.65%	2017-2020	4,106	4,516
EURIBOR+	EUR	170	1.49%-2.0%	2017-2021	2,166	9,637
Debt securities issued						
Loan participation notes(1)	RUB	37,500	8.3%	2019	769	37,566
Loan participation notes(1)	U.S.$	2,900	5.7%-5.74%	2022	98,946	91,489
Loan participation notes(1)	EUR	1,401	3.37%-4.6%	2021-2023	779	99,799
Loan participation notes(1)	GBP	650	7.49%	2031	1,117	55,881
Loan participation notes(1)	CHF	675	2.18%-2.73%	2018-2021	353	44,232
Bonds						
CPI+	RUB	287,200	1.0%-2.1%	2028-2044	4,502	236,899
Other(2)	RUB	236,248	7.7%-11.75%	2018-2046	48,879	192,493
Other borrowings						
Other(3)	Various		0.0%-15.0%	2018-2021	2,922	850
Total					**195,386**	**785,581**

Notes:

(1) Between 2010 and 2014, the Group issued loan participation notes listed on the Irish Stock Exchange and SIX Swiss Exchange. During the six-month period ended 30 June 2016, the Company called part of its EUR denominated loan participation notes at 93.55% of face value and paid EUR 92 million to the bond holders (RUB 7.4 billion at the exchange rate on the transaction date).

(2) During the six-month period ended 30 June 2016, the Group placed new long term bonds series BO-05, BO-07, BO-17 and 42 with the aggregate nominal value of RUB 60 billion and face value of RUB 1 thousand each, providing for semi-annual coupon payments at interest rates of 9.7 per cent. to 10.3 per cent. and maturing in 2026, 2026, 2041 and 2046, respectively. The terms of bonds provide their bondholders with the right for early redemption in 2023, 2020, 2031 and 2026, respectively.

The terms of certain bonds issued by the Group provide their bondholders with the right for early redemption within twelve months subsequent to 30 June 2016. Bonds in the aggregate nominal value of RUB 39.4 billion were classified as current as at 30 June 2016 (as at 31 December 2015: RUB 53.7 billion).

During six-month period ended 30 June 2016, the Group purchased the bonds series 16 called for early redemption by the bondholders in the total nominal value of RUB 14.8 billion. Also, during six-month 2016, the Company redeemed bonds series 15 with the aggregate nominal value of RUB 15.0 billion upon maturity.

(3) Included in the current portion of long-term bank loans as at 30 June 2016 are borrowings of the Group's subsidiaries in the total amount of RUB 15.9 billion payable on demand and comprising the Rouble denominated borrowings of RUB 12.6 billion, U.S.$ denominated borrowings of RUB 2.9 billion and euro denominated borrowings of RUB 0.4 billion (as at 31 December 2015: borrowings in the total amount of RUB 14.7 billion payable on demand and comprising the Rouble denominated borrowings of RUB 11.4 billion and U.S.$ denominated borrowings of RUB 3.3 billion).

DISCUSSION AND ANALYSIS OF MARKET RISK

In the ordinary course of business the Group is exposed to a variety of market risks that are typical for the industry and business sectors in which the Group operates.

Inflation and Commodities Prices

A significant portion of the Group's operating expenses are affected by the level of consumer price inflation, particularly in wages and salaries, and increases in commodity prices, particularly metals, fuel and electricity prices and other material costs. The Group employs detailed monitoring of outgoings to ensure adherence to budgeted figures and attempts to restrict increases in its costs to levels below the rate of inflation through productivity and efficiency improvements. See "*Business—Tariff Regulation and Pricing*". The Group does not currently hedge its exposure to inflation or commodity price increases.

Credit Risks

The term credit risk refers to the risk that the counterparty to the transaction will not be able to perform its obligation to pay for services that are provided and goods that are sold. The Group attempts to reduce counterparty risk by requiring compulsory prepayments (or, in some cases, bank guarantees) from the majority of its freight customers, including all major freight forwarders. In addition, the Group maintains certain risk management procedures in which the Group limits the maximum deposit it may maintain with a single bank.

Interest Rate Risk

Interest rates on the Group's debt financing are either fixed or variable, at a fixed spread over EURIBOR and other variable rates, for the duration of each contract. At the time of raising additional debt financing, the Group uses its judgment to decide whether a fixed or variable rate would be more favourable over the expected term. Since May 2011, the Group has in place internal regulations with regard to the acceptable exposures to fixed and variable interest rates, which are taken into consideration at the time of economically hedging the Group's interest rate risk. As at 30 June 2016, approximately 70 per cent. of the Group's borrowings, including finance lease obligations, were at a fixed rate of interest.

Foreign Currency Exchange Rate Exposure

The Group is exposed to currency risk on selected receivables, payables and borrowings that are denominated in currencies other than the Rouble. The currencies in which these transactions are denominated are primarily the U.S. Dollar, Euro, Swiss francs and Sterling.

The Group's principal exchange rate risk involves changes in the value of the Swiss franc relative to the Rouble and to a lesser extent relative to other currencies. This is primarily due to the fact that the Group has economically hedged part of its U.S. Dollar and Sterling currency exchange risk by entering into several cross currency swap agreements (U.S. Dollar to Swiss francs; Sterling to Swiss francs) with notional amount denominated in Swiss francs, and receives payments for services provided to international freight transportation companies in Swiss francs. Increases in the value of the Swiss franc relative to the Rouble will increase the Group's Swiss franc exposure. To manage its foreign currency exchange risk, the Group has developed a centralised currency risk management system, which establishes a risk hedging policy in respect of certain foreign currencies and provides for a regular analysis of foreign currency risk exposure. This analysis includes the assessment of open foreign exchange positions, forecast modelling of exchange rates and an analysis of deviations between forecast and budgeted rates. The Group aims to have a neutral open foreign exchange position where foreign currency cash outflows are offset by cash inflows in the relevant foreign currency. In addition, the application of hedge accounting that the Group commenced from 2015, to a certain extent, reduces the effect of currency exchange rates fluctuations on the Group's results of operations.

For further details on the Group's risk management objectives and policies generally, see Note 31 to the 2015 and 2014 Consolidated Financial Statements.

Liquidity Risk

As at 30 June 2016, the Group's current liabilities exceeded its current assets by RUB 288.9 billion. As a result, uncertainties exist as to the Group's liquidity. Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to seek to ensure that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to its reputation. The Group seeks to manage liquidity risk through continuous monitoring and management of debt structure aimed at extending duration and maintaining even flows of borrowings repayment in future periods, maintaining diversified sources of external funding, including international and local capital markets and commercial banks, entering into long-term and medium-term agreements with domestic lending institutions to ensure sufficient liquidity reserves as needed, and using short-term bridge facilities to ensure adequate cash flows to finance its operations and investments. For example, the Company has selected, through a public tender, Russian banks from which to borrow, including Sberbank, VTB Bank, JSC Gazprombank ("**Gazprombank**"), JSC Alfa-Bank, JSC UniCredit and other banks. Subject to the Company entering into definitive documentation, these banks are to provide certain Rouble-denominated loans if required by the Company during the years of 2016 through 2020. These loans are expected to improve the Company's liquidity managing position.

INDUSTRY

MACROECONOMIC OVERVIEW

Russia is the largest country in the world by area and is characterised by significant distances both between population centres and between suppliers of raw materials and their intermediate or end customers. With 17,125,191 square kilometres covering more than an eighth of the Earth's land area, Russia extends across the whole of Northern Asia and 40 per cent. of Europe, spanning nine time zones.

The Russian economy in 2008 was adversely affected by the global economic downturn. However, foreign currency reserves accumulated by the Government during the prior period of growth and significant stimulus packages put in place by the Government lessened the impact of the global economic downturn on the Russian economy, which, according to the Ministry of Economic Development, returned to 0.1 per cent. growth in June 2009 and continued to steadily grow until 2014. In 2014 and 2015, the Russian GDP decreased due to a rapid fall of oil prices in the world markets beginning in the second half of 2014, a sharp depreciation of the Rouble and imposed sanctions. Real GDP in Roubles increased by 4.5 per cent. in 2010, 4.3 per cent. in 2011, 3.5 per cent. in 2012, 1.3 per cent. in 2013, 0.6 per cent. in 2014, decreased by 3.7 per cent. in 2015 and further decreased by 0.2 per cent. in 2016, according to Rosstat.

Russia has historically witnessed high levels of correlation between GDP growth, industrial production growth and the growth in rail freight turnover. The longer-term forecasts for macroeconomic development in Russia are currently estimated to be relatively stable.

The following table sets forth GDP, gross fixed investment, foreign direct investment, and rail freight turnover (excluding empty runs of the Company-owned and leased railcars) in Russia between 2008 and 2015.

	Year ended 31 December							
	2008	2009	2010	2011	2012	2013	2014	2015
				(U.S.$ billion)[2]				
Russian GDP (at current prices)[1]	1,652	1,215	1,524	1,899	2,013	2,226	2,019	1,318
Gross fixed investment[1]	352	250	301	376	404	422	360	237
Foreign direct investment in Russia[3]	75	37	43	55	51	69	22	5
				(tonne-kilometres, billions)				
Rail freight turnover[4]	2,116	1,865	2,011	2,128	2,222	2,196	2,299	2,305
Rail freight turnover growth rate	1.2%	–11.9%	7.8%	5.8%	4.4%	–1.2%	4.7%	0.3%

Sources:

(1) Rosstat.

(2) Figures were converted to U.S. Dollars using period average exchange rates established by the CBR.

(3) CBR.

(4) Company information.

REFORM OF THE RUSSIAN RAIL TRANSPORTATION MARKET

A significant factor in both the recent growth and the future prospects of the Russian rail industry is the Reform Programme and subsequent initiatives to develop the Target Model 2020. The Reform Programme was approved in 2001 with the aim, among others, of satisfying the growing demand of the Russian economy for transportation services by increasing the efficiency of the existing rail infrastructure and attracting additional investment to the sector. See "*Business—History and Corporate Structure of the Group and the Reform Programme*" for further details regarding the Reform Programme.

In 2001, the regulatory and commercial functions of the Russian rail industry were separated, both having previously been under the control of the Ministry of Transport. In 2003, the Company was established as a joint stock company, wholly owned by the Russian Federation, and certain sectors of the Russian rail industry were opened to competition. The Company continued to own and operate the rail system and related infrastructure and retained a monopoly over locomotive traction, and a dominant position in suburban and long-haul passenger transportation services. The new regulatory framework provided private entities with a legal right to access the rail system on a non-discriminatory basis alongside the Company and its subsidiaries.

To date, the freight railcar operating sector has attracted a significant number of private investors. Private railcar operators are free to select the type of freight to carry and to set their own prices for freight transportation while paying the Company a tariff-regulated fee, which covers locomotive traction and access to the rail system and related infrastructure. See "*Business—Tariff Regulation and Pricing*".

THE RAIL SYSTEM

As at 31 December 2015, the rail system was the world's third longest railway network, the world's third largest railway in terms of freight turnover (measured in tonne-kilometres) and the world's fifth largest railway in terms of passenger turnover (measured in passenger-kilometres). As at 31 December 2015, the rail system had an operational length of approximately 85,300 kilometres (approximately 124,750 kilometres total track miles, including tracks in stations and the parallel tracks of dual or triple lined route sections) of which approximately 43,400 kilometres were electrified. The rail system covers most of Russia, of which over 84,800 kilometres are within Russia and approximately 500 kilometres cross national borders into Kazakhstan and Ukraine. The network connects the majority of Russia's regions, offers service to most major cities and covers most of the European regions of Russia. In Asian Russia (beyond the Urals), there are two main railway lines, the Trans-Siberian Railway and Baikal-Amur Mainline, which connect the South Siberian and Far Eastern regions with the European part of Russia.

The rail system is an integrated passenger and freight railway network, meaning that passenger trains and freight trains operate on the same rail lines. This is relatively unusual internationally, as it requires freight trains to operate at faster speeds than would ordinarily be the case. In 2015, the average service speed of a freight train in Russia was 39.1 kilometres per hour, as compared with 37.7 kilometres per hour in 2014 (in each case excluding time required for loading/unloading of railcars). An average freight trainload over this period was approximately 3,970 tonnes. The daily average freight train speed (including loading and unloading times) in 2015 was 341 kilometres per day (14.2 kilometres per hour), demonstrating a 14.0. per cent. period-on-period increase from 299 kilometres per day (12.5 kilometres per hour) in 2014.

In the six months ended 30 June 2016, the average service speed of a freight train further increased to 40.9 kilometres per hour. An average freight trainload over this period was approximately 4,006 tonnes. The daily average freight train speed (including loading and unloading times) in the six months ended 30 June 2016 increased to 370.9 kilometres per day (15.5 kilometres per hour), demonstrating a 8.8. per cent. increase, as compared with 2015.

With 146.3 million people, Russia is the ninth largest country in the world by population. Despite its large population, Russia's population density is low, given the country's size. Approximately 78 per cent. of Russia's population is concentrated in European Russia, which covers approximately 25 per cent. of Russia's total land mass. For this reason, the rail system's track density is higher in European Russia than in Asian Russia.

Overall, railway density (measured in rail-kilometres per square kilometre of land) in Russia is considerably lower than that found in Western Europe and the United States.

The table below sets forth the latest available information on the network size and railway density:

	Network size (km thousands)	Density (km per 1,000 km2)
United States	152	15.5
China	103	10.7
Russia	85	5.0
Canada	78	7.8
India	66	20.1
Germany	41	115.8
Australia	37	4.8
Argentina	37	13.3

Sources: Rosstat, CIA World Factbook, Indian Railways, U.S. Department of Transportation Bureau of Transportation Statistics, Eurostat, National Bureau of Statistics of China

RUSSIAN FREIGHT TRANSPORTATION MARKET

Overview

Rail transportation is the leading mode of freight transportation in Russia. According to Rosstat, approximately 87 per cent. (measured in tonne-kilometres) of all freight transportation in Russia, excluding pipeline traffic, was carried by rail in 2015. The overall rail freight turnover (excluding empty runs relating to railcars owned by private operators, locomotives and cranes) in Russia in 1990, 2000, 2010, 2011, 2012, 2013, 2014, 2015 and 2016 was 2,523 billion tonne-kilometres, 1,373 billion tonne-kilometres, 2,011 billion tonne-kilometres, 2,128 billion tonne-kilometres, 2,222 billion tonnes-kilometres, 2,196 billion tonnes-kilometres, 2,299 billion tonnes-kilometres, 2,305 billion tonnes-kilometres and 2,342 billion tonnes-kilometres, respectively.

The table below sets forth daily average rail freight transportation volumes per month in 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, and 2016:

	2008	2009	2010	2011	2012	2013	2014	2015	2016
	(thousands of tonnes per day)								
January	3,607	2,412	2,827	3,127	3,275	3,069	3,104	3,114	3,024
February	3,755	2,845	3,156	3,320	3,343	3,352	3,330	3,304	3,283
March	3,842	3,005	3,328	3,376	3,483	3,382	3,367	3,322	3,388
April	3,845	2,973	3,369	3,446	3,546	3,420	3,395	3,326	3,379
May	3,706	2,952	3,327	3,426	3,525	3,404	3,328	3,220	3,318
June	3,584	3,086	3,374	3,452	3,553	3,351	3,353	3,242	3,374
July	3,612	3,136	3,338	3,418	3,518	3,439	3,326	3,314	3,366
August	3,667	3,215	3,385	3,401	3,515	3,467	3,413	3,391	3,414
September	3,720	3,298	3,401	3,421	3,544	3,488	3,494	3,449	3,400
October	3,622	3,230	3,445	3,543	3,586	3,415	3,469	3,449	3,335
November	3,026	3,191	3,457	3,487	3,540	3,447	3,437	3,437	3,407
December	2,771	3,085	3,234	3,401	3,273	3,331	3,326	3,362	3,394

The rail system plays a particularly important role in freight transportation in Russia due to the inherent limitations of other forms of freight transportation in the country. Both road and waterways systems provide inadequate coverage in many regions of Russia and are of variable quality (and in the case of waterways, are subject to seasonality). The use of air transportation for freight in Russia is limited and not economically efficient for mass cargo.

Pipelines have, however, dominated oil and gas transportation with the exception of refined products and certain export routes (particularly China) with pipeline turnover reaching 2,444 billion tonne-kilometres in 2015.

Railway freight turnover (excluding empty runs of the Company-owned and leased railcars) and overall freight turnover in Russia grew at the same pace in 2015 of 0.3 per cent. In 2015, road transportation volumes decreased by 6.1 per cent., which demonstrates the continuing competitiveness of railroads.

International Comparison

Currently, the United States has the largest share of global rail freight turnover, measured in tonne-kilometres, with China and Russia in second and third place, respectively. However, Russia is the leader in terms of rail utilisation (measured in tonne-kilometres per kilometre) and in terms of average freight transportation distance, as shown by the following table setting out the latest available data:

	Freight Turnover	Utilisation	Average freight transportation distance
	(billion tonne-kms)	(million tonne-kms/km)	(km)
China[(1)]	2,375	19.6	792
United States[(2)]	2,703	17.8	1,619
Russia[(3)]	2,305	26.8	1,734
India[(4)]	682	10.3	622
Canada[(5)]	415	6.7	N/A
Ukraine[(6)]	194	9.3	N/A
Kazakhstan[(7)]	190	13.1	N/A
Germany[(8)]	113	2.7	N/A

Sources: Company information, Rosstat, National Bureau of Statistics of China, U.S. Department of Transportation Bureau of Transportation Statistics, Association of American Railroads, Indian Railways, Statistics Canada, State Statistics Committee of Ukraine, Agency of Statistics of the Republic of Kazakhstan, Kazakhstan Temir Zholy, Eurostat.

Notes:

(1) All data provided for the year 2015.

(2) Class I rail. All data provided for the year 2014.

(3) All data provided for the year 2015.

(4) All data provided for the year 2015.

(5) All data provided for the year 2015.

(6) All data provided for the year 2015.

(7) All data provided for the year 2015.

(8) All data provided for the year 2014.

A defining characteristic of the Russian rail freight transportation market is the large share of rail freight turnover in the total freight turnover compared with the rail networks of the European Union, the United States and China, as shown in the following table setting out the latest available data:

	Rail	Water(1)	Air	Pipeline	Road
		(billions tonne-kilometres)			
Russia(2)	2,305	103	5	2,444	232
United States(3)	2,703	515	10	1,495	3,213
European Union(4)	416	147	N/A	N/A	1,454
China(5)	2,375	9,177	21	467	5,796

Sources: Rosstat International Union of Railways, UIC database, North American Transport Statistics Database, U.S. Department of Transportation Bureau of Transportation Statistics, China National Statistics Agency, Business Monitor International.

Notes:

(1) Water includes sea and inland waterways.

(2) Data provided for the year 2015. Excluding empty runs of railcars owned by private investors, locomotives and cranes.

(3) Data provided for the year 2014. Rail: Class 1 rail only.

(4) Estimates by Eurostat for the year 2015.

(5) Data provided for the year 2015.

In 2015, approximately 87 per cent. of all freight transported in Russia (excluding pipelines) was by rail, which is a higher percentage of railway freight transportation than in the U.S., China or the EU.

Freight Railcar Sector

Freight railcar sector’s operational (and pricing) process can be segregated into three key components: providing access to railway infrastructure, offering locomotive traction services and providing rolling stock for transportation of goods. The Company is responsible for providing access to railway infrastructure and locomotive traction services. As a result of the liberalisation of the railways industry undertaken pursuant to the Reform Programme, private freight rolling stock operators had been given an opportunity to own rolling stock for transportation of either their own freight or third-party-owned freight on the Company’s railway infrastructure and using the Company’s locomotive traction services. In addition, a significant part of the railcar fleet in Russia is owned by leasing companies, which lease rolling stock to railcar operators or freight owners.

Since the initiation of the Reform Programme, the freight railcar operating sector in Russia has attracted a significant number of private investors and investments in the replacement of the ageing railcar fleet. As a result, the total railcar fleet in Russia increased from approximately 800 thousand units in 2001 to approximately 1,230 thousand units in 2014. In 2015, however, due to the oversupply of railcars, as well as certain measures introduced by the Government to stimulate the retirement of ageing railcar fleet and increase the efficiency in operating the existing railcars, the total fleet in Russia slightly decreased to approximately 1,150 thousand, and then further decreased to 1,095 thousand units as at 30 June 2016.

Key market participants

Notwithstanding new entrances, the Group has remained one of the largest owners of all types of rolling stock (except tank cars used for oil and petroleum products), although most railcars currently owned by the Company are used solely for the purposes of managing the rail system and are not used to provide commercial services to third parties. Federal Freight (formerly Freight Two), a subsidiary of the Company, is Russia’s second largest private freight railcar operator after Universal Cargo Logistics Holding (“**UCLH**”) which acquired Freight One from the Group in 2011.

As at 31 December 2015, the Group estimated that there were approximately 2,000 railcar owners and approximately 250 private operators, collectively owning approximately 1.15 million freight railcars. However, a significant number of operators and railcar owners have a largely regional focus or concentrate on limited types of freight. The ten largest Russian private freight rail operators operate slightly above 50 per cent. of the private fleet (as at 31 December 2015). Key private market participants, excluding Federal Freight, include UCLH, which now includes the largest railcar operator Freight One, divested by the Group in two stages in 2011 and 2012, Globaltrans group of companies (“**Globaltrans**”), Neftetransservice group of companies (“**Neftetransservice**”), Transoil, RTK Group, UVZ-Logistic, Novotrans as well as a number of “captive” freight railcar operators owned by large Russian industrial groups.

Market Share of Freight

The Company has been and remains a monopoly rail freight carrier, operator of nearly all locomotives, used for rail freight transportation in Russia and the sole owner and operator of national rail infrastructure.

The Group as a freight rail operator has a strong position on the market of railway freight transportation. In 2015, the total volume of cargo transported by the Group (including Federal Freight) as a rail operator, was approximately 14.3 per cent. of all cargo transported in Russia (by tonne-kilometres).

The table below sets forth market share of the private rail operators (excluding the Company and its subsidiaries), by cargo volumes (in tonnes), for certain key classes of freight representing over 80 per cent. of total freight volume (in tonnes) in 2015:

	2014	2015
Coal	73%	82%
Mineral and construction materials	77%	79%
Oil and petroleum products	98%	98%
Ores	86%	89%
Ferrous metals	85%	89%
Fertilizers	96%	96%

Source: Company information

Rolling Stock Ownership and Types

The Group estimates that privately owned rolling stock (excluding the Group's subsidiaries) constituted approximately 83 per cent. of all rolling stock in Russia as at 31 December 2016. The following table sets forth the rolling stock ownership share of the Company and other market participants as at 31 December 2014, 2015 and 2016:

	As at 31 December		
	2014	2015	2016
The Company (without subsidiaries; used for internal non-commercial needs)	5%	5%	5%
Subsidiaries (without leased railcars)	15%	12%	11%
Private owners and leasing companies	80%	83%	84%

The gradual decrease in the percentage of railcars owned by the Group (as showed in the table above) is attributable to the replacement of the Group's owned railcars with railcars leased by the Group.

As commodities production represents a significant part of Russia's economy, gondola cars and tank railcars, are the most common types of railcar used for freight rail transportation in Russia. The structure of Russia's rolling stock fleet as at 31 December 2014, 2015 and 2016 is provided in the table below.

	As at 31 December 2014		As at 31 December 2015		As at 31 December 2016	
	(thousands of railcars)	(% of total)	(thousands of railcars)	(% of total)	(thousands of railcars)	(% of total)
Gondola cars	562,7	46%	511.8	44%	474.5	44%
Tank railcars	290,8	24%	279.8	24%	259.0	24%
Flat cars	69,1	6%	66.7	6%	64.8	6%
Box cars	68,8	6%	64.2	6%	59.4	6%
Other	241,1	20%	228.5	20%	215.1	20%
Total	1,232.4	100%	1,151.0	100%	1,072.8	100%

Source: Company information

Gondola railcars are used to carry a variety of commodities including ferrous and scrap metals, ores, coal, timber and crushed stone. The main products transported by tank railcars are oil and oil products. Flatcars are predominantly used to transport containers or cargoes which cannot be transported by other types of fleet.

Russia experienced a drastic reduction in the production of railcars between 1992 and 2002. As a result, a significant portion of Russia's railcar fleet was close to their average useful life of 26 years. However, in the recent years, railcar operators, motivated by the growing market, made significant investments into acquisition of new rolling stock, while retiring maturing rolling stock. In 2015, the number of railcars retired, due to the expiration of their useful life period, reached its peak. For instance, Freight One retired 38.1 thousand railcars, while Federal Freight retired 35.9 thousand railcars, among others. Due to these factors, the average age of railcar fleet in Russia was approximately 13.3 years as at 31 December 2016.

Reducing a number of aged railcars in the market

Due to the lack of new railcars, up until recently there were few restrictions on the ability of freight rail operators to extend useful life of their railcars by undertaking some additional repairs and passing certain tests. However, in January 2013, after a freight train derailment, Rostransnadzor (a federal agency responsible for supervision and control in the field of Russian transport) issued an order prohibiting the extension of the service life of certain cast components of railcar undercarriages and has required the destruction of certain damaged or expired railcar undercarriages. Pursuant to the subsequent Government legislative enactments, aimed at increasing safety on the Rail Network, useful life of railcars cannot be extended for more than one year, and can only be so extended by a certificated company. This process is costly and should motivate railcar owners to replace old railcars with new ones. In addition, the Government prohibited usage of railcars, useful life of which has expired and which are renovated after 1 January of 2016. As a result, a railcar's useful life cannot be extended after 2016. Generally, the above measures are aimed at increasing safety of rail infrastructure operation and increase freight turnover.

Liberalisation of the freight rail transportation industry and development of free market pricing

As a result of the implementation of the Reform Programme, private railcar operators are free to set their own tariffs for the use of their rolling stock which they provide to freight owners. In addition to paying for the use of the rolling stock, freight owners pay a regulated fee to the Company for loaded trips; while railcar operators pay the Company for empty runs (that is, when an empty railcar is delivered to a freight owner for loading). Payments received by the Company cover locomotive traction and access to the rail system and related infrastructure, which, generally, comprises approximately 85 per cent. of the total rail transportation cost paid by freight owners (such estimate is based on the basic tariff levels, as set out in Tariff 10-01 ("**Tariff 10-01**"), which is a price list that sets out tariffs for transportation of various types of cargo on the rail system), but may also be higher or lower depending on the prices set by private companies for the use of their railcars, which in turn depend on market rates applicable to various types of cargo and destination. Prior to the separation of Freight One and Federal Freight (formerly, Freight Two), the Company also provided rolling stock for transportation of cargo at regulated tariffs, which were an important benchmark for market pricing for private rail operators. Currently, however, the prices have been liberalised and are set by rolling stock operators independently based on market rates. The Company continues to retain a railcar fleet for its own non-commercial operational needs (such as transportation of materials for repairs of its railway network).

The Group has been working together with the Russian authorities to improve tariff regulation in the market sector. Prior to 2012, tariffs payable to the Company for empty runs of unloaded railcars were based on the type of cargo carried on the immediately preceding loaded run. Since November 2012, however, empty run tariffs for gondola cars and flatcars have been unified to a single tariff irrespective of the type of cargo transported. The unification of empty run tariff is believed to have some negative effect on revenues of private rail operators, however, the Company believes that it ensures a more balanced approach to pricing the transportation of empty railcars. The Company has been also working with the Government and freight owners' community to develop adjustments to the Tariff 10-01, required to balance it in accordance with the structure of existing freight flows. The work on an update of Tariff 10-01 continues and an updated Tariff 10-01 is expected to be finalised by 2019.

In 2012, the FTS (the federal agency responsible for setting tariffs then) approved additional tariff rules, in accordance with which the Company could use a so-called "tariff spread", allowing it to raise or decrease tariffs for certain types of cargo, such as crude oil, under certain conditions, in line with market dynamics. The currently approved tariff spread allows the Company to reduce tariffs by up to 50 per cent. or increase by up to 10.0 per cent. (subject to certain conditions such as, for example, available throughput capacity on a particular route) compared with the base tariff rate.

PASSENGER TRANSPORTATION

Rail transportation is the key domestic passenger transportation mode in Russia. Rail accounted for approximately 23.4 per cent. and 22.8 per cent. (measured in billions of passenger-kilometres) of all domestic passenger transportation in 2014 and 2015, respectively. The slight decrease in rail transportation volumes is attributable to a growth in bus transportation volumes from 22.9 per cent. in 2014 to 23.8 per cent. in 2015, according to Rosstat. Federal Passenger Company, a Company's subsidiary, provides virtually all of the long-haul rail passenger transportation services in Russia and between Russian and foreign countries. Suburban rail transportation services are provided to end users by 25 suburban rail passenger companies, some of which are

Company's subsidiaries and others are companies, in which the Company holds a minority stake. The Company provides rail infrastructure and locomotives for passenger transportation.

As with the freight market, rail transportation plays an important role in long-haul travel given the generally poor condition of the road network in the Russian Federation and the high price of air travel (particularly compared with the tariff-regulated railway fares), although both these alternative modes of transportation are rapidly developing.

Between 2013 and 2015, passenger transportation volumes have decreased significantly due to a number of factors, including increased competitive pressure from airlines, as well as political tensions, affecting passenger flows between Russia and Ukraine, from approximately 138.5 billion passenger-kilometres in 2013 to approximately 120.4 billion passenger-kilometres in 2015. In 2016, passenger turnover increased to approximately 124.5 billion passenger-kilometres, and the Group expects rail passenger volumes to remain approximately at the same level in 2017.

International Comparison

The rail system in Russia is responsible for a greater share of passenger transportation than the rail system in the United States and the European Union, as shown in the following table (measured in billions of passenger-kilometres):

	Rail	%	Car	%	Bus	%	Boat	%	Air	%	Other[(2)]	%
India[(1)]	1,147.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
China[(3)]	1,196.1	39.8	1,074	35.7	N/A	N/A	7.3	0.2	728.2	24.2	N/A	N/A
European Union[(4)]	428.2	6.7	4,767	74.9	526.0	8.3	37.5	0.6	605.3	9.5	N/A	N/A
Russia[(5)]	120.6	22.8	N/A	N/A	126.3	23.8	0.7	0.1	226.8	42.8	55.6	10.5
United States[(6)]	29.4	0.4	6,006	79.5	545.9	7.2	N/A	N/A	978.1	12.9	N/A	N/A

Source: Rosstat, U.S. Department of Transportation, International Union of Railways, European Commission (Directorate-General Mobility and Transport) and National Bureau of Statistics of China.

Notes:

(1) Data provided for year 2015.

(2) Other includes taxi, subway, tramway and trolley-bus.

(3) Data in respect of all modes of transportation provided for the year 2015; no data available for bus.

(4) Data in respect of all modes of transportation provided for the year 2014.

(5) Data provided for the year 2015; no data available for car.

(6) Data in respect of all modes of transportation provided for the year 2014; rail includes intercity/Amtrak and commuter rail; cars include light duty vehicles with short wheel base and light duty vehicles with long wheel base.

In addition, Russia is among the countries with the highest levels of rail passenger travel in the world on a per capita basis. The following table sets forth data regarding the population, number of passenger kilometres travelled by rail and rail travel per capita for the U.S., EU, China, India and Russia.

Country	Population, million[(1)]	Total rail passenger turnover, billion passenger-kilometres[(2)]	Per capita rail passenger kilometres
Russia	146	120.6	824
United States	321	29.4	92
European Union	514	428.2	833
China	1,367	1,196.1	875
India	1,252	1,147.1	916

Sources: CIA World Factbook, Rosstat.

Notes:

(1) Population data from CIA World Factbook, 2015; Rosstat for Russia

(2) Data as at 2015 for all regions except the EU and U.S.; data as of 2014 for the EU and U.S.

Internal Competition

The following table shows the Russian domestic passenger traffic turnover by different modes of transportation for the years ended 31 December 2014 and 2015:

	Passenger kilometres in 2014	Passenger kilometres in 2015
	(billions)	
Rail	128.8	120.4
Bus & Automobile	117.4	118.0
Airlines	241.4	226.9
Total	487.6	465.3

Note:

(1) Other includes taxi, subway, tramway and trolley-bus.

Rail travel has remained relatively steady as a share of overall passenger transportation. Otherwise bus and automobile transportation in Russia is concentrated primarily in European Russia, where road density is relatively high.

Air travel is primarily used by passengers on long-distance domestic routes outside European Russia, and is the most likely means of transportation to challenge rail on longer distances. The key determinant is pricing.

At present, a very small number of private operators provide long-haul passenger rail transportation services. The Group estimates that for the six months ended 30 June 2016, approximately 1.4 per cent. of passenger turnover on the railway network was attributable to privately-operated passenger trains.

BUSINESS

OVERVIEW

The Group is one of the largest transportation companies in the world. It is the owner and operator of Russia's approximately 85,300 kilometre-long rail system and related infrastructure. See "*—The Rail System*". As at 31 December 2015, the rail system was the world's third longest railway network, the world's third largest railway in terms of freight turnover (measured in tonne-kilometres) and the world's fifth largest railway in terms of passenger turnover (measured in passenger-kilometres). The Company has been state-owned since its creation in 2003. In addition to the rail system, the Group owns and operates nearly all of the locomotives in Russia, is one of the largest Russian owners and operators of freight rolling stock and carries virtually all long-haul (to destinations over 200 kilometres) railway passengers. Suburban railway passenger operations (to destinations under 200 kilometres) are mainly carried out by suburban rail passenger companies, which are either the Company's subsidiaries or entities in which the Company holds a minority stake.

The Group engages in full-service freight transportation, locomotive traction, infrastructure operations, rolling stock repair and maintenance, long-haul and suburban passenger transportation, container transportation and logistics. The Group is also engaged in a number of other activities primarily relating to telecommunications, real estate development, residential and commercial construction, engineering as well as research and development. The Group participates in cross-border projects in Azerbaijan, Belarus, China, Finland, France, Germany, Kazakhstan, Slovakia and Ukraine. It is also involved in railway construction and management projects abroad in the following countries: Austria, Armenia, Indonesia, Iran, Mongolia, North Korea, Serbia and other countries. See "*—International Joint Ventures and Cooperation*".

In 2015, the Group's total revenues were RUB 1,991.0 billion, which represented an increase of 10.8 per cent. compared with 2014. The Group's total revenues were derived from freight transportation services (which, including logistics services, represented 78.6 per cent. of total revenues), passenger transportation services (which represented 9.7 per cent. of total revenues) and other business activities, which include the Group's non-core operations (which represented 11.7 per cent. of total revenues). The Group's total operating expenses in 2015 were RUB 1,915.1 billion, an increase of RUB 168.5 billion, or 9.6 per cent., compared with 2014. The Group's EBITDA and EBITDA margin in 2015 were RUB 388.5 billion and 19.5 per cent., respectively, compared with RUB 352.6 billion and 19.6 per cent., respectively, in 2014. See "*Operating and Financial Review—Results of Operations*".

In the six months ended 30 June 2016, the Group's total revenues were RUB 1,039.7 billion, which represented an increase of 8.1 per cent. compared with the six months ended 30 June 2015. The Group's total revenues were derived from freight transportation services (which, including logistics services, represented 80.6 per cent. of total revenues), passenger transportation services (which represented 8.9 per cent. of total revenues) and other business activities, which include the Group's non-core operations (which represented 10.5 per cent. of total revenues). The Group's total operating expenses in the six months ended 30 June 2016 were RUB 980.3 billion, an increase of RUB 58.0 billion, or 6.3 per cent., compared with the six months ended 30 June 2015. The Group's EBITDA and EBITDA margin in the six months ended 30 June 2016 were RUB 219.9 billion and 21.2 per cent., respectively, compared with RUB 191.2 billion and 19.9 per cent., respectively, in the six months ended 30 June 2015. See "*Operating and Financial Review—Results of Operations*".

RELATIONSHIP WITH THE GOVERNMENT

The Government exercises substantial influence over the Group through its share ownership, tariff and subsidy policies as well as regulatory and legislative powers. As at the date of this Prospectus, the Russian Federation owned 100 per cent. of the Company's shares and, as the sole shareholder, appoints all twelve members of the Board of Directors and the Company's president. See "*Description of the Company Management*". The Government also approves the Company's budget and capital expenditures programme and otherwise participates in the operations of the Company.

The Government regulates tariffs that the Company charges for freight transportation and, specifically, for access to the railway infrastructure, locomotive traction and the use of Company-owned or leased railcars. For passenger services, the Government regulates tariffs for third- and fourth-class long-haul transportation, while the tariffs for suburban passenger transportation are regulated by local authorities. See "*—Tariff Regulation and Pricing*". The Company also receives subsidies from the Government. The Government's tariff and subsidy policies are influenced by social, economic and political considerations. Also see "*Risk Factors—Risks Relating to the Group—The Company is Subject to Tariff Regulation by and Dependent on Subsidies, Grants and Other Support from the Government*".

Under Russian law, the Company is a natural monopoly with respect to railway transportation in Russia. As a natural monopoly, the Company is required to provide access to the railway infrastructure, locomotive services and Company-owned railcars on a non-discriminatory basis to all market participants. The Company is also considered to be a strategic entity under Russian law and, as such, is subject to a special insolvency and bankruptcy regime and the sale or dilution of the Russian Federation's interest in the voting share capital of the Company (or its subsidiaries) is restricted. See "*Regulation of Railway Transportation in Russia Applicable Legislation*".

The Government's initiatives relating to the reform of the Russian railway industry also significantly affect the Company and its operations. The Reform Programme was approved in May 2001 and lasted for 14.5 years. Between 2001 and 2015, the Reform Programme was implemented through a series of initiatives set out in certain Reform Programme-related documents. Although the Reform Programme was officially completed in 2015, the Government and the Company continue to discuss new initiatives to further develop the Russian rail transportation market. See "*—History and Corporate Structure of the Group and the Reform Programme*".

COMPETITIVE STRENGTHS

The Company believes that, as a key strategic component of the Russian economic infrastructure, it is well placed to benefit from, and contribute to, the growth and development of the Russian economy.

Vital Importance for the Russian Federation and the Russian Economy. The Group plays a strategic role in freight and passenger transportation and in the overall Russian economy. The Group owns and operates the rail system which is the primary mode of freight transportation in Russia for all major types of freight (excluding oil and gas), measured by freight turnover. In the last five years, the share of railway freight transportation in the total freight turnover in Russia continued to gradually increase from approximately 85 per cent. in 2010 to approximately 87 per cent. in 2015 (excluding oil and gas carried through pipelines). The share of railway freight transportation in the total freight turnover in Russia was 87.5 per cent. in the six months ended 30 June 2016 (excluding oil and gas carried through pipelines).

Freight turnover on the rail system (excluding empty runs) increased by approximately 6.2 billion tonnes-kilometres, or 0.3 per cent., from 2,298.6 billion tonnes-kilometres for the year ended 31 December 2014 to 2,304.8 billion tonnes-kilometres for the year ended 31 December 2015. This increase was primarily due to an increase in export-driven freight transportation volumes and an increase in the average freight transportation distance, which increased by approximately 3.1 per cent. in 2015 compared with 2014. In the six months ended 30 June 2016, freight turnover (excluding empty runs) increased by approximately 17.4 billion tonnes-kilometres, or 1.5 per cent., from 1,123.3 billion tonnes-kilometres in the six months ended 30 June 2015 to 1,140.7 billion tonnes-kilometres for the six months ended 30 June 2016. In 2016, freight turnover (based on preliminary results and excluding empty runs) increased by approximately 37.5 billion tonnes-kilometres, or 1.6 per cent., from 2,304.8 billion tonnes-kilometres in 2015 to 2,342.6 billion tonnes-kilometres in 2016.

Rail transportation is also the primary mode of domestic passenger travel in Russia, with an overall passenger turnover (including long-haul and suburban transportation) of approximately 120.4 billion passenger-kilometres in 2015, compared with 128.8 billion passenger-kilometres in 2014, approximately a 6.5 per cent. period-on-period decrease. Long-haul passenger transportation turnover was 89.5 billion passenger-kilometres and 96.3 billion passenger-kilometres in 2015 and 2014, respectively. In the six months ended 30 June 2016, passenger turnover on the rail system increased by approximately 1.0 billion passenger-kilometres, or 1.9 per cent., from 52.8 billion passenger-kilometres in the six months ended 30 June 2015 to 53.8 billion passenger-kilometres for the six months ended 30 June 2016. In 2016, passenger turnover on the rail system (based on preliminary results) increased by approximately 4.1 billion passenger-kilometres, or 3.4 per cent., from 120.4 billion passenger-kilometres in 2015 to 124.5 billion passenger-kilometres in 2016.

Given the size and reach of the rail system across Russia's territory and the significant distances between suppliers of raw materials and their intermediate or end customers, the Company believes that railway transportation will continue to be the primary mode of freight (excluding oil and gas) and long-haul passenger transportation.

This leading position in the Russian transportation sector positions the Group to benefit from the expected growth of the Russian economy in the medium term. The Company believes that growth in freight turnover historically has been strongly correlated with growth in GDP and industrial production in Russia. Consequently, when Russia's economy recovers from the effects of the current economic slowdown, the Group will benefit from the economic growth.

Wide Geographic Reach. The geographic reach of the rail system also allows the Group to take advantage of evolving regional economic centres, as the Group can divert resources (including rolling stock, locomotives and passenger services) and traffic routing to areas with increasing transportation demand. The Company believes that this geographic reach also allows it to grow and evolve simultaneously with the development of the Russian economy and develop and exploit new trade routes, which increase the rail system's throughput capacity and efficiency by reducing the frequency and distance of empty runs.

Leading Market Position in Freight Transportation. The Group continues to play an important role in the Russian railway freight transportation market. The Company owns and operates the rail system and related infrastructure as well as virtually all of the locomotives in Russia. All private freight railcar operators, including the Company's subsidiaries, pay the Company for access to the rail system and locomotive traction, which together represent approximately 85 per cent. of the total cost of freight transportation (assuming regulated tariffs as set by the FAS are applied).

In addition, the Group, through a number of its subsidiaries, is one of the largest owners of railcars in Russia and one of the leading railcar operators, with approximately 196.4 thousand units of freight rolling stock owned as at 31 December 2015 and 179.7 thousand units as at 30 June 2016 (excluding leased railcars). The Group's largest operator of freight rolling stock is Federal Freight, which is the second largest freight railcar operator in Russia. As at 31 December 2016, it had a fleet of approximately 156.5 thousand freight railcars, 83.4 thousand of which were owned by Federal Freight and 73.1 thousand were leased.

The Group is also engaged in the operation of specialised rolling stock, such as container platforms. TransContainer, established by the Company in 2006, is a leading rail container transportation and logistics company. As at 30 June 2016, it had a fleet of approximately 23.6 thousand platforms (most of which were owned and approximately 0.1 thousand were leased), which represented a market share of approximately 43.6 per cent. in Russian rail-based container transportation as at that date. In December 2012, to enhance its logistics capabilities, the Group acquired a 75 per cent. equity stake in GEFCO, an international logistics operator. See "*—Business Operations—Freight—GEFCO*".

The monopoly over the rail infrastructure, the large size of the Group's fleet and the ability to provide customers with full spectrum of logistics solutions have enabled the Group to maintain its leading positions in the Russian railway freight transportation market despite the growing competition from private rail operators.

Tariff and Subsidy Regulation Providing Financial Stability and Predictable Cash Flows. The Government, through its tariff regulation and subsidy policy, has enabled the Company to generate sufficient cash flows to support the Company's operations, capital expenditures (primarily relating to the railway infrastructure repair and maintenance) and repayment of borrowings. The Government regulates tariffs for access to rail infrastructure and locomotive traction services provided by the Company, as well as certain services provided by its subsidiaries (such as the third- and fourth-class long-haul passenger transportation services provided by Federal Passenger Company). In addition, tariffs for suburban passenger transportation services are regulated by regional authorities.

In regulating tariffs through tariff indexation, the Government generally seeks to ensure that tariffs are sufficient to enable the Group to generate necessary financial resources required for sustainable and efficient operation of the Group and repair and maintenance of the rail system, while also minimising the adverse effect of tariff growth on the users of the rail system. In freight tariff indexation, the general approach adopted by the Government in the last several years has been to use the CPI level of a preceding year as the main benchmark for tariff indexation for the coming year. However, other factors have also been taken into consideration in annual tariff indexation, which resulted in freight tariff indexation from time-to-time differing from the level of CPI. The annual indexation of regulated freight tariffs approved by relevant decisions of the FAS (and those of the FTS, the federal agency responsible for tariff regulation prior to September 2015) was 9 per cent. in 2016, 10 per cent. in 2015 and nil in 2014, in each case applied starting from 1 January of the respective year. For 2017, the FAS approved a total indexation of 6 per cent., which represented a 4 per cent. basic indexation and an additional 2 per cent. supplemental indexation to support the Company's capital repairs programme in 2017. In passenger transportation tariff indexation, the Government is influenced by social considerations (such as facilitating affordable and reliable long-distance and suburban passenger transportation), which from time-to-time resulted in setting tariffs that were insufficient to cover the Group's expenditures incurred in connection with provision of the relevant services. The annual indexation of passenger tariffs for long-haul passenger service in third- and fourth-class was 4.0 per cent. in 2016, 10 per cent. in 2015 and 4 per cent. in 2014 applied from 1 January of each respective year. In addition, in 2016, there was a further increase of tariffs for long-haul passenger service in third- and fourth-classes by 7 per cent. applied from 1 March 2016. In 2015, the Government also resolved to decrease VAT on long-haul passenger and luggage transportation services from 18 per cent. to 10 per cent. from 1 January 2016. As a result of this change, the indexation of the net-of-VAT part of tariff was approximately 11.5 per cent. in 2016, while tariffs for end customers increased effectively by 4 per cent. compared to 2015. In 2016, the Government further decreased the VAT rate on long-haul passenger and luggage transportation services to 0 per cent. applicable from 1 January 2017 until 31 December 2029. The respective indexation of the net-of-VAT part of tariff in 2017 was set at 14.3 per cent., with the effective increase of tariff for end customers of 3.9 per cent. For a further discussion on tariff regulation see "*—Tariff Regulation and Prices*".

The Government provides subsidies, grants and other support to the Group to compensate it for the adverse effects of tariff regulation. The Group receives subsidies from federal and regional government authorities to compensate the effects of passenger transportation tariff regulation. In the past, the Government also provided subsidies to compensate the effects of freight transportation tariff regulation but in recent years, the Government used other ways to support Group's operations. Total subsidies from federal and regional budgets received by the Group were RUB 62.6 billion and RUB 50.7 billion in 2015 and 2014, respectively, which comprised: subsidies from federal budget to compensate the effects of tariff regulation on long-distance passenger transportation of RUB 24.7 billion and RUB 23.3 billion in 2015 and 2014, respectively; subsidies from federal budget to compensate the effects of tariff regulation of infrastructure access services for suburban passenger transportation of RUB 27.8 billion and RUB 20.7 billion in 2015 and 2014, respectively; subsidies from federal and regional budgets to compensate the effects of tariff regulation on suburban passenger transportation of RUB 8.7 billion and RUB 6.3 billion in 2015 and 2014, respectively; and other subsidies of RUB 1.4 billion and RUB 0.5 billion in 2015 and 2014, respectively. In addition, the Group received additional compensation of RUB 0.1 billion in 2015 and RUB 0.1 billion in 2016 as a part of the arrangement with the Federal Agency for Railway Transportation to repay to the Group the remaining losses (not covered by the subsidies) from the effects of tariff regulation of infrastructure access services for suburban passenger transportation accumulated between 2011 and 2014. According to the Group's preliminary calculations, in 2016, it received from the federal budget a subsidy of RUB 32.6 billion (including VAT) to compensate the Group for tariff regulation relating to infrastructure access for suburban transportation and a subsidy of RUB 18.9 billion (not subject to VAT) to compensate the Group for tariff regulation relating to long-haul passenger transportation. Additionally, the regional governments compensated the suburban passenger transportation companies for the losses incurred in provision of suburban transportation services. See "*Operating and Financial Review—Significant Factors Affecting Results of Operations—Tariffs and Subsidies*".

In the past, the Government also provided subsidies and grants to compensate the effects of freight transportation tariff regulation and to support railway infrastructure maintenance and development projects. However, according to the Company's estimates, tariff indexation approved in respect of 2016 and 2017, in conjunction with the effect of cost-optimisation measures implemented by the Company, allows it to generate sufficient revenues to cover its operating costs. As a result, no additional support for the freight segment on the operational level was requested by the Company for 2016 and 2017. In 2014, the Group received RUB 56.0 billion in grants for capital repairs and development of railway infrastructure, RUB 26.0 billion and RUB 29.9 billion of which were utilised in 2014 and 2015, respectively.

The Company believes that the Government will continue to provide similar tariff and subsidy support in the future, which, the Group believes, will promote financial stability and enable the Group to continue generating sufficient revenues, profitability and cash flows required for the sustainable and effective operation of the Group and the rail system.

The Government Supports Railway Infrastructure Development Programmes. The Group is an integral part of the Government's long-term national railway transportation development strategy, certain key initiatives of which include the draft Target Model 2020, the Railway Transportation Strategy in the Russian Federation 2030 and the Government Transportation Development Strategy 2030, all of which envision significant investment into the maintenance and development of the Russian railway infrastructure.

The Government has continued to provide grants and capital injections to the Group to support railway infrastructure maintenance and development projects. In 2014, the Group received Government grants for capital repairs and development of railway infrastructure of RUB 56.0 billion, RUB 26.0 billion and RUB 29.9 billion of which were utilised in 2014 and in 2015, respectively. In 2015, the Government also contributed to the Company's share capital in the aggregate RUB 123.2 billion (through the Company's issuance of ordinary shares in the amount of RUB 73.2 billion and the Company's issuance of preferred shares in the amount of RUB 50.0 billion), including RUB 121.2 billion in cash for various railway infrastructure construction and maintenance projects and RUB 2.0 billion in assets. In 2016, the Government made cash contributions to the Company's share capital of RUB 61.0 billion in the aggregate through the issue of ordinary shares and approved a further contribution of RUB 8.1 billion in assets (which as at 31 December 2016 was not made). For 2017, the Government approved RUB 31.6 billion in capital injections from the federal budget and confirmed its intention to provide an additional RUB 50.0 billion through an acquisition of the Company's preferred shares using funds of the National Wealth Fund, with the proceeds expected to be invested in the modernisation of the Far East rail infrastructure, amongst other projects.

The Group also receives supplemental financial support from the Government (or Government-related institutions) in the form of financing on terms more favourable than otherwise available on the market, such as, amongst others, a purchase of bonds issued by the Company. In 2012, the Company issued its debut inflation bonds (Rouble-denominated bonds with a CPI-linked interest rate and an extended, as compared with general market terms, maturity) in the aggregate amount of RUB 10.0 billion, which were placed among Government-controlled entities and private investors. As a result of the successful issue of inflation bonds, the Government agreed to support the Company's issuance of another financial instrument, infrastructure bonds, proceeds from which are designated for various railway infrastructure-related projects. In 2013, the Company placed debut infrastructure bonds in the aggregate amount of RUB 150.0 billion. In 2014 and 2015, the Company issued further infrastructure bonds in the aggregate amounts of: RUB 87.0 billion purchased by Vnesheconombank using money of the State Pension Fund; and RUB 60.2 billion purchased by VTB Bank using funds of the National Wealth Fund. The proceeds from the infrastructure bonds were invested in infrastructure development and acquisition of locomotives.

The Group believes that it will continue to receive the Government's support for railway infrastructure development programmes, which will enable it to continue to invest in the maintenance and development of its rail system.

Key Role in Facilitating Eurasian Transportation and Trade. The Group plays an integral role in Eurasian trade by facilitating freight transportation not only within Russia, but also with and among other European countries, Central Asian countries and countries on the Caspian Sea, Persian Gulf and Indian Ocean. Three out of ten pan-European international transport corridors pass through the Russian Federation (including the territory of Kaliningrad) using the rail system. Similarly, the railway track network forms a component of several of the North-South transport corridors that link Russia and Europe with countries of the Caucasus, the Caspian Sea, the Persian Gulf and the Indian Ocean. The Group's East-West corridor provides an overland rail route between Europe and East Asia, which significantly reduces the average length of the journey compared with sea routes through the Suez Canal.

The Group continues to implement measures to further enhance Eurasian railway freight transportation. To increase the efficiency and competitiveness of its network for Eurasian freight customers, the Group has made significant investments into railway infrastructure projects. For example, the Group is engaged in a joint project with European countries, including Austria and Slovakia, to extend the wide (1520 mm) gauge railway tracks from Kosice (Slovakia) to Vienna (Austria) to enable the Group to provide freight transportation to Vienna without transferring cargo to 1435-gauge tracks.

In addition, the Group is engaged in various projects aimed at improving cross-border container transportation services, including by improving the organisation of domestic container shipments and container routes as well as participating in the international cooperation. In 2014, the Group formed UTLC, a joint venture between the Company, Kazakhstan Railways and Belarusian Railways, which is engaged in container transportation and logistics services on the territory of the three countries in which such companies primarily operate. UTLC was established to enhance cooperation between Russia, Belarus and Kazakhstan to coordinate railway container transportation and create a single container transportation route through their respective territories, which, among other things, the Group expects to increase transit freight transportation volumes through the Groups' infrastructure. UTLC currently remains a Company's subsidiary in which it owns over 99.8 per cent. of shares, and the parties are considering alternatives to further develop the project.

STRATEGY

Following the collapse of the Soviet Union in 1991, the Russian railway system experienced significant underinvestment in respect of the maintenance and repair of rolling stock, track and stations, as well as railway infrastructure. The Government subsequently recognised the need for massive reconstruction of the railway sector through investment and modernisation efforts aimed at meeting the demands of Russia's growing economy. Representatives of the railway sector, other ministries and agencies together with the assistance of international advisers developed the Reform Programme, which was approved in May 2001 and lasted for 14.5 years. See "*—History and the Corporate Structure of the Group and the Reform Programme*".

The Reform Programme was aimed at improving the efficiency and stability of the transportation sector as well as balancing the interests of the end users of railway transportation, the Russian railway transportation sector and the Government. As a result of the implementation of the Reform Programme, the Group continues to evolve into a multi-faceted provider of rail transportation and related services. The Group also actively participated in the development of the Government Transport Development Strategy 2030 (and the update thereof, the current version of which was approved by the Government in June 2014), which, among other things, outlines the main guidelines for the modernisation and expansion of the rail system, the modernisation of rolling stock, the improvement of railway transportation safety and technological development of the Russian railway sector.

In 2013, the Government, in cooperation with the Group, developed the Russian Railways Development Strategy 2030, which was largely based on the Government's Transportation Development Strategy 2030. The Russian Railways Development Strategy 2030 was approved by the Board of Directors. Certain main goals of the Russian Railways Development Strategy 2030 include maintaining the Group's leading position in rail freight transportation in Russia, broadening the scope and improving the quality of services provided, increasing the Group's capitalisation and facilitating maintenance and renovation of the rail system and the Group's assets.

The Group, in cooperation with the Government also developed the Target Model 2015 as a part of the Russian Railways Development Strategy 2030, which was perceived by the market as the fourth and final stage of the Reform Programme (although never formally approved as such by the Government). The Target Model 2015 provided for the Group's strategic priorities in its operations, which the Group continues to adhere to today while developing the Target Model 2020. These are as follows:

- ***Freight Transportation and Logistics:*** to continue diversifying the Group's services offering to reduce the provision of predominantly railway freight transportation services in favour of increasing the provision of a full spectrum of integrated "door-to-door" transportation solutions.
- ***Passenger Transportation:*** to continue improving the speed and quality of passenger transportation services and, particularly, high-speed passenger transportation between main Russian transportation hubs.
- ***Infrastructure Services:*** to reduce infrastructure operating costs; introduce new transportation and logistics services to improve speed, safety and throughput capacity of passenger and freight transportation on the railway system; modernise the existing railway infrastructure and build new railway infrastructure to accommodate growth in transportation volumes on the railway system; all of which is subject to satisfying the legal requirements of providing access to the railway infrastructure on a non-discriminatory basis.
- ***International Engineering and Construction:*** to consolidate and expand the Group's presence on the international railway engineering and infrastructure construction market by offering its unique expertise in engineering and construction of complex railway transportation infrastructure projects, implementation of transportation infrastructure management systems and financial management of railway systems.
- ***Social Activities:*** the Group considers its personnel to be a key asset enabling it to achieve its strategic development goals and, therefore, supporting social activities of its personnel (such as educational, medical or other supplemental social services support) by the Group is an integral part of the Group's business policies.

Certain key initiatives of the Group, intended to achieve the strategic priorities set out above, are:

Investments in the Railway Infrastructure and Related Assets. The Company plans to continue investing in railway infrastructure development projects aimed at increasing the rail system's throughput capacity, reducing bottlenecks to increase freight turnover and increasing railway transportation safety. In many cases, these investments are expected to be supplemented by direct support from the Government or Government-related enterprises. The Company's investment budget (excluding its subsidiaries) was RUB 467.2 billion in 2013, RUB 396.0 billion in 2014 and RUB 365.5 billion in 2015. The Company's final approved investment budget for 2016 was RUB 399.4 billion.

The Company's investment budget has been financed by funds received from the Group's operations and supplemented by direct Government support (such as grants or contributions to share capital) or indirect Government support by Government controlled or related enterprises (such as the purchase of infrastructure bonds by Vnesheconombank and VTB Bank). See "*—Government Support of the Group—Share Capital Injections*". In 2013, 2014 and 2015, the Government contributed RUB 59.5 billion, RUB 29.8 billion and RUB 123.2 billion (including RUB 121.2 billion in cash and RUB 2.0 billion in assets), respectively, to the share capital of the Company. These contributions were designated primarily for the financing of specific railway infrastructure projects, including the 2014 Winter Olympics, the Moscow Rail Hub, Mezdurechensk-Taishet route and Far East rail infrastructure.

In 2013, the Government resolved to provide RUB 260.0 billion to the Company for the development of the Far East rail infrastructure. In 2013 and 2015, as part of the project, the Government contributed RUB 4.6 billion and RUB 16.9 billion, respectively, in exchange for the issuance of ordinary shares by the Company. Further, RUB 50.0 billion was contributed by the Government in 2015 using funds of the National Wealth Fund through the purchase of preferred shares of the Company. The Company expects to receive the remaining funds for the development of the Far East rail infrastructure in the form of RUB 100.0 billion and RUB 88.5 billion as consideration for the issue of its preferred shares and ordinary shares, respectively, at a later stage. While initially planned to be completed by 2017, according to the current schedule submitted by the Company to the relevant Government ministries, the Far East rail infrastructure development project is expected to be completed in 2019. As at the date of this Prospectus, however, no final resolutions in respect of the date of completion of the project have been adopted by the Government. A slowdown in the project development is due in part to an overall reduction in the levels of economic activity in the region, delays in commissioning of the coal and mineral deposits and production plants, and, consequently, reduced urgency for the increase of relevant rail infrastructure capacity.

Between 2013 and 2015, the Company placed infrastructure bonds with Vnesheconombank and VTB Bank for the aggregate amounts of RUB 237.0 billion and RUB 60.2 billion, respectively. The majority of the funds received from the placement of infrastructure bonds to date have been invested in the acquisition of locomotives and infrastructure development to reduce existing bottlenecks.

The Company's initial investment budget for 2016 (as approved by the Board of Directors and the Government in December 2015) was RUB 432.2 billion. In April 2016 and subsequently in July 2016, it was adjusted downwards to RUB 424.1 billion and finally approved at RUB 399.4 billion for 2016, primarily due to a decrease in financing allocated for the Far East infrastructure development project, as well as for some of the Company's other projects, such projects being financed by both, the federal budget as well as the Company's own funds. At the same time, the Government and the Company allocated additional funds for implementation of other projects, such as the development of Moscow Rail Hub, increasing affordability of passenger transportation, among others, which was also reflected in the budget. The Company's investment budget remains subject to change for future periods depending on, among other factors, macroeconomic conditions, the availability of alternative funding sources and public needs. A substantial portion of the Company's investment budget for 2016 was allocated for projects relating to the modernisation of the Baikal-Amur and Trans-Siberian rail lines, infrastructure projects related to the 2018 Football World Cup (such as the Moscow Rail Hub project), reduction of bottlenecks, increase of safety and security as well as the acquisition of approximately 500 new locomotives. See "*—Investment Projects and Expansion*", "*—Competitive Strengths—The Government Supports Railway Infrastructure Development Programmes*" and "*Risk Factors—Risks Relating to the Group—The Company is Subject to Tariff Regulation by and Dependent on Subsidies, Grants and Other Support from the Government*".

Increasing the Volume of Eurasian Transportation and Developing Integrated Logistics Services. In order to take advantage of Russia's geographic position as a bridge between Asia and Europe, the Group intends to continue modernising and expanding its railway and related infrastructure, establishing new routes and addressing regulatory aspects relating to freight transportation with the aim of increasing trans-Eurasian freight transportation volumes.

One of the Group's key initiatives is improving railway infrastructure and increasing the railway's throughput capacity on the route between Asia and Europe and, specifically, between China and Europe. To achieve this goal, the Group commenced the modernisation of Far East railway infrastructure, including Baikal-Amur and Transsiberian rail lines. See "*—Investment Projects and Expansion*", "*—Competitive Strengths—The Government Supports Railway Infrastructure Development Programmes*" and "*Risk Factors—Risks Relating to the Group—The Company is Subject to Tariff Regulation by and Dependent on Subsidies, Grants and Other Support from the Government*". The Group is also engaged in an infrastructure project to extend the wide (1520 mm) gauge railway tracks from Kosice (Slovakia) to Vienna (Austria) to enable the Group to provide freight transportation to Vienna without transferring cargo to 1435-gauge tracks.

In 2012, the Company together with RZD Logistics, Schenker China Ltd., JSC Kaztransservice, Chongqing Transportation Holding (Group) Co., Ltd. and China Railway International Multimodal Transport Co., Ltd. established a joint venture YuXinOu (Chongqing) Logistics Co., Ltd. to organise a regular container route between Chongqing (China) and Duisburg (Germany) and to provide a broad range of container transportation and logistics services, eventually becoming a full-service "door-to-door" integrated logistics solutions provider.

The Group's other important initiative in developing the Eurasian railway transportation corridor includes the establishment of UTLC in 2014. The establishment of UTLC is expected to increase container traffic through the territory of Kazakhstan, Russia and Belarus, which, consequently, is expected to increase container transportation between Asia and Europe.

The Group is planning to further develop itself as a vertically-integrated transportation and logistics group of companies operating in those sectors of the transportation industry, in which the Group has or can achieve leading positions. To strengthen the Group's logistics capabilities and expand its global presence in the international logistics segment, in 2012, the Group acquired from PSA Peugeot—Citroen a 75 per cent. equity stake in GEFCO, an international logistics operator, which in 2016 had a network of 70 subsidiaries across five continents. Some of GEFCO's key customers are major automotive and industrial enterprises such as PSA Peugeot—Citroen, General Motors, Renault Nissan, Delphi Automotive, L'Oreal, and CNH Industrial. PSA Peugeot—Citroen is currently GEFCO's largest customer accounting for approximately 41 per cent. of total revenues in 2015. The Group has been successfully integrating GEFCO into its business. See "*—Business Operations—Freight—GEFCO*".

The acquisition of GEFCO has significantly increased the portion of logistics operations in the revenues of the Group. In 2015 and the six months ended 30 June 2016, revenues from logistics services represented 15.4 per cent. and 18.3 per cent., respectively, of the Group revenues compared with 12.3 per cent. in 2014.

Reducing Losses in Regulated Fare Passenger Transportation and Increasing the Attractiveness of Unregulated Fare Passenger Transportation. The tariff policy for domestic passenger transportation services is largely influenced by social priorities. The Government regulates tariffs for third- and fourth-class long-haul passenger transportation services, while deluxe-, first- and second-class long-haul passenger transportation services are unregulated and priced at market rates. The provision of third- and fourth-class long-haul transportation and the operation of most suburban railway networks are unlikely to become profitable in the near term due to the Government's commitment to provide affordable passenger transportation to the population.

The Group receives subsidies from federal and municipal government authorities to compensate the effects of passenger transportation tariff regulation. In 2013, 2014 and 2015, subsidies to compensate the effects of long-haul passenger transportation regulation were RUB 23.3 billion, RUB 23.3 billion and RUB 24.7 billion, respectively. In 2016, subsidies originally budgeted in respect of long-haul passenger transportation were up to RUB 20.2 billion (not subject to VAT), which were subsequently reduced to RUB 19.2 billion (not subject to VAT) in line with Government-announced policy to reduce overall federal budget spending by 10 per cent. in 2016. In 2013, 2014 and 2015, federal subsidies to compensate the effects of tariff regulation of infrastructure access services for suburban passenger transportation were RUB 21.2 billion, RUB 20.7 billion and RUB 27.8 billion, respectively. In 2016, federal subsidies originally budgeted in respect of suburban passenger transportation were up to RUB 37.1 billion (including VAT) and were subsequently reduced to RUB 32.5 billion (including VAT). In 2015 and 2014, the Company also received subsidies for other purposes of RUB 1.4 billion and RUB 0.5 billion, respectively. In 2016, the Government decreased the VAT rate on long-haul passenger and luggage transportation services to 0 per cent. applicable from 1 January 2017 until 31 December 2029. The respective indexation of the net-of-VAT part of tariff in 2017 was set at 14.3 per cent., with the effective increase of tariff for end customers of 3.9 per cent.

In 2015, the Group's losses resulting from the provision of infrastructure access for suburban passenger transportation were fully compensated by the subsidies. From 2011 to 2014, subsidies to compensate the effects of tariff regulation of infrastructure access services for suburban passenger transportation were insufficient to cover expenditures in providing these services. In 2015, the Group entered into an arrangement with Federal Agency for Railway Transportation for the repayment of the remaining (not covered by the subsidies) losses accumulated between 2011 and 2014, which are to be repaid over a 10-year period. Pursuant to the arrangement, the Company received additional compensation of RUB 0.1 billion in 2015 and RUB 0.1 billion in 2016.

In addition to receiving subsidies, the Group continued to take measures to minimise its losses from providing passenger transportation services by partnering with regional authorities to share responsibility for suburban passenger services and otherwise to provide for a more economically sound pricing structure for these services. The Group separated its suburban passenger transportation activities into subsidiaries and associates: 25 suburban passenger transportation companies were established. Such suburban passenger transportation companies entered into agreements with regional authorities for the provision of suburban passenger transportation services. Pursuant to these agreements, the regional authorities are required to reimburse the suburban transportation companies for their lost revenues or losses resulting from the provision of suburban passenger transportation services, but only if tariffs set by local authorities are below economically justifiable level (that is, insufficient to cover the suburban transportation companies' expenditures in providing the relevant service). However, in practice, regional authorities do not always have the necessary funds to reimburse the suburban passenger transportation companies for lost revenues, and as a result, such operations may generate a net loss for the Group. See "*Risk Factors—Risks Relating to the Group—The Company is Subject to Tariff Regulation by and Dependent on Subsidies, Grants and Other Support from the Government*" and "*—Business Operations—Passengers—Suburban*".

To mitigate the risk of losses related to suburban passenger transportation, the Group has reduced service frequency on certain unsubsidised or insufficiently subsidised routes and taken other appropriate cost-savings measures. Additionally, the Group contemplates a divestment of some of its regional suburban passenger transportation operations in the future. For example, in January 2013, the Company completed the sale of a 25 per cent. less three shares equity stake in Central Suburban Passenger Company. As at 31 December 2016, Central Suburban Passenger Company remained an associate of the Group. The Group may divest the remaining stake in Central Suburban Passenger Company in 2017.

The Group is also committed to increasing the attractiveness of unregulated fare passenger transportation by developing new high-speed routes, improving the quality of services and modernising its passenger rolling stock. In 2009, the Group established its first high-speed train route between Moscow and St. Petersburg. Currently, the Company operates between five and six trains daily in each direction on this route. In 2011, an additional high-speed train route started regular passenger service between St. Petersburg and Helsinki. In 2015, the Group started daily passenger service on the third high-speed train route between Moscow and Nizhniy Novgorod. Each of the three projects were completed by upgrading the existing railway network, without constructing new railroads.

The Group and the Government seek to further develop high-speed railway infrastructure in Russia by constructing new high-speed railways which allow to develop speeds up to 400 km per hour. The Group, in cooperation with the Government, commenced the design and engineering phases for the project to build a 770 km high-speed rail route between Moscow and Kazan. In 2015, the Group received RUB 3.7 billion as a contribution to its share capital for the financing of the design and engineering phase of this project. A memorandum of understanding in respect of the project was signed in 2015 between the Company, the Chinese Railways, the Russian Ministry of Finance and the Chinese Committee for Development and Reform, under which the parties preliminarily agreed, among others, to use Chinese experience of high-speed railways construction in developing high-speed railways in Russia. The proposed high-speed rail route between Moscow and Kazan is expected to be developed on the basis of a public-private partnership model. Currently, the parties are in the process of carrying out a feasibility study and determining the project structure. No definitive documents have been signed to date.

Another major railway transportation infrastructure project undertaken by the Group is the development of the Moscow Rail Hub, the largest passenger transportation hub on the Russian rail system. This project has been financed by Moscow regional government and the Government. One of the key integral parts of this project has been the reconstruction of the Moscow Central Ring, a 54-kilometre light overland railway system that connects the Moscow metro with suburban railway stations systems, which was opened for public use in September 2016. See "*—Investment Projects and Expansion—Moscow Rail Hub*". The construction of the Moscow Central Ring is expected to significantly improve the conditions of public passenger transportation in Moscow and also reduce overall car traffic. Also see "*—History and Corporate Structure of the Group and the Reform Programme—Reform Programme—Fourth Stage: the Target Model of Freight Railway Transportation Market 2015—The Group's Key Initiatives in Passenger Transportation*".

Improving Operating Efficiency and Optimising Operating Costs. The Group intends to continue to implement measures aimed at improving its operating efficiency and productivity and reducing costs. In 2012 and 2013, the Group focused its efforts on implementing cost optimisation measures due to rising costs and pressure on EBITDA. In 2014 and 2015, the Group continued to implement cost cutting measures intended to offset reduced demand for freight rail transportation services (caused by generally unfavourable macroeconomic conditions in Russia) as well as to offset a freeze of tariff indexation for freight transportation services effected in 2014 (tariff indexation in 2014 was nil), which contributed to further pressure on the Group's revenues and profitability. In particular, the Company took measures, and intends to continue taking measures to reduce labour costs and otherwise improve operating efficiency. To reduce its labour costs, the Group reduced its headcount by encouraging certain eligible employees to retire and restricting the hiring of new personnel, increasing productivity and limiting salary indexation. To improve operating efficiency, the Group sought to reduce administrative expenses (including travel, communications and relationship management expenses), implement a stricter pricing policy with respect to procurement of products and services from third parties, a stricter policy with regard to fuel and energy resources consumption for train haulage and otherwise reduce fuel and energy consumption for operational activities. These cost reduction measures resulted in the Company's estimated savings of approximately RUB 39.7 billion in 2015. In 2016, the Group's continued efforts to increase efficiency of operations while implementing further cost cutting measures resulted in the Company's estimated savings in the operating expenses of approximately RUB 61.1 billion for 2016.

HISTORY AND CORPORATE STRUCTURE OF THE GROUP AND THE REFORM PROGRAMME

History

The Group's history dates to the construction of the original railway network in Russia. The Imperial Department of Railways was created in 1842 to supervise the construction of Russia's first railway line connecting St. Petersburg with Moscow, which was completed in 1851. By 1913, the Imperial Russian railway network comprised 58,500 kilometres of track and was transporting 132,000 tonnes of freight and 185,000 passengers every year.

After World War II, the Soviet railway network was re-built and further expanded to more than 145,000 kilometres, primarily by major additions in Russia, such as the 3,200 kilometre-long Baikal-Amur Main Line. At its height, the Soviet Union's railway network was the world's largest unitary rail system. In 1991, the Soviet Ministry of Rail Transportation developed a programme for the reconstruction and development of the railway industry up to 2000, which set out principles of future development of Russia's railway sector. By the mid-1990s, it had become clear that in order to meet growing demands of Russia's economy, the railway sector needed to be substantially reshaped. In 1996, the All-Russia Congress of Railway Workers developed and approved "Major Guidelines for Railway Transport Development", which were guidelines for the reorganisation of the railway sector based on the experience of other countries and suggested a step-by-step approach to reform. At that time, the Ministry of Railway Transportation oversaw state regulation and economic activities of the railway sector. It was concluded that a successful reform would require the separation between regulatory and operational functions, which remains one of the main principles of the current Reform Programme.

The economic dislocations caused by the collapse of the Soviet Union resulted in a decade of underinvestment in the Russian railway industry, during which time the industry was operated by the Ministry of Railway Transportation. In 2001, the Government initiated the Reform Programme which, having evolved over time, has driven the development of the Group until 2015. Although, the Reform Programme was officially completed in 2015, the Group, together with the Government, have been working on the Target Model 2020, which is expected to set revised objectives for the development of freight rail transportation in Russia and the Group, as an integral part of the railway system.

Corporate Structure

The Group consists of the Company and the Company's subsidiaries. The Company operates through a number of branches and subsidiaries, including entities providing freight and passenger transportation, design and construction of railway infrastructure, rolling stock repair and maintenance, research and development and entities serving various social purposes.

Reform Programme

The reform of the railway transportation in Russia was conducted pursuant to the Reform Programme. The Reform Programme was generally aimed at increasing the efficiency and stability of Russian railway transportation sector. The Reform Programme's principal goals were improving the stability, safety and quality of railway transportation services, creating an effective integrated railway transportation system in Russia, reducing average railway freight transportation costs and meeting the growing demand for railway transportation services. The strategy for achieving these principal goals has continued to evolve over time. The Reform Programme provided for four stages of implementation. The first three stages, considered to be the initial Reform Programme stages, were approved by the Government in 2001 and completed by 2010. In 2011, the Government extended the Reform Programme to incorporate the fourth stage, referred to as the Target Model 2015, which was completed in 2015. Currently, the Target Model 2020 is being developed by the Government in cooperation with the Company.

First Stage: Preparatory.

During the first stage, a legal and regulatory framework was developed and adopted, external control mechanisms were created, and non-core facilities, including housing, social and public utility enterprises and regulatory and administrative functions for railway transportation were separated and spun off. In October 2003, the Company was formed.

Second Stage: Corporate Build-up and Encouragement of Competition.

Between 2003 and 2005, the Russian railway industry continued to undergo liberalisation of various railway transportation market segments and related sectors. In the freight transportation market segment, the Government's adoption of the Tariff 10-01 resulted in a significant increase in the number of railcars owned by private operators. Between 2003 and 2005, private railcar operators' fleet increased by approximately 84,000 railcars.

The Group has also focused its efforts on improving efficiency and financial transparency. To this end, the Group began to separate some of its business activities into branches in preparation for further separation of certain branches into subsidiaries. As a result of these initiatives, branches and subsidiaries were established to operate various businesses of the Group, including railway repair and maintenance, private railcar operations, industrial production, research and development, construction and other non-core activities. This process continued into the third stage of the Reform Programme.

To improve its financial transparency, the Group established procedures for monitoring revenues and expenses by business sectors and started reporting them as "cargo", "passenger" and "other" segments in accordance with IFRS.

The Group's efforts during the first two stages of the Reform Programme resulted in an increase in volumes of freight transported by the Group and an improvement in the quality of transportation services provided in both passenger and freight transportation. In addition, private investment into the railway industry began to increase and railway safety began to improve.

Third Stage: Formation and Development of a Competitive Market.

Between 2006 and 2010, the Group continued the process of creating a competitive environment in passenger and freight railway transportation and encouraging private investment into modernisation of railway-related assets (including rolling stock, locomotives and infrastructure).

The Company continued to separate its business activities into subsidiaries. While implementing the Reform Programme, the Company established 85 subsidiaries and other affiliates in which it owned at least 20 per cent.

In 2006, the Company established TransContainer to operate the Group's growing container transportation and handling business. As at 30 June 2016, TransContainer was the largest rail container transportation company in Russia with a fleet of approximately 23.6 thousand platforms (owned or leased) and a market share of 43.7 per cent. in rail-based container transportation along the Company rail network. See "*—Business Operations—Freight—TransContainer*".

In 2007, the Company established Freight One as a wholly-owned subsidiary to operate a part of its freight railcar fleet. In 2011 and 2012, the Company divested its interest in Freight One to a private investor. In 2010, the Company established Federal Freight (prior to November 2012 known as Freight Two) and contributed most of its remaining freight railcar fleet to the share capital of Federal Freight, while retaining a small portion of the freight railcar fleet for its own use (which generally was not to be used for the provision of transportation services to third parties). As at 31 December 2016, Federal Freight was the second largest (after Freight One) rail-based freight transportation company in Russia with a fleet of approximately 156.5 thousand of freight railcars (approximately 83.4 thousand of which were owned and approximately 73.1 thousand leased by Federal Freight). See "*—Business Operations—Freight—Federal Freight*". The Company has also separated other non-core business activities such as research and development and construction into subsidiaries.

In order to develop passenger transportation services and reduce cross-subsidising thereof by freight rail operations, in 2009 the Company established Federal Passenger Company to operate the Group's long-haul passenger transportation business. In addition, the Company separated in 2009-2011 its suburban transportation business into subsidiaries and entities, in which the Company holds a minority stake.

During the third stage of the Reform Programme, private investment into the railway sector continued to grow. As at 31 December 2010, private operators' fleet of freight railcars was approximately 517,000 units (with the overall freight railcar fleet in Russia being approximately 1,017,000 units). At that time, both Freight One and Federal Freight (prior to November 2012 known as Freight Two) remained wholly owned subsidiaries of the Company.

The Company started to divest equity stakes in its subsidiaries. In 2008, the Company divested approximately a 15 per cent. equity stake in TransContainer to strategic and private equity investors. In 2009, the Company sold a 50 per cent. less two shares interest in JSC Roszheldorproject ("**Roszheldorproject**") to a private investor. In November 2010, the Company (together with a minority shareholder) sold a 35 per cent. less two shares equity stake in TransContainer through an IPO. In December 2010, BT Signalling B.V., a subsidiary of the Canadian company Bombardier, signed an agreement to purchase a 50 per cent. less two shares equity stake in the Company's subsidiary Elteza, a signalling equipment manufacturer, which was completed in July 2011.

Fourth Stage: the Target Model 2015 of Freight Railway Transportation Market.

The fourth stage of the Reform Programme, referred to as the Target Model 2015, began in 2011 and was completed by the end of 2015. During the fourth stage, the Group's key strategic objectives included completing the formation of a competitive market for the railway sector, minimising the cross-subsidising of passenger transportation with revenues from freight transportation and further enhancing the system of state regulation of the Russian railway transportation sector. These goals were partially achieved: as at 31 December 2015, the Group estimated that there were approximately 2,000 railcar owners and approximately 250 private operators, collectively owning approximately 1.15 million freight railcars. Upon completion of the fourth stage of the Reform Programme, the Company remained the sole owner and operator of its railway infrastructure network.

The Group's Key Initiatives in Forming a Competitive Market in the Railway Sector

The primary strategic goal of the fourth stage of the Reform Programme was to form a competitive market in freight railway transportation. The Group finalised the formation of the freight railcar operators' market during the fourth stage. To achieve this, in 2011, the Company divested a 75 per cent. minus two shares equity stake in Freight One to a private investor. The Company sold its remaining stake of 25 per cent. plus two shares to the same investor in December 2012. Between 2010 and 2012, the Company divested its remaining freight rolling stock (except for the rolling stock it requires to maintain and operate the rail system) into a newly established subsidiary, Federal Freight (formerly, Freight Two). The subsidiary currently operates most of the Group's fleet of commercial freight railcars, except for specialised non-commercial rolling stock retained by the Company for its own use. As at 31 December 2016, Federal Freight was the second largest (after Freight One) rail-based freight transportation company in Russia with a fleet of approximately 156.5 thousand of freight railcars (approximately 83.4 thousand of which were owned and approximately 73.1 thousand leased by Federal Freight).

Freight One, Federal Freight and other large rolling stock operators comprise the core of a competitive market for the operation of freight rolling stock: the share of privately-operated rolling stock in the Russian rail market (excluding Federal Freight and other subsidiaries of the Company) since 2012 and until the present represented on average approximately 80 per cent. of the total market. As at 31 December 2015, the fleet of freight railcars owned by private operators (excluding Federal Freight and other subsidiaries of the Company) and leasing companies was approximately 954.7 thousand railcars, which represented approximately 83 per cent. of the total market.

Reform of the Group's railcar repair and maintenance operations was another priority initiative of the fourth stage, which was completed in 2011. Its primary objective was to develop a competitive market for railcar repair services. In 2006, the Company established the Central Directorate of Railcar Repair (the "**CDRR**"). In 2008, to foster competition in railcar repairs, the Group began to divest the assets of the CDRR's 22 railcar repair depots across Russia. In 2011, using the remaining assets of the CDRR, three new subsidiaries (JSC Carriage Repair Company-1, JSC Carriage Repair Company-2 and JSC Carriage Repair Company-3) were established, each with assets across the railway network and with similar capacities. The Company's plan for the medium-term is to divest varying stakes in these subsidiaries. In 2017, the Group may divest a 100 per cent. equity stake in JSC Carriage Repair Company-3 (subject to market conditions and sufficient demand from potential buyers).

Another important initiative of the fourth stage was to continue divesting various Group's non-core business segments and stakes in associates, such as telecommunications, construction, railcar repair and other operations, including the regional suburban passenger transportation companies, Aeroexpress, banking business, locomotive manufacturing (Transmashholding) and other non-core businesses. Funds from the sales of these non-core businesses, together with other sources of funding, were used to fund the Group's investment programme.

Otherwise, the Company believes that the Government intends to remain the sole shareholder of the Company in the foreseeable future. According to the latest publicly available Government plans and results of the review of the Company privatisation plans by the Russian State Duma, any privatisation of the Company may be possible only after the Government resolves the issues of long term tariffs and sources of financing for unprofitable but strategically important national projects for the development of rail infrastructure. As the Government commonly uses share capital injections to provide necessary funding to the Company, any private investors would be at risk of being diluted if the Government proceeded with privatisation of the Company at this stage.

The Group's Key Initiatives in Passenger Transportation

In the Group's passenger transportation operations, one of the primary goals during the third and fourth stages of the Reform Programme were to minimise, and ultimately eliminate, the cross-subsidising of passenger transportation with revenues from freight transportation. Historically, the Group's long-haul and suburban passenger transportation business operated at a loss primarily due to the Government's regulation of tariffs for third- and fourth-class long-haul passenger transportation and regional authorities' regulation of tariffs for suburban passenger transportation. The Government and regional authorities provided subsidies to offset the effects of tariff regulation on the Group's long-haul and suburban passenger transportation operations, however, these subsidies were insufficient to fully compensate the Group. Hence, the Group has cross-subsidised passenger transportation with revenues from freight transportation.

To minimise the cross-subsidising of long-haul passenger transportation operations, in December 2009, the Company established Federal Passenger Company to operate the Group's long-haul passenger transportation business. Federal Passenger Company began operations in April 2010. In 2010, the Company transferred over 76,000 of its employees to Federal Passenger Company and contributed to the share capital of Federal Passenger Company assets with an estimated fair market value of approximately RUB 137.2 billion, including a fleet of approximately 24,700 railcars. Between 2012 and 2015, the Company contributed further assets to the share capital of Federal Passenger Company with an estimated value of approximately RUB 28.2 billion bringing the share capital of Federal Passenger Company, held by the Company, to approximately RUB 165.5 billion. Federal Passenger Company is a wholly-owned subsidiary of the Company, and as a result, its accounting and financial reporting were separated from those of the Company. This enabled Federal Passenger Company to demonstrate the effect of tariff regulation on its revenues and seek from the Government subsidies sufficient to fully compensate it for the effect of tariff regulation and thereby eliminate the need for cross-subsidising of the long-haul passenger transportation operations from other revenues of the Group. In addition, the establishment of Federal Passenger Company as a subsidiary was intended to improve the operating efficiency, corporate governance and financial transparency of the long-haul passenger operations.

To minimise the cross-subsidising of suburban passenger transportation operations, the Group's main focus has been on the separation of the suburban passenger transportation business into subsidiaries (or associates), regional suburban passenger transportation companies, which were created in partnership with local authorities. The ultimate goal of establishing the suburban passenger transportation companies was to engage regional authorities in the financing of the costs of suburban railway passenger transportation in the relevant regions. Regional authorities set tariffs for suburban passenger transportation within their respective regions, and if such tariffs are not sufficient to fully compensate the costs of providing such transportation services, the relevant authorities should directly subsidise the deficiencies from their respective regional budgets pursuant to the terms of the respective services agreements between the Russian regions and the Group's suburban transportation companies. In 2011, the Company completed establishing regional suburban passenger transportation companies. The formation of the last regional suburban transportation company completed the transfer of the Company's suburban passenger transportation business to subsidiaries of the Company or entities, in which the Company holds a minority stake.

Pursuant to Government Regulation No. 844 dated 17 October 2011, in order to make suburban transportation services more accessible to the public, the Government established the lowest possible infrastructure access tariff payable by the relevant suburban transportation companies in accordance with transportation agreements with the Company and compensates the Company for revenue losses arising as a result of the government regulation of infrastructure access tariff with respect to suburban passenger transportation. Previously, this mechanism was replicated each year by separate Government regulations, however, pursuant to Government Regulation No. 703 dated 21 July 2016, the respective regulatory treatment shall apply up until the end of 2030.

Regional authorities are expected, as per Government Regulation No. 857 dated 19 May 2014, to enter into services agreements with the respective suburban passenger transportation companies operating in their designated regions. The suburban transportation services are provided at regulated fares set by regional authorities, and the regional authorities are expected to compensate the suburban rail companies for the negative effects of such regulation, pursuant to the terms of agreements entered into by regional authorities and suburban passenger transportation companies. Although all suburban passenger transportation companies entered into such agreements with respective regional authorities, due to various factors, regional authorities do not always fully compensate these companies for the negative effects of tariff regulation and as a result the Group (to the extent it controls these companies) continues to rely on the subsidies from the Government to cover the relevant deficiencies.

The Group contemplates a divestment of some of its regional suburban passenger transportation operations in the future. For example, in January 2013 the Company completed the sale of a 25 per cent. less three shares equity stake in Central Suburban Passenger Company. As at 31 December 2016, Central Suburban Passenger Company remained an associate of the Group, with the Company retaining 25 per cent. plus one share in it with a plan to sell its remaining stake in full. Any further divestment of the Group's stakes in suburban passenger transportation companies largely depends on demand in such assets the private sector. See "*Operating and Financial Review—Recent Developments and Outlook—Auctions and/or Disposals Planned for 2017*".

The Group's Key Initiatives in Regulation of Railway Transportation

The fourth stage of the Reform Programme also resulted in further development of tariff regulation (primarily in freight and suburban passenger transportation) and regulation of other aspects of railway transportation sector. In 2013, the Government adopted a new approach to setting tariffs for freight transportation. The general approach was to use the CPI level of a preceding year as the benchmark for tariff indexation for the coming year. In practice, however, other factors have also been taken into consideration in annual tariff indexation, which resulted in freight tariff indexation from time-to-time differing from the level of CPI. In suburban passenger transportation, the Government adopted a new tariffs setting methodology for suburban passenger transportation, pursuant to which, tariffs set by regional authorities must be at economically justifiable levels (that is, sufficient to cover the Group's expenditures in provision of the relevant services). If tariffs are set below an economically justifiable level, the regional authority is required to reimburse the suburban passenger transportation company for the effects of tariff regulation.

In 2011, as part of establishing a unified economic zone with Belarus and Kazakhstan, Russia ratified an agreement with Belarus and Kazakhstan setting out rules regulating tariffs for the rail transportation services. These rules regulate matters such as the compensation of economically justifiable expenses, development of infrastructure and tariff transparency. The agreement provided for the unification of tariffs between these countries by 1 January 2013, across export, import and domestic freight tariffs. Beginning from 1 January 2015, each of Russia, Belarus and Kazakhstan must provide access to its railway infrastructure to the transportation companies of each respective country.

In 2012, Russia joined the WTO. As a result, the Government took measures to establish a unified approach to setting tariffs for all types of destinations (excluding transit). In addition, export or import transportation tariffs became equal to the domestic freight transportation tariffs. In addition, domestic tariffs and tariffs for transportation to Russian sea ports also became equal to tariffs for rail transportation via a land border.

THE RAIL SYSTEM

The Group owns and operates Russia's integrated national passenger and freight railway network, including virtually all related bridges, tunnels, buildings, yard facilities, rail terminals and signalling equipment. As at 31 December 2015, the rail system had an operational length of approximately 85,300 kilometres and a total track miles length of approximately 124,400 kilometres, including tracks in stations and parallel tracks of route stations.

The rail system covered most of Russia, with approximately 84,800 kilometres in Russia and approximately 500 kilometres cross national borders into Kazakhstan and Ukraine, as at 31 December 2015. The rail system connects the majority of Russia's regions, offers service to most major cities and covers most of the European part of Russia. In the Asian part of Russia (being the territory east of the Urals) there are two main railway lines, the Trans-Siberian and Baikal-Amur, which connect the South Siberian and Far East regions with the European part of Russia. The rail system is currently connected to the rail networks of 12 neighbouring countries, as well as to the major Russian seaports and container terminals on the Black Sea, Baltic Sea, Barents Sea, Caspian Sea and Pacific Ocean.

The following map gives an overview of the reach of the rail system:

Network Specifications

Of the total operational length of approximately 85,300 kilometres of track within the rail system as at 31 December 2015, over 84,400 kilometres have a broad gauge of 1,520 millimetres (which is used throughout Russia, other CIS states and Mongolia and is similar to that used in Finland). On the Sakhalin Section of Far Eastern Railway, approximately 800 kilometres of operational length had a narrow gauge of 1,067 millimetres.

The standard gauge used throughout most of Europe and Asia is 1,435 millimetres. The rail system had approximately 29,700 railway bridges and 156 railway tunnels as at 31 December 2015.

As at 31 December 2015, approximately 44 per cent. of the rail system was double track or multi-track, principally in the higher density regions of the European part of Russia. The rail system has the world's longest electrified railway. As at 31 December 2015, approximately 43,350 kilometres (or approximately 51 per cent. of the rail system) was electrified track, with electricity being purchased from electricity supply companies.

The Group has sought to increase the strength and stability of track infrastructure to increase transportation speed and potential load by increasing the percentage of heavy and thermally reinforced rails that are used in the rail system and replacing wooden sleepers with concrete ones. As at 31 December 2015, approximately 93 per cent. of the rail system was composed of thermally reinforced rail, and approximately 79 per cent. of the rail system's sleepers were ferro-concrete. The length of continuous welded rail was 73 per cent. In addition, the Group reconstructed and repaired approximately 5,021 kilometres of track in 2015, approximately 6,300 kilometres in 2014 and approximately 10,000 kilometres in 2013.

While the Group owns all railway and rail-related infrastructure, it leases from the Russian Federation the majority of the land on which rail tracks run, as well as the land on which railway stations and other infrastructure facilities are located. Under Russian law, ownership of this land must remain with the Russian Federation. See "*Regulation of Railway Transportation in Russia Applicable Legislation*". The Government has approved the terms for the lease of land to the Group, which provides, among other things, for a 49-year term and that the Group has the right to sublease the land without consent from the Government.

Rail System-Related Infrastructure

In addition to the rail system, the Group also owns all of the rail stations, terminals, signals and other technology and property on its infrastructure network of common use that is necessary to provide operational and logistical support for freight and passenger transportation services.

In 2014, as a part of internal restructuring of its operations, the Company established the Railroad Transportation and Infrastructure division, which is responsible for maintenance of the Group's railway infrastructure and related assets (including locomotives), as well as overall coordination between different divisions involved in this process.

Regional Railways

As at 31 December 2016, the rail system was effectively separated into 16 railways from the Kaliningrad region in the west to the Far East region in the east. Each regional railway manages the administrative and technical activity of local branches and other departments of the Company and other members of the Group in the relevant geographic area.

The table below sets forth the principal operating data for the Group's four major (in terms of freight turnover) regional railways for the year ended 31 December 2016:

Railway	Operating Length	Principal Hubs	Turnover		Average Number of employees	Average daily number of railcars operated
	('000 km)		Freight, incl. empty run (billion tonne-km)	Passenger (billion passenger-km)	('000)	('000)
West-Siberia	5.6	Novosibirsk	334.3	6.2	58.9	89.2
Zabaykalsk	3.3	Chita	328.0	2.0	44.8	41.9
Sverdlovsk	7.2	Yekaterinburg	263.1	9.8	59.7	93.4
Far-Eastern	6.9	Khabarovsk	251.5	2.4	52.7	62.9

These four regional railways accounted for approximately 39 per cent. of the total freight turnover (including empty runs) and approximately 16 per cent. of the total passenger turnover for the year ended 31 December 2016. The other regional railways include: Kaliningrad Railways, South-Eastern Railways, Northern Railways, Gorky Railways, Kuibishev Railways, Privolzhsk Railways, South Urals Railways, Krasnoyarsk Railways, Eastern Siberian Railways, Oktyabrsk Railways, North-Caucasus Railways and Moscow Railways.

TARIFF REGULATION AND PRICING

Prices that the Company charges for the use of its infrastructure, locomotive traction services, freight transportation using Company-owned or leased railcars, as well as third- and fourth-class long-haul passenger service provided by Federal Passenger Company and suburban passenger transportation services are tariff regulated. Freight transportation services provided by private railcar operators (including the Company's subsidiaries), as well as deluxe-, first- and second-class long-haul passenger transportation services provided by Federal Passenger Company and other private passenger railway operators are not subject to tariff regulation. See "—*Passenger Tariffs*".

The FAS sets (and, prior to September 2015, the FTS set), the Company's tariffs for freight transportation (other than freight in transit through Russia) and the Federal Passenger Company's tariffs for certain classes of long-haul passenger transportation. Tariffs for suburban passenger transportation are set by regional authorities. Tariffs for freight in transit through Russia are agreed annually between the interested states and are fixed in international agreements. The Ministry of Transport represents Russia in the negotiations. Tariffs are subject to annual, and occasionally supplemental, indexation.

Tariff Indexation

In regulating tariffs through tariff indexation, the Government's main priority is to ensure that tariffs are sufficient to enable the Group to generate necessary financial resources required for sustainable and effective operation of the Group and the rail system, while also minimising the adverse effect of tariff growth on the users of the rail system. Previously, when tariffs were set below the level required to cover the Group's expenditures in provision of the relevant services, the Government typically provided additional financial resources to the Group to compensate a substantial portion of the difference between the actual tariffs set and the tariffs sufficient to cover the Group's expenditures in provision of the relevant services. For example, to stimulate economic growth, the Government resolved to freeze freight tariffs in 2014, but provided a grant for capital repairs of RUB 56.0 billion in 2014, which was utilised in 2014 and 2015. According to the Company's estimates, tariff indexation approved in respect of 2016 and 2017, in conjunction with the effect of cost-optimisation measures implemented by the Company, allows it to generate sufficient revenues to cover its operating costs. As a result, no additional support for the freight segment on the operational level was requested by the Company for 2016 and 2017. See "*Risk Factors—Risks Relating to the Group—The Company is Controlled by the Government which May Cause it to Engage in Business Practices that May be in Conflict with its Commercial Interests and the Interests of Noteholders*". The Group expects that in the future, if tariff indexation was not sufficient, the Government would continue to provide subsidies or otherwise support the Group to ensure that the Group has necessary financial resources required for sustainable and effective operation of the Group and the rail system.

The process of annual tariff indexation and the development of the Company's budget is complex and involves the cooperation of the Company and a number of government agencies. Each year, the Company, in consultation with the Ministry of Transport, develops a draft of the Group's investment programme and financial plan for the upcoming year and, depending on the budgeting process, then in force, for a number of following years. The draft takes into consideration such factors as forecasts of Russia's macroeconomic indicators, tariff indexation, the Group's infrastructure development plans, capital repairs projections, interest payments on its debt and budgeted subsidies, among other factors. Throughout the year, the Company tracks factors that influence the investment programme and financial plan and makes adjustments, if necessary. In the first half of the year, the Ministry of Economic Development prepares its macroeconomic forecast, with key indicators, such as forecasted GDP, level of CPI and exchange rates, among other measures. Based on the forecast, in the second half of the year, the Company, in cooperation with the relevant Government authorities, including the Ministry of Economic Development, the Ministry of Transport, the Ministry of Finance and the FAS, prepares an adjusted budget for the then current year, and a draft budget for the following years. The budget contains the Company's proposals relating to its investment programme, tariff indexation and subsidies, among other things. In the fourth quarter, the budget is reviewed by the Board of Directors and submitted to approval by the Government and, following the receipt of such Government approval, it is finally approved by the Board of Directors. Simultaneously, the FAS issues its decrees, setting the regulated tariffs, wherein tariffs for the next year are fixed while for the coming years are subject to further adjustments. Finally, the Government approves the federal budget, including measures of state support (subsidies and capital injections) to be provided to the Group to compensate it for the effects of tariff regulation.

Freight Tariffs

Tariff Setting Process

The Government has not been following any strict methodology in determining freight tariffs during the last several years. Instead, the general approach adopted by the Government has been to use the CPI level of a preceding year as the main benchmark for tariff indexation for the coming year. However, other factors have also been taken into consideration in annual tariff indexation, including the amount of subsidies required to offset negative consequences of tariff regulation and general market conditions, which resulted in freight tariff indexation from time-to-time differing from the level of CPI. See "*—Freight Tariffs—Historical Indexation of Freight Tariffs*".

Where tariff indexation was insufficient to cover the Group's expenditures in provision of the freight transportation services, the Government used other tools available to it to compensate the Group for the effects of such tariff regulation. In 2014, for example, the freight tariffs were frozen at the level of the preceding year, but the Government provided a grant to the Group in the amount of RUB 56.0 billion, which was utilised for capital repairs over the period between 2014 and 2015. According to the Company's estimates, tariff indexation approved in respect of 2016 and 2017, in conjunction with the effect of cost-optimisation measures implemented by the Company, allows it to generate sufficient revenues to cover its operating costs. As a result, no additional support for the freight segment on the operational level was requested by the Company for 2016 and 2017.

The Government has been considering alternatives, which would allow to determine the freight tariff for an extended period of time and provide for a predictable regulation of tariff indexation for the benefit of both the Company and its customers. In particular, in 2013, the FTS approved the RAB-Based Tariff methodology. This methodology provided for rail freight tariffs to be set for a period of five years. The tariff was intended to cover the costs of transportation and a predetermined profit margin, as well as to provide the Company with funds for the renovation of rail infrastructure in the form of a depreciation allowance and a predetermined profit margin based on a required level of return on capital. The adopted tariff methodology was meant to help the Group to make long term plans in respect of its investment strategy, forecasted revenues and expenses. However, as RAB-Based Tariff methodology was approved as a recommendation only and in light of the economic slowdown in Russia, it has not been implemented in practice to date. The Company does not exclude that following the stabilisation of macroeconomic situation, the Government will consider using the approved RAB-Based Tariff methodology to set tariffs for regulated Company services.

Tariff Components

Generally, the total cost of freight transportation payable by a shipper consists of the following components: a charge for the use of the rail infrastructure and locomotive traction services and a charge for the use of a railcar. The charges for the use of the rail infrastructure and locomotive traction services represent a larger portion of the total cost of freight transportation (the total charges payable by the freight owner), with the railcar component representing the remaining portion, which is estimated at approximately 15 per cent. of the total cost, based on Tariff 10-01 prices for freight transportation that the Company would have charged to carry the freight in its own rolling stock. In practice, a proportion of a railcar component in the total cost may be considerably higher or lower since private rail operators are free to set prices for the provision of freight railcars and are driven by the competitive environment and market rates, rather than regulated tariffs. A customer may use a railcar from a Company's subsidiary, such as Federal Freight or TransContainer or from a privately-controlled operator, such as Freight One or Globaltrans. Charges for the use of railcars operated by a Company's subsidiary or private operator are not regulated.

Domestic Freight

Tariffs for domestic freight transportation services provided by the Company by rail are set out in Tariff 10-01. The Tariff 10-01 is determined based on the class of freight, its weight, type of rolling stock used, distance to be transported and destination (domestic or international). The Government reviews Tariff 10-01 annually and revises it as necessary.

Tariffs for railcars standing idle on the rail track of common use are set by the Company, as the Company does not have a monopoly in providing this service and operators have a number of options of where to keep their idle railcars.

Determining the Tariff—Transportation in the Company's Rolling Stock

The Company's tariff for transporting freight (in domestic transportation or through Russian ports) is determined by the class of freight, distance transported and destination.

Class of Freight

The Government classified all freight transported on the rail system is into three classes: Class 1, Class 2 and Class 3. Generally, the lower tariff rate applies to the transportation of Class 1 freight. The table below sets forth some examples of goods allocated to each class:

Class 1 (low margin)	Class 2 (average margin)	Class 3 (higher margin)
Mineral coal	Crude oil and refined products	Ferrous and non-ferrous metals and scrap
Coking coal	Chemical and mineral fertilizers	Acids and oxides
Mineral and construction materials	Containerised freight	Machinery and equipment (except agricultural)
Cement	Grains and mill products	Vehicles and parts
Wood	Prefabricated structures	Chemicals
Iron and manganese ore	Cast iron	Paper

Tariffs for Class 2 freight are used as a baseline for determining the tariffs for Class 1 and Class 3 freight. The tariffs for Class 1 freight are set at 55 to 75 per cent. of Class 2 freight. The tariffs for Class 3 freight are set at 154 to 174 per cent. of Class 2 freight. As a result, it would cost more to transport one tonne of scrap metal for a distance of one kilometre than one tonne of coal for the same distance. Because the Company is required to provide its freight transportation services at regulated prices and on a non-discriminatory basis, it may not refuse to transport Class 1 freight, even if transportation of such freight would result in a net loss.

Destination

Initially, the destination point plays an important role in setting the applicable tariff. Pursuant to Government policies designed to increase the use of Russian sea ports and encourage domestic consumption of Russian-produced goods, internal tariffs and tariffs for transportation to Russian sea ports were considerably lower than tariffs for rail transportation via a land border crossing. However, this difference had been gradually decreasing as Russia has become a member of the WTO and establishment of the unified economic zone with Belarus and Kazakhstan, which disallow this type of preferential treatment. See "—*International Freight*". As a result, the Government has taken measures to establish a unified approach to setting tariffs for all types of destinations (excluding transit), which were completed in 2012.

Distance

Once the tariff class of freight and its weight, Tariff 10-01 specifies a charge that varies according to cargo transportation distance.

Tariff Spread

In 2013, the FTS (the federal agency responsible for setting tariffs at the time) approved additional freight tariff rules, in accordance with which the Company has the right to use a so-called "tariff spread", allowing it to change the tariffs within certain limits in order to follow market dynamics. The initially approved "tariff spread" allowed the Company to reduce tariffs by up to 12.8 per cent. (for example, to attract more customers and compete more effectively with other means of transportation) or increase up to 13.4 per cent., in each case as compared with the base rate, fixed by Government regulations. In 2014, the Government applied such tariff spread rules to tariffs for transportation of oil products allowing the Company to increase such tariffs by 13.4 per cent. In 2015, a similar tariff increase was applied to all export freight (except for coal) and it remained in effect in 2016. In addition, in 2016, to stimulate the national economy, the Government allowed the Group to expand the tariff spread by providing discounted tariffs (by up to 25 per cent. below the relevant freight tariff level compared with the base tariff rate) on most types of cargo subject to certain conditions, such as, for example, available throughput capacity on a particular route. In December 2016, the Government resolved to further adjust the tariff spread, pursuant to which the maximum discount from the base tariff was increased to 50 per cent. and the upper ceiling for an increase from base tariff was decreased to 10 per cent. The use of the tariff spread allows the Group to attract additional customers by offering discounts as well as increase the Group's efficiency (for example, when the Group offers discounted tariffs and thereby earns revenues on runs that could otherwise be empty runs). Although tariff spread is applicable to both domestic and export freight transportation, to date, it has been mainly applied to export-related freight transportation (such as for export of coal and crude oil).

Determining the Tariff—Transportation in Private Railcar Operators' Rolling Stock

Private railcar operators (including the Company's subsidiaries, such as Federal Freight) pay the Company for the use of the rail infrastructure and locomotive traction services. As the Company is a natural monopoly with respect to providing access to infrastructure and locomotive traction services, charges for these services are tariff regulated so as to ensure equal cost of access for all market participants. The infrastructure and locomotive traction services represent approximately 85 per cent. of the total charge for freight transportation that the Company would have charged to carry the freight in its own rolling stock based on the Tariff 10-01. The actual proportion may be higher or lower depending on the type of freight and prices set by private rolling stock operators for the use of their railcars.

In the unregulated competitive market for domestic freight transportation, private railcar operators which do not have a status of a natural monopoly (including the Company's subsidiaries) are free to set their own prices for the railcar component of freight transportation costs. These prices are effectively charged for the use of their railcars, while infrastructure and locomotive charges that are fixed by tariffs and paid to the Company either directly by the shippers or on their behalf by private railcar operators. For the purposes of the Government's tariff policy, Federal Freight is considered to be a private railcar operator, and hence, sets prices according to its pricing policy based on the competitive environment and its own operating costs (including charges paid to the Company). See "*—Business Operations—Freight—Federal Freight*". Similarly, TransContainer is able to set prices for its services at market rates. See "*—Business Operations—Freight—TransContainer*".

Historical Indexation of Freight Tariffs

The following table sets forth the average annual indexation set by the FAS (or prior to September 2015, the FTS) compared with the previous year, together with a comparison to the Russian CPI:

	Year ended 31 December								
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
	(%-change to previous year)								
Average annual indexation....	12.4	12.4	8.0	6.0	7.0	0.0	10.0	9.0	6.0
Average CPI(1)	11.7	6.9	8.5	5.1	6.8	7.8	15.5	7.0	4.7(2)

Notes:

(1) Average CPI is calculated differently from the official inflation rates published by Rosstat; it is based on an average year-on-year increase in prices, while inflation shows an overall increase in prices over the year, comparing the data as at 31 December of the year to 31 December of the previous year. The Company believes that the comparison of annual indexation to annual CPI is more appropriate for the purposes of the above table.

(2) Forecast of the Ministry of Economic Development (as at November 2016).

In 2014, the Government did not increase tariffs in order to stimulate the national economy. In 2015, the Government increased tariffs by 10 per cent., in excess of the CPI of the prior year, which was intended to compensate the Group for freezing tariff indexation in 2014. In 2016, the approved tariff indexation was 9 per cent., applying to all regulated tariffs from 1 January 2016. For 2017, tariff indexation was approved at 6 per cent., which includes a basic indexation of 4 per. cent and an additional indexation of 2 per cent. to support the Company's capital repairs programme in 2017.

International Freight

International freight tariffs are generally set according to inter-governmental and interagency agreements, and vary depending on the countries involved. Tariffs for freight transportation in transit through Russia are set in accordance with the Tariff Policy of the Railways of the Member States of the CIS (the "**TP CIS**") based on the International Transit Tariffs (the "**ITT**") and Uniform Transit Tariff (the "**UTT**") regulated by the tariff agreement dated 17 February 1993 (the "**Tariff Agreement**"). These tariffs are approved annually at the tariff conference of the railway administrations of the CIS states that are parties to the Tariff Agreement.

Prior to 2011, the tariffs for freight transit shipments differed depending on the type of transportation. Tariffs for freight transit shipments through Russia to and from country members of the Tariff Agreement, to and from third-party countries or between the railway stations owned by participants to the Tariff Agreement were regulated by section 3 of the TP CIS, based on the ITT tariff rates, while freight transit shipments through Russia from countries whose railways companies are not parties to the Tariff Agreement were regulated by section 2 of the TP CIS. In 2011, a unified approach for the calculation of tariffs for these two types of transportation was adopted and the tariffs for freight transit shipments for both types are now calculated pursuant to section 3 of the TP CIS. The transportation costs for freight in transit through Russia are payable either by shippers or receivers, and they may also process payments through an agent which has entered into an agreement with the Company.

In July 2011, a unified economic zone between Russia, Belarus and Kazakhstan was established and Russia ratified an agreement with Belarus and Kazakhstan setting out rules regulating tariffs for the rail transportation services in these countries. These rules regulate matters such as the compensation of economically justifiable expenses, development of infrastructure and tariff transparency. The agreement provided for the unification of tariffs between these countries by 1 January 2013, across export, import and domestic freight tariffs. Under these rules, from 1 January 2013, rail transportation organisations are entitled, based on economic feasibility, to change the tariffs for rail transportation services within certain limits determined by the relevant state authority.

In addition, starting from 1 January 2015, each of Russia, Belarus and Kazakhstan must provide access to its railway infrastructure to the transportation companies of each respective country.

In 2012, Russia joined the WTO. As a requirement for the entry into the WTO, Russia has taken measures to establish a unified approach to setting tariffs for all types of destinations (excluding transit), which was completed in 2012. Tariffs on export and import transportation were set at the same level as domestic freight transportation tariffs.

Passenger Tariffs

Tariff policy for domestic passenger transportation services is largely influenced by social priorities. The Government regulates tariffs for third- and fourth-class long-haul, while deluxe-, first- and second-class long-haul passenger transportation is unregulated and subject to market pricing. Tariffs for suburban passenger transportation are regulated by regional authorities. International tariffs are set according to inter-governmental and interagency agreements, and vary according to the countries involved. In passenger transportation tariff indexation, the Government is influenced by social considerations (such as facilitating affordable and reliable long-distance and suburban passenger transportation), which from time-to-time resulted in setting tariffs that were insufficient to cover the Group’s expenditures in provision of the relevant services.

Long-Haul Passenger Service

Tariffs for third- and fourth-class long-haul passenger and baggage transportation as well as a number of other related services are set by the FAS (prior to September 2015, by the FTS) following annual negotiations between the Group and the Government. Tariff levels depend on the class of service, distance, direction and destination point of travel. Tariffs are subject to annual indexation. The FAS sets long-haul passenger transportation tariffs based on the Company’s forecasts of traffic using a methodology that takes into account the Government’s social priorities, including incentivising social mobility across the country and providing free or deeply discounted travel to certain categories of passengers, including pensioners, veterans and the disabled. If tariffs are set below the economically justifiable tariff level (being the tariffs determined by the FAS as “economically justifiable tariffs”, intended to cover the costs of passenger transportation and to earn a predetermined profit margin), the Government typically provides subsidies to cover a substantial portion of the difference in economically justifiable tariffs to actual tariffs. The economically justifiable tariff levels are determined by the FAS on an annual basis.

Classes of Long-Haul Passenger Service

The Group offers different classes of long-haul passenger services, with each class being served using a designated type of a railcar. Deluxe-class railcars have four to six enclosed compartments with sleeping facilities for two adult passengers and a lavatory with a shower cabin. First-class railcars have nine enclosed compartments with sleeping facilities for two passengers. Second-class railcars have nine enclosed compartments with sleeping facilities for four passengers. Third-class railcars have nine sections with open sleeping facilities for six passengers. Fourth-class railcars have nine sections and no sleeping facilities. In addition, the Group offers express passenger transportation services, including high-speed “Sapsan”, “Allegro” and “Lastochka” trains, which carried approximately 7.7 million passengers, or 7.8 per cent., of 97.9 million passengers carried in the long-haul segment in 2015, and 9.2 million passengers, or 9.0 per cent., of 101.4 million passengers carried in the long-haul segment in 2016.

The Group offers passengers seasonal discounts and reduced fares to certain types of passengers. Prior to the summer holiday season, the Group offers passengers reduced rates for advance ticket purchases and discounts for certain popular routes. Discounted fares are also available to the elderly and students, among others. In 2014, approximately 64.8 per cent. of the Group’s long-haul passengers (by passenger-kilometres) travelled on third- and fourth-class tickets, while approximately 35.2 per cent. of the Group’s long-haul passengers (by passenger-kilometres) travelled on deluxe-, first- and second-class tickets, and high-speed trains. In 2015, approximately 67.6 per cent. of the Group’s long-haul passengers (by passenger-kilometres) travelled on third- and fourth-class fares, while approximately 32.4 per cent. of the Group’s long-haul passengers (by passenger-kilometres) travelled on deluxe-, first-and second-class tickets, and high-speed trains. In 2016, approximately 71.8 per cent. of the Group’s long-haul passengers (by passenger-kilometres) travelled on third- and fourth-class fares, while approximately 28.2 per cent. of the Group’s long-haul passengers (by passenger-kilometres) travelled on deluxe-, first- and second-class tickets, and high-speed trains.

Regulated Tariffs for Long-Haul Passenger Service

The annual indexation of passenger tariffs for long-haul passenger service in third- and fourth-class was 4.0 per cent. in 2016, 10 per cent. in 2015 and 4 per cent. in 2014 applied from 1 January of each respective year. In addition, in 2016, there was a further increase of tariffs for long-haul passenger service in third- and fourth-classes by 7 per cent. applied from 1 March 2016. The Government approved indexation of 3.9 per cent. for 2017. The Group's revenues from third- and fourth-class long-haul passenger and baggage services are generally not sufficient to cover the costs of these services. Historically, the Company has cross-subsidised the operating losses from transportation passenger services with profits from freight transportation. When long-haul passenger operations were first segregated and then transferred to Federal Passenger Company, the Government started to reimburse Federal Passenger Company for the losses incurred due to the difference between economically justifiable tariffs and actual tariffs for third- and fourth-class long-haul passenger transportation. This reimbursement is budgeted annually by the Government and is generally based on projected losses of revenue as a result of the relevant tariff regulation. However, in practice the state subsidies have not always been sufficient to fully compensate the Group for respective losses as the actual loss of revenue resulting from the tariff regulation is usually higher than the amount of subsidy received from the Government. In 2016, reimbursements covered approximately 93 per cent. of lost revenue. In 2014 and 2015, the Government fully reimbursed the Company for lost revenues, however, in 2013 reimbursements covered approximately 95 per cent., in 2012 approximately 80 per cent. and in 2011 approximately 77.0 per cent. of lost revenue for providing the relevant for passenger third- and fourth-class long-haul services.

The VAT on long-haul passenger and luggage transportation services was decreased from 18 per cent. in 2015 to 10 per cent. for 2016. As a result of this change, the Group estimates that in 2016 the indexation of net-of-VAT part of the tariff was approximately 11.5 per cent. while tariff for end customers increased effectively by 4 per cent. In 2016, the Government decreased the VAT rate on long-haul passenger and luggage transportation services to 0 per cent. applicable from 1 January 2017 until 31 December 2029. The respective indexation of the net-of-VAT part of tariff in 2017 was set at 14.3 per cent., with the effective increase of tariff for end customers of 3.9 per cent. The Government expects the Group to allocate additional funds saved as a result of the respective changes in applicable VAT rate for its investment programme including the acquisition of passenger rolling stock.

Deluxe-, First- and Second-Class Long-Haul Passenger Service

For its deluxe-, first- and second-class long-haul passenger service, Federal Passenger Company is able to set its own pricing policy and is subject to competitive market pressures. Federal Passenger Company sets deluxe-, first- and second-class passenger fares at a level designed to attract passengers from third- and fourth-classes as well as to attract those who currently prefer air and car travel. Federal Passenger Company raised prices for its deluxe-, first- and second-class long-haul passenger service by 5.0 per cent. in each of 2015, 2016 and 2017. In 2014, the prices were raised from 1 September 2014 by 5.0 per cent. only for second-class service. In 2013, the prices were raised by 5.0 per cent. for deluxe and second-class service.

International Passenger Service

International passenger tariffs are governed in a manner similar to international freight tariffs. The Group, as the Government's representative, and representatives of the CIS, non-CIS European and Asian countries meet annually to determine the tariffs payable to the Group to provide international passenger service, connections or use of the Group's locomotives, rolling stock and infrastructure in Russia. Historically, international passenger tariffs have been higher than domestic tariffs and have been subject to a semi-annual review.

The cost of a fare on an international route is calculated by adding the cost of a journey through each state on the way to a final destination plus a surcharge equal to the cost of third-class long-haul transportation of the passenger through Russia.

International ticket prices for long-haul passenger service to or through the following countries and regions are calculated as follows:

- *travel in the CIS and the Baltic States* is regulated by the Agreement On International Passenger Tariffs, with ticket prices calculated in Swiss Francs;
- *travel in Western Europe* is regulated by East-West Tariffs Agreement, with ticket prices calculated in Euros;
- *travel in China, Mongolia and Korea* is regulated by the Agreement On International Passenger Tariffs, with fares calculated in Swiss Francs;
- *travel in Finland* is regulated by the Conditions for Passenger, Baggage, Freight Baggage and Freight Transportation on the Russian-Finnish Direct Railway Line, with ticket prices calculated in Euros.

The daily exchange rate announced by the CBR is used to calculate international fares in local currency when issuing travel and freight documents.

Suburban Passenger Service

Suburban passenger transportation services (except for certain express and other designated trains) are subject to tariff regulation by regional authorities, although regional authorities have not always been consistent in setting their tariff policies. Historically, regional authorities set tariffs below the costs of providing suburban transportation. To cover the shortfalls, the Group relied on subsidies from the Government and cross-subsidies from revenues generated by freight transportation. Also, the Government encouraged regional authorities to reimburse the Group for the negative effects of tariff regulation. In practice, however, only half of the regions fully reimburse the Group for losses incurred from tariff regulated service.

In 2011, the Company established regional suburban passenger companies. Currently, 25 regional suburban passenger transportation companies provide services across Russia in their respective regions. The Company holds majority stakes in 19 of the 25 suburban passenger transportation companies. The Group intends to divest these companies in the future, subject to potential interest of private investors and the development of tariff regulation framework in the segment. See "*—History and Corporate Structure of the Group and the Reform Programme—Reform Programme—Fourth Stage: the Target Model of Freight Railway Transportation Market 2015—The Group's Key Initiatives in the Passenger Transportation*".

The Group has attempted to formalise the suburban passenger tariff and fare structure with regional authorities by actively requesting detailed regulation. In 2010, the Government adopted a new methodology for setting tariffs for suburban passenger transportation. Pursuant to this tariff setting methodology, tariffs must be set at an economically justifiable level. If tariffs are set below the economically justifiable level, the regional authority is required to reimburse suburban rail companies for the negative effects of tariff regulation. To formalise this approach, suburban passenger transportation companies entered into agreements with the relevant regional authorities to provide suburban transportation services in the relevant region. Pursuant to the terms of these agreements, regional authorities are obliged to compensate fully the suburban passenger transportation companies for lost revenues resulting from tariff regulation.

In the last several years respective regional authorities entered into the necessary agreements with each of suburban passenger transportation companies. However, some regions do not have necessary funds required to cover the Group's losses from suburban rail operations, while other regions challenged economically justifiable tariffs calculated by suburban passenger transportation companies, and therefore suburban passenger transportation companies did not receive full compensation for their services (for example, in 2016 reimbursement of the respective losses of suburban passenger transportation companies in the aggregate was approximately 84 per cent., and in 2011 through 2015, suburban passenger transportation companies were also not reimbursed in full).

In addition, the federal Government regulates the infrastructure access tariff for suburban transportation. In 2011, the Government established the lowest possible infrastructure access tariff payable by the relevant suburban transportation companies in accordance with transportation agreements with the Company and agreed to compensate the Company for the revenue losses arising as a result of the government regulation of infrastructure access with respect to suburban passenger transportation. Currently, the respective regulatory treatment has been approved up until the end of 2030. As the subsidies for the period between 2011 and 2014 were insufficient to fully compensate the Group for the effects of tariff regulation, in 2015, the Company entered into an arrangement with the Federal Agency for Railway Transportation pursuant to which the Government shall repay, across a 10-year period, the remaining (not covered by the subsidies) losses for the respective period. Pursuant to the arrangement, the Company received additional compensation of RUB 0.1 billion in 2015 and RUB 0.1 billion in 2016. In 2015, the Group's losses due to the effects of infrastructure access regulation in respect of suburban transportation were fully covered by the subsidies from the federal Government. In 2016, the approved and received subsidies covered 93 per cent. of respective losses. The Group furnished the respective authorities with an official request to reimburse the remaining portion of its losses. See "*—History and Corporate Structure of the Group and the Reform Programme—Reform Programme—Fourth Stage: the Target Model of Freight Railway Transportation Market 2015—The Group's Key Initiatives in Passenger Transportation*".

GOVERNMENT SUPPORT OF THE GROUP

Subsidies

The Group depends on subsidies to compensate it for the effects of tariff regulation. Subsidies are provided from federal and regional budgets in the form of subsidies or grants designated for a particular purpose (such as compensation of long-haul and suburban passenger transportation or for maintenance and repairs of the railway infrastructure).

In 2013, the Government provided subsidies in the aggregate amount of RUB 50.0 billion, which included primarily a subsidy of RUB 23.3 billion to cover the effects of tariff regulation on long-haul passenger transportation and a subsidy of RUB 21.2 billion to partially compensate the Company for the lost revenues due to tariff regulation of suburban passenger transportation.

In 2014, the Government provided subsidies in the total amount of RUB 106.7 billion, including government grants for capital repairs of railway infrastructure of RUB 56.0 billion, almost fully utilised in 2014 and 2015, a subsidy of RUB 23.3 billion to cover the effects of tariff regulation on long-haul passenger transportation and a subsidy of RUB 20.7 billion to compensate the Group for the effects of tariff regulation of infrastructure access services for suburban passenger transportation.

In 2015, the Government provided subsidies in the total amount of RUB 62.6 billion. This included a subsidy of RUB 24.7 billion to cover the effects of tariff regulation on long-haul passenger transportation, a subsidy of RUB 27.8 billion to compensate the Group for the effects of tariff regulation of infrastructure access services for suburban passenger transportation, with the remainder being subsidies from federal and municipal budgets to compensate the Group for effects of tariff regulation on suburban passenger transportation and discounted fares offered by the Group to certain categories of passengers (such as the elderly or students).

In 2016, the Group received a subsidy of RUB 32.5 billion (including VAT) to compensate the Group for the effects of tariff regulation of infrastructure access services for suburban passenger transportation and a subsidy of RUB 18.9 billion (not subject to VAT) to cover the effects of tariff regulation on long-haul passenger transportation. In addition, the Company received additional compensation of RUB 0.1 billion in 2016 as a part of the arrangement with the Federal Agency for Railway Transportation to repay to the Group losses, not otherwise covered by the subsidies, from the effects of tariff regulation of infrastructure access services for suburban passenger transportation accumulated between 2011 and 2014. See "*Operating and Financial Review*".

For 2017, the Government approved subsidies of RUB 35.4 billion (including VAT) for the effects of tariff regulation of infrastructure access services for suburban passenger transportation and RUB 10.1 billion (not subject to VAT) to cover the effects of tariff regulation on long haul passenger transportation.

Share Capital Injections

In the recent years, the Government provided the Company with funds for particular strategic projects through share capital injections. The amounts of such financing were mostly driven by the needs to develop certain infrastructure assets.

In 2011, the Government contributed to the share capital of the Company RUB 88.6 billion to finance rail infrastructure projects related to the 2014 Winter Olympics and for general rail infrastructure modernisation. In 2012, the Government contributed RUB 101.0 billion to the share capital of the Company to finance rail infrastructure projects related to the 2014 Winter Olympics, the Moscow Rail Hub, and certain other infrastructure projects.

In 2013, the Government made contributions to the share capital of the Company in the aggregate amount of RUB 59.5 billion, which included approximately RUB 38.3 billion to finance development of the Moscow Rail Hub, RUB 16.2 billion to finance the reconstruction of Mezhdurechensk-Taishet railroad section, RUB 4.6 billion to finance the reconstruction of Baikal-Amur and Trans-Siberian rail lines and RUB 0.3 billion to finance the reconstruction of the Maxim Gorkiy— Kotelnikovo—Tikhoreckaya—Krymskaya route with a bypass around the Krasnodar railway junction.

Also in 2013, the Government resolved to contribute RUB 260.0 billion between 2013 and 2017 to finance the modernisation of the Far East rail infrastructure and increasing the throughput capacity of the Baikal-Amur and Trans-Siberian rail lines. The Government resolved that RUB 150.0 billion of the approved RUB 260.0 billion was to be invested in preferred shares of the Company using funds of the National Wealth Fund, and the remaining capital injections were to be made against the issue of Company's ordinary shares. In 2013 and 2015, as part of the project, the Government contributed RUB 4.6 billion and RUB 16.9 billion, respectively, in exchange for the issuance of ordinary shares by the Company. In 2015, a further RUB 50.0 billion was contributed by the Government using funds of the National Wealth Fund through the purchase of preferred shares of the Company. The Company expects to receive the remaining funds for the development of the Far East rail infrastructure in the form of RUB 100.0 billion and RUB 88.5 billion as consideration for the issue of its preferred shares and ordinary shares, respectively, at a later stage. While initially planned to be completed by 2017, according to the current timetable submitted by the Company to the respective Russian ministries, the project is expected to be finalised in 2019. As at the date of this Prospectus, however, no final resolutions have been adopted by the Government. A slowdown in the project development is due in part to an overall reduction in the levels of economic activity in the region, delays in commissioning of the coal and mineral deposits and production plants, and, consequently, reduced urgency for the increase of relevant rail infrastructure capacity.

In 2014, the Government contributed RUB 29.8 billion to the share capital of the Company (in the form of ordinary shares) to finance the development of the Moscow Rail Hub (RUB 18.2 billion), reconstruction of the Maxim Gorkiy— Kotelnikovo—Tikhoreckaya—Krymskaya route with a bypass around the Krasnodar railway junction (RUB 2.9 billion), reconstruction of Mezhdurechensk-Taishet railroad section (RUB 8.5 billion) and construction of a high-speed railway between Moscow and Kazan (RUB 0.2 billion).

In 2015, the Government contributed to the Company's share capital in aggregate RUB 123.2 billion (of which RUB 73.2 billion was in exchange for the Company's issuance of ordinary shares and RUB 50.0 billion from the National Wealth Fund in exchange for the issuance of the Company's preferred shares), including RUB 121.2 billion in cash for various railway infrastructure construction and maintenance projects and RUB 2.0 billion in assets. The Government funds received in 2015 included funds received for the financing of the modernisation of the rail infrastructure in the Far East (RUB 66.9 billion, including RUB 50.0 billion and RUB 16.9 billion as a subscription price for the Company's preferred shares and ordinary shares, respectively), development of the Moscow Rail Hub (RUB 29.5 billion), reconstruction of the Maxim Gorkiy—Kotelnikovo—Tikhoreckaya—Krymskaya route with a bypass around Krasnodar railway junction (RUB 3.6 billion), reconstruction of Mezhdurechensk-Taishet railroad section (RUB 11.1 billion), construction of Prokhorovka-Zhuravka-Chertkovo-Bataysk railway line (RUB 6.5 billion) and financing of the engineering and design phase of a high-speed railway line between Moscow and Kazan (RUB 3.7 billion).

In 2016, the Government made cash contributions to the Company's share capital of RUB 61.0 billion in the aggregate through the issue of ordinary shares and approved a further contribution of RUB 8.1 billion in assets (which as at 31 December 2016 was not made). The Government funds received in 2016 were RUB 20.1 billion for the reconstruction of Maxim Gorky – Kotelnikovo – Tikhoretskaya – Krymskaya route; RUB 24.4 billion for the construction of Prokhorovka – Zhuravka – Chertkovo – Bataysk railway line; RUB 16.4 billion for the development of public railway infrastructure including in the Moscow region; and RUB 0.1 billion for the construction of high speed railway between Moscow and Kazan.

For 2017, the Government approved RUB 31.6 billion in capital injections from the federal budget and confirmed its intention to provide an additional RUB 50.0 billion through an acquisition of the Company's preferred shares using funds of the National Wealth Fund, with the proceeds expected to be invested in the modernisation of the Far East rail infrastructure, amongst other projects.

The Government's favourable taxation initiatives

In 2015, the Government reduced VAT rate for suburban passenger transportation from 18 per cent. to 0 per cent. with effect until the end of 2016, which was subsequently extended until 31 December 2029. In 2015, the Government also reduced VAT rate for long haul passenger transportation from 18 per cent. to 10 per cent. with effect in 2016, and then in 2016 further reduced it to 0 per cent. with effect from 1 January 2017 until 31 December 2029. In addition, in 2016 the Government resolved to reduce maximum property tax rate in 2017 for existing railway infrastructure to 1 per cent (compared to 1.3 per cent in 2016, and 1.6 per cent. provided for in the previous edition of the tax code). Further, the maximum property tax rate for existing railway infrastructure for 2018 and 2019 was set at 1.3 per cent., and for 2020 at 1.6 per cent. (compared to 1.9 per cent. and 2.2 per cent., respectively, provided for previously). With respect to the new infrastructure, which is commissioned starting from 2017, additional discounts will be applied, setting zero multiplier for the first tax period after commissioning (thus effectively resulting in 0 per cent. tax rate), and gradually increasing during the six subsequent years. The savings of the Group resulting from the implementation of these initiatives are intended to finance the Group's investment programme.

BUSINESS OPERATIONS

Overview

The Company's core business activity is the operation of its railway infrastructure network and provision of locomotive traction. The Group engages in full-service locomotive traction, infrastructure operations, freight transportation, long-haul and suburban passenger transportation, rolling stock repair and maintenance, container transportation and logistics and engineering, research and construction.

The Group provides freight transportation services principally through the Company and its subsidiary Federal Freight (formerly Freight Two), which was established to operate the remainder of its railcar fleet not originally transferred to Freight One at the time when it was still a Company's subsidiary. See "*—Freight—Federal Freight*". The Group established Federal Passenger Company as a wholly owned subsidiary to operate its long-haul passenger transportation business. Federal Passenger Company began operations in 2010. In 2012, the

Company acquired a 75 per cent. stake in GEFCO, which provides a full scope of logistic services. In addition, there are a number of smaller subsidiaries, engaged in freight transportation services, including TransContainer (container operations), Refservice (refrigerator railcars), and other. The Group's other non-core operations are conducted principally through the following subsidiaries: JSC Transtelecom ("**TransTelecom**") (telecommunications), JSC Zheldoripoteka ("**Zheldoripoteka**") (residential construction), RZDstroy (commercial construction), Remputmash (repair works), and certain medical organisations which continue to depend on the Company and other members of the Group for a substantial portion of their revenues. Some of these subsidiaries engaged in non-core business activities (such as industrial production, research and development and construction) are expected to be divested by the Company. See "*—History and Corporate Structure of the Group and the Reform Programme—Reform Programme—Third Stage: Formation and Development of a Competitive Market*" and "*Operating and Financial Review—Recent Developments and Outlook*".

Freight

The Group's freight revenues accounted for 73.9 per cent., 73.7 per cent., 75.8 per cent., 77.4 per cent., 78.6 per cent. and 80.7 per cent. of the Group's total revenues in 2011, 2012, 2013, 2014, 2015 and the first half of 2016, respectively. Freight revenues are revenues generated by the Group's freight transportation business, including provision of infrastructure access and locomotive traction services, various logistics services, and revenues generated by the Group's subsidiaries, engaged in freight transportation. The total freight turnover (including empty runs of the Company-owned and leased railcars) was approximately 2,704.8 billion tonne-kilometres in 2011, 2,782.6 billion tonnes-kilometres in 2012, 2,813.1 billion tonnes-kilometres in 2013, 2,954.5 billion tonnes-kilometres in 2014 and 2,954.9 billion tonnes-kilometres in 2015 and 1,462.1 billion tonnes-kilometres in the six months ended 30 June 2016.

Freight Transportation

The Company's Corporate Transport Services Centre is the Group's principal customer-facing department for its customers, including major industrial firms, private railcar operators and freight forwarding agents, which aggregate shipments for smaller firms. The Corporate Transport Services Centre manages the majority of the Group's commercial freight operations by organising the provision of rolling stock to freight customers (where a freight customer has not engaged a private railcar operator), locomotive traction services and infrastructure access, asset-tracking services, loading and unloading services and customs formalities. While these services are generally delivered by the Group's other divisions (see "*—Operations*"*)*, the Corporate Transport Services Centre's representatives in offices and stations throughout the rail system serve as the point of contact for freight customers. These customers typically make a single payment in respect of all freight transportation services rendered by the Group. See "*—Customers, Sales and Marketing*".

Locomotives and Rolling Stock

The Group owns virtually all of the locomotives in use on the rail system and is the largest owner of all types of rolling stock, with the exception of tank cars used principally for transportation of oil and petroleum products. The following table sets forth the locomotives and rolling stock owned by the Group:

	As at 31 December[(1)]	
	2016	**2015**
Locomotives [(2)]		
Freight	7.2	7.4
Passenger	1.8	1.7
Shunting	3.4	3.4
Other	1.8	2.0
Total	**14.0**	**14.5**
Rolling Stock [(3)]		
Platform	35.5	36.1
Gondola	63.2	74.3
Box cars	15.0	20.6
Tank cars	5.2	5.2
Other	56.2	60.2
Total	**175.1**	**196.4**

Notes:

(1) The sum of the units presented may differ from the total figure due to rounding.

(2) Average number of locomotives (calculated per constructive unit) in use within reporting period; reported in thousands of units.

(3) The figures do not include rolling stock leased from other private operators and leasing companies.

Locomotives are managed by the Traction Department, a branch of the Company. In 2015, the Group acquired 500 new locomotives, 275 of which were electric powered, including 43 for passenger and 232 for freight transportation, and 225 diesel powered, including 15 for passenger and 92 for freight transportation, and 118 for shunting operations. In 2016, the Group acquired 493 new locomotives, of which 261 of which were electric powered, including 43 for passenger and 218 for freight transportation, and 232 diesel powered, including 15 for passenger and 120 for freight transportation, and 97 for shunting operations. Locomotives were purchased from Russian suppliers.

A decrease in the number of railcars owned by the Group is attributable to replacing railcars owned by the Group with railcars leased by it.

Freight Composition

The following table sets forth freight shipment volumes (including shipment volumes of selected key types of freight) for each class of freight transported on the rail system for the years ended 31 December 2016, 2015 and 2014:

	Year ended 31 December		
	2016	**2015**	**2014**
	(million tonnes)		
Class 1			
Coal	328.6	323.3	315.4
Coke	11.7	11.1	11.8
Iron ore	109.5	109.0	108.7
Non-ferrous ore	21.1	20.4	19.3
Construction materials	141.0	130.7	141.1
Commodities	35.0	34.9	35.5
Cement	26.7	28.6	32.2
Timber freight	42.2	39.5	38.7
Other	19.8	21.0	20.7
Total Class 1	**735.6**	**718.5**	**723.4**
Class 2			
Oil	235.8	251.2	256.5
Fertilizers	53.5	51.4	49.2
Grain	19.0	18.7	18.2
Other	50.9	48.1	49.6
Total Class 2	**359.2**	**369.4**	**373.5**
Class 3			
Ferrous metals	71.0	71.4	71.8
Scrap metal	15.0	15.0	16.7
Chemicals	25.7	25.0	25.3
Other	15.8	15.2	16.2
Total Class 3	**127.5**	**126.6**	**130.0**
Total	**1,222.3**	**1,214.5**	**1,226.9**

Total freight shipment volumes in 2016 were 1,222.3 million tons, which represented a 0.6 per cent. increase compared to 2015. In 2015, total freight tonnage was 1,214.5 million tons, representing a 1 per cent. decrease compared to 2014.

The following table sets forth the total freight turnover (excluding empty runs) on the rail system by destination or origin for the years ended 31 December 2016, 2015 and 2014:

	Year ended 31 December		
	2016	**2015**	**2014**
	(billion tonne-km)		
Domestic	976.7	1,000.3	1,003.3
Exports	1,236.1	1,171.4	1,143.5
Imports	83.8	84.5	99.2
Transit	46.0	48.6	52.6
Total	**2,342.6**	**2,304.8**	**2,298.6**

Freight transportation turnover on the rail system (excluding empty runs) was approximately 2,342.6 billion tonne-kilometres in 2016, which represented a 1.6 per cent. increase compared to 2015. In 2015, freight transportation turnover was 2,304.8 billion tonne-kilometres, representing a 0.3 per cent. increase compared to 2014.

Tracking Services

The Company supervises passenger and freight traffic over its rail system in Russia, as well as in the CIS and the Baltic states. The Company conducts the centralised management of train routes and shunting operations through its 16 Dispatching Centres and the Centre for Maintenance Management. The system controls tracking of rolling stock throughout the rail system and the Company is able to determine the location of its own and third-party rolling stock as well as its operational and ownership history. The tracking system also provides customers with updated timetables and arrival information.

Other Commercial Services

The Group handles customs procedures, insurance and other government documentation requirements for its direct freight customers and provides security through subcontractors for freight along the route.

Federal Freight

Federal Freight was established in 2010 (previously known as Freight Two) to operate the Company's fleet of freight railcars not operated by Freight One. Upon completion of the Company's contribution of its fleet of freight railcars in September 2011, Federal Freight became Russia's second largest private freight railcar operator after Freight One. As at 31 December 2011, the Company transferred to Federal Freight a fleet of approximately 151,300 freight railcars in the amount of approximately RUB 46.1 billion and subleased approximately 23,000 railcars to it. However, as at 31 December 2011, approximately 7,000 freight railcars of these 151,300 freight railcars were written off and dismantled. As at 31 December 2016, it had a fleet of approximately 156.5 thousand freight railcars, 83.4 thousand of which were owned by Federal Freight and 73.1 thousand were leased. Federal Freight is not subject to tariff regulation with respect to its rolling stock and sets prices according to its pricing policy based on the competitive environment and its own operating costs (including charges paid to the Company).

Federal Freight's revenue (before elimination of transactions with Group companies) decreased by 5.4 per cent. from the RUB 49.6 billion for the year ended 31 December 2014 to RUB 46.9 billion for the year ended 31 December 2015. The decrease of Federal Freight's revenue was primarily due to the decrease in operations as a result of continuing downturn in the Russian economy. As a percentage of total revenue of the Group, Federal Freight's revenue was 2.5 per cent. in 2014 and 2.2 per cent. in 2015. In the first half of 2016, Federal Freight revenue was RUB 29.7 billion and net loss of RUB 2.2 billion compared with revenue of RUB 23.1 billion and net loss of RUB 3.9 billion in the first half of 2015.

TransContainer

TransContainer is the leading vertically integrated rail-based container transportation company in Russia, providing comprehensive container transportation and freight management services. As at 31 December 2015, the Group believes that TransContainer was the market leader in Russia by flatcar fleet size (with a market share of approximately 59 per cent.), twenty-foot equivalent units ("**TEUs**") transported by rail (with a market share of approximately 47.0 per cent., as at 31 December 2015, which decreased to 43.7 per cent. as at 30 June 2016) and rail-side container terminal throughput (with a market share of approximately 23.0 per cent., as at 31 December 2015, which decreased to 20.1 per cent., as at 30 June 2016). In addition to rail container transportation and freight management services, TransContainer provides logistics services and manages container transportation.

TransContainer operated as a branch of the Company until 2006, when it became the Company's wholly-owned subsidiary. In 2008, the Group sold approximately 15 per cent. of TransContainer's ordinary shares in a private placement. In November of 2010, the Company sold a further 35 per cent. less two shares equity stake in TransContainer through an IPO. In 2014, the Group contributed a controlling equity stake in TransContainer to UTLC, a joint venture with Kazakhstan Railways and Belarusian Railways in which the Company currently holds 99.84 per cent. interest. The parties to UTLC are considering alternatives to further develop the project.

As at 31 December 2015, TransContainer serviced more than 300,000 routes in Russia and the CIS. By integrating its terminal infrastructure, nationwide sales network, transportation assets, operational experience and market knowledge, TransContainer provides a wide range of reliable and tailored intermodal container transportation and integrated logistics solutions to its customers throughout Russia and the CIS. TransContainer has more than 200,000 customers, including approximately 20,000 regular customers, representing a range of industries. TransContainer had an extensive sales network consisting of approximately 120 offices and service centres in Russia, as well as a presence in the CIS, Europe, Asia and the Asia-Pacific region, which allows it to efficiently serve its existing customers and attract new customers. The international sales network includes three subsidiaries, three joint ventures, one affiliate, eight representative offices and 29 agents and regional partners.

As at 31 March 2016, TransContainer operated 24,034 platforms (owned and leased). The volumes of container rail transportation marginally decreased by 1.1 per cent. from approximately 1.47 million TEUs in 2014 to approximately 1.39 million TEUs in 2015. The volumes of container rail transportation, however, increased in the six months ended 30 June 2016 by 6.1 per cent. year-on-year to approximately 1.54 million TEUs. TransContainer owns a network of rail-side container terminals located at 45 railway stations in Russia and operates one terminal in Slovakia. JSC KedenTransService, a TransContainer's joint venture with Kazakhstan Railways, operates 19 inland rail-side terminals in Kazakhstan. TransContainer's terminals, many of which are located along Russia's busiest transportation corridors, handled approximately 1.32 million TEUs in 2014 and approximately 1.22 million TEUs in 2015. This decrease was primarily due to a general downturn in Russian economy.

TransContainer's revenue was RUB 36.6 billion in 2014; RUB 42.5 billion in 2015 and RUB 23.6 billion in the six months ended 30 June 2016 (in each case, before elimination of transactions with Group companies), which accounted for 2 per cent, 2.1 per cent. and 2.3 per cent., respectively, of the Group's total revenue. As at 31 December 2015, TransContainer's total assets were RUB 49.2 billion (before elimination of transactions with Group companies) and total liabilities were RUB 13.0 billion (before elimination of transactions with Group companies). As at 30 June 2016, TransContainer's total assets increased to RUB 50.4 billion (before elimination of transactions with Group companies) and total liabilities marginally decreased to RUB 12.8 billion (before elimination of transactions with Group companies). In the first half of 2016, TransContainer's revenue was RUB 23.5 billion and net profit RUB 1.4 billion compared with revenue of RUB 20.0 billion and net profit of RUB 1.0 billion in the first half of 2015.

GEFCO

In December 2012, to enhance its logistics operations, the Company acquired a 75 per cent. equity stake in GEFCO. GEFCO is one of ten largest logistics companies in Europe and is a leading European supplier of comprehensive and integrated logistics solutions including Lead Logistics Provider and 4th Party Logistics. GEFCO provides a full scope of logistic services for its customers throughout the world to optimise their supply chains. As at 31 December 2015, GEFCO had a broad international presence: it conducted business (either through subsidiaries or trading partners or sales representatives) in more than 150 countries and had over 70 subsidiaries across five continents. Some of GEFCO's key customers are major automotive and industrial enterprises such as PSA Peugeot—Citroen, General Motors, Renault Nissan, Delphi Automotive, L'Oreal, and CNH Industrial.

In 2015, the total revenue of GEFCO was EUR 4.2 billion compared with EUR 4.1 billion in 2014. The Group believes that the acquisition of GEFCO has enhanced the performance of the Group's logistic operations in Russia and the CIS. In particular, the Group benefits from GEFCO's know-how and expertise in industrial logistics and multimodal transportation, which also improves the Group's efficiency of internal systems of stock management and contributes to further optimisation of the Group's operating costs. In addition, the Group also expects to receive a significant contribution from GEFCO in the design and commercialisation of rail logistics solutions for the transportation of cargo between China, Russia and Europe.

Passenger

The Group's revenues from passenger transportation accounted for 11.5 per cent., 10.8 per cent., 9.7 per cent. and 8.9 per cent. of the Group's total revenues for the years ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2016, respectively. The Group provides long-haul (to destinations over 200 kilometres) and suburban (to destinations under 200 kilometres) railway passenger transportation services. The Group carried approximately 1,080 million, 1,070 million, 1,020 million and 1,037 million passengers in 2013, 2014, 2015 and 2016, respectively. The passenger turnover was 138.5 billion passenger-kilometres, 128.8 billion passenger-kilometres, 120.4 billion passenger-kilometres and 124.5 billion passenger-kilometres in 2013, 2014, 2015 and 2016, respectively.

Long-haul

Federal Passenger Company is a wholly owned subsidiary of the Group (and, prior to April 2010, its predecessor the Federal Passenger Transportation Directorate, a branch of the Company). Federal Passenger Company is classified as a natural monopoly relating to the operation of the long-haul passenger rail transportation market. It operates the majority of Group's long-haul passenger transportation services. Sakhalin Passenger Company is a wholly owned subsidiary of the Group that operates long-haul passenger transportation services on the Sakhalin island. In addition, the Company operates the high-speed long-haul passenger trains "Sapsan" (running between Moscow and St. Petersburg), "Allegro" (running between St. Petersburg and Helsinki, Finland) and "Strizh" (in English*: Swift*) (running between Moscow and Nizhniy Novgorod). In addition, the Group started using double-deck trains on some of the routes, which allows to service a larger number of passengers. Currently, there are three private transportation companies which also operate in the long-haul rail transportation business on a few popular routes such as between Moscow and St. Petersburg; Moscow and Nizhniy Novgorod; and Moscow and Kazan. The Group also offers international passenger transportation services to a number of countries in Europe and Asia, including CIS countries.

Tariffs for deluxe-, first- and second-class passenger services are unregulated. By contrast, third- and fourth-class tariffs are subject to government regulations, and certain categories of passengers, including retirees, veterans and disabled, travel at deeply discounted prices or free of charge. See "*—Tariff Regulation and Pricing—Passenger Tariffs*".

Federal Passenger Company is responsible for the maintenance of the long-haul passenger rolling stock, baggage transportation and ticketing (except for the high-speed passenger services). As at 31 December 2015 and 2014, Federal Passenger Company owned 21,059 and 22,206 railcars, respectively. As at 31 December 2015 and 2014, Federal Passenger Company leased from the Company 2,063 locomotives and 2,360 locomotives, respectively.

In 2013, 2014 and 2015, the Group carried approximately 110.7 million, 103.1 million and 97.9 million passengers, respectively, in long-haul passenger transportation segment, which accounted for 105.8 billion, 96.3 billion and 89.5 billion passenger-kilometres, respectively, in the same periods. In 2015, the passenger turnover decreased by 7.0 per cent., as compared with 2014. According to the Group's estimates, in 2016 it carried approximately 101.4 million passengers in long-haul passenger transportation segment, which represented 93.5 billion passenger-kilometres.

The following table sets forth the number of long-haul passenger trips and passenger-kilometres for the years ended 31 December 2016 (according to the Group's estimates), 2015, 2014 and 2013:

	Year ended 31 December			
	2016 **(1)**	**2015**	**2014**	**2013**
Passenger trips million	*101.4*	97.9	103.1	110.7
Passenger - kilometres billion	*93.5*	89.5	96.3	105.8

Notes:

(1) The Group's estimates.

The decrease in long-haul transportation in 2015 compared to 2014 was due to the slowdown in the economy, as well as an increasing competition between modes of transportation as Russian airlines have started to offer special discounted rates for flights to a number of destinations within Russia. In addition, there has been a decrease in international passenger traffic, including between the CIS and Baltic states, as a result of certain geopolitical events. In 2016, long-haul transportation volumes began to increase as a result of a more positive economic outlook.

Suburban

Suburban passenger transportation services are provided on routes of less than 200 kilometres, including commuter lines. The services are provided by 25 regional suburban transportation companies (including the Company's subsidiaries and other entities, in which the Company holds a minority stake) operating in Russia. The Group offers several types of suburban passenger ticketing options, and certain categories of passengers (such as students and pensioners) have right travel at discounted fares. As a percentage of all suburban passengers in 2015, passengers who paid the full fare constituted approximately 72 per cent. (660.5 million) passengers. See "*—Tariff Regulation and Pricing—Passenger Tariffs—Suburban Passenger Service*".

The Group and its associates carried approximately 967.2 million passengers in 2014 on suburban rail transportation segment, which generated the passenger turnover of 32.6 billion passenger-kilometres. In 2015, the Group carried approximately 922.5 million passengers on suburban rail transportation, which generated the passenger turnover of 30.9 billion passenger-kilometres, representing a decrease of 4.6 per cent. in the number of passengers and 5.2 per cent. in the passenger turnover, as compared with 2014.

The following table sets forth the number of suburban passenger trips and passenger-kilometres in 2016 (according to the Group's estimates), 2015, 2014 and 2013:

	Year ended 31 December			
	2016 **(1)**	**2015**	**2014**	**2013**
Passenger trips million	*935.7*	922.5	967.2	968.8
Passenger – kilometres billion	*31.0*	30.9	32.6	32.7

Notes:

(1) The Group's estimates.

Suburban passenger transportation volumes decreased marginally in 2015 compared with 2014 primarily due to a general slowdown of the Russian economy and consumer purchasing power, which significantly affected the most disadvantaged categories of the population that represent a key customer base of these highly regulated rail transportation services. In addition, a number of suburban routes were cancelled due to an insufficient federal and/or regional funding to compensate the Group for losses arising from tariff regulation. In 2016, the Group estimates that suburban passenger transportation volumes started to increase. See "*—Strategy —Reducing Losses in Regulated Fare Passenger Transportation and Increasing the Attractiveness of Unregulated Fare Passenger Transportation*".

Other

The Group's other revenues, including from rail-related operations such as railcar repair services and other operations, accounted for 12.7 per cent. in 2013, 11.8 per cent. in 2014 and 11.7 per cent. in 2015. In 2017, the Group considers divesting equity stakes in certain subsidiaries and associates. See "*Operating and Financial Review—Recent Developments and Outlook—Auctions and/or Disposals Planned for 2017*".

Railcar Repair

In 2012, the Company has completed the transfer of all of its railcar repair operations to its subsidiary companies. In 2006, the Company established the CDRR. In 2008, to foster competition in railcar repairs, the Group began to divest the assets of 22 railcar repair depots across Russia. In 2011, using the remaining assets of the CDRR, three new subsidiaries (JSC Carriage Repair Company-1, JSC Carriage Repair Company-2 and JSC Carriage Repair Company-3) were established, each with assets across the railway network and with similar capacities. The CDRR was liquidated in 2013. The Company plans to sell stakes in these subsidiaries. The Group plans to dispose 100 per cent. equity stake in JSC Carriage Repair Company-3 in 2017.

As part of the Reform Programme, the Group divested certain of its railcar repair operations in order to develop a competitive market for railcar repair services. In 2013, the Company sold 100 per cent. less one share in Krasnoyarskiy Electric Railcar Repair Plant, which is engaged in capital repairs and renovation of electric railcars and certain railway equipment. In 2014, the Company sold 75 per cent. less two shares in Vagonremmash, retaining an equity stake of 25 per cent. plus two shares. Vagonremmash manufactures passenger railcars and offers railcar capital repairs and maintenance as well as wheel set repairs services. In 2015, the Company sold 100 per cent. less one share in JSC Saransk Railcar Repair Plant. The Group may continue divesting some of the remaining railcar repair companies in the medium term, subject to demand and market conditions.

RZDstroy

RZDstroy, established in 2006, is one of Russia's leading railway infrastructure construction companies. RZDstroy provides a broad range of railway infrastructure construction services, including both general and specialised construction works as well as project management. RZDstroy's key construction projects include the reconstruction of the route between Mga and Ivangorod, towards the seaports in the Gulf of Finland, the reconstruction of Tver railway station, several Moscow railway stations and other parts of Moscow railway infrastructure, the reconstruction of the Karymskaya-Zabaikalsk railway road, the reconstruction of the rail lines between Komsomolsk-on-Amur and Sovetskaya Gavan, the reconstruction of the rail lines between Maxim Gorkiy and Krymskaya stations and the construction of various projects relating to the 2014 Winter Olympics. In addition, RZDstroy engages in non-railway construction (such as a project for the modernisation of the Yuzhno-Sakhalinsk international airport) and manufactures a range of construction materials. RZDstroy revenue (before elimination of transactions with Group companies) in 2015 was RUB 79.4 billion compared with RUB 65.8 billion in 2014, representing a 20.7 per cent. year-on-year increase, and net profit (before elimination of transactions with Group companies) was RUB 0.7 billion in 2015 compared with the net loss of RUB 10.3 billion in 2014.

TransTelecom

TransTelecom, established in 1997, operates the high-speed fibre optic telecommunications network owned by the Company that provides all railway-related telecommunication resources to the Group as well as telecommunication services, data transfer and telecommunications network construction services to third parties. The Group is the sole shareholder of TransTelecom.

As at 31 December 2015, total fibre optics cable networks operated by TransTelecom were approximately 72,000 kilometres long. TransTelecom provides a full spectrum of telecommunications and data services. TransTelecom has approximately 1.86 million clients and provides services in 56 regions and 250 Russian cities. As at 31 December 2015, its market share was 38.4 per cent. in Russian NPL; 30.9 per cent. in IP access; 5.3 per cent. in IP VPN; 6.6 per cent. in voice services; 10.3 per cent. in traffic services; and 29.4 per cent. in IPL services. TransTelecom revenue (before elimination of transactions with Group companies) was RUB 26.5 billion for the year 2015 compared with RUB 26.2 billion for the year 2014, representing a 1.1 per cent. year-on-year increase. In the first half of 2016, TransTelecom's revenue was RUB 11.9 billion compared with RUB 13.1 billion in the first half of 2015.

Zheldoripoteka

Zheldoripoteka is a wholly-owned subsidiary of the Company, which is engaged in residential construction (including hotel development). Zheldoripoteka builds affordable housing and provides favourable mortgage terms to the Group's employees.

The Group implemented a housing policy to assist its employees to secure affordable housing. In 2015, pursuant to this policy, Zheldoripoteka provided subsidised mortgages to the Group's employees to purchase 359 housing units under a rail business housing mortgage programme and 414 housing units as part of Group's own housing mortgage programme. For the year ended 31 December 2015, revenue (before elimination of transactions with Group companies) of Zheldoripoteka was RUB 2.9 billion and its net loss (before elimination of transactions with Group companies) was RUB 482.0 million compared with revenue of RUB 2.6 billion and net profit of RUB 990.0 million for the year ended 31 December 2014, representing an increase in revenue by 13 per cent. In the first half of 2016, Zheldoripoteka's revenue was RUB 1.1 billion and net loss was RUB 99.0 million compared with revenue of RUB 1.0 billion and net loss of RUB 7.0 million in the first half of 2015.

Associates, Concession and Financial Assets

Roszheldorproject

Roszheldorproject is engaged primarily in research, design and engineering. It includes one subsidiary, 20 branches and regional representative offices across Russia. Roszheldorproject is one of the leading Russian companies in the field of survey and design work for Russian railway sector. The company performs survey and design work for construction, renewal and reconstruction projects in the railway, industrial, socio-cultural, residential and commercial property sectors. Roszheldorproject is working with leading design and exploration academic institutions which have contributed significantly to the modernisation and upgrade of the Russian railway transport system. Roszheldorproject provides engineering and economic feasibility studies for infrastructure construction and reconstruction projects, substantiation of investments, train performance estimations, engineering surveys and complete design software systems.

Roszheldorproject completed the design works for certain high-speed rail passenger services in Russia, in particular on the routes between Moscow and St. Petersburg and between Moscow and Nizhny Novgorod. It also completed a feasibility study and design and survey works to modernise the route between St. Petersburg, Buslovskaya and Helsinki and turn it into a high-speed rail for passenger trains. In addition, Roszheldorproject has completed engineering and design works for a number of transport infrastructure assets in Sochi prior to the 2014 Winter Olympics, including a combined road and railway route between Adler and Alpika-Servis, a railway line between Sochi airport and Adler railway station, skiing resorts in Sochi and freight yards.

The revenue of Roszheldorproject was RUB 25.5 billion for the year ended 31 December 2015 and RUB 25.2 billion for the year ended 31 December 2014. Net profit for the year ended 31 December 2015 was RUB 1.6 billion compared with net profit of RUB 1.4 billion for the year ended 31 December 2014, representing a 14.3 per cent. increase. In the first half of 2016, Roszheldorproject's revenue was RUB 6.4 billion and net profit of RUB 401.0 million compared with revenue of RUB 8.4 billion and net profit of RUB 301.0 million in the first half of 2015.

In 2009, the Group sold 50 per cent. less two shares in Roszheldorproject to a private investor. In 2015, the Group sold further 25 per cent. plus one share in Roszheldorproject and currently holds 25 per cent. plus one share equity stake.

Southern-Caucasus Railways

The Group is a party to a 30-year concession agreement between Armenia, the Company and the Company's subsidiary, Southern-Caucasus Railways, pursuant to which the Group is to invest approximately U.S.$570 million in the development of Armenia's rail infrastructure (including an investment of approximately U.S.$170 million to renovate rolling stock) and to operate the rail system in Armenia.

Southern-Caucasus Railways' revenue in 2015 was AMD 20.0 billion (*Armenian drams*) and net profit was AMD 49.5 million (*Armenian drams*) compared with the revenue of AMD 22 billion and net profit AMD 641.3 million in 2014.

Zheldorremmash

The Company established Zheldorremmash in 2008 as a wholly owned subsidiary of the Company. It is primarily engaged in the repair of diesel and electric locomotives, and also produces certain parts for the Group's locomotives and railcars. In November 2012, the Company sold a 75 per cent. less two shares equity stake in Zheldorremmash in an auction to a private investor.

As at 31 December 2015, Zheldorremmash had 10 plants in different Russian regions. In 2015, Zheldorremmash had revenue of RUB 30.5 billion and a net loss of RUB 1.8 billion compared with the revenue of RUB 30.7 billion and a net profit of RUB 389 million in 2014. In the first half of 2016, Zheldorremmash's revenue was RUB 16.0 billion and net profit of RUB 186 million compared with revenue of RUB 14.0 billion and net loss of RUB 748.0 million in the first half of 2015.

OPERATIONS

While not directly related to customer service, the Group undertakes extensive activities in traffic management and in the upkeep and expansion of the rail system.

Railway Traffic Control

Railway traffic control is effected through the Central Directorate for Traffic Control located in Moscow and the direct management of traffic is effected through 16 regional dispatching centres. These dispatching centres, located throughout the rail system, are responsible for traffic management on railway routes in their respective regions. The principal goals of dispatching centres are reducing downtime (the period of time during which a railcar is idle), increasing average transportation speeds, increase in safety of railway transportation. In 2015, the dispatching centres daily coordinated the movement on average of approximately 570 long-haul passenger trains, over 5,800 suburban passenger trains and over 13,700 of freight trains.

Construction and Track Maintenance

The Department of Construction coordinates and assists in the implementation of new construction projects relating to the rail system and related infrastructure. The Central Infrastructure Department together with a number of responsible Directorates (the Directorate for the complex reconstruction of railways and construction of railway transport, the Directorates capital repairs and reconstruction of electrification and electricity supply, the Central Directorate for Track Repair) are responsible for track maintenance, renovation, capital repairs and other related services.

In 2014, the Group received a grant for capital repairs and development of railway infrastructure in the amount of RUB 56.0 billion, of which RUB 26.0 billion was utilised in 2014 and RUB 29.9 billion was utilised in 2015. In 2015, the Group repaired and renovated approximately 6,300 thousands of track, put into operation 15.6 kilometres of additional railway lines including approximately 980 kilometres of railway tracks in the Eastern part of Russia. In 2014 and 2013, the Group reconstructed and repaired approximately 3,950 kilometres and 10,000 kilometres of track, respectively.

Departments and Directorates assume principal responsibility for the implementation of the Group's investment programme described in "—*Investment Projects and Expansion*".

INTERNATIONAL JOINT VENTURES AND COOPERATION

Joint Ventures and International Projects

The Group is actively involved in a number of international construction projects in the CIS and other countries with growing markets for railway transportation services. The Group provides technical expertise in the construction and project management services relating to upgrade and reconstruction of railways. These projects have a strategic importance for the Group and in the future may provide a material contribution to its revenues. The Group's major on-going and planned projects include:

- In 2012, the Company and Serbian Railways signed a framework agreement on the implementation of railway projects in Serbia, including construction and reconstruction of certain railway lines and delivery of diesel trains. Funding for the project has been provided under the Russia-Serbia Intergovernmental Agreement. In 2013, Russia extended a U.S.$800 million loan and RZD International and Serbian Railways signed an agreement for the construction of certain railway lines and diesel trains delivery. The project includes construction and electrification of 16 kilometres of the second railway line between Belgrade and Panchevo, reconstruction of several sections of the Pan-European Corridor X, reconstruction of the existing and construction of a new railway line between Stara Pazova and Novy Sad, reconstruction of a railway line between Belgrade and Bar located in Serbia and delivery of 26 Russian-made diesel trains. RZD International LLC ("**RZD International**") is the entity within the Group charged with implementing this project. To date, all major phases of the construction project have been performed in a timely manner. In September 2015, the second main rail line between Golubintsy-Ruma and Sopot Kosmayski-Kovachevats was opened and first delivery of diesel trains to Serbia was made. To further develop cooperation between Russia and Serbia, in October 2015, RZD International and Infrastructure of Serbian Railways signed a memorandum on the strategic partnership, which provides for further participation of RZD International in rail transport and infrastructure projects in the Republic of Serbia. In June 2016, RZD International completed ahead of schedule the reconstruction of three northern sections of the Pan-European Corridor X on the territory of Serbia. In July 2016, RZD International and Infrastructure of Serbian Railways signed an additional agreement to the contract for construction and reconstruction of the railway section Stara Pazova-Novy Sad, which is a part of the railway line Belgrade-Budapest. Also in July 2016, construction on the section Resnik-Valjevo was launched: this was the first stage of a reconstruction of the railway line Belgrade-Bar. In September 2016, another subsidiary of the Company, JSC "Research and Design Institute for Information Technology, Signaling and Telecommunications on Railway Transport" and a Serbian project institute signed a contract for design of a single dispatch centre for remote control of railway traffic. In 2016, RZD International delivered 27 diesel commuter trains (ahead of schedule). In addition to railway-related operations in Serbia, RZD International is involved in social and humanitarian efforts, including reconstructing schools in the regions of its presence in Serbia, as well as in organising various cultural, social and educational projects.

- In 2009, the Company entered into an agreement to manage the Ulan-Bator Railways in Mongolia, which includes measures aimed at improving business operations of the railways, increasing its effectiveness, optimising running costs (including in respect of infrastructure development), acquiring new rolling stock, increasing revenue (including increasing railway tariffs) and developing investment and financial policies. In 2014, as part of the agreement in respect of Ulan-Bator Railways management, the Company and the Ministry of transport of Mongolia entered into an agreement on strategic cooperation in respect of an upgrade and development of the Mongolia rail infrastructure. In addition, the Group, in cooperation with partners from Mongolia and China, is working on the programme to establish an economic corridor between Russia, Mongolia and China. The implementation of this project is planned to take place under the auspices of integrating Eurasian Economic Union, China's One Belt One Road Initiative and Mongolia's Steppe Road Programme.

- The Group operates the Armenian rail network under a 30-year concession (from 1 July 2008). The Group has undertaken to invest approximately U.S.$570 million in the development of Armenia's rail infrastructure (including an investment of approximately U.S.$170 million to renovate rolling stock) and to operate the rail system in Armenia. The Group continued to engage in projects for reconstruction of approximately 450 kilometres of railway track and more than 330 kilometres of overhead wiring, as well as for delivery of 18 locomotive units, 700 freight and 27 passenger railway cars and 35 units of maintenance vehicles. To date, the Company has duly performed its investment obligations. See "*—Business Operations—Associates, Concession and Financial Assets—Southern-Caucasus Railways*".

- In 2008, the Group started a project for the electrification of railways on the Tebriz-Azarshakhr route in Iran. The project involved electrification of approximately 50 kilometres of rail track. This project was completed and the line commissioned in 2012. In 2015, RZD International and Iran Railways entered into an agreement stipulating design, delivery of materials and equipment and construction under the electrification project of the Garmsar – Inche Burun railway line (approximately 495 kilometres in length). The project is expected to be financed by an export loan from the Russian Federation. In 2016, in order to further enhance business relationship with Iran Railways, the Group established its representative office in Tehran.

- In December 2015, a memorandum of understanding was signed between the Ministry of Railways of the Republic of India and the Company in respect of technical cooperation in the railways sector. Its purpose was to select, in association with Indian partners, mutually beneficial projects to be implemented in India. During the 8th BRICS Summit that took place in October 2016 in India, the Company and the Ministry of Railways of the Republic of India signed the Protocol on Cooperation in "Semi High Speed Rail". In accordance with the protocol, the signatories intend to carry out a joint technical study for upgrading the speed of passenger trains on the existing rail corridor between Nagpur and Secunderabad (of approximately 575 kilometres in length) to increase the speed of transportation to up to 200 km/h. In order to foster cooperation with partners in India, RZD International has decided to open its representative office in India.
- The Group's projects in Indonesia include a project on the Kalimantan Island, which envisages the construction of a comprehensive transport infrastructure by the project enterprise PT Kereta Api Borneo. It is expected that after completing construction in the third quarter of 2018 the port will be capable of transshipping up to 5 million tons of freight (mainly coal).

  The Group also continues to interact with coal-mining companies in Indonesia (which are viewed as potential freight consignors) to identify their needs for coal transportation. As at the date of this Prospectus, there were two priority routes (approximately 200 kilometres in length each) that are under consideration.
- The Group is also involved in developing railway and related infrastructure projects in Cuba, which is in need of an extensive modernisation and upgrade of its railway infrastructure. In December 2016, a road map for implementation of projects in Cuba was signed. It is expected that during 2017 the Group and its Cuban partners will continue to develop framework for joint cooperation, including setting out comprehensive terms of their contractual relations.

The Group is also looking for opportunities to develop cooperation with partners in Vietnam, Brazil and South Africa, among others.

In addition, the Group is a party to a number of joint ventures aimed at the development of the Group's rail transportation and logistics operations abroad:

- In 2014, the Company, Kazakh Railways and Belarusian Railway incorporated UTLC (a subsidiary of the Company as at 30 June 2016) to conduct logistics and container operations business. In accordance with the plan approved by the heads of the three railway companies, the Company contributed to UTLC equity stakes of 50 per cent. plus 2 shares in TransContainer and 100 per cent. less 1 share in RZD Logistics. Kazakh Railways and Belarusian Railway were expected to contribute their rail and container assets within two years. However, the parties are considering alternatives to further develop the project.
- In 2012, RZD Logistics and Far East Landbridge Ltd. ("**FELB**") started to offer a joint transit services on the Asia-Europe-Asia route through an established joint venture. As at 31 December 2015, RZD Logistics held controlling 75.5 per cent. in FELB.
- RZD Trading Company, a subsidiary of the Company (Company holds 50 per cent. plus one share), is a 70 per cent. shareholder in RasonKonTrans, a joint venture with the administration of the port of Rajin (North Korea), which holds 30 per cent. of such joint venture. This joint venture was set up to perform the reconstruction and subsequent operation of a 54-kilometre railway line between the station of Khasan in the Russian Far East and a container terminal at the port of Rajin in North Korea which is used to transport coal, among other cargoes. Reconstruction of Rajin-Khasan railway section was successfully completed in 2013 and the construction of container terminal in the port of Rajin was completed in 2014. The railway link is now being operated to allow transit of soft coal from Russia to third countries using the port of Rajin. See "*Risk Factors—Tariff Regulation and Pricing—The Group may be subject to the laws and regulations relating to activities in countries and/or regions subject to sanctions.*".

In addition, the Group has participated in a number of joint ventures and demonstration projects designed to encourage trans-Eurasian rail transportation:

- The Group continues to participate in a number of projects relating to international container transportation of automobile spare parts to assembly plants in Russia. The Group has transported automobile spare parts from Western and Central Europe to the Volkswagen factory in Kaluga. It has also engaged in containerised transportation of spare parts from Europe and Asia for a number of major international automotive manufacturers (including Fiat, Toyota and Peugeot-Citroen among others).
- On 21 June 2012, a Chinese joint venture YuXinOu (Chongqing) Logistics Co., Ltd was created by the Company, RZD Logistics, Schenker China Ltd., JSC Kaztransservice, Chongqing Transportation Holding

(Group) Co., Ltd. and China Railway International Multimodal Transport Co., Ltd. The Chinese companies form the majority with 51.1 per cent., while RZD Logistics, Schenker China Ltd. and JSC Kaztransservice hold 16.3 per cent. of shares each. The goal of the joint venture is to organise a regular container route between Chongqing, China and Duisburg, Germany, and to provide a broad range of logistics services overall, eventually becoming a full-service "third party" logistics service provider for customers looking to outsource their logistics activities.

- In September 2015, the Company and group of companies Inkow port (China) signed a memorandum of understanding on cooperation to develop international multimodal freight transportation.
- The Company, together with rail companies of Ukraine, Slovakia and Austria are developing a project to construct a broad-gauge rail line connecting Kosice (Ganiska) and Vienna through Bratislava. The project is aimed at linking together the sections of the Central European rail network with Trans-Siberian railway and attracting new rail freight traffic to the Asia-Russia-Central Europe route, as well as increasing competitive advantages of rail transportation. Currently, Breitspur Planungsgesellschaft GmbH, an international joint venture of the Company, is finalising tender documentation to announce a tender for a full feasibility study for the project.
- The Company is continuing discussions with Dalian port (Liaoning province, China) and Samsung company with a view to increasing freight transportation volumes from China and South Korea to Russia and further, to the EU. In January 2016, the first block train carried goods produced by Samsung Electronics Co from Dalian port to Russia. Since then, several more block trains are used on the route. The train takes half as long as a conventional maritime service to reach its destination. The Company and its partners consider it to be a part of the northern route of the New Silk Road Economic Belt and a new international logistics channel, which will help diversify regional trade and multi-model transportation.

The Company also continues to enter into complex rolling stock procurement and maintenance contracts with the biggest international producers:

- Siemens AG supplied "Sapsan" trains for the Group in 2009-2012. Currently, Siemens AG continues to provide rolling stock maintenance services to the Group.
- The Company also entered into a number of agreements with LLC Ural Locomotives (joint venture of Sinara Group (Russia) and Siemens AG) for the supply of freight electric locomotives "Granite" and "Desiro RUS" (or "Lastochka", in English: *Swallow*) passenger motorised railcars. The Lastochka railcars were designed by Siemens AG. The locomotives manufacturing facilities of LLC Ural Locomotives are located in Sverdlovsk region (Russia).
- The Company entered into a number of agreements with a French company, Alstom, for the supply of "Allegro" high-speed trains, which are used by the Group on the route between St. Petersburg and Helsinki. Alstom is also participating together with the Company in a project for the manufacturing of new electric locomotives. The Company expects that 200 new locomotives will be delivered to the Company by 2020. The production facilities shall be located in Russia.
- In June 2011, Federal Passenger Company entered into a number of agreements with a Spanish company, Patententes Talgo S.L., for the development and supply of the passenger trains. The agreements provide for cooperation in the field of development, production, operation, service and testing rolling stock of the next generation with automatic gauge adjustment for use on both, narrow and wide (1520 mm) gauge track. In 2014, Federal Passenger Company entered into an agreement for service and maintenance of rolling stock during a full cycle of its useful life. To implement the agreement, the parties established a company for service and repairs of the relevant passenger railcars. The first Talgo trains were branded as "Strizh" (in English: *Swift*) and run between Moscow and Nizhniy Novgorod since June 2015, and between Moscow and Berlin since 2016.

INTERNATIONAL COOPERATION

The Group is a member of various international transportation organisations such as the Commonwealth of Independent States Railway Transport Council (the "**Council**"), Organisation for Cooperation between Railways ("**OSJD**"), the International Union of Railways ("**UIC**") and the International Rail Transport Committee ("**CIT**"). See "*—Tariff Regulation and Pricing— Freight Tariffs—International Freight*".

Council

The principal work of the Council, chaired by the president of the Company, is to coordinate rail transportation at the intergovernmental level, agree common procedures and regulations, and assist the development of transportation and economic ties between the members of the CIS, together with Bulgaria, Estonia, Latvia, Lithuania, Georgia and Finland. The Council examines and resolves issues relating to the daily operations of the railways, joint use and maintenance of freight railcars and containers, passenger and freight transportation conditions, safety in the movements of trains on international routes, developing systems for accounting and settlements, scientific and technical cooperation and other issues.

OSJD

The OSJD is dedicated to developing and improving international rail transportation between Europe and Asia, including combined sea/rail transportation, developing operational practices in railway transport activities, improving international transport law, including the Agreement on International Passenger Traffic, the Agreement on International Rail Freight Transport and other legal instruments related to international rail transportation. The OSJD also encourages cooperation on issues related to economic, informational, scientific, technological and environmental aspects of rail transportation and promotes the competitiveness of railways compared with other modes of transportation. In 2015, OSJD has prepared a draft of the Convention on direct international rail transport. Adoption of the convention is expected after implementation of required internal governmental regulations. In December 2016, the president of the Company, Mr. Belozerov, was elected the Chairman of the UIC Asia-Pacific Region for the period of 2017 through 2018.

UIC

The UIC's principal purpose is to promote the improvement of the technical means and the operation of the railways. The UIC aims to integrate various Eurasian national railway systems into a single system of transport links to Europe. The Group has been a member of the UIC since 2007. The Group is an active member of the three highest governing bodies of the UIC—the Executive Board, the Asian and the European regional assemblies. As a result of cooperation between the Company and UIC in June 2015, the UN Committee of the Economic and Social Council upgraded UIC to give it the special consultative status, which will allow to include issues on the agenda of the United Nations.

The president of the Company, O. Belozerov was elected the Chairman of the UIC for 2016.

Strategic Partnership 1520

Since 2006, the Company has participated in the international railway business forum "Strategic Partnership 1520" the primary aim of which is to coordinate efforts for the development of the railway industry in the countries with wide gauge (1,520 mm) railways. The forum is typically attended by more than 1,400 specialists representing national railway transportation companies, railway equipment producers, logistic and leasing companies from over 30 countries every year. Traditionally, a number of high-profile industry deals are executed as part of the formal part of the forum.

CIT

The International Rail Transport Committee ("**CIT**") is an international non-governmental organisation, registered in 1902 under Swiss law, of approximately 200 railway entities and shipping companies which provide international passenger and/or freight services. 134 companies from 43 countries of Europe, Asia and Africa are full members in their own right, 80 organisations are linked indirectly by being members of CIT associate members. The CIT is working with OSJD and other international organisations on various projects to harmonise transport law regimes in Europe and Asia and standardise travel documents. The CIT helps railways to implement international rail transport law. The Company has been a member of the CIT since November 2010. As a full member of the CIT, the Company can provide international rail transportation services in accordance with the Convention on international rail transportation ("**COTIF**"), to which Russia acceded in 2010. Application of those rules is important for the Company for freight transportation on the Ust-Luga (Russia)—Sassnitz (Germany) rail and sea route.

Other

The Group also participates in the work of the United Nations Economic Commission for Europe's Committee on the Inland Transport, the United Nations Economic and Social Commission for Asia and the Pacific's agreements for trans-Eurasian transportation with respect to the Trans-Siberian Railway. The Group is involved in the activities of the Round Table of Industrialists and Entrepreneurs in Russia and the Working Group on Modernisation (within the Russia-EU transport communication) relations, and cooperates with transportation organisations and companies in member countries of the European Union.

CUSTOMERS, SALES AND MARKETING

Freight

The largest freight shippers are industrial and raw material suppliers, including coal mining companies, metallurgic plants, oil and natural resource businesses, construction companies and fertilizer manufacturers. The Group's largest customers include, among others, SUEK, Evraz Holding, Rosneft, NLMK, Kuzbasrazrezugol, Mechel, Metalloinvest, Lukoil, Severstal, Gazprom, for both locomotive traction, and infrastructure services. In addition, the Group also contracts with freight forwarding agents, which aggregate freight transportation orders for smaller customers.

The Group's freight services generally require prepayment, normally through a standing account. In most cases, a single payment is made to the Group by the direct freight customer (or freight forwarding agent or private railcar operator) in respect of the entire relevant tariff, including the charges for use of rolling stock (if applicable), locomotive traction and infrastructure access (or loaded trip and empty return, as applicable). In some cases, however, a private railcar operator may require its customers to pay the locomotive traction and infrastructure access charges (in the form of charges for a loaded trip and empty return) directly to the Group.

In all cases, the Corporate Transport Services Centre handles all sales and marketing activities through its representative offices in the major stations of the rail system, save for those undertaken by Federal Freight and TransContainer, which have their own marketing departments.

The Company arranges for the security and insurance of freight transportation including providing the IT support to facilitate the required documentation.

Passenger

The Group's marketing strategy in the long-haul passenger segment is to encourage passengers to upgrade their class of travel to the unregulated deluxe-, first- and second-class passenger travel. The Group has also undertaken extensive initiatives to encourage and improve payment and collection relating to the suburban passenger service. The Group's marketing efforts include seasonal discounts, second-class discount tickets, volume discounts, and discounted children's tickets.

Procurement

As a natural monopoly and a state-owned company, the Company and its subsidiaries are subject to the state rules for procurement of certain services. In particular, each member of the Group was required to adopt a set of internal procurement regulations in accordance with the Federal Law "On Procurement of Goods, Works and Services by Certain Legal Entities" No. 223-FZ dated 18 July 2011, as amended. The state procurement rules require a competitive tender process for most of the Company's purchases of goods and services. Roszheldorsnab, a branch of the Company, supervises and manages the procurement process. The Centre of Competitive Procurement employees are responsible for the procurement planning process, monitoring of tenders and assisting in preparation of tender documentation as well as ensuring compliance with applicable procurement laws.

The Group's principal purchases are fuel and metal. The Group purchases fuel (primarily, diesel fuel for its locomotives) at spot rates from Gazprom-neft, Surgutneftegas, Rosneft and LUKOIL. The Group estimates that it purchases more than 70 per cent. of oil products from the largest Russian oil companies. The terms and conditions of supply contracts generally provide for seller's liability for product quality during the warranty period, as well as for deferred payment within 24-45 days after the date of supply. Fuel is generally being purchased at a discount. In particular, in 2015, reduction of price in open electronic auctions for diesel fuel resulted in savings in the aggregate of RUB 2.4 billion, which is 5.1 per cent. from the original price estimates.

The Group estimates that in 2015 it saved approximately RUB 11.2 billion as a result of purchasing goods and services at prices below the rate of inflation and optimising procurement. The Group further estimates that an overall increase in prices at which it procures required goods and services was 6.8 per cent. lower than the official inflation rate published by Rosstat.

Wherever possible, the Company has entered into long-term agreements with its suppliers, which set fixed prices and clear price indexation mechanisms. It also reserves the right to adjust the amounts of a particular product procured on a quarterly basis. The Company's payment policy in relation to supply contracts generally provides for deferred payments. Currently, the Company has long-term supply contracts with LLC EvrazHolding, JSC MMK-Metiz for the supply of various locomotive and rolling stock parts, rail tracks, rail sleepers, spare parts for its maintenance vehicles and a number of other products.

The Group purchases its locomotives and rolling stock largely from domestic manufacturers, including Transmashholding and Sinara Holdings, as well as Lyudinovskiy locomotive plant. The expansion of the Group's locomotive capacity depends heavily on the continued manufacturing capacity of Russian and CIS producers. The Group also acquired rolling stock from Siemens AG (for the high-speed route between Moscow and St. Petersburg and certain regional suburban transportation routes), from ALSTOM (for the high-speed route between St. Petersburg and Helsinki) and Talgo (for the high-speed route between Moscow and Nizhniy Novgorod).

INVESTMENT PROJECTS AND EXPANSION

The Company's investment programme represents a portfolio of investment projects with pre-approved budgets and completion deadlines. The investment programme is subject to frequent adjustment. This approach gives the Company the flexibility to respond to economic developments in Russia in general, and in particular to changes in the freight generating regions.

The Company's investment budget was approximately RUB 396.0 billion in 2014 and RUB 365.5 billion in 2015. The initially approved budget for 2016 was RUB 432.2 billion. In April 2016 and subsequently in July 2016, it was adjusted downwards to RUB 424.1 billion, primarily due to a decrease in expenses for the Far East infrastructure development project. It was further reduced to RUB 399.4 billion in December 2016. The expenditures on investment programme in 2016 (according to the Group's preliminary estimates) were RUB 388.4 billion.

The Company's current key investment projects mostly include the execution of projects, which were started before 2017, namely: development of the Baikal-Amur and Trans-Siberian rail lines, Moscow Rail Hub and reconstruction of the Maxim Gorkiy-Kotelnikovo-Tikhoreckaya-Krymskaya route with a bypass around the Krasnodar railway junction, reconstruction of the Mezhdurechensk-Taishet railroad section, construction of line Prokhorovka-Zhuravka-Chertkovo-Bataysk, a bypass around the territory of Ukraine, an upgrade of the locomotive fleet and other equipment, increasing safety of railroad transportation and certain other projects (as shown in more detail in the table below).

The Group, in cooperation with the Government, Chinese Railways and the Chinese Committee for Development and Reform, is also conducting research and design works with respect to construction of a high-speed rail link between Moscow and Kazan (which could later be extended to Yekaterinburg, and further to China). In 2015, the Company received RUB 3.7 billion in the form of equity to finance these works. See "—*Strategy —Reducing Losses in Regulated Fare Passenger Transportation and Increasing the Attractiveness of Unregulated Fare Passenger Transportation*".

The Company's key investment programme projects are set forth in the following table and are discussed in more detail below:

Project	A(1) 2012	A 2013	A 2014	A 2015	B(2) 2016	Adj(3) 2016(5)	E(4) 2016	B 2017	B 2018	B 2019
	(RUB billions)									
Execution of Government's decisions(6)										
Far East Development	-	4.1	21.7	64.2	148.6	93.6	88.3	95.8	128.2	94.4
Moscow Rail Hub	14.5	42.3	36.5	47.8	27.0	37.9	37.5	30.0	16.2	14.1
Development of infrastructure access to Black Sea and Azov Sea region (Krasnodar Rail Junction bypass)	6.5	1.5	3.8	5.8	30.2	21.8	21.0	20.4	48.9	44.9
Mezhdurechensk-Taishet route	2.2	1.7	4.7	5.9	11.5	6.7	5.1	10.6	9.7	3.6
Prokhorovka-Bataysk route (Ukraine bypass)	-	-	-	6.3	16.0	20.0	19.3	14.8	16.2	0.0
Modernisation of railway infrastructure for 2014 Winter Olympics	64.5	44.2	0.8	-	-	-	-	-	-	-
High speed line Moscow-Kazan(7)	-	-	-	5.1	5.2	9.0	9.0	6.5	0.0	0.1
Other projects	9.1	2.1	-	3.8	2.0	2.3	2.1	2.9	2.0	2.0
Subtotal	***96.8***	***95.9***	***67.5***	***138.9***	***240.5***	***191.2***	***182.2***	***180.9***	***221.2***	***159.0***
Company's own projects										
Implementation of security measures	66.9	56.1	46.9	44.3	50.8	44.5	44.6	106.7	47.6	50.7
Elimination of infrastructure bottlenecks	169.3	161.4	140.8	74.3	33.3	45.8	44.5	65.5	59.1	80.6
Increasing affordability of passenger transportation	21.8	17.2	12.8	8.1	4.9	13.0	12.6	13.4	5.8	6.7
Renovation of locomotive fleet	75.5	118.7	104.4	88.8	87.9	91.7	91.7	79.2	70.1	70.1
Other projects	49.8	17.8	23.6	11.1	14.8	13.2	12.8	13.7	6.4	6.3
Subtotal	***383.3***	***371.3***	***328.5***	***226.6***	***191.7***	***208.2***	***206.3***	***278.6***	***188.9***	***214.4***
Total	**480.1**	**467.2**	**396.0**	**365.5**	**432.2**	**399.4**	**388.4**	**459.5**	**410.1**	**373.5**

Notes:

(1) "A" represents actual figures.

(2) "B" represents budgeted figures.

(3) "Adj" represents adjusted figures.

(4) "E" represents estimated figures (the Company's preliminary estimate of actual expenditures, subject to further adjustments).

(5) As at 12 December 2016.

(6) Fully or partially funded by the Government's capital injections into the Company's share capital (including funds of the National Wealth Fund invested in preferred shares of the Company) and the Company's funds.

(7) Segregated into separate line starting from 2015 (prior was included into the "Increasing affordability of passenger transportation").

Execution of Government's decisions

Far East Development

In April 2013, the Government preliminary resolved to provide RUB 260.0 billion (in the form of ordinary and preferred shares in the amounts of RUB 110.0 billion and RUB 150.0 billion, respectively) to the Company for the development of the Far East infrastructure. RUB 150.0 billion of this amount was to be contributed using funds of the National Wealth Fund in exchange for the issue of preferred shares by the Company. In 2013 and 2015, as part of the project, the Government contributed RUB 4.6 billion and RUB 16.9 billion, respectively, in exchange for the issuance of ordinary shares by the Company. Further, RUB 50.0 billion was contributed by the Government in 2015 using funds of the National Wealth Fund through the purchase of preferred shares of the Company. The Company expects to receive remaining RUB 100.0 billion and RUB 88.5 billion as a consideration for its preferred shares and ordinary shares, respectively, at a later stage, however the details thereof are yet to be approved. While initially planned to be completed by 2017, according to the current timetable submitted by the Company to the relevant Russian ministries, the project is expected to be finalised in 2019. As at the date of this Prospectus, however, no final resolutions have been adopted by the Government. A slowdown in the project development is due in part to an overall reduction in the levels of economic activity in the region, delays in commissioning of the coal and mineral deposits and production plants, and, consequently, reduced urgency for the increase of relevant rail infrastructure capacity.

In 2015, the Company invested RUB 64.2 billion in the development of the Far East rail infrastructure, of which RUB 7.4 billion was provided by the Russian Government, RUB 7.9 billion – by the National Wealth Fund and RUB 49.0 billion represented own funds of the Company. Company's expenditures for the project in 2014 were RUB 21.2 billion. The budget originally approved for 2016 was RUB 148.6 billion but was later decreased to RUB 93.6 billion.

The funds are being invested in the upgrade of rail infrastructure and increasing the throughput capacity of the Baikal-Amur and Trans-Siberian rail lines with the aim to increase rail freight traffic to seaports of the Far East. In particular, the project provides for construction of over 400 kilometres of additional main railway lines, over 45 passing sidings, completion of the complex project for the development of the rail section between Komsomolsk-on-Amur and Soviet Gavan (Harbour), the construction of Kuznetsovsky and Dabansky tunnels as well as a number of other measures.

Moscow Rail Hub

The Moscow Rail Hub is the largest passenger transportation hub on the Russian rail system. In consists of the large and the small rings and ten rail directions. It is responsible for over 50 per cent. of suburban transportation and 23 per cent. of long-distance passenger travelling. In December 2012, the Company and the City of Moscow entered into an Agreement on Cooperation in the Field of Railway Infrastructure Development of the Moscow Railway Hub. The agreement was entered into within the framework of the Moscow Railway Hub development programme for the years 2012- 2020. The implementation of the project will increase the throughput of both freight and passenger transportation in the Moscow Region.

One of the key integral parts of Moscow Rail Hub project has been the reconstruction of the Moscow Central Ring, a 54-kilometre light overland railway system that connects the Moscow metro with suburban railway stations systems, which was opened for public use in September 2016. As at the date of this Prospectus, the Moscow Central Ring consisted of 31 transit hubs, each linked with inner-city public transport stops including 17 links to Moscow metro stations (11 of these stops will have (or already have) covered galleries for changing to metro stations and 10 of these stops will be (or have already been) connected to commuter train services). The Moscow Central Ring utilises motorised railcars built by Siemens for transportation of passengers. The construction of the Moscow Central Ring is expected to significantly improve the conditions of public passenger transportation in Moscow and also to reduce overall automobile traffic.

The Government financing of the project is directed at construction of the fourth main railway line between Moscow and Krukovo, development of high-speed suburban transportation between Moscow and Novoperedelkino, Moscow and Odintsovo, Moscow and Usovo, construction of the second main railway line to Domodedovo airport, reconstruction of the Moscow circle railway line and a few other measures. The Company's and regional funds have been invested in construction of additional railways, lines and stations at certain overloaded railway branches of the Moscow Railway Hub, which connect Moscow with its suburbs. In 2015, the Company performed significant construction and reconstruction works on the railway between Domodedovo and Aeroport rail stations, pre-construction works on the Moscow-Krukovo rail section and on the Yaroslavskoe, Gorkovskoe and Kurskoe routes.

The budget for the 2015 of the Moscow Rail Hub project was RUB 47.8 billion, including RUB 39.6 billion from the federal and Moscow city budgets and RUB 8.2 billion provided by the Company. Company's expenditures for the project in 2014 were RUB 36.5 billion. The budget originally approved for 2016 was RUB 27.0 billion but was later increased to RUB 37.9 billion.

Development of rail infrastructure around Black Sea and Azov Sea port approaches (Krasnodar Rail Junction bypass)

The Company spent on the development of rail infrastructure around Black Sea and Azov Sea port approaches (Krasnodar Rail Junction bypass) in 2014 was RUB 3.8 and RUB 5.8 billion in 2015. In 2015, the Government provided RUB 2.9 billion and the Company provided the other RUB 2.9 billion from its own funds. The budget originally approved for 2016 was RUB 30.2 billion but was later decreased to RUB 21.8 billion.

The modernisation of the rail infrastructure in this region is aimed at increasing the throughput capacity of freight transportation to seaports of the Black Sea and Azov Sea regions. The project also provides for the construction of the bypass around the Krasnodar railway, reconstruction of the Maxim Gorkiy— Kotelnikovo—Tikhoreckaya—Krymskaya route and development of railway infrastructure of the Caspian sea region.

Mezhdurechensk-Taishet route

In 2015, the Government provided approximately RUB 5.8 billion to the Company for the development of Mezhdurechensk-Taishet route and the Company additionally invested approximately RUB 0.2 billion of its own funds. Total expenditures for the project were approximately RUB 5.9 billion in 2015 and RUB 4.7 billion in 2014. The budget originally approved for 2016 was RUB 11.5 billion but was later adjusted to RUB 6.7 billion.

The reconstruction of the route between Mezhdurechensk and Taishet is aimed at ensuring freight transportation in the amount of 15 million tons of coal from Kyzil-Kuragino railway (which is still under construction) to the ports of the Far East. This also includes 12 million tons of coal to be transported from Elegestskaya coal deposit. In 2015, the Group completed construction of 3.4 km of new railways, 2.4 km of the second railway lines and electrification of 4.5 km of railways under this project.

Prokhorovka-Bataysk route

The project was commenced in 2015 and expected to be completed in 2018. The budget for the Prokhorovka-Bataysk route in 2015 was RUB 6.3 billion, including RUB 6.3 billion from the federal budget and RUB 0.04 billion of own Company funds. The approved budget for 2016 was originally RUB 16.0 billion but was later adjusted to RUB 20.0 billion.

The project includes the construction of a railway line between the Central and Southern regions of Russia, including Krasnodar sea port, by constructing Prokhorovka-Zhuravka-Chertkovo-Bataysk route. It is expected that a new line of 136.9 kilometres will start in the Belgorod Region and end in the Rostov-on-Don Region. The project is aimed at constructing a bypass around the Ukrainian border.

Modernisation of railway infrastructure for the 2014 Winter Olympics

In 2014, the Company completed infrastructure projects relating to the 2014 Winter Olympics.

High-speed line Moscow-Kazan

The construction of the high speed railway between Moscow and Kazan was approved by the Prime Minister Mr Medvedev in September 2013. The Company signed a memorandum for the cooperation in the sphere of high speed railway transportation with the Russian Ministry of Transport, the China state committee for the development and reforms and Chinese Railways, under which the parties preliminarily agreed, among others, to use Chinese experience of high-speed railways construction in developing high-speed railways in Russia. The proposed high-speed rail route between Moscow and Kazan is expected to be developed on the basis of a public-private partnership model. Currently, the parties are in the process of carrying out feasibility study and determining the project structure. No definitive documents have been signed to date.

The expected high-speed rail of 770 km will connect Moscow and Kazan and will run across six Russian regions, including Moscow city and Moscow region, cities of Vladimir and Nizhny Novgorod, Tatarstan and Udmurtia. The estimated travel time should be 3 hours 30 minutes and the maximum speed will be up to 400 km per hour.

In 2015, the Company invested RUB 5.1 billion in the feasibility study and design works for the high speed railway between Moscow and Kazan, of which RUB 3.1 billion was provided by the Government and RUB 2.0 billion was the Company's funds. In 2016, the budget was RUB 9.0 billion.

Company's own projects

Implementation of security measures

Ensuring the safety of passengers and freight on the railways and infrastructure facilities is a key element of the Group's long-term development and modernisation strategy. The Group uses its own security services, transport police and private security companies to ensure the safety of its passengers, freight and infrastructure facilities. To ensure the safety of passengers on the passenger trains, members of the transport police and private security companies are present on each long-distance and suburban train. Passenger safety and protection of railway transport infrastructure have been increased by introducing modern security measures. The Company's costs in relation to security measures relate to protection of life and health of passengers and employees and ensuring safety on the rail transport. In 2015, the Company reconstructed 2,814 km of the railway lines, bridges and other facilities to enhance safety on the railway. In 2015, the Company spent RUB 44.3 billion for enhancement of security on the rail system. In 2016, the Company originally planned to spend for the enhancement of security measures on the rail system approximately RUB 50.8 billion, which was later decreased to RUB 44.5 billion.

Elimination of infrastructure bottlenecks

The Company's main projects relating to the development of infrastructure on certain key destinations include the development of the Eastern section of the Baikal-Amur mainline as well as infrastructure renovation of the Baikal-Amur and Trans-Siberian railway lines, (re)construction of the access routes to sea ports in the North Western and Far Eastern directions, and cross-border routes in the south of Russia, as well as construction of lines connecting Kuzbas (which is one of the main coal-mining regions in Russia), located in Western Siberia, with the regions where a large part of coal users is located. Another important initiative of the Group is improving railway transportation for oil exports from Russia to China and expanding railway access to the oil and gas exploration regions of Tyumen, Hanty-Mansiisk and Yamalo-Nenets.

To increase the volumes of oil exports and improve the efficiency of oil transportation to China, the Group has continued to increase throughput capacity of railway infrastructure relating to this destination, which includes the construction of new rail lines and the electrification of railway track on the Karymskaya-Zabaikalsk route section.

The Group is in the process of building the second line between Tobolsk and Surgut, which is a part of the larger railway route between Tyumen, Surgut and Noviy Urengoi. The main purpose of this project is to improve railway access to the oil and gas exploration regions in Tyumen, Hanty-Mansiisk and Yamalo-Nenets as well as to improve the connection of these regions to other regions in Siberia, the Urals and the European part of Russia. The operational length of the new Tobolsk-Surgut route section is approximately 380 kilometres. In 2015, the Company spent approximately RUB 9.7 billion on this project and completed construction of 30.6 second rail lines, 16.6 station lines and other works. The project is scheduled to be completed in 2017.

Certain other key modernisation projects include reconstructing the rail approaches to the railway stations on the southern coast of the Gulf of Finland, rebuilding a tunnel and harbour in the Russian Far East and reconstructing a route between the European part of Russia and the Black Sea.

The Group continues the reconstruction of a section of the route between Mga and Ivangorod, towards the seaports in the Gulf of Finland. The reconstruction of this line is expected to significantly increase the efficiency of railway traffic between the north-western and central parts of Russia and the Baltic states. In addition, its goal is to provide additional transportation capacity to handle the anticipated increase in cargo flows from port Ust'-Luga towards the central Russia expected to occur upon the commissioning of the Ust'-Luga port facilities. In 2015, the Company spent approximately RUB 13.4 billion on this project and constructed 1.4 km of the second rail lines, 56.6 km of the passing sides, 1.2 km of the railway line and other related facilities. The project is scheduled to be completed by 2020.

The Company is increasing the throughput capacity of the Taishet-Komsomolsk-on-Amur route with further extension to the Sovetskaia harbour in the Russian Far East. An important milestone of the project was the completion of New Kuznetsovskiy Tunnel in December 2012. The Group is also working on construction and modernisation of railway tracks and rail stations. The completion of this project is expected to improve access to natural resources exploration regions in Siberia and Russian Far East, as well as increase the freight throughput capacity of the Sovetskaia and Vanino harbours. The overall cost of this project is approximately RUB 918.0 billion. The project is scheduled to be completed by 2020.

The Group is also reconstructing the Maxim Gorkiy-Kotelnikovo-Tikhoreckaya-Krymskaya route with a bypass around the Krasnodar railway junction, to improve the efficiency of this route. The reconstruction is expected to increase freight traffic to the Black Sea ports.

The Group is engaged in a project for the organisation of high-speed passenger transportation between St. Petersburg and Helsinki. The second phase of this project includes the migration of freight transportation from this route to a parallel route through Kamennogorsk. The Company spent RUB 0.9 billion in 2015 for the second stage of the project. The Group is also rebuilding the infrastructure of the Trubnaya-V.Baskunchak-Aksarijskaya line to facilitate access from Siberia, Urals and North-West of Russia to the southern ports of Russia, Caucasian republics and the Central Asian countries.

Increasing affordability of passenger transportation

The Group expects to improve accessibility of its passenger transportation services to more people throughout Russia by improving suburban transportation infrastructure, constructing and reconstructing of railway stations. In 2015, the Group reconstructed several railway stations, including railway stations in Ufa and Moscow. In addition, new railway stations were opened on the West Siberian Railway and Sverdlovsk Railway. The original investment budget for 2016 to spend on this programme was RUB 4.9 billion but was increased to RUB 13.0 billion as a result of reallocation of funds originally allocated for the Far East Development project. See "—*Government Support of the Group—Share Capital Injections*" and "*—Strategy—Investments in the Railway Infrastructure and Related Assets*".

Renovation of locomotive fleet and rolling stock

The projects provides both for capital repairs and purchase of new locomotives and rolling stock used for passenger transportation, including motorised railcars (electric multiple units), used in suburban passenger transportation. The Group is also promoting innovations in the field of locomotive manufacturing and works with the suppliers to set relevant technical specifications for new locomotives.

The Group allocated significant resources to upgrade its locomotive fleet. During the period between 2003 and 2015, the Company acquired 5,076 locomotives and decreased its depreciation of the locomotive fleet to 68.8 per cent. In 2015, the Group spent approximately RUB 59.9 billion on the acquisition of 500 locomotives, including 275 electric locomotives (of which 43 passenger and 232 freight locomotives) and 225 diesel locomotives (of which 92 freight, 15 passenger and 118 shunting locomotives).

In 2015, the Company purchased 68 freight locomotives developed and manufactured in Russia. In addition, new freight and passenger diesel locomotives have been delivered to the Far Eastern railway to replace retired locomotives. In 2015, the Company modernised 684 locomotives and commissioned 704 locomotives (including extension of the operating life of the locomotives) for the aggregated amount of RUB 6.3 billion.

The Group is also upgrading its passenger rolling stock. In 2015, the Company purchased 230 motorised passenger railcars (used for suburban passenger transportation) for the total amount of RUB 20.8 billion. In addition, the Group modernised 513 railcars including locomotive traction railcars and eight high-speed "Sapsan" trains at a total cost of RUB 720.8 million.

The investment budget to be spent on the renovation of locomotive fleet and rolling stock originally approved for 2016 was RUB 87.9 billion but was later adjusted to RUB 91.7 billion.

ENERGY EFFICIENCY AND SECURITY

Energy Efficiency

The Group continuously implements measures to improve the efficiency of its energy consumption. The Company's measures to improve its energy-saving management system include the development and implementation of the Programme for Energy Saving and Increasing Energy Efficiency. As a result of the implementation of the Programme for Energy Saving and Increasing Energy Efficiency, the Group's estimated costs savings were RUB 4.9 billion in 2015. Also, its greenhouse gas emissions were estimated to be reduced by 904.4 thousand tons of CO2. In addition, the Group continues to monitor (and meet) the energy saving targets of the Energy Efficiency Automated Data System.

Finally, as a result of the Group's measures to improve its energy efficiency, a 1 per cent. decrease in freight transportation traffic in 2015 resulted in the Company's decreasing its absolute energy consumption by 3.4 per cent. Also, consumption of electricity for train haulage was reduced by 1.2 per cent. and diesel consumption was reduced by 2 per cent. in 2015 as compared with 2014.

Security

Ensuring the safety of passengers and freight on the railways and infrastructure facilities is a key element of the Group's long-term development and modernisation strategy. The Group uses its own security services, transport police and private security enterprises to ensure the safety of its passengers, freight and infrastructure facilities. All elements of railway infrastructure at stations, warehouses and administrative and management buildings are equipped with fire alarm systems. To ensure the safety of passengers on passenger trains members of the transport police and private security organisations are present on all long-distance and suburban trains. Passenger safety and the protection of railway transport infrastructure have been increased by introducing modern security measures.

The protection of the most important railway transportation objects from criminal interference and terrorist activities has been transferred to a departmental security sub-division for railway transportation. Other facilities which do not affect transport safety are guarded by various private security organisations which are selected on a tender basis.

The Company has also implemented measures aimed at increasing passenger safety on high-speed railways. A new approach to security has been adopted and is currently being implemented which includes the monitoring of the railway lines to enable a fast response to any attempted intrusions or other damage.

RESEARCH AND DEVELOPMENT

The Group continues to engage in research and development in the railway infrastructure and other related sectors. Pursuant to the Government's instructions, the Company developed the Comprehensive Programme of Innovative Development of the Company for a term ending in 2020. One of the key areas for implementation of the Company's science and technology policy is infrastructure innovation. The Company's priority is a reduction in the cost of the life cycle of facilities while maintaining safety and security of the transportation process and a high standard of technological reliability. The Company's total expenditures on automation of production processes, scientific research and development in 2015 was RUB 1.3 billion, with RUB 1.6 billion spent in 2016.

COMPETITION

As the sole operator of the national railway network and as the primary provider of long-haul passenger rail transportation in Russia, the Group is not generally subject to competition in these areas of its operations by other rail operators. The Group believes that under the current regulatory regime, the environment of limited competition will remain in these markets for the foreseeable future. In addition, the substantial capital expenditures required for any company wishing to construct competing rail infrastructure poses a high barrier to entry for potential competitors.

Private participation in the Russian rail industry is currently limited to ownership, leasing and operation of railcars and limited ownership of locomotives for freight transportation only. As at 30 June 2016, there were three private operators in the long-haul passenger segment, as well as a large number of freight railcar owners and private operators, collectively owning approximately 915.0 thousand freight railcars or approximately 84 per cent. of Russia's total freight rolling stock. The largest of these is Freight One, a subsidiary of UCLH (prior to October 2010 Freight One was controlled by the Company). See "*Operating and Financial Review—Significant Factors Affecting Results of Operations*". Private freight railcar operators, other than Freight One, are generally active in specialty freight segments such as oil and petroleum products, coal, mineral fertilisers or automobile transportation. Their ownership is usually associated with large industrial conglomerates. Major competitors of this type include SUEK, LUKOIL-Trans, Gazpromtrans and Mecheltrans. In addition, there are a number of independent Russian freight railcar operators, including Globaltrans, Neftetransservice, RTK, UVZ-Logistic, and Transoil.

The level of competition in freight transportation varies depending on the type of freight. The Group believes that private oil and oil product transportation is characterised by higher levels of competition than that of ferrous metals or scrap metal, due to generally higher pricing.

In addition, the Group faces general competition in both the passenger and rail freight markets from alternative transportation, including pipelines for oil and gas transportation, truck transportation, air transportation and river barge transportation when waterways are navigatable.

While the Group together with the rail suburban passenger companies, in most of which the Company holds a controlling stake, provides virtually all of the suburban and long-haul rail passenger transportation services in Russia, several privately owned companies operate long-haul passenger services in certain areas. In 2016, three major private transportation companies offered long-haul rail transportation service, namely JSC TK Grand Service Express, LLC Tverskoy Express and JSC TransClassService. In 2015 and 2016, the share of passenger turnover by privately-operated passenger trains was 1.4 per cent.

FINANCIAL MANAGEMENT

The Company's financial management is provided by a centralised management structure and management units within its subsidiaries. As part of the management reorganisation, the Department of Planning and Budgeting and Department for Staff Organisation Matters were transformed and united into the Economics Department. Undertaken by the Corporate Finance Department, the Economics Department and the Treasury, the Company's financial management consists of a coordinated system including the Company's financial plan, budgetary management and day-to-day financial management. The Company's financial plan identifies key benchmarks in the medium-term. The Company's budget consists of a series of budgetary targets on an annual and quarterly basis and short-term financial management is provided on a monthly and quarterly basis. The Company's subsidiaries generally arrange their budgetary management and financial plans independently from the Company.

The Company's financial plan, prepared by the Corporate Finance Department, is a financial forecast that defines strategic financial performance and financial targets for the medium-term and sets goals to be achieved on an annual basis.

The Company's budgetary management, undertaken by the Economics Department, focuses on annual and quarterly budgets over the near-term with reference to the strategic goals identified in the Company's financial plan. The Company's budgetary management is effected through a series of budgetary targets for each level of the Company's operations.

Short-term financial management is provided by managing volumes and targets for accounts receivable and accounts payable at the operational level for each branch of the Company.

ENVIRONMENTAL PROTECTION, HEALTH AND SAFETY

Rail transport is considered one of the world's most environmentally friendly forms of transport. The energy efficiency of rail transport is two to three times higher than that of automobile transport as regards both freight and passenger transport. According to its estimates, the Company is responsible for less than one per cent. of pollution in Russia. Furthermore, the Company's management considers active participation in reducing its negative impact on the environment to be a necessity. The Company's programmes are aimed at setting up a "green" economy based on saving energy, environmentally-friendly technologies, renewable and alternative energy sources, and integrated solutions for using waste in its day-to-day operations.

The Company is systematically working to remedy the effects of pollution of railway transportation, to enhance environmentally friendly operations and to assist in the improvement of environmental laws. The Company has developed and is implementing its Enhanced Environmental Responsibility Programme, has approved Conservation Activities, an Environmental Protection Policy, and set guidelines for reducing pollution and energy required for services. The Company's total investments in environmental safety measures, including projects aimed at improving energy efficiency, were approximately RUB 5.1 billion in 2015 and approximately RUB 5.5 billion in 2016. In 2015, emissions into atmosphere of pollutants from stationary sources were reduced by 7 per cent., water use was reduced by 3.7 per cent., and discharge of polluted waste water was reduced by 20 per cent., according to the Group's estimates.

The Group is currently involved in administrative proceedings in respect of a contamination with environmentally harmful substances, including petrochemicals, of a right-of-way area of the Orekhovo-Zuevo railway station in the Moscow Region. Russian environmental authorities together with the prosecutor's office are conducting an investigation to assess the damage and to establish whether any waterways have been affected. No claims, other than a requirement to effect a clean-up of the contaminated area, have been brought against the Group or its officials.

EMPLOYEES

The following table sets forth the average number of Company employees in each of the key categories for the six months ended 30 June 2016 and for the years ended 31 December 2015 and 2014:

	For the six months ended 30 June	For the years ended 31 December	
	2016	2015	2014
Sales	11,389	11,364	10,726
Traction and traffic[(1)]	249,945	256,176	262,884
Infrastructure[(2)]	309,322	324,624	335,438
Other (including supplies, accounting, telecommunication, etc.)	175,395	185,211	214,818
Total	**746,051**	**777,375**	**823,866**

Notes:

(1) Includes employees, engaged in locomotive and motorised railcars operations, as well as dispatching.

(2) Includes employees, engaged in maintenance and repair of infrastructure.

The majority of the Company's employees are members of the railway transport trade union, ROSPROFZHEL, which is one of the largest trade unions in Russia. Pursuant to the Collective Bargaining Agreement ("**CBA**"), employee wages are increased by indexation linked to the CPI and increased labour productivity. The Group has implemented a special key performance indicator system that enables it to identify and compensate its employees according to performance.

The CBA also provides for additional time off for childbirth and marriage and benefits for children and maternity leave. Employees are also entitled to a social package, which includes medical insurance under the Company's voluntary medical insurance policy, partially-compensated treatment at the Company's health resorts, financial assistance for the purchase of a residence and one-off payments upon retirement, among others. See Note 17 to the 2015 and 2014 Consolidated Financial Statements.

Recently, the Company implemented a cost reduction programme to reduce its workforce-related expenses, by outsourcing some of its business operations. In addition, the Company limited the hiring of new employees to replace retired employees. As a result, the average Company's employees count decreased by approximately 46,500 employees in 2015 (compared to the average number of employees in 2014), and further by approximately 31,300 in the first half of 2016 (compared to the average number of employees in 2015). See "*Operating and Financial Review—Recent Developments—Russia Economy*". Employees of the Company's subsidiaries are generally members of trade unions similar to those of the Company's employees and receive comparable benefits.

Pension Plans

In addition to pension benefits provided by the state, the Group provides its employees with a corporate pension plan. The Group's employees contribute to the non-state pension fund Blagosostoyanie ("**Blagosostoyanie**"). The Group also provides pensions to the former employees through charity fund Pochet. Pochet provides pensions to former employees who are not eligible for the pension plan administered by Blagosostoyanie. As at 30 June 2016, the Group had approximately 33.0 thousand employees participating in defined benefit pension plans administered by non-state pension fund Blagosostoyanie and approximately 281.0 thousand former employees eligible for the post-retirement benefit programme administered by charity fund Pochet.

Education and Science

The Group has a large educational and training network for its employees and their children, ranging from pre-schools and schools to employee-training and technical training centres and research and development institutes specialising in railway transportation and engineering. In addition, the Federal Agency for Railway Transportation oversees a number of universities that train specialists for the railway industry. The Corporate University of Russian Railways was established in 2010 in order to provide additional business training for the Group's management. In 2015 and 2016, approximately 8.8 thousand and 9.8 thousand, respectively, of Company's employees participated in corporate educational programmes provided by the Corporate University of Russian Railways.

INSURANCE

The Group carries insurance for its assets in line with market practice in Russia, which are usually renewed every year. These include insurance cover for real estate and other fixed assets, rolling stock (covering freight cars and passenger cars), locomotive stock, civil liabilities insurance for the Company as a freight transporter and proprietor of infrastructure (covering third-party claims against the Company), insurance for leased rolling stock, electric train insurance, employee accident insurance, medical insurance and directors and officers liability insurance. The Company chooses insurers on a tender basis in accordance with applicable Russian law and procurement procedures adopted by the Company. The total value of the coverage is more than RUB 6,000 billion. The Group also insures certain risks with regard to its international operations and international projects. The Group has not made any material insurance claims under its insurance policies.

LEGAL PROCEEDINGS

From time to time, the Group is involved in litigation in the ordinary course of its business activities. As at 31 December 2015 the Group has created a provision of RUB 13.1 billion for a number of court proceedings arising from its operations in the ordinary course of business. This provision was reduced as at 30 June 2016 in the 2016 Unaudited Interim Condensed Consolidated Financial Statements to RUB 10.8 billion, reflecting an overall increase in the probability of successful outcome of litigations in which the Group is involved in the ordinary course of business. Such litigation has not had a material effect on the Group's operating results or financial position.

SIGNIFICANT LICENCES

The Company has a hazardous freight rail carrier licence and a passenger transportation licence issued for an unlimited time period. Railway transportation of cargoes (except hazardous cargoes) is no longer subject to licensing.

As at 30 June 2016, the Company engaged in approximately 40 licensed activities, including loading and unloading hazardous freight in railway transportation, loading and unloading hazardous freight, various design and construction works and communications licences, as well as licences for the use of classified information and transportation of nuclear substances.

INFORMATION TECHNOLOGY

The importance and sophistication of the logistics, dispatching, rolling stock tracking and freight tracing components of the Group's services require the employment of advanced information technology systems and software that are sufficient for the Group's current needs and are scalable to support the growth in turnover of the Group.

The Group employs modern information technology to ensure its systems provide a high level of service for its freight customers, including systems which monitor trains and register cargo automatically.

These railway information systems work together with the information systems used in other modes of transportation, including dock-side stations and ports. These multipurpose technologies are based on digital communication channels that control all 16 regional railways. The link-up between these technologies allows the commercial and performance aspects of freight traffic to take place through electronic data exchange.

The Company owns, and its TransTelecom subsidiary operates, a fibre-optic telecommunications network of over 76,000 kilometres in length along the Company's main railway routes. It covers Russia's main populated and industrial areas. The network also has links to all main ports and customs terminals, allowing the integration of other modes of transportation into the information exchange.

DESCRIPTION OF THE COMPANY MANAGEMENT

GENERAL

In accordance with Federal Law "On Joint Stock Companies" No. 208-FZ dated 26 December 1995, as amended (the "**Joint Stock Companies Law**") and the Company's charter, as adopted by Government Regulation No. 585, dated 18 September 2003 (as amended), the Company's operations are managed by the general meeting of shareholders, the Board of Directors, the Company's management board (the "**Management Board**") and the Company's president. As the Company has the Russian Federation as its sole shareholder, the Russian Federation, represented by the Government exercises all the powers of the general meeting of shareholders and is the supreme management body of the Company. The Board of Directors is responsible for formulating the Company's strategy. The Management Board and the Company's president are responsible for implementing the Company's strategy and for managing the Company on a day-to-day basis. The internal audit commission of the Company (the "**Internal Audit Commission**") reviews financial and business activities of the Company.

The Company believes that there are no potential conflicts of interest between any duties of the members of the Company's administrative, management or supervisory bodies owed to the Company and their own private interests and/or other duties.

SOLE SHAREHOLDER

The general meeting of shareholders is the supreme management body of the Company. The Government exercises all powers of the general meeting of shareholders on behalf of the Russian Federation. Generally, under Russian law, if the Russian Federation is the sole shareholder in a company, the decisions of the sole shareholder will be made in the form of a decree of the Federal Agency for the Management of State Property (*Rosimuschestvo*). However, Federal Law "On Peculiarities of Management and Disposition of Railway Transport Property" No. 29-FZ dated 27 February 2003, as amended, and the charter of the Company specifically provide that all the powers of the sole shareholder shall be exercised by the Government, acting on behalf of the Russian Federation. Accordingly, all decisions of the sole shareholder are taken in the form of regulations and decrees of the Government. The list of issues to be resolved by the sole shareholder is submitted to the Government by the Ministry of Economic Development.

The sole shareholder has the powers to amend the charter of the Company, reorganise or liquidate the Company, elect members of the Board of Directors and Internal Audit Commission, determine the number, category and nominal price of authorised shares, as well as rights arising out of the ownership of shares, increase or reduce the charter capital, approve the annual report, the annual accounts and major transactions and interested party transactions in accordance with the Joint Stock Companies Law.

In 2016, the results of the annual general meeting of shareholders were adopted in the form of Government Regulation No. 1370-r, which appointed the current members of the Board of Directors (see "*−Board of Directors*"), members of the Internal Audit Commission and internal auditor of the Company. By way of the same Government Regulation, the Government also approved annual accounts, balance sheet, profit and loss statement of the Company for 2015, as well as allocation of profits and losses of the Company. Finally, the same Government Regulation No. 1370-r provided for the payment of dividends and of remuneration to the members of the Board of Directors and to the members of the Internal Audit Commission.

There have also been several extraordinary meetings in 2016 to increase the charter capital and remove and replace the Board of Directors' members. Each of the decisions was made in the form of a Government Regulation. In particular, the Government approved, by Government Regulation No. 160-r dated 5 February 2016, an increase in the share capital of the Company in the amount of RUB 47.4 billion. The Government also approved, by Government Regulation No. 2706-r dated 17 December 2016, an increase in the share capital of the Company in the amount of RUB 25.0 billion. Government Regulation No. 893-r dated 13 May 2016 appointed new members of the Board of Directors, whose powers were then confirmed by Government Regulation No. 1370-r dated 30 June 2016.

In 2015, the resolutions of the annual general meeting of shareholders were taken in the form of Government Regulation No. 1233-r dated 30 June 2015. There were also a few extraordinary meetings in 2015, among other things, to adopt amendments to the Company's charter, increase the charter capital, and remove and replace the Board of Directors' members. Each of the decisions was made in the form of a Government Regulation.

In 2014, the resolutions of the annual general meeting of the shareholders were taken in the form of Government Regulation No. 1232-r dated 4 July 2014. There were also a few extraordinary meetings in 2014 to adopt amendments to the Company's charter and to increase the charter capital. Each of the decisions was made in the form of a Government Regulation.

BOARD OF DIRECTORS

The Board of Directors acts in accordance with Russian law, the Company's charter and the regulation on the Board of Directors adopted by Government Regulation No. 265-r dated 25 February 2004 (as amended). The Board of Directors is responsible for the general management of the Company's activities and meets several times each year.

The Board of Directors currently consists of 12 members, appointed in accordance with Government Regulation No. 1370-r dated 30 June 2016, adopted by the Government as the sole shareholder of the Company. Three of the directors are designated by the Government as independent, which means that they can vote on all matters considered by the Board of Directors without special Government directives. The Government does not disclose the criteria it uses to make such designations of independent Directors.

Mr Arkadiy Dvorkovich is the current chairman of the Board of Directors. Other members of the Board of Directors mostly represent various private and state owned companies. Members of the Board of Directors are appointed each year for a term lasting until the next annual decision of the Government on composition of the Board of Directors and may be re-elected an unlimited number of times. The Government acting on behalf of the sole shareholder may also terminate the authority of all members of the Board of Directors before the expiration of their term. Members of the Management Board may not comprise more than 25 per cent. of the Board of Directors.

The powers of the Board of Directors are broader than minimum powers of the board of directors under the Joint Stock Companies Law and include, among other things, the power to: determine the priorities of the Company's operations, approve annual budgets, determine the agenda for the sole shareholder, issue bonds or other securities in accordance with the Joint Stock Companies Law, appoint the Management Board, decide on early termination of the powers of the Management Board, determine the remuneration of the chairman of the Management Board, recommend to the sole shareholder the amount of dividends to be declared, use the reserve and other funds, establish branches and representative offices, approve certain major transactions and interested party transactions (except such major or interested party transactions that require the approval of the sole shareholder), and approve any transactions above RUB 3.0 billion unless such transactions are made in the ordinary course of business. In addition, the Board of Directors is authorised to approve most significant decisions made by subsidiaries of the Company.

The sole shareholder may resolve to pay remuneration to the members of the Board of Directors for fulfilling their roles and/or compensation of costs incurred by them in connection with such fulfilment. The members of the Board of Directors together received the remuneration in the amount of RUB 42.1 million in 2015 and RUB 40.3 million in 2014 under the respective resolutions of the sole shareholder. The aggregate remuneration of the Board of Directors members in 2016 was approved by Government Regulation No. 1370-r in the amount of RUB 39.4 million.

In order to improve its corporate governance standards and to ensure comprehensive review of the matters falling within its competence, the Board of Directors has established committees consisting of its members, the Company's employees and third parties. Such committees act in accordance with the regulations approved by the Board of Directors.

As at the date of this Prospectus, the following committees of the Board of Directors have been established:

- Committee for strategic planning;
- Audit and risk committee;
- Employment and Remuneration committee; and
- Committee for priority investment projects.

The committee for strategic planning reviews the issues regarding business priorities for the Company, annual budgets and investment programme, establishment of subsidiaries, improvement of management of the Company, ensuring effective cooperation between the Company and Russian regions and local governments. Based on their review the committee for strategic planning issues recommendations and proposals for the Board of Directors.

The audit and risk committee analyses the implementation of financial and business plans of the Company and its subsidiaries, and the effectiveness of internal control systems, interacts with the Internal Audit Commission and the external auditor of the Company.

The employment and remuneration committee develops proposals for the Board of Directors on remuneration and recommends nominees to the Company's management and control bodies.

The committee for priority investment projects reviews and supervises implementation of the Company investments projects. In 2015, the Committee for priority investment projects reviewed the project for the reconstruction and development of the Moscow Rail Hub including the Moscow Central Ring and the Development of the Baikal-Amur and Trans-Siberian rail lines.

Committees' decisions are regarded only as recommendations and have no binding force for the Board of Directors.

The Board of Directors meets at the main office of the Company, the address of which is Novaya Basmannaya 2, Moscow, 107174, Russia. The members of the Board of Directors and some of their external positions of responsibility are set out below.

The schedule of the meetings of the Board of Directors is approved in advance and usually it meets at least several times per year.

The table below shows the current members of the Board of Directors:

Name	**Year of birth**	**Position**	**Year of first appointment**
Oleg Belozerov	1969	Member of the Board of Directors	2015
Grigory Berezkin	1966	Member of the Board of Directors	2010
Kirill Dmitriev	1975	Member of the Board of Directors	2016
Arkadiy Dvorkovich	1972	Chairman of the Board of Directors	2015
Andrey Ivanov	1975	Member of the Board of Directors	2014
Hartmut Mehdorn	1942	Member of the Board of Directors	2011
Sergey Nedoroslev	1963	Independent director of the Board of Directors	2016
Nikolay Podguzov	1974	Member of the Board of Directors	2016
Alexander Ryazanov	1953	Member of the Board of Directors	2008
Vasiliy Sidorov	1971	Independent director of the Board of Directors	2012
Sergey Stepashin	1952	Independent director of the Board of Directors	2014
Alexey Tsydenov	1976	Member of the Board of Directors	2016

Oleg Belozerov (Member of the Board of Directors)

Mr Belozerov has been a member of the Board of Directors and the president of the Company since 2015. Mr Belozerov is currently also serving as First Deputy Minister of Transport. He was Deputy Minister of Transport from 2009 to 2015. Mr Belozerov chaired Federal Road Agency from 2004 to 2009 and JSC Russian Fuel Company from 2002 to 2004. He also worked as deputy director in JSC LOMO from 2001 to 2002. From 2000 to 2001 Mr Belozerov served in the administration of the representative of the President of the Russian Federation in the North-Western region.

Mr Belozerov graduated from the Saint-Petersburg University of Economic and Finance in 1992.

Grigory Berezkin (Member of the Board of Directors)

Mr Berezkin has been a member of the Board of Directors since 2010. Mr Berezkin is currently also serving as a member of the management board of the Russian Union of Industrialists and Entrepreneurs ("**RSPP**"), chairman of the commission for the electric power of the RSPP, chairman of the commission for independent directors of the RSPP and member of the general council of the Business Russia union. He is chairman of the board of directors of ESN. He was member of the board of directors of JSC SG-Trans from 2008 to 2011, of First Freight Company from 2007 to 2010 and RAO EES of Russia from 2004 to 2007. He also worked as chief operating officer in ESN Energo from 2000 to 2003.

Mr Berezkin graduated from Moscow state University in 1988.

Kirill Dmitriev (Member of the Board of Directors)

Mr Dmitriev was appointed as a member of the Board of Directors in 2016. Mr Dmitriev is currently also serving as chief executive officer of the Russian Direct Investment Fund. He is also member of the board of directors of the Rostelecom, Gazprombank and Medical Group Mother and Child. Mr Dmitriev serves as Investment Council under the Chairman of the Russian State Duma, vice-president of the RSPP, member of the BRICS and Asia-Pacific Economic Cooperation (APEC). He started his career in Goldman Sachs and McKinsey & Company. He has also managed other direct investment funds.

Mr Dmitriev holds a BA in economics with honours and distinction from Stanford University and an MBA with high distinction from Harvard Business School.

Arkadiy Dvorkovich (Chairman of the Board of Directors)

Mr Dvorkovich has been the Chairman of the Board of Directors since 2015. Mr Dvorkovich is currently also serving as Deputy Prime Minister of the Russian Federation and expert in the Centre for Strategic Research. He also served as Assistant to the President of the Russian Federation from 2008 to 2012, as Head of Expert Group for the President of the Russian Federation from 2004 to 2008 and as Deputy Minister for Economic Development of the Russian Federation from 2001.

Mr Dvorkovich graduated from Moscow State University with a degree in Economic Cybernetics in 1994, obtained a Masters in Economics from the New Economic School in 1994 and a Masters in Economics from Duke University North Carolina in 1997.

Andrey Ivanov (Member of the Board of Directors)

Mr Ivanov has been a member of the Board of Directors since 2014. Mr Ivanov is currently also serving as Deputy Minister of Finance of the Russian Federation and member of the council of the Ministry of Finance of the Russian Federation. Mr Ivanov is chairman of the board of directors of LLC Investment Company SM.art. He was as deputy director of Department of Strategic Management, Government Programs and Investment Projects of Russian Federation from 2008 to 2012. Mr Ivanov was the vice-president and first vice-president of Sibirskiy Mashinery Holding from 2004 to 2008. He served as the leading expert in Administration of the Krasnoyarsk district and, as counsel for legal matter of the governor of the Krasnoyarsk district from 1998 to 2004.

Mr Ivanov graduated from Krasnoyarsk State University in 1997 and Russian Presidential Academy of National Economy and Public Administration in 2010.

Hartmut Mehdorn (Member of the Board of Directors)

Mr Mehdorn has been a member of the Board of Directors since 2011. Mr Mehdorn is currently also serving as member of the consulting boards of different companies. He was chairman of the Berlin Brandenburg from 2013 to March 2015. Mr Mehdorn also served as chairman of the management board, and as a member of the board of directors, of Air Berlin from 2009 to 2013. From 1999 to 2009 he was chairman of the management board of the Deutsche Bahn AG in Berlin.

Mr Mehdorn graduated from the Technical University of Berlin.

Sergey Nedoroslev (Independent director of the Board of Directors)

Mr Nedoroslev was appointed as a member of the Board of Directors in 2016. Mr Nedoroslev is currently also serving as a member of the Trustee Council of the Moscow School of Political Studies and a council member of the non-profit partnership association Club 2015, an informal association of Russian professional managers and entrepreneurs. Mr Nedoroslev is chairman of the Board of Kaskol Group of Companies and member of the board of directors in a number of companies. In 1988, he co-founded the first private company in the Altai region, specialising on software development. After which he expanded his interests into aerospace industry and established Kaskol Group, which became one of the largest industrial holding groups.

Mr Nedoroslev graduated from Altai State University with degrees in radio physics and electronics in 1985 and from the Moscow Institute of Electronics.

Nikolay Podguzov (Member of the Board of Directors)

Mr Podguzov was appointed as a member of the Board of Directors in 2016. Mr Podguzov is currently also serving as the Deputy Minister of the Economic Development of the Russian Federation. He also served as Deputy Director of the Economy and Finance Department of Government of the Russian Federation from 2012 to 2013. He was a Department Head, the Administrative Director of ZAO VTB Capital from 2010 to 2012. From 2006 to 2010 he worked as vice-president and the administrative director of Renaissance Capital - Financial Consultant. From 2003 to 2006, he worked as vice-president of the department of JSC Investment Bank Trust. He held different positions (the Leading Specialist, Chief Specialist, Department Advisor) in the Ministry of Finance of the Russian Federation from 2000 to 2003.

Mr Podguzov graduated from the Saint Petersburg State Institute of Technology in 1997 and the Moscow State Institute (University) of International Relations of Russia in 2000.

Alexander Ryazanov (Member of the Board of Directors)

Mr Ryazanov has been a member of the Board of Directors since 2008. Mr Ryazanov is currently also serving as a member of the board of directors of LLC Petrotul, member of the management board of Russian Union of Industrialists and Entrepreneurs (RSPP), chief operating officer of Management Company "Plushiha" and chairman of the board of directors of Biotekhnologii and Russian Holding Company. He was deputy chairman of the management board and member of the management board of Gazprom from 2001 to 2006.

Mr Ryazanov graduated from Gubkin Russian State University of Oil and Gas (National Research University) in 1979 and All-Russian Distance Institute of Finance in 1993.

Vasiliy Sidorov (Independent director of the Board of Directors)

Mr Sidorov has been a member of the Board of Directors since 2012. Mr Sidorov is currently also serving as member of the Government expert council and as a member of the VTB shareholders council. He works for Aeroflot as head of audit committee of the board of directors. He is the chief operating officer of the LLC Arida and managing partner of Euroatlantic Investments Ltd, and has held these roles since 2010. He was president of Mobile Telephone Service (MTS) from 2003 to 2006 and first vice-president of Systema-Telecom from 2000 to 2003.

Mr Sidorov graduated from the Moscow State Institute (University) of International Relations of Russia in 1993 and holds a business degree from the University of Pennsylvania.

Sergey Stepashin (Independent director of the Board of Directors)

Mr Stepashin has been a member of the Board of Directors since 2014. Mr Stepashin is currently also serving as member of the board of directors of Soyuzneftegaz. He was head of the Account Chamber of the Russian Federation, the federal audit agency, from 2000 to 2013. Mr Stepashin was elected to the State Duma in 1999 and headed the Commission for legislative support of anti-corruption. He served as first deputy Minister for Defence of the Russian Federation, as Head of the FSK (the predecessor of the FSB), as Minister of Justice, as Prime Minister and as Minister of Internal Affairs from 1990 to 1999.

Mr Stepashin graduated from the Highest Political Institute of Ministry of Internal Affairs of the USSR in 1973, the Military Political Academy in 1981 and the Finance Academy under the President of Russian Federation in 2002.

Alexander Tsydenov (Member of the Board of Directors)

Mr Tsydenov was appointed as a member of the Board of Directors in 2016. Mr Tsydenov is currently also serving as deputy Minister of Transport of the Russian Federation. He was head of the Federal Agency for Railway Transportation from 2012 and he worked as deputy director of the Government Department of Industry and Infrastructure from 2009 to 2012. Mr Tsydenov was deputy director of Government Department of state policy of the railway transport from 2006 to 2009. He worked as chief operating officer of the Far Eastern Transport Group from 2004 to 2006 and as chief operating officer of Dalneftetrans from 2002 to 2004.

Mr Tsydenov graduated from Far Eastern State University in 1998 and Russian Presidential Academy of National Economy and Public Administration under the President of the Russian Federation in 2011.

THE PRESIDENT OF THE COMPANY

Under Russian law, the president of the Company manages the day-to-day operations of the Company and has the authority to act in the Company's name without power of attorney. He represents the Company's interests, approves the staffing plan, enters into contracts, unless they are subject to approval by the Board of Directors or the sole shareholder, issues orders and decrees, gives instructions mandatory for all the employees of the

Company, and issues internal documents relating to current activities (with the exception of internal documents that are within the competence of the Company's other management bodies). The president of the Company is appointed by the Government for a period of three years. Mr Belozerov, the current president, was appointed as the president of the Company in August 2015.

Born in 1969, Mr Belozerov graduated from the Saint-Petersburg University of Economics and Finance in 1992. From 1998 to 2000, Mr Belozerov worked in JSC Lenenergo as a commercial director. In 2000, Mr Belozerov moved to the administration of the President Representative of the Russian Federation in the North-Western region. From 2001 to 2004, Mr Belozerov worked in JSC LOMO as deputy director and as director of JSC Russian fuel company. From 2004 to 2009, he served as the head of the Federal Road Agency of the Russian Federation.

Mr Belozerov became Deputy Minister of Transport in October 2009 and First Deputy Minister of Transport in 2015. In 2014, he was appointed a member of the Board of Directors. In August 2015, Mr Belozerov became the president of the Company.

MANAGEMENT BOARD

The Management Board is the collective executive body of the Company and also has important functions in supervising its on-going operations. Members of the Management Board (except the chairman of the Management Board) are appointed, and may be dismissed by the Board of Directors. The president of the Company serves as chairman of the Management Board.

The Management Board submits to the Board of Directors for consideration, among other things, the business priorities of the Company, annual budgets and investment programmes. The Management Board also develops and approves the Company's current business operation plans, ensures implementation of the Company's investment, financial and other projects and resolves other issues relating to the current activities of the Company submitted to it by the Company's president, the Board of Directors and the sole shareholder.

The Management Board meets on an as-needed basis at least once per month.

As at the date of this Prospectus, the membership in the Management Board is as follows:

Name	Year of birth	Current position	Since
Oleg Belozerov	1969	Member of the Board of Directors, president of the Company and chairman of the Management Board	2014 2015
Mikhail Akulov	1960	Member of the Management Board, vice-president for Passenger Transportation	2016
Salman Babaev	1955	Member of the Management Board, vice-president for Centre of Corporate Transportation Services	2015
Vadim Bynkov	1962	Member of the Management Board, head of the Legal Department	2007 2009
Anatoly Chabunin	1960	Member of the Management Board, vice-president for internal control and audit	2015
Nikolay Fedoseev	1966	Member of the Management Board, vice-president for corporate safety	2015
Valentin Gapanovich	1955	Member of the Management Board, senior vice-president (chief engineer)	2003 2008
Olga Gnedkova	1960	Member of the Management	2005

Name	Year of birth	Current position	Since
		Board, head of the Department of the Corporate Finance	
Pavel Ivanov	1964	Member of the Management Board, vice-president for Organisation of Railway Transportation	2015
Petr Katsiv	1953	Member of the Management Board, vice-president of the Company's Moscow Hub	2014
Anatoly Krasnoschek	1959	Member of the Management Board, first vice-president for business and operational activities	2015
Sergey Maltsev	1963	Member of the Management Board, vice-president for Corporate and Strategic Development	2015
Anatoly Mescheryakov	1966	Member of the Management Board, vice-president – official secretary	2012
Vadim Mikhailov	1969	Member of the Management Board, senior vice-president for economics and finance	2009
Alexander Misharin	1959	Member of the Management Board, first vice-president for High-Speed Development	2012
Vadim Morozov	1954	Member of the Management Board, senior counsel to the Company's president	2005 2015
Vyacheslav Pavlovskiy	1956	Member of the Management Board, vice-president for international relations	2016
Dmitry Shahanov	1961	Member of the Management Board, vice-president for HR and Social Affairs	2009
Shevket Shaidullin	1961	Member of the Management Board, vice-president, head of the Department of the Traffic Safety	2012
Andrey Starkov	1969	Member of the Management Board, vice-president for subsidiaries and corporate governance	2016
Oleg Tony	1964	Member of the Management Board, vice-president for Construction Sector	2005 2006
Oleg Valinskiy	1961	Member of the Management Board, vice-president and the head of the Company's locomotive division	2016

Name	Year of birth	Current position	Since
Gennady Verkhovikh	1959	Member of the Management Board, vice-president for Infrastructure Central Department	2015

MANAGEMENT OF SUBSIDIARIES

Although formally the Company does not act as a management company in respect of its subsidiaries, the Company is able to control all material decisions made by its subsidiaries. The Company, as a sole or majority shareholder, exercises control over activities of its subsidiaries:

- by appointing its representatives to the boards of directors of subsidiaries;
- by issuing directives to its representatives serving in the management bodies of its subsidiaries; and
- by approving certain transactions and increases in their charter capital.

By exercising its powers as a shareholder, the Company, as a rule, appoints the board of directors and the chief executive officer of each of its subsidiaries. This enables the Company to supervise day-to-day activities of its subsidiaries and facilitates the adoption of uniform operating and financial management practices across the Group.

In addition, the charter of the Company requires the Board of Directors to determine its position before certain decisions can be taken by the subsidiaries' boards of directors or general meetings of shareholders and the Company's representatives are instructed to vote accordingly. These decisions include the reorganisation of subsidiaries, winding-up, determination of the number, par value and category (types) of authorised shares and the rights attached to such shares, increases in charter capital, the splitting and consolidation of shares, and approval of major transactions.

INTERNAL AUDIT COMMISSION

The Internal Audit Commission of the Company is a permanent internal control body responsible for monitoring the Company's operational and financial activities. It acts on the basis of Russian law, the Company's charter and the regulation on the Internal Audit Commission adopted by Government Regulation No. 265-r dated 25 February 2004 (as amended).

The Internal Audit Commission is responsible for controlling the preparation of accurate and reliable statutory accounts and statutory financial statements of the Company and other information about its financial and operational activity and assets, controlling compliance with Russian law of the Company's accounts and provision of financial and accounting reports and other information to the authorities and shareholders in accordance with Russian law, developing recommendations to increase the efficiency of the Company's management of its assets and the financial and operational activity of the Company, reducing the Company's financial risks, improving the Company's internal controls, seeking to ensure the systematic operational control of the Company's financial and management activity, informing the Government about the results of audits on the Company's activities in a timely manner, making recommendations to improve financial and operational discipline, the system of internal controls and increase the Company's effectiveness and efficiency.

The Internal Audit Commission is appointed by the Government. Internal Audit Commission members may not serve simultaneously on the Board of Directors or hold other positions in the Company's management structures.

In accordance with Government Regulation No. 1370-r dated 30 June 2016 the Internal Audit Commission, as at the date of this Prospectus, consists of the following seven members: Nataliya Annikova, Alexander Varvarin, Victoria Semeryakova, Evgeniy Stolyarov, Maxim Eronin, Vasiliy Shipilov and Boris Luboshits.

EXTERNAL AUDITORS

In accordance with Russian law the Company's Russian statutory financial statements are subject to the mandatory external audit and the Company must engage an external auditor (the "**Statutory External Auditor**"). The Statutory External Auditor carries out an audit of the Company's financial statements prepared in accordance with Russian accounting standards and prepares a report on its results for submission to the Company's president and the sole shareholder.

The Statutory External Auditor is approved by the sole shareholder based on the results of a competitive tender; the price of their contract is finally determined by the Board of Directors. JSC BDO Unicon (Moscow), the current Statutory External Auditor was approved by Government Regulation No. 1370-r dated 30 June 2016. JSC BDO Unicon has audited the Company's statutory financial statements since 2005.

The Company also prepares consolidated financial statements in accordance with IFRS. Ernst & Young LLC has audited the Group's IFRS consolidated financial statements in accordance with International standards on auditing since 2003.

RELATED PARTY TRANSACTIONS

The following is a summary of the Group's most significant transactions with related parties for the six months ended 30 June 2016 and 30 June 2015 and the years ended 31 December 2015 and 31 December 2014. For further details of these and other transactions see Note 22 to the 2016 Unaudited Interim Condensed Consolidated Financial Statements and Note 28 to the 2015 and 2014 Consolidated Financial Statements.

The Russian Federation owns 100 per cent. of the Company's share capital. All members of the Board of Directors were nominated by the Government and represent federal ministries or Government controlled entities, as well as non-Government controlled entities. See "*Description of the Company Management—Board of Directors*".

The Group's transactions with the Government, with other entities directly or indirectly controlled by the Government, with associates (being entities over which the Company has significant influence), joint ventures with entities controlled or jointly controlled by the Company's management personnel, directors and other related parties occur in the ordinary course of business and include, but are not limited to: the provision of freight and passenger transportation services, the rent of PP&E to related parties, the purchase of fuel and electricity for operational needs, the purchase of rolling stock, the purchase of construction services, transactions with state-controlled banks and transactions with pensions funds. The Company believes that these transactions will continue in the foreseeable future.

The Group engaged in the following significant transactions with related parties in the six months ended 30 June 2016 and 30 June 2015 and the years ended 31 December 2015 and 30 December 2014 (amounts of revenues, expenses and purchases shown below include VAT where applicable):

- Revenues from transportation services were: RUB 111.3 billion and RUB 116.2 billion in the six months ended 30 June 2016 and 30 June 2015, respectively; and RUB 234.7 billion and RUB 193.7 billion in the years ended 31 December 2015 and 31 December 2014, respectively;
- Revenues from rent, repairs and technical maintenance, provision of electricity and communication services, as well as design, exploratory work and construction works and other services were: RUB 35.2 billion and RUB 29.1 billion in the six months ended 30 June 2016 and 30 June 2015, respectively; and RUB 61.4 billion and RUB 51.3 billion in the years ended 31 December 2015 and 31 December 2014, respectively;
- Electricity and heating expenses were: RUB 80.8 billion and RUB 73.5 billion in the six months ended 30 June 2016 and 30 June 2015, respectively; and RUB 151.5 billion and RUB 145.2 billion in the years ended 31 December 2015 and 31 December 2014, respectively;
- Fuel expenses were: RUB 32.4 billion and RUB 27.6 billion in the six months ended 30 June 2016 and 30 June 2015, respectively; and RUB 60.5 billion and RUB 46.0 billion in the years ended 31 December 2015 and 31 December 2014, respectively;
- Security and fire safety expenses were: RUB 7.9 billion and RUB 8.3 billion in the six months ended 30 June 2016 and 30 June 2015, respectively; and RUB 16.9 billion and RUB 17.5 billion in the years ended 31 December 2015 and 31 December 2014, respectively;
- Rolling stock and spare parts purchases were: RUB 20.5 billion and RUB 47.0 billion in the six months ended 30 June 2016 and 30 June 2015, respectively; and RUB 109.9 billion and RUB 136.1 billion in the years ended 31 December 2015 and 31 December 2014, respectively;
- Settlement and cash services, encashment were: RUB 1.2 billion and RUB 1.0 billion in the six months ended 30 June 2016 and 30 June 2015, respectively; and RUB 2.3 billion and RUB 2.3 billion in the years ended 31 December 2015 and 31 December 2014, respectively;
- Equipment maintenance services purchases were: RUB 0.4 billion and RUB 0.3 billion in the six months ended 30 June 2016 and 30 June 2015, respectively; and RUB 1.8 billion and RUB 2.2 billion in the years ended 31 December 2015 and 31 December 2014, respectively;
- Design, exploratory work and construction expenses were: RUB 7.1 billion and RUB 6.2 billion in the six months ended 30 June 2016 and 30 June 2015, respectively; and RUB 29.2 billion and RUB 4.8 billion in the years ended 31 December 2015 and 31 December 2014, respectively;
- Other purchases, which mainly included purchases of materials and construction services, were: RUB 17.4 billion and RUB 12.4 billion in the six months ended 30 June 2016 and 30 June 2015, respectively; and

RUB 27.0 billion and RUB 28.8 billion in the years ended 31 December 2015 and 31 December 2014, respectively;

- Interest income from related parties was: RUB 4.9 billion and RUB 5.1 billion in the six months ended 30 June 2016 and 30 June 2015, respectively; and RUB 12.1 billion and RUB 2.5 billion in the years ended 31 December 2015 and 31 December 2014, respectively;
- Interest expense on borrowings from related parties was: RUB 7.1 billion and RUB 7.2 billion in the six months ended 30 June 2016 and 30 June 2015, respectively; and RUB 7.1 billion and RUB 7.2 billion in the years ended 31 December 2015 and 31 December 2014, respectively;
- Loans to the Group from related parties carried interest varying from: 1.9 per cent. to 17.5 per cent. in the six months ended 30 June 2016 and 2.5 per cent. to 19.5 per cent. in the six months ended 30 June 2015; and 1.60 per cent. to 18.1 per cent. in the year ended 31 December 2015 and 0 per cent. to 16 per cent. in the year ended 31 December 2014;
- Subsidies for freight and passenger transportation were: RUB 28.2 billion and RUB 29.6 billion in the six months ended 30 June 2016 and 30 June 2015, respectively; and RUB 62.6 billion and RUB 50.7 billion in the years ended 31 December 2015 and 31 December 2014, respectively;
- Dividends received from related parties were: RUB 0.8 billion and RUB 0.7 billion in the six months ended 30 June 2016 and 30 June 2015, respectively; and RUB 0.9 billion and RUB 2.1 billion in the years ended 31 December 2015 and 31 December 2014; and
- Contributions to pension plans net of other transactions with pension funds were: RUB 10.6 billion and RUB 9.6 billion in the six months ended 30 June 2016 and 30 June 2015, respectively; and RUB 22.3 billion and RUB 24.8 billion in the years ended 31 December 2015 and 31 December 2014, respectively.

For the six months ended 30 June 2016 and 30 June 2015, the Group was entitled to receive tariff compensation of RUB 4.0 billion and RUB 2.6 billion, respectively, from federal and regional ministries of the Russian Federation for transportation of certain categories of passengers. As at 30 June 2016, the accounts receivable balance outstanding for transportation of certain categories of passengers compensation was RUB 3.6 billion. The Group recognised an impairment of RUB 1.9 billion relating to this accounts receivable balance outstanding as at 30 June 2016.

For the years ended 31 December 2015 and 31 December 2014, the Group was entitled to receive tariff compensation of RUB 7.9 billion and RUB 5.4 billion, respectively, from federal and regional ministries of the Russian Federation for transportation of certain categories of passengers. As at 31 December 2015, the accounts receivable balance outstanding for transportation of certain categories of passengers compensation was RUB 2.9 billion (31 December 2014, RUB 12,8 billion). The Group recognised an impairment of RUB 2.0 billion relating to this accounts receivable balance outstanding as at 31 December 2015 (31 December 2014, RUB 12.3 billion).

The Group has also entered into other transactions with related parties, as further set forth in Note 22 to the 2016 Unaudited Interim Condensed Consolidated Financial Statements and Note 28 to the 2015 and 2014 Consolidated Financial Statements. These included borrowings from related parties (predominantly from state-controlled banks), guarantees to and in favour of related parties' obligations and guarantees received from related parties.

REGULATION OF RAILWAY TRANSPORTATION IN RUSSIA APPLICABLE LEGISLATION

REGULATORY MATTERS

The regulation of the Group and railway transportation in Russia is based primarily on the following key laws and regulations:

- *The Civil Code of the Russian Federation, (Part 1 adopted by Federal Law No. 51-FZ dated 30 November 1994; Part 2 adopted by Federal Law No. 14-FZ dated 26 January 1996; Part 3 adopted by Federal Law No. 146-FZ dated 26 November 2001; and Part 4 adopted by Federal Law N 230-FZ dated 18 December 2006), as amended (the "**Civil Code**"):*

  The Civil Code regulates, among others, property relations and contracts between commercial parties. In particular, the Civil Code establishes: (i) rules for obtaining and transferring a title to movable and immovable property; (ii) general rules for entering into, amending, performing and terminating contracts, as well as liability for a breach of contract; and (iii) material terms and conditions of certain types of contracts, including transportation (shipping) contracts, service agreements, forwarding contracts, lease agreements and loan agreements. In the last few years, the Civil Code has undergone considerable changes, as the Government has been working to reform the civil legislation of the Russian Federation.

- *Joint Stock Companies Law:*

  The Joint Stock Companies Law regulates internal affairs and management of Russian joint stock companies; the law establishes rules on incorporation, reorganisation and liquidation thereof as well as the minimum amount of the charter (share) capital, the procedure for issuance of shares and other securities and approval of certain transactions. The law also provides a number of important protections to shareholders.

- *Federal Law "On Railway Transport in the Russian Federation" No. 17-FZ dated 10 January 2003, as amended (the "**Railway Transport Law**"):*

  The Railway Transport Law establishes the legal basis for the functioning of the railway transportation system and for the interaction between entities rendering railway transportation services and state authorities supervising railway industry.

- *Federal Law "Charter of Railway Transport of the Russian Federation" No. 18-FZ dated 10 January 2003, as amended (the "**Railway Transport Charter**"):*

  The Railway Transport Charter regulates contractual relations between freight customers, passengers, consignors, consignees, owners of railway transport infrastructure and other persons providing services in connection with railway transportation. The Railway Transport Charter defines the principal terms and conditions for the transportation of passengers, freight, luggage and freight luggage, for the rendering of services by owners of the railway transport infrastructure and for other services connected with transportation services.

- *Federal Law "On Special Conditions for Management and Disposition of Railway Transport Property" No. 29-FZ dated 27 February 2003, as amended, and the Government Regulation "On the Assets of Open Joint Stock Company Russian Railways, Limited in Circulation" No. 57 dated 6 February 2004, as amended:*

  This law and Government regulation establish rules and procedures for the privatisation of railway transportation assets, as well as management and disposition of such property. In particular, the Government Regulation provides for certain categories of Company's assets such as, *inter alia*, infrastructure assets which serve national security purposes or shares of Company's subsidiaries, which can either be transferred to third parties only upon obtaining a specific Government's approval or which transferability is fully restricted.

- *Federal Law "On Natural Monopolies" No. 147-FZ dated 17 August 1995, as amended (the "**Natural Monopoly Law**"):*

  The Natural Monopoly Law defines the state policy with respect to natural monopolies in Russia and establishes certain rules for companies which meet the criteria of natural monopolies. The law is aimed at keeping a balance among and between the interests of the public, natural monopolies and consumers. The Company is classified as a natural monopoly and is subject to special regulation, including tariff regulation.

- *Federal Law "On Licensing of Certain Activities" No. 99-FZ dated 4 May 2011, as amended (the "**Law on Licensing**"):*

  The Law on Licensing is discussed below under "—*Licensing*".

- *Federal Law "On Privatisation of State and Municipal Property" No. 178-FZ dated 21 December 2001, as amended (the "**Privatisation Law**") and Presidential Decree "On Approval of the List of Strategic Entities and Strategic Joint Stock Companies" No. 1009 dated 4 August 2004, as amended:*

  The Privatisation Law sets forth the governmental approvals required before a stake in a "strategic" state-owned entity such as the Company may be sold. The decree establishes the list of such "strategic" entities. It is discussed below under "—*Strategic Entity*".

- *Federal Law "On Protection of Competition" No. 135-FZ dated 26 July 2006, as amended (the "**Competition Law**"):*

  The Competition Law sets forth provisions aimed at ensuring that commercial entities, including natural monopolies such as the Company, do not abuse their dominant position to hinder competition in their relevant markets.

- *Federal Law "On the Procedure for Making Foreign Investments in Companies of Strategic Importance for National Defence and State Security" No. 57-FZ dated 29 April 2008, as amended (the "**Foreign Strategic Investments Law**"):*

  The law sets out limitations for foreign investors and their groups in respect of their ability to invest in charter (share) capitals of Russian companies which are of strategic importance for state defence and national security or to enter into transactions, as a result of which they get control over such entities. The same law establishes lower thresholds for investments in "strategic entities" by investors owned or controlled by foreign states or international organisations. The Company is a "strategic" entity for the purposes of the Foreign Strategic Investments Law.

- *Federal Law "On Foreign Investments in the Russian Federation" No. 160-FZ dated 9 July 1999, as amended (the "**Foreign Investments Law**"):*

  The law provides basic guarantees for foreign investment in Russian companies. It also requires a foreign investor controlled by foreign states or international organisations to obtain clearance for investments in any Russian company in accordance with the provisions of Foreign Strategic Investments Law.

- *The Tax Code of the Russian Federation, (Part 1 adopted by Federal Law No. 146-FZ dated 31 July 1998; Part 2 adopted by Federal Law No. 117-FZ dated 5 August 2000), as amended (the "**Russian Tax Code**"):*

  The Russian Tax Code regulates the taxation of legal entities and individuals in Russia.

- *Federal Law "On Transportation Safety" No. 16-FZ dated 9 February 2007, as amended, and Federal Law 67-FZ: "On Compulsory Civil Liability Insurance of a Carrier for Causing Harm to the Lives, Health or Property of Passengers and on the Procedure for Compensating for Harm Caused to Passengers Carried by an Underground Railway System" dated 14 June 2012 (most of the provisions of which came into force from 1 January 2013):*

  These laws establish safety requirements on railway transport and require a rail carrier to obtain a compulsory civil liability insurance to provide for compensation of harm caused to lives, health or property of passengers, as well as basic procedures relating to such insurance policies.

- *Presidential Decree "Issues Relating to the Structure of the Federal Executive Bodies" No. 649 dated 20 May 2004, as amended, Presidential Decree "On the System and Structure of the Federal Executive Bodies" No. 314 dated 9 March 2004, as amended and Presidential Decree "Issues Relating to the System and Structure of Federal Executive Bodies" No. 724 dated 12 May 2008, as amended, and Presidential Decree "On the Structure of Federal Executive Bodies" No. 636 dated 21 May 2012, as amended:*

  These presidential decrees establish the general framework and structure for the state authorities that govern the Company as a state-owned enterprise as described below under "—*Principal Regulatory Bodies for the Russian Railway Industry*".

- *Government Regulation "On Incorporation of Open Joint Stock Company Russian Railways" No. 585 dated 18 September 2003, as amended (the "**Regulation No. 585**"):*

  The Regulation No. 585 provides for incorporation of the Company and adopts its charter.

- *Government Regulation "On the Programme of Structural Reform of Railway Transportation" No. 384 dated 18 May 2001, as amended:*

  For the main provisions of the Reform Programme see "*Business—History and Corporate Structure of the Group and the Reform Programme—Reform Programme*".

- *Government Regulation "On State Regulation and Control of Tariffs, Fees and Duties in Relation to Works (Services) Provided by Natural Monopolies in the Field of Railway Transportation" No. 643 dated 5 August 2009 (the "**Tariff Regulation**"):*

  This regulation determines the aims, principles and methods of the state regulation of tariffs for the services provided by the Company as a natural monopoly, the rules to determine tariffs, and supervision over the establishment and application of tariffs.

- *FTS decree "On the approval of Tariffs, Levies and Fees for Services Related to Domestic Public Rail Passenger Transportation and Passenger Railcars Runs by Long-Distance Trains of JSC Russian Railways, JSC Federal Passenger Company and JSC AK Yakutia Railways and Rules of Tariffs, Levies and Fees Application (the Tariff Guidance)" No. 156-t/1 dated 27 July 2010:*

  This decree determines the tariffs for passenger transportation and use of infrastructure and sets out the procedure for implementation of such tariffs.

- *FTS decree "On the Approval of the Methodology Instructions on State Regulation of Tariffs for Freight Railway Transportation and Services related to the Use of Public Railway Infrastructure for Freight Transportation" No. 166-t/1 dated 30 August 2013.*

- *Tariff 10-01 adopted by Federal Energy Commission Regulation "On Approval of the Price List No. 10-01 "Tariffs for Freight Transportation and Infrastructure Services Provided by Russian Railways" No. 47-t/5 dated 17 June 2003, as amended.*

- *Government Decree "On the Development Strategy for Railway Transportation in the Russian Federation up to 2030" No. 877-R dated 17 June 2008 (the "**Government Railway Development Strategy 2030**"):*

  The Government Railway Development Strategy 2030 provides a roadmap for implementing the remainder of the Reform Programme, lists priorities for modernisation, improvement and expansion of the rail transportation industry in Russia, and sets goals for meeting public transportation needs and facilitating regional social and economic development.

- *Government Regulation "On Licensing of Certain Activities in Railway Transport" No. 221 dated 21 March 2012:*

  This regulation adopts some rules that establish licensing procedures with respect to railway transportation of passengers (suburban, long-distance, express and high-speed), hazardous freight, as well as with respect to loading and unloading of hazardous freight on railway transport. It excluded licensing of railway transportation of freight, luggage and cargo-luggage.

- *Ministry of Transportation Order "On the Approval of the Rules of Technical Exploitation of Railways in the Russian Federation" No. 286 dated 21 December 2010.*

- *Ministry of Railway Transportation Instruction "On Work Performance for the Establishment of Certification System" No. 166u dated 12 November 1996, as amended, approved together with the "Rules of Certification for Federal Railway Transport in the Russian Federation; Main Provisions" No. P SSFZhT01-96 (the "**Railway Transport Certification Rules**"):*

  The main provisions of the Railway Transport Certification Rules are discussed below under "—*Certification Requirements*".

- *Ministry of Transportation Order "On the Approval of Rules of Freight Transportation in the Trains Formed of Locomotives and Cars Owned by or Belonging on Other Grounds to Dispatchers, Cargo Consignees or Other Legal Entities or Natural Persons which are not Railway Carriers Themselves" No. 150 dated 22 October 2007 (the "**Rules for Freight Transportation**"):*

  The Rules for Freight Transportation regulate the procedure and terms of freight railway transportation in trains consisting of locomotives and cars not owned by the railway carrier.

- *Government Regulation "On Use of the Land Plots owned by the Russian Federation and provided to Open Joint Stock Company Russian Railways" No. 264 dated 29 April 2006, as amended.*

INTERNATIONAL AGREEMENTS

Russia is a party to international agreements governing railway transportation. In particular, the Agreement on International Railway Cargo Communication in force from 1 November 1951 provides for a direct railway communication for transportation of freight among the railways of 23 countries of Europe and Asia. The Agreement on International Passenger Communication in force from 1 November 1951 provides for a direct railway and mixed rail-maritime communication for transportation of passengers, baggage, and luggage among the same 23 countries. Russia is also a party to certain bilateral international agreements governing railway transportation.

In February 1993, Russia joined the Tariff Agreement, which sets forth a general procedure for annual approval of maximum freight tariff levels for the international transit through the CIS. The Tariff Agreement regulates relations between CIS railway administrations, such as the Company in Russia. Only railcars directly owned by the Company fall under this Tariff Agreement. In February 2010 Russia acceded to the COTIF, the provisions of which apply on certain routes.

On 21 July 2012, Russia ratified the Protocol on Accession to the WTO dated 16 December 2011, and became a full member of the WTO on 22 August 2012. As a result of the accession to the WTO, Russia must make its export or import freight transportation tariffs equal to domestic freight transportation tariffs.

On 29 May 2014, to further develop cooperation in respect to the unified economic zone Belarus, Kazakhstan and Russia signed the Treaty on the Eurasia Economic Union (EEU) (the "**Treaty on EEU**"). Apart from these three states, the EEU members now also include Armenia (which accession treaty came into force on 2 January 2015) and the Kyrgyz Republic (which accession treaty came into force on 6 August 2015). The Treaty on EEU replaced the agreement entered into between Russia, Belarus and Kazakhstan in July 2011.

The Treaty on EEU set out rules regulating accession to the railway services and respective tariffs for the EEU members. These rules regulate matters such as the compensation of economically justifiable expenses, development of infrastructure and tariff transparency. The Treaty on EEU provides for the unification of tariffs between these countries across export, import and domestic freight tariffs. Under these rules rail transportation organisations are entitled, based on economic feasibility, to change the tariffs for rail transportation services within certain limits determined by the relevant state authority. In addition, each of Russia, Belarus and Kazakhstan must provide access to its railway infrastructure to the transportation companies of each other's country in accordance with the procedure set out in the Treaty.

For more information on the regulation of international freight tariffs see "*Business—Tariff Regulation and Pricing—Freight Tariffs—International Freight*".

PRINCIPAL REGULATORY BODIES FOR THE RUSSIAN RAILWAY INDUSTRY

The Government on behalf of the Russian Federation exercises all the powers of the sole shareholder of the Company and appoints all members of the Board of Directors. In addition, the Company is required to obtain a prior Government approval for the sale of shares in any of the Company's subsidiaries or the disposal of other material assets of the Company. For further details see "*Business*" and "*Description of the Company Management*".

At the federal level, regulatory authority over the Russian railway industry is divided between several federal ministries:

- the Ministry of Transport is responsible for developing governmental policy and legal and regulatory standards in the Russian transportation industry;
- the Ministry for Economic Development, among others, is responsible for the development of state policy, analysis and forecasting in respect of socioeconomic and business development in Russia and foreign economic activity (except for foreign trade). In addition, it approves the list and order of determination of the indices of economic efficiency for federal state unitary enterprises and open joint stock companies owned by the Russian Federation; and opinions on drafts of the legal acts which regulate relationships between business entities or their relationships with the Russian Federation which also affect Russian macroeconomic indicators; and
- the Ministry of Finance determines the state budgetary, taxation, insurance, accounting and investment policy.

However, federal ministries in Russia are not authorised to manage state property or to provide state services. These matters are under the jurisdiction of federal services and agencies. The Russian railway industry is influenced by a number of federal services and agencies and primarily by:

- the Federal Agency for Railway Transportation, which implements government policies in the railway transportation industry, and is responsible for the distribution of Government subsidies to the Group; it also maintains the registers of rolling stock and decides on suspension of freight transportation on certain routes;
- the Federal Transport Supervision Service (Rostransnadzor) and Goszheldornadzor, a division of Rostransnadzor, which is responsible for licensing and governmental supervision of railway transport; and
- the FAS, which monitors and supervises compliance with antimonopoly legislation, determines (since September 2015) and implements state tariffs applicable to certain services and regulates the pricing policies of, natural monopolies. The FAS determines the tariffs that the Company must charge for regulated services pursuant to the Tariff Regulation. Prior to September 2015, the relevant tariff regulating powers were vested with the FTS, which was abolished in September 2015.

In addition, certain other governmental bodies, together with their sub-divisions, have authority over various general issues relating to the Russian railway industry or otherwise relating to the Group's business, including emergency procedures, customs, justice, tax and other matters.

At the CIS level, the Commonwealth Railway Transportation Council coordinates railway transport activity and provides recommendations with respect to pricing rates and technical policy within the CIS. The Supreme Eurasian Economic Council and Eurasian Economic Commission adopt the decisions applicable to the members of the EEU.

In addition, the Company performs certain regulatory functions in the Russian railway industry, such as issuing relevant permits, prohibiting the transportation of certain freight in certain types of railcars and determining the procedure for submitting and agreeing freight carriage applications.

TARIFFS

The Company is subject to a regulated tariff regime. See "*Business—Tariff Regulation and Pricing*".

STRATEGIC ENTITY

The Company is included in the list of Russia's "strategic" entities. Any decision to privatise such entities is within the exclusive competence of the Government and the President of the Russian Federation (in terms of any amendments to the list of Russian strategic entities).

In July 2013, the Government included the Company in the privatisation plan for 2014-2016. This decision was based on the Company privatisation roadmap agreed with government authorities involved in the process. The roadmap drew key milestones to prepare the Company for privatisation which included, among other important developments, implementation of a long-term tariff setting system, the network contract between the Government and the Company under which the Company should implement rail infrastructure projects and receive a guaranteed compensation from the state budget and other means of state financial support for infrastructure projects aimed at increasing valuation of the Company and improving its attractiveness for investors.

In autumn 2013, the Government decided to freeze tariffs for rail freight transportation for 2014 and approved the project for financing of Far East rail infrastructure using capital injections. With that, the privatisation plan as it was approved by the Government was postponed.

As at the date of this Prospectus, the Company believes that the Government intends to remain the sole shareholder of the Company in the foreseeable future. According to the latest publicly available Government plans and results of the review of the Company privatisation plans by the Russian State Duma, any privatisation of the Company may be possible only after the Government resolves the issues of long term tariffs and sources of financing for unprofitable but strategically important national projects for the development of rail infrastructure. As the Government commonly uses share capital injections to provide necessary funding to the Company, any private investors would be at risk of being diluted if the Government proceeded with privatisation of the Company at this stage.

There are also special rules related to the bankruptcy of such entities permitting the Government to, among other things, take measures to prevent their bankruptcy and to participate in negotiations with the creditors of such entities in order to reach an agreement on the restructuring of their debt (including by providing state guarantees). The bankruptcy regime for strategic companies as well as for natural monopolies is regulated by

Federal Law "On Insolvency (Bankruptcy)" No. 127-FZ dated 26 October 2002, as amended. The procedure for the sale of assets of a bankrupt natural monopoly is regulated differently from those involving other businesses. In particular, the Russian Federation, its regions and municipalities have a right to suspend the completion of sale of production-related assets of a bankrupt natural monopoly sold during bankruptcy proceedings.

NATURAL MONOPOLY LAW

Certain services provided by the Company such as railway transportation and services at transportation terminals are included in the list of regulated activities provided by Article 4 of the Natural Monopoly Law. The Company is also included on the list of natural monopolies in the transportation industry maintained by FAS.

In accordance with Article 7(2) and 7(3) of the Natural Monopoly Law, certain types of transactions, including, among other things, (i) investments outside the regulated activity of a natural monopoly and (ii) any sale, lease or other transaction which results in another entity obtaining title to a part of the Company's main assets used for the production of regulated goods, in each case exceeding 10 per cent. of the natural monopoly's own capital, must be approved by the body responsible for its regulation—FAS. FAS has the power to determine the categories of consumers who are entitled to require the natural monopoly to provide them with a certain level or volume of services. In addition, Article 8(1) of the Natural Monopoly Law prohibits natural monopolies from refusing to enter into contracts with particular customers, provided that the relevant natural monopoly has the requisite capacity. Tariffs of such natural monopolies are regulated by the FAS and notification and reporting requirements apply to the natural monopoly's operations.

COMPETITION LAW

Article 10 of the Competition Law prohibits certain actions or omissions by market participants having a dominant position in the market, such as the Company, that will result or may result in the prevention, limitation or elimination of competition or infringement of the interests of other market participants. These rules are primarily intended to prevent the imposition of discriminatory terms or other burdensome or irrelevant contractual terms on, or a refusal to provide services to, consumers or the creation of obstacles to the development of competition in the relevant market. The Competition Law specifically provides that prices established within the tariffs approved by the FAS may not be viewed as abuse by a natural monopoly of its dominant position in the market.

ACCESS TO THE COMPANY'S RAILWAY NETWORK AND RELATED INFRASTRUCTURE

Access to the Company's track network and related infrastructure system is regulated by the Railway Transport Law which details the procedure for the allocation of access to the Company's railway track network and related infrastructure.

PROVISION OF ROLLING STOCK

The Group, including the Company and some of its subsidiaries, in particular Federal Freight and TransContainer, acts as a rail operator and provides rolling stock for transportation of various types of freight, which is regulated by the Railway Transport Law.

Current legislation separates rolling stock operators from carriers. A railcar operator is a legal entity or an individual which owns or leases rolling stock, provides such rolling stock to customers and enters into a contract with a carrier for the transportation of freight by rail. A carrier is a legal entity, which assumes an obligation to move freight from one point to another on the railway network and which has a relevant licence, if applicable.

Rolling stock operators are also differentiated from the owners of infrastructure such as railway tracks and railway stations. The Company currently owns most of the railway infrastructure and remains the leading railway carrier in Russia. As a monopoly carrier, the Company may not refuse to enter into carriage agreements with the customers of other railcar operators or prefer its own customers over those of other railcar operators.

The rolling stock operators charge their customers for the provision of rolling stock to transport freight, and the Company receives charges for the use of its infrastructure and locomotive services.

LOCOMOTIVE USE AND OPERATION ACTIVITIES

In theory, railcar operators may use their own locomotives to move their railcars, but all railcar operators rely on the Company for locomotive traction on tracks of common use as Russian legislation on the use of locomotives remains inconsistent, incomplete and ambiguous in relation to the procedures for private rolling stock operators to use their own locomotives. Private freight rail operators may own, lease from third parties or otherwise possess locomotives. However, a locomotive may be used only if a conformity certificate has been issued for it under the relevant certification system of the Federal Agency for Railway Transportation. In order to access the public railway infrastructure, the owner of a private (non-public) railway and the owner of railcars and locomotives must agree with the Company (as the owner of the public railways) on the technological operating conditions for the private train formation. The locomotive owner must obtain consent to use the relevant railway of the Company for each trip, or series of trips, made by its private locomotive. Also, the locomotive owner must conclude agreements with the Company concerning the technical maintenance, on-going repairs and operations of the locomotive.

It is currently unclear if and when legal entities other than the Company would be permitted to provide locomotive traction services.

CERTIFICATION REQUIREMENTS

The Railway Transport Law requires the certification of rolling stock, which must comply with safety requirements, including health and labour safety, fire safety and environmental protection rules. The Railway Transport Certification Rules specify particular types of rolling stock which must be certified. During the term of a certificate, inspections must be carried out at least once a year. The main function of these inspections is to identify rolling stock that does not comply with applicable legal requirements. Inspections are documented in an official act of inspection. If a breach of certification rules or legal requirements is determined to have occurred, the act will contain a decision of the inspection authorities as to whether to suspend or revoke the certificate. A decision to suspend, but not revoke, the certificate will be made if the holder of the certificate is able to cure the breach.

LEASE OF ROLLING STOCK

The Group's business activities include leasing rolling stock and locomotives within the Group and to third parties. According to the Civil Code, rolling stock is movable property and may be leased pursuant to a leasing agreement. Russian law does not require any registration of lease agreements of rolling stock and the commercial terms and conditions of such lease agreements are not regulated, other than by general law.

LICENSING

The Law on Licensing sets out the requirements for obtaining licences in respect of certain activities, including railway transportation of passengers and hazardous freight. Railway transportation of cargoes (except hazardous cargoes) is no longer subject to licensing. The hazardous freight rail carrier licence and passenger transportation by rail licence are two of the most significant licences available to the Company. The licences are issued for an unlimited term.

Currently, there is a number of rolling stock operators, besides the Company, but these operators do not actually operate as carriers using their own locomotives and crew to haul trains. In the absence of appropriate legal framework and practice of interaction between private companies licence holders and the Company, the licence holders cannot enter into agreements with the Company to receive access to the railway infrastructure and operate as carriers.

For more information on the licences available to the Company see "*Business—Significant Licences*".

RULES AND REGULATIONS APPLICABLE TO THE COMPANY ANCILLARY ACTIVITIES

Land Use

Land in Russia is primarily governed by the Land Code of Russia No. 136-FZ dated 25 October 2001, as amended (the "**Land Code**").

The majority of the land on which the Company's facilities are located was granted to the Company under a right of perpetual use prior to the enactment of the Land Code. Pursuant to Federal Law "*On Introduction of the Land Code*" No. 137-FZ dated 25 October 2001, as amended, all legal entities, with certain exceptions, were obliged to convert their right of perpetual use into either ownership or lease by 1 January 2012 (and in some cases, including land occupied by railway tracks, are required to do so by 1 January 2015). Since 2003, the Company has typically obtained leases for land it needed for the construction of its facilities.

Historically, the construction of industrial facilities in Russia has been permitted on land categorised for industrial use, which generally includes land used or designated for carrying out business activities and/or operation of industrial sites and facilities. Where the land required by the Company fell within an alternative category (such as forestry or agriculture), a complicated process of re-categorisation into industrial land (either permanently for surface facilities or, in the case of underground facilities, for the period of construction) was required. In 2005, amendments were introduced to the Land Code to allow agricultural land to be used to construct railway tracks without converting it into "industrial" or "settlement" use, subject to the approval by state authorities. This simplified the procedure to obtain land rights for the construction of railway tracks.

Article 21 of the new Forest Code of Russia No. 200-FZ dated 4 December 2006, as amended, also specifically provides for the right to construct, reconstruct and exploit particular facilities not connected with creation of forest infrastructure (list of such facilities should be adopted by the Government) on forested land. According to the Forest Code, linear facilities (railway tracks are the class of such facilities) and its technologically integral facilities were included in the list of facilities which may be constructed, reconstructed and operated on forested land. For these purposes, trees within "protection zones" created around railway tracks may be removed to ensure safety and to enable the operation of those facilities. Forested land used for the construction of railway tracks must be restored after use. Railway tracks may not be constructed on a land plot falling within the category of federal "protected" natural territories.

Environmental

The principal Russian law governing the Company's environmental compliance is Federal Law "On Environmental Protection" No. 7-FZ dated 10 January 2002, as amended (the "**Environmental Protection Law**"). The Environmental Protection Law establishes what is colloquially known as a "pay-to-pollute" regime administered by the Federal Service for Ecological, Technological and Nuclear Supervision (the "**FSETNS**") and local authorities.

Under the "pay-to-pollute" regime, companies are required to obtain licences and permits authorising the discharge of pollutants into the air, water or soil. These licences and permits establish specific limits for permitted pollution. Fees are assessed for both pollution within the agreed limits and for pollution in excess of these limits (the latter containing a penalty element). There are additional fines for certain other breaches of environmental regulations. The Environmental Protection Law contains an obligation to make compensation payments to the budget for all environmental losses caused by pollution (the Federal Nature Management Supervision Service collects these payments). The limitation period for claims for compensation for pollution is 20 years.

Health and Safety

The principal law regulating industrial safety is Federal Law "On Industrial Safety of Dangerous Industrial Facilities" No. 116-FZ dated 21 July 1997, as amended (the "**Safety Law**"). The Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites where flammable materials or hazardous equipment such as lifting machines are used. The Safety Law divides all dangerous industrial facilities into four categories. Operational requirements for industrial facilities and a number of scheduled inspections by Rostekhnadzor depend on the category of facility. The first category facilities are most heavily regulated. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentrations, and extends to facilities and sites where these substances are used.

The Group's activities include the operation of certain hazardous industrial sites regulated by the FSETNS. Any construction, reconstruction, liquidation or other activities in relation to such regulated industrial sites are subject to a state industrial safety review. Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law. Any company or individual violating industrial safety rules may be subject to administrative, criminal and/or civil liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be required to compensate individuals for lost earnings and health-related damages.

Employment

As the Company is the largest employer in Russia, employment matters may materially affect its business. Labour issues in Russia are primarily governed by the Labour Code of Russia No. 197-FZ dated 30 December 2001, as amended (the "**Labour Code**"). In addition, relationships between employers and employees are regulated by several federal laws, such as Law of the Russian Federation "On Employment in Russia" No. 1032-1 dated 19 April 1991, as amended, and Federal Law "On Labour Pensions in the Russian Federation" No. 173-FZ dated 17 December 2001, as amended.

The Labour Code sets the regular working week at 40 hours. The general retirement age in Russia is 60 years for men and 55 years for women.

As a general rule, employment contracts for an unlimited term are concluded with all employees. Russian labour legislation expressly limits the possibility of entering into fixed-term employment contracts. An employer may terminate an employment contract only on certain grounds contemplated by the Labour Code. An employee dismissed from an enterprise due to its downsizing or liquidation is entitled to compensation, including a severance payment and, depending on the circumstances, salary payments for a certain period of time, up to six months. Any termination by an employer that is inconsistent with the Labour Code requirements may be invalidated by a court and the employee may be reinstated and compensated with back-pay.

Trade Unions

The majority of the Company's employees are members of one of the largest and influential industrial trade unions in Russia. The activities of trade unions are generally governed by Federal Law "On Trade Unions, Their Rights and Guarantees of Their Activity" No. 10-FZ dated 12 January 1996 (the "**Trade Union Law**").

The Trade Union Law defines a trade union as a voluntary union of individuals with common production or professional interests connected with their business occupation that is incorporated for the purposes of representing and protecting the social and labour rights and interests of its members. As part of their activities, trade unions may, among other things: (i) negotiate collective contracts and agreements, such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities; (ii) monitor compliance with labour laws, collective contracts and other agreements; (iii) access work sites and offices, and request information relating to labour issues from the management of companies and state and municipal authorities; and (iv) represent their members and other employees in individual and collective labour disputes with management.

Russian law requires that companies co-operate with trade unions and do not interfere with their activities. If a trade union discovers a violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may also initiate collective labour disputes which may lead to strikes.

ISSUER

RZD Capital P.L.C. (the "**Issuer**") (formerly RZD Capital Limited) was incorporated in Ireland on 15 July 2008, with registered number 459983, as a private company with limited liability and re-registered as a public limited company on 25 January 2013 under the Companies Acts 1963-2012 (as amended) of Ireland. The registered office of the Issuer is 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland and its telephone number is +353 1 905 8020.

The authorised share capital of the Issuer is €40,000 divided into 40,000 ordinary shares of par value €1 each (the "**Shares**"). The Issuer has issued 40,000 Shares, which are fully paid and are held on trust under the terms of a declaration of trust (the "**Declaration of Trust**") dated 31 July 2008, under which the Shares are held on trust for charity. Cafico Trust Company Limited (the "**Share Trustee**") became the Share Trustee on 29 June 2016, replacing Deutsche International Finance (Ireland) Limited. The Share Trustee has no beneficial interest in and derives no benefit (other than any fees for acting as Share Trustee) from its holding of the Shares. The Share Trustee will apply any income derived from the Issuer solely for the above purposes.

Cafico Corporate Services Limited (the "**Corporate Services Provider**"), an Irish company, acts as the corporate services provider for the Issuer. The Corporate Services Provider replaced Deutsche Corporate Services (Ireland) Limited on 29 June 2016. The office of the Corporate Services Provider serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on 29 June 2016 between the Issuer and the Corporate Services Provider (the "**Corporate Services Agreement**"), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least 90 days' written notice to the other party. The Corporate Services Agreement contains provisions for the appointment of a replacement corporate services provider if necessary. The Corporate Services Provider's principal office is Palmerston House, Fenian Street, Dublin 2, Ireland.

Principal Activities

The principal objects of the Issuer are set forth in clause 3 of its Memorandum of Association (as currently in effect) and permit the Issuer, inter alia, to lend money and give credit, secured or unsecured, to issue debentures and otherwise to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is organised as a special purpose vehicle. The Issuer was established to raise capital by the issue of debt securities and to use an amount equal to the proceeds of each such issuance to advance loans to the Borrower.

Since its incorporation, the Issuer has not engaged in any material activities other than those incidental to its registration as a private company and re-registration as a public limited company under the Companies Acts. In addition, the Issuer has completed the following issues of debt securities: (a) U.S.$1,500,000,000 5.739 per cent. Loan Participation Notes due 2017, which were issued on 1 April 2010 (ISIN: XS0499245180, Common Code: 049924518); (b) GBP 650,000,000 7.487 per cent. Loan Participation Notes due 2031 which were issued in two tranches on 25 March 2011 and 22 June 2011 (ISIN: XS0609017917, Common Code: 060901791); (c) RUB 37,500,000,000 8.30 per cent. Loan Participation Notes due 2019 which were issued in two tranches on 2 April 2012 and 17 October 2012 (ISIN: XS0764253455, Common Code: 076425345); (d) the U.S.$1,400,000,000 5.70 per cent. Loan Participation Notes due 2022 which were issued in two tranches on 5 April 2012 and 16 October 2012 (ISIN: XS0764220017, Common Code: 076422001); (e) CHF 525,000,000 2.177 per cent. Loan Participation Notes due 2018 (ISIN: CH0205819433, Swiss Security Number: 20 581 943, Common Code: 088572718); (f) CHF 150,000,000 2.730 per cent. Loan Participation Notes due 2021 (ISIN: CH0205819441, Swiss Security Number: 20 581 944, Common Code: 088572700), which were issued on 26 February 2013;(g) €1,000,000,000 3.3744 per cent. Loan Participation Notes due 2021, which were issued on 18 April 2013 (ISIN: XS0919581982, Common Code: 091958198); (h) €500,000,000 4.60 per cent. Loan Participation Notes due 2023, which were issued on 6 March 2014 (ISIN: XS1041815116, Common Code: 104181511); (i) U.S.$500,000,000 3.45 per cent. Loan Participation Notes due 2020, which were issued on 4 October 2016 (ISIN: XS1501561739, Common Code: 150156173) and (j) RUB 15,000,000,000 9.20 per cent.

Loan Participation Notes due 2023, which were issued on 5 October 2016 (ISIN: XS1502188375, Common Code: 150218837). The Issuer has no employees.

Directors and Company Secretary

The Issuer's Articles of Association provide that the board of directors of the Issuer will consist of at least two Directors.

The Directors of the Issuer are Rolando Ebuna and Thomas O'Beirne.

The business address of the Directors is at: 2nd Floor Palmerston House, Fenian Street, Dublin 2, Ireland.

The Company Secretary is Cafico Secretaries Limited.

The Directors do not hold any direct, indirect, beneficial or economic interest in any of the Shares. The directorship of the Directors is provided as part of the Corporate Services Provider's overall corporate administration services provided to the Issuer pursuant to the Corporate Services Agreement. The Directors of the Issuer may engage in other activities and have other interests which may conflict with the interests of the Issuer.

Financial Statements

The Issuer published its most recent financial statements in respect of the financial year ending on 31 December 2015. The Issuer will not prepare interim financial statements. The financial year of the Issuer ends on 31 December in each year.

Each year, a copy of the audited profit and loss account and balance sheet of the Issuer together with a report of the directors and the auditors thereon is required to be filed in the Irish Companies Registration Office within 28 days of the annual return date of the Issuer and is available for inspection. The profit and loss account, the financial statements of the Issuer and balance sheet can be obtained free of charge from the registered office of the Issuer.

The Issuer has appointed Ernst & Young Chartered Accountants, Harcourt Centre, Harcourt Street, Dublin 2, Ireland as its auditors, who are chartered accountants and are members of the Institute of Chartered Accountants in Ireland and registered auditors qualified to practice in Ireland.

LOAN AGREEMENT

The following is the text of the Loan Agreement which has been entered into between the Company and the Issuer:

This Agreement is made on 27 February 2017 **between**:

(1) **JOINT STOCK COMPANY "RUSSIAN RAILWAYS"**, a joint-stock company established under the laws of the Russian Federation whose registered office is at 2, Novaya Basmannaya St., 107174 Moscow, Russian Federation (the "**Borrower**"); and

(2) **RZD CAPITAL P.L.C.,** a public limited company incorporated under the laws of Ireland, having its registered office at 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland (the "**Lender**").

WHEREAS:

The Lender has at the request of the Borrower agreed to make available to the Borrower a loan facility in the amount of U.S.$500,000,000 on the terms and subject to the terms and conditions of this Agreement.

Now it is hereby agreed as follows:

1. Definitions and Interpretation

1.1 Definitions

In this Agreement (including the recital), the following terms shall have the meanings indicated:

"**Account**" means the account in the name of the Lender with the Account Bank, with the following account No. 9305638400 RZD 2017 CAPITAL SEC ACC USD CSH (or such other account as may from time to time be agreed between the Lender and the Trustee pursuant to the Trust Deed and notified to the Borrower in writing at least five Business Days in advance of such change);

"**Account Bank**" means The Bank of New York Mellon, London Branch;

"**Accounting Standards**" means IFRS or any other internationally recognised set of accounting standards deemed equivalent to IFRS by the relevant regulators for the time being;

"**Advance**" means the advance made or to be made by the Lender under Clause 3 of the sum equal to the amount of the Facility, as from time to time reduced by prepayment;

"**Agency Agreement**" means the agency agreement relating to the Notes dated on or around the date hereof between the Lender (as issuer of the Notes), the Trustee, the Principal Paying Agent and the other agents named therein, as from time to time amended or supplemented;

"**Agreement**" means this Agreement as originally executed or as it may be amended or supplemented from time to time;

"**Business Day**" means a day on which, if on that day a payment is to be made hereunder, commercial banks generally are open for business in Dublin, Moscow, New York City and in the city where the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent is located;

"**Change of Control**" means either:

(a) the Russian Federation (i) ceases to own or control (directly or indirectly) 66.67 per cent. or more of the issued and outstanding voting share capital of the Borrower; or (ii) no longer has the right to appoint or remove a majority of the Borrower's board of directors; or

(b) a person or Persons Acting In Concert, other than the Russian Federation, becomes the legal or beneficial owner, or gains the ability to control (directly or indirectly) more than 25 per cent. of the issued and outstanding voting share capital of the Borrower;

"**Change of Control Payment Date**" means the date falling four Business Days after the expiration of the Change of Control Put Period or, if such day is not a Business Day, the next following Business Day;

"**Change of Control Put Option**" means the change of control put option granted to Noteholders pursuant to the Conditions;

"**Change of Control Put Period**" has the meaning given to it in the Conditions;

"**Closing Date**" means 1 March 2017 (or such later date not later than 15 March 2017 as may be agreed between the Lender and the Borrower);

"**Conditions**" means the terms and conditions of the Notes as set out in Schedule 2 to the Trust Deed and "**Condition**" means any of the conditions contained therein;

"**Event of Default**" has the meaning given to it in Clause 11.1;

"**Facility**" means the U.S.$500,000,000 term loan facility granted by the Lender to the Borrower as specified in Clause 2;

"**Financial Indebtedness**" means any obligation for the payment of money in any currency, whether sole, joint or several, and whether actual or contingent, in respect of:

(a) moneys borrowed or raised (including the capitalised value of obligations under finance leases and hire purchase agreements which would, in accordance with IAS, be treated as finance or capital leases, but excluding moneys raised by way of the issue of share capital (whether or not for a cash consideration) and any premium on such share capital);

(b) any liability under any debenture, bond, note, loan stock or other security or under any acceptance or documentary credit, bill discounting or note purchase facility or any similar instrument;

(c) any liability in respect of the deferred acquisition cost of property, assets or services to the extent payable after the time of acquisition or possession thereof by the party liable, but not including any such liability in respect of normal trade credit for goods or services supplied;

(d) any liability under any interest rate or currency hedging agreement (and the amount of such Financial Indebtedness in relation to any such transaction shall be calculated by reference to the mark-to-market valuation of such transaction, at the relevant time);

(e) any liability under or in respect of any bonding facility, guarantee facility or similar facility; and

(f) (without double counting) any guarantee or other assurance against financial loss in respect of such moneys borrowed or raised, interest, charges or other liability (whether the person liable in respect of such moneys borrowed or raised, interest, charges or other liability is or is not a member of the Group);

"**Global Certificate**" means the single, permanent global note certificate in registered form without interest coupons representing the Notes to be issued pursuant to Clause 3.1 of the Trust Deed;

"**Group**" means the Borrower and its Subsidiaries for the time being included in the most recent audited consolidated financial statements of the Borrower prepared under IFRS, taken as a whole;

"**IAS**" means the International Accounting Standards issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time);

"**IFRS**" means the International Financial Reporting Standards issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time);

"**Interest Payment Date**" means 1 March and 1 September in each year, commencing on 1 September 2017;

"**Interest Period**" has the meaning given to it in Clause 4.2;

"**Lender Agreements**" means the Subscription Agreement, this Agreement, the Agency Agreement, the Trust Deed, the Upfront Fee Side Letter and the Ongoing Fees Side Letter;

"**Lien**" means any mortgage, charge, pledge, lien (other than a lien arising solely by operation of law which is discharged within 90 calendar days of arising) or other security interest securing any obligation of any person or any other type of preferential arrangement (including any title transfer and arrangement) having a similar effect;

"**Loan**", at any time, means an amount equal to the aggregate principal amount of the Facility advanced by the Lender pursuant to this Agreement and outstanding at such time;

"**Material Adverse Effect**" means a material adverse effect on: (a) the financial condition or operations of the Borrower or the Group; (b) the Borrower's ability to perform its obligations under the RZD Agreements; or (c) the validity, legality or enforceability of the RZD Agreements or the rights or remedies of the Lender under the RZD Agreements;

"**Noteholder**" means, in relation to a Note, the person in whose name such Note is for the time being registered in the register of the Noteholders (or, in the case of a joint holding, the first named holder thereof);

"**Notes**" means the U.S.$500,000,000 4.375 per cent. loan participation notes due 2024 proposed to be issued by the Lender pursuant to the Trust Deed for the purpose of financing the Loan;

"**Officer's Certificate**" means a certificate signed by an authorised officer of the Borrower who shall be a principal executive officer, principal accounting officer or principal financial officer of the Borrower;

"**Ongoing Fees Side Letter**" means the letter dated 27 February 2017 from the Trustee and the Agents to RZD and the Lender;

"**Opinion of Counsel**" means a written opinion from international reputable legal counsel as reasonably selected by the Borrower and who is acceptable to the Lender and the Trustee;

"**Paying Agent"** has the meaning given to it in the Agency Agreement;

"**person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, company, firm, trust, organisation, government, or any agency or political subdivision thereof, or any other entity, whether or not having a separate legal personality;

"**Persons Acting In Concert**" means a group of Persons who (a) knowingly participate in a joint activity or conscious parallel action towards a common goal, whether or not pursuant to an express agreement; or (b) combine or pool voting or other interests in the securities of an issuer for a common purpose pursuant to any contract, understanding, relationship, agreement or other arrangement, whether written or otherwise;

"**Potential Event of Default**" means any event which is, or, but for expiry of any grace period, the giving of notice or passage of time or after making any determination under this Agreement (or any combination of the foregoing) would be, an Event of Default;

"**PPP Principal Subsidiary**" means a Principal Subsidiary which:

(a) is a special purpose company established to finance, design, construct or otherwise develop and/or operate a development project supported by the Government and related to an infrastructure asset or a group of such assets, including, but not limited to, on the basis of a concession agreement or any public-private partnership agreement;

(b) has raised or intends to raise financing for such project in the form of equity capital injections, subordinated and/or senior loans or bond issuance proceeds, and such financing has or is being raised with no or with a limited recourse to RZD or any of its other Subsidiaries, and

(c) did not become a Principal Subsidiary as a result of one or more transfers of assets from any member of the Group;

"**Principal Paying Agent**" has the meaning given to it in the Agency Agreement;

"**Principal Subsidiary**" means at any relevant time a Subsidiary of the Borrower:

(a) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues, as the case may be) after elimination of intra-Group transactions represent not less than 10 per cent. of the total consolidated assets or the gross consolidated revenues of the Group, all as calculated by reference to the then latest audited accounts (or consolidated accounts, as the case may be) (in each case produced on the basis of IFRS consistently applied) of such Subsidiary and the then latest audited consolidated accounts of the Borrower (produced on the basis of IFRS consistently applied) and its consolidated Subsidiaries; or

(b) to which are transferred all or substantially all the assets and undertakings of a Subsidiary of the Borrower which immediately prior to such transfer is a Principal Subsidiary,

to the extent that, at any relevant time, any Subsidiary of the Borrower falls within (a) and/or (b) above;

"**Prospectus**" means the prospectus of even date herewith prepared in connection with the issue of the Notes, which comprises a prospectus for the purposes of Article 5 of Directive 2003/71/EC, as the same may be amended or supplemented on or before the Closing Date;

"**Rate of Interest**" has the meaning given to it in Clause 4.1;

"**Reform Programme**" means the reform programme enacted from time to time by the Russian authorities to develop the railway transportation market and infrastructure in Russia, as may be amended, supplemented or supplanted from time to time;

"**Relevant Event**" has the meaning given to it in the Trust Deed;

"**Relevant Indebtedness**" means any Financial Indebtedness which: (a)(i) is in the form of or represented by any bond, note, debenture stock, loan stock, certificate or other debt instrument which is listed or quoted on any stock exchange or (ii) is in the form of a loan to RZD or its Principal Subsidiaries which is financed by the issuance of any of the foregoing forms of debt in (a)(i) above, where such issuance is by a special purpose company or a bank or any other entity and the rights to payment of the holders of such forms of debt are limited to payments actually made by either RZD or its Principal Subsidiaries pursuant to such loan; and (b) in the case of the debt referred to in (a)(i) above or the debt financing a loan referred to in (a)(ii) above, was initially issued and distributed (as to more than 50 per cent. of the original principal amount of such debt) outside the Russian Federation;

"**Repayment Date**" means 1 March 2024;

"**Reserved Rights**" has the meaning given to it in the Trust Deed;

"**RZD Agreements**" means this Agreement, the Agency Agreement, the Subscription Agreement and the Ongoing Fees Side Letter;

"**Same-Day Funds**" means same day, freely transferable, clearly identifiable cleared U.S. Dollar-funds or such other funds for payment in U.S. Dollars as the Lender may at any time reasonably determine to be customary for the settlement of international transactions in London of the type contemplated hereby;

"**Subscription Agreement**" means the subscription agreement relating to the Notes dated on or around the date hereof between the Lender, the Borrower and the joint lead managers named therein (the "**Joint Lead Managers**");

"**Subsidiary**" means, with respect to any person: (i) any corporation, association or other business entity of which more than 50 per cent. of the total voting power entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof or to direct the management, policies and affairs thereof is at the time owned or controlled, directly or indirectly, by such person or one or more of the other Subsidiaries of such person (or any combination thereof); and (ii) any partnership (a) the sole general partner or the managing general partner of which is such person or a Subsidiary of such person or (b) the only general partners of which are such person or one or more Subsidiaries of such person (or any combination thereof), if (in the case of (i) and (ii)) in accordance with IFRS, such corporation, association, other business entity or partnership has been consolidated with such first-named person for the purposes of such first named person's most recent audited consolidated financial statements;

"**Taxes**" means any taxes (including interest or penalties thereon payable in connection with any failure to pay or any delay in paying any of the same) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, Ireland or any taxing authority thereof or therein provided, however, that for the purposes of this definition the references to Ireland shall, upon the occurrence of the Relevant Event (as this term is defined in the Trust Deed), be deemed to be references to the jurisdiction in which the Trustee is domiciled for tax purposes, and the term "**Taxation**" shall be construed accordingly;

"**Trust Deed**" means the trust deed relating to the Notes to be dated the Closing Date between the Lender and the Trustee as amended from time to time;

"**Trustee**" means BNY Mellon Corporate Trustee Services Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder;

"**Upfront Fee Side Letter**" has the meaning given to it in the Trust Deed;

"**U.S.$**" or "**U.S. Dollars**" means the lawful currency for the time being of the United States of America; and

"**VAT**" means value added tax and any other tax of a similar nature.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in, or are defined by cross-reference to definitions in or other provisions of, the Trust Deed, the Notes (including the Conditions), the Agency Agreement or the Subscription Agreement shall have the meanings given to such terms therein.

1.3 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

1.3.1 all references to "**Clause**" are, unless otherwise stated, references to a clause of this Agreement;

1.3.2 the terms "**hereof**", "**herein**", "**hereunder**" and other words of similar import shall mean this Agreement as a whole and not any particular part hereof;

1.3.3 words importing the singular number include the plural and vice versa;

1.3.4 all references to "**taxes**" include all present or future taxes, levies, imposts and duties of any nature and the terms "**tax**" and "**taxation**" shall be construed accordingly; and

1.3.5 the table of contents and the headings are for convenience only and shall not affect the construction hereof.

2. Facility

2.1 Facility

On the terms and subject to the conditions set forth herein, the Lender hereby agrees to lend the Borrower and the Borrower hereby agrees to borrow from the Lender U.S.$500,000,000.

2.2 Purpose

The net proceeds of the Advance will be used by the Borrower in its ordinary course of business as set out in "*Use of Proceeds*" in the Prospectus, but the Lender shall not be concerned with the application thereof.

3. Drawdown

3.1 Drawdown

On the terms and subject to the conditions of this Agreement, on the Closing Date the Lender shall make the Advance to the Borrower and the Borrower shall make a single drawing in the full amount of the Facility (less any amount to be deducted (if any) in accordance with Clause 9.1.2 of the Subscription Agreement).

3.2 Disbursement

Subject to the conditions set forth herein, on the Closing Date the Lender shall transfer the amount of the Advance (less any amount to be deducted (if any) pursuant to Clause 9.1.2 of the Subscription Agreement) in Same-Day Funds to the Borrower's account no. 40702840300030001712 in PJSC VTB Bank, SWIFT Code: VTBR RU MM, Tax ID: 7702070139, KPP: 997950001 correspondent account 890-0055-006 with The Bank of New York Mellon, SWIFT Code: IRVT US 3N, One Wall Street, New York, NY 10286, USA.

3.3 Ongoing Fees and Expenses

In consideration of the Lender supporting the Facility as a continuing facility, the Borrower shall pay, by way of a facility fee, in one or more instalments to the Lender each year or on demand an additional fee in U.S. Dollars (the "**Ongoing Fees**"). The Ongoing Fees shall be calculated taking into account all properly incurred and documented costs, commissions and taxes of the Lender incurred by it including in connection with supporting the Facility (including, without limitation, certain ongoing fees and expenses incurred by the Lender which are payable to the Trustee and the Agents in connection with the performance of their duties) as a continuing facility and as set forth in an invoice from the Lender to the Borrower. Before such payment is made by the Borrower, the Lender shall submit an invoice providing, in reasonable detail, the nature and calculation of the relevant payment or expense.

4. Interest

4.1 Rate of Interest

The Borrower will pay interest in U.S. Dollars to the Lender on the outstanding principal amount of the Loan from time to time at the rate of 4.375 per cent. per annum (the "**Rate of Interest**").

4.2 Payment

Interest at the Rate of Interest shall accrue from day to day, starting from (and including) the Closing Date and shall be paid in arrear not later than 10:00 a.m. (New York City time) one Business Day prior to each Interest Payment Date. Interest on the Loan will cease to accrue from the Repayment Date (or any date upon which the Loan is prepaid pursuant to Clause 5) unless payment of principal due on such date is withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to (but excluding) the date on which payment in full of the principal thereof is made. The amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying the Rate of Interest to the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded down). If interest is required to be calculated for any period of less than a year, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

"**Interest Period**" means each period beginning on (and including) the Closing Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

5. Repayment and Prepayment

5.1 Repayment

Except as otherwise provided herein, the Borrower shall repay the Loan not later than 10:00 a.m. (New York City time) one Business Day prior to the Repayment Date.

5.2 Prepayment in the Event of Taxes or Increased Costs

If, as a result of the application of or any amendments or clarification to, or change (including a change in interpretation or application) in, or determination under, the double tax treaty between the Russian Federation and Ireland or the laws or regulations of the Russian Federation or Ireland or of any political sub-division thereof or any authority therein or the enforcement of the security provided for in the Trust Deed, the Borrower would thereby be required to make or increase any payment due hereunder as provided in Clause 6.2 or 6.3 (other than, in each case, where the increase in payment is in respect of any amounts due or paid pursuant to Clause 3), or if (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 8, and any such additional amounts cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may (without premium or penalty), upon not less than 10 days' prior written notice to the Lender (which notice shall be irrevocable), prepay the Loan in whole (but not in part) at any time.

Simultaneously with giving any such notice in the event of an increase in payment pursuant to Clause 6.2, the Borrower shall deliver to the Lender an Officer's Certificate confirming that the Borrower would be required to increase the amount payable, supported by an opinion of an independent tax adviser of international repute addressed to the Lender as to the existence of the circumstances described above.

5.3 Prepayment in the Event of Illegality

If, at any time after the date of this Agreement, by reason of the introduction of or any change in, any applicable law, regulation, regulatory requirement or directive of any agency of any state, the Lender reasonably determines (such determination being accompanied by an Opinion of Counsel at the request of the Borrower with the cost of such Opinion of Counsel being borne solely by the Borrower) that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for the Lender to allow all or part of the Loan or the Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the Loan, then upon notice by the Lender to the Borrower in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), the Borrower and the Lender shall consult in good faith as to a basis that eliminates the application of such circumstances; provided, however, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 Business Days of the date on which it so notified the Borrower in writing. If such a basis has not been determined within the 30 Business Days, then upon notice by the Lender to the Borrower in writing, the Borrower shall prepay the Loan in whole (but not in part) on the next Interest Payment Date or on such earlier date as the Lender shall (acting reasonably) certify on not less than 15 Business Days' notice to be necessary to comply with such requirements.

5.4 Prepayment in the Event of Change of Control

5.4.1

(i) In the case of a Change of Control pursuant to limb (i) of the definition of Change of Control, promptly, and in any event within 10 Business Days after the date of such Change of Control; or

(ii) in the case of a Change of Control pursuant to limb (ii) of the definition of Change of Control, promptly, and in any event within 10 Business Days after the date on which the Borrower is aware of such Change of Control,

the Borrower shall deliver to the Lender a written notice in the form of an Officer's Certificate, which notice shall be irrevocable, stating that a Change of Control has occurred and stating the circumstances and relevant facts giving rise to such Change of Control.

5.4.2 If, following a Change of Control, any Noteholder has exercised its Change of Control Put Option, the Borrower shall, on the Change of Control Payment Date, prepay the principal amount of the Loan in an amount which corresponds to the aggregate principal amount of the Notes in relation to which the Change of Control Put Option has been duly exercised in accordance with the Conditions.

5.4.3 The Lender shall notify the Borrower not more than three Business Days after receipt of notice thereof from the Principal Paying Agent of the amount of the Loan to be prepaid as a consequence of the exercise of the Change of Control Put Option by any Noteholders.

5.5 Reduction of Loan upon Cancellation of Notes

The Borrower or any Subsidiary of the Borrower may from time to time, in accordance with the Conditions, purchase Notes in the open market or by tender or by a private transaction or otherwise at any price and deliver such Notes to the Lender (as issuer of such Notes), having an aggregate principal value of at least U.S.$1,000,000, together with a request for the Lender to present such Notes to the Registrar for cancellation, and may also from time to time procure the delivery to the Registrar of the Global Certificate with instructions to cancel a specified aggregate principal amount of Notes (being at least U.S.$1,000,000) represented thereby (which instructions shall be accompanied by evidence satisfactory to the Registrar that the Borrower is entitled to give such instructions), whereupon the Lender shall promptly, pursuant to Clause 7.1 of the Agency Agreement, request the Registrar to cancel such Notes (or specified aggregate principal amount of Notes represented by the Global Certificate). Upon any such cancellation by or on behalf of the Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes shall be extinguished for all purposes as of the date of such cancellation and no further interest shall be payable on such principal amount of the Loan.

5.6 Payment of Other Amounts

If the Loan is to be prepaid by the Borrower pursuant to any of the provisions of Clause 5.2, 5.3 or 5.4, the Borrower shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual payment and all other sums payable by the Borrower pursuant to this Agreement in relation to the prepaid amount. For the avoidance of doubt, if the principal amount of the Loan is reduced pursuant to the provisions of Clause 5.5, then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which the Loan is so reduced and the Lender shall not be entitled to any interest in respect of the cancelled Notes.

5.7 Provisions Exclusive

The Borrower shall not prepay or repay all or any part of the amount of the Loan except at the times and in the manner expressly provided for in this Agreement. The Borrower shall not be permitted to re-borrow any amounts prepaid or repaid.

6. Payments

6.1 Making of Payments

All payments of principal, interest and other amounts payable under Clause 6.2 to be made by the Borrower under this Agreement shall be made unconditionally by credit transfer to the Lender not later than 10:00 a.m. (New York City time) one Business Day prior to each Interest Payment Date or the Repayment Date or the date of any payment (as the case may be) in Same-Day Funds to the Account, or such other account as the Trustee may direct following the occurrence of a Relevant Event.

The Borrower shall, promptly, upon request of the Principal Paying Agent, confirm to the Principal Paying Agent by e-mail that it has issued or, as the case may be, will be issuing the payment instructions relating to a payment due under this Agreement to its bank in order to procure such relevant payment being effected together with a SWIFT confirmation (where relevant) or such other information which the Principal Paying Agent may reasonably require in order to assist with locating the payment made by the Borrower.

The Lender agrees with the Borrower that it will not deposit any other moneys into the Account and that no withdrawals shall be made from the Account other than as provided for and in accordance with the Trust Deed, the Secured Account Bank Agreement and the Agency Agreement.

6.2 No Set-off, Counterclaim or Withholding; Gross-up

All payments to be made by the Borrower under this Agreement shall be made in full without set-off or counterclaim (including, for the avoidance of doubt, any set-off or counterclaim in respect of any amounts owed to the Borrower under any other loan agreement) and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes. If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any such Taxes, it shall increase any payment of principal, interest or any other payment due hereunder to such amount as may be necessary to ensure that the Lender receives a net amount in U.S. Dollars equal to the full amount which it would have received had payment not been made subject to such Taxes, and shall account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under applicable law and shall deliver to the Lender without undue delay evidence of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes, the Borrower shall reimburse the Lender in U.S. Dollars for such documented payment on demand. For the avoidance of doubt, this Clause 6.2 is without prejudice to any obligations of the Lender contained in Clause 6.5.

6.3 Withholding on the Notes

Without prejudice to the provisions of Clause 6.2, if the Lender notifies the Borrower (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) that it has become obliged to make any withholding or deduction for or on account of any Taxes from any payment which it is obliged to make, or would otherwise be required to make but for the imposition of any such withholding or deduction for or on account of any such Taxes, under or in respect of the Notes in circumstances where the Lender, subject to receipt thereof, is required to pay additional amounts pursuant to Condition 8 or otherwise or in connection with its funding of the Loan, the Borrower agrees to pay to the Lender not later than 10:00 a.m. (New York City time) one Business Day prior to the date on which payment is due to the Noteholders or such other party (as the case may be) in Same-Day Funds to the Account, such additional amounts as are equal to the said additional amounts which the Lender must pay pursuant to Condition 8 or in connection with funding the Loan. However, immediately upon receipt by the Lender of any sums paid pursuant to this Clause 6.3, to the extent that the Noteholders or such other party, as the case may be, are not entitled to such additional amounts pursuant to the Conditions, the Lender shall repay such additional amounts to the Borrower (it being understood that neither the Lender, nor the Trustee, nor the Principal Paying Agent, nor any Paying Agent shall have any obligation to determine whether any Noteholder or such other party is entitled to such additional amount).

Any notification by the Lender to the Borrower in connection with this Clause 6.3 shall be given as soon as reasonably practicable after the Lender becomes aware of any obligation on it to make any such withholding or deduction.

6.4 Reimbursement

To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which the Borrower has made a payment pursuant to this Clause 6 or obtains any other reimbursement in connection therewith, it shall pay to the Borrower so much of the benefit received as will leave the Lender in exactly the same position as it would have been had no additional amount been required to be paid by the Borrower pursuant to this Clause 6; provided, however, that the question of whether any such benefit has been received and, accordingly, whether any payment should be made to the Borrower, the amount of any such payment and the timing of any such payment shall be determined solely by the Lender.

The Lender shall use its best endeavours to obtain any credits or refunds available to it and shall notify the Borrower of any tax credit or allowance or other reimbursement it receives.

If as a result of a failure to obtain relief from deduction or withholding of any tax imposed by the Russian Federation or Ireland (i) such tax is deducted or withheld by the Borrower and pursuant to this Clause 6 an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding; and (ii) following the deduction or withholding of tax as referred to above the Lender (upon instructions by the Borrower) applies to the relevant Russian or Irish tax authorities for a tax refund and such tax refund is credited by the Russian or Irish tax authorities to a bank account of the Lender, the Lender shall as soon as reasonably possible notify the Borrower of the receipt of such tax refund and (upon instructions by the Borrower) promptly transfer the amount equal to the entire amount of the tax refund actually received by the Lender to a bank account of the Borrower specified for that purpose by the Borrower.

6.5 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any deduction, withholding or payment as described in Clause 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or the Borrower's obligations, under such Clauses, such party shall as soon as reasonably practicable upon becoming aware of such circumstances notify the other party, and thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that both parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be available to it to avoid such obligation or mitigate the effect of such circumstances. The Borrower agrees to reimburse the Lender upon receipt of an original demand for payment for all properly documented and incurred costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause 6.5.

7. Conditions Precedent

The obligation of the Lender to make the Advance shall be subject to the condition precedent that as at the Closing Date the Lender shall have received the full amount of the proceeds from the issue of the Notes pursuant to the Subscription Agreement.

8. Change in Law or Increase in Cost

8.1 Compensation

In the event that after the date of this Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof and/or any compliance by the Lender in respect of the Loan with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with generally accepted financial practice of financial institutions in the country concerned) from or of any central bank or other fiscal, monetary or other authority, agency or any official of any such authority, which:

8.1.1 subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on the Loan or any other amount payable under this Agreement (other than any Taxes payable by the Lender on its overall net income or any Taxes referred to in Clause 6.2 or 6.3); or

8.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on the Loan or any other amount payable under this Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income or as a result of any Taxes referred to in Clause 6.2 or 6.3); or

8.1.3 imposes or will impose on the Lender any other condition affecting this Agreement or this Loan,

and, if as a result of any of the foregoing:

(i) the cost to the Lender of making, funding or maintaining this Loan is increased;

(ii) the amount of principal, interest or other amount payable to or received by the Lender under this Agreement is reduced; or

(iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan, then subject to the following, and in each such case:

(a) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Borrower, together with a certificate signed by two directors of the Lender or by any person empowered by the authorised signatories of the Lender on behalf of the Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and describing the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and providing all relevant reasonable supporting documents evidencing the matters set out in such written notice; and

(b) the Borrower, in the case of Clauses 8.1.3(i) and 8.1.3(iii) above, shall, on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of Clause 8.1.3(ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return,

provided that this Clause 8.1 will not apply to or in respect of any matter for which the Lender has already been compensated under Clause 6.2 or 6.3.

8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to Clause 8.1, the Lender shall consult in good faith with the Borrower and shall use reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, the Borrower's obligations to pay any additional amount pursuant to such Clause except that nothing in this Clause 8.2 shall oblige the Lender to incur any costs or expenses in taking any action hereunder which, in the reasonable opinion of the Lender, is prejudicial to it unless the Borrower agrees to reimburse the Lender such costs or expenses.

9. Representations and Warranties

9.1 The Borrower's Representations and Warranties

The Borrower represents and warrants to the Lender, with the intent that such shall form the basis of this Agreement at the date hereof and shall be deemed to be repeated by the Borrower on the Closing Date, that:

9.1.1 it is duly organised and incorporated and validly existing under the laws of the Russian Federation and has the power and legal right to own its property, to conduct its business as currently conducted and, in the case of the Borrower only, to enter into and to perform its obligations under this Agreement and to borrow the Advance; the Borrower has taken all necessary corporate, legal and other action required to authorise the borrowing of the Advance on the terms and subject to the conditions of this Agreement and to authorise the execution and delivery of this Agreement and all other documents to be executed and delivered by it in connection with this Agreement, and the performance of this Agreement in accordance with its terms;

9.1.2 other than GEFCO S.A., the Borrower does not have any Principal Subsidiaries;

9.1.3 this Agreement has been duly executed and delivered by the Borrower and constitutes a legal, valid and binding obligation of the Borrower enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability: (i) to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law);and (ii) to the fact that certain gross-up provisions may not be enforceable under Russian law;

9.1.4 the execution, delivery and performance of this Agreement by the Borrower will not conflict with or result in any breach or violation of: (i) any law or regulation or any order of any governmental, judicial or public body or authority in the Russian Federation; (ii) the constitutive documents, rules and regulations of the Borrower; or (iii) any agreement or other undertaking or instrument to which the Borrower is a party or which is binding upon the Borrower or any of its assets (save where the breach or violation of such agreement or other undertaking or instrument would not have a Material Adverse Effect), nor result in the creation or imposition of any Lien on any of its assets pursuant to the provisions of any such agreement or other undertaking or instrument;

9.1.5 all consents, authorisations or approvals of, or filings with, any governmental, judicial or public bodies or authorities of the Russian Federation required by the Borrower in connection with the execution, delivery, performance, legality, validity, enforceability and, subject to Russian legal requirements, admissibility in evidence of this Agreement have been obtained or effected and are in full force and effect;

9.1.6 no Potential Event of Default, Event of Default or a default under any agreement or instrument evidencing any Financial Indebtedness of the Borrower has occurred, and no such event will occur upon the making of the Advance;

9.1.7 there are no judicial, arbitral or administrative actions, proceedings or claims pending or, to the knowledge of the Borrower, threatened against the Borrower, the adverse determination of which could have a Material Adverse Effect;

9.1.8 except for Liens of the types referred to in Clause 10.1 and Liens arising in the ordinary course of business, the Borrower has the right of ownership (as that expression is defined under the laws of the Russian Federation) to its property free and clear of all Liens which if existing would have a Material Adverse Effect and the Borrower's obligations under the Loan will rank at least *pari passu* with all its other unsecured and unsubordinated Financial Indebtedness (apart from any obligations mandatorily preferred by law);

9.1.9 the most recent audited consolidated financial statements of the Borrower:

(i) were prepared in accordance with IFRS, as consistently applied; and

(ii) save as disclosed in the audited consolidated financial statements or in the relevant auditors' report relating to such audited consolidated financial statements, present fairly in all material respects the assets and liabilities as at that date and the results of operations of the Group during the relevant financial year;

9.1.10 except as disclosed in the Prospectus, there has been no material adverse change since the date of the last audited consolidated financial statements of the Borrower in the financial condition, results of business operations or prospects of the Borrower or the Group taken as a whole;

9.1.11 the execution, delivery and enforceability of this Agreement is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any political subdivision or taxing authority thereof or therein (other than state duty paid on any claim filed with a Russian court);

9.1.12 neither the Borrower nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to this Agreement, other than pursuant to the Resolution of the Government of the Russian Federation No. 57 dated 6 February 2004, which relates to assets such as, *inter alia*, infrastructure objects which serve national security purposes;

9.1.13 the Borrower is in compliance with all applicable provisions of law in the jurisdictions where the Borrower conducts its business or operations, except where failure to be so in compliance would not have a Material Adverse Effect;

9.1.14 the Borrower has not taken any corporate action nor have any other steps been taken or legal proceedings started or threatened in writing against the Borrower for its bankruptcy, winding-up, dissolution, external administration or re-organisation (save for any internal corporate reorganisation of the Group undertaken in the normal course of business or pursuant to the

Reform Programme) (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of any or all of its or their assets or revenues;

9.1.15 there are no strikes or other employment disputes against the Borrower which are pending and which could have a Material Adverse Effect;

9.1.16 in the event of any proceedings taken in the Russian Federation in relation to this Agreement, the choice of English law as the governing law of this Agreement, the agreement to arbitrate and any arbitration award obtained in England pursuant to Clause 17.2 in relation to this Agreement will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and all other legal requirements in the Russian Federation;

9.1.17 subject to Clause 10.6.1, under the laws of the Russian Federation effective as of the date hereof, it should not be required to make any deduction or withholding from any payment it may make hereunder;

9.1.18 the execution of this Agreement will constitute, and its exercise of its rights and performance of its obligations thereunder will constitute, private and commercial acts done and performed for private and commercial purposes;

9.1.19 the Borrower has no overdue tax liabilities which would be reasonably likely to have a Material Adverse Effect other than those which it is contesting in good faith;

9.1.20 all licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable the Borrower to own its assets and carry on its business are in full force and effect and, if not, the absence of which would be reasonably likely to not have a Material Adverse Effect;

9.1.21 the Borrower maintains insurance of the types and in amounts that are, in the judgment of the management of the Borrower, adequate for its business; and the Borrower has no reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business;

9.1.22 the Borrower is not in violation of, and has and is in compliance with any applicable law, rule, regulation, ordinance, code, policy or rule of civil or common law or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent, decree or judgment, relating to pollution or protection of human health, the environment or wildlife, which violation would have a Material Adverse Effect; and

9.1.23 the Borrower owns or possesses adequate trademarks, trade names and other rights to inventions, know-how, patents, copyrights, confidential information and other intellectual property necessary to conduct the business now operated by it, or presently employed by it.

9.2 Lender's Representations and Warranties

The Lender represents and warrants to the Borrower as follows:

9.2.1 the Lender is duly incorporated under the laws of Ireland as a public limited company and has full power and capacity to execute this Agreement and to undertake and perform the obligations expressed to be assumed by it herein and the Lender has taken all necessary action to approve and authorise the same;

9.2.2 the execution of this Agreement and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein will not conflict with, or result in a breach of or default under, the laws of Ireland, any agreement or instrument to which it is a party or by which it is bound or in respect of Indebtedness in relation to which it is a surety or the constitutive documents of the Lender;

9.2.3 the Lender is a company duly incorporated under Irish law which at the date hereof is a resident solely of Ireland for taxation purposes, is subject to taxation in Ireland on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Ireland merely on income from sources in Ireland or connected with property located in Ireland. The Lender will be able to obtain a certificate confirming its tax residence in Ireland from the relevant Irish authority;

9.2.4 the Lender has no intention to effect any corporate actions or reorganisations or change of its tax residency jurisdiction that would result in the Lender ceasing to be a tax resident of Ireland or ceasing to be subject to taxation in Ireland;

9.2.5 as at the date hereof, the Lender does not have a permanent establishment or presence outside Ireland, including, in particular, in the Russian Federation, save for any which may be created solely as a result of the Lender entering into and performing its obligations under the Lender Agreements, the Notes or any documents in relation to any previous issued of loan participation notes. In particular:

(i) the Lender does not have a branch, representation, division, bureau, office, agency or any other economically autonomous subdivision or other place of business in any other country than Ireland through which the business of the Lender is wholly or partially carried out;

(ii) the Lender did not explicitly grant authority to and is not aware of an implied authority for the Borrower or any other Person located outside Ireland to negotiate key parameters of any contracts or sign any contracts on behalf of the Lender, bind the Lender to any contracts by other means or otherwise represent the Lender in dealings with third parties;

(iii) the Lender has its central management and control in Ireland. The Lender's place of effective management is only in Ireland; and

(iv) the directors of the Lender are Irish nationals and reside in Ireland and shall at all times act independently and exercise their authority from and within Ireland by taking all key decisions relating to the Lender in the Ireland.

For the purposes of this representation in relation to Russia a branch, representation, division, bureau, office or an agency shall be understood to mean any fixed place in Russia at which the Lender possesses or rents premises.

For the purposes of this representation in relation to Russia an economically autonomous subdivision shall be understood to mean any subdivision which is located in separate territory from the Lender at the location of which permanent workplaces are equipped. A workplace may be created only to an extent there is an employment relationship between an entity and an individual. A workplace shall be deemed to be permanent if it is created for more than one month;

9.2.6 this Agreement and the Subscription Agreement have been, and the Trust Deed and the Agency Agreement will on the Closing Date be, duly executed by and constitute legal, valid and binding obligations of the Lender enforceable in accordance with its terms, subject to applicable bankruptcy, examinership, insolvency, liquidation, administration, moratorium, re-organisation and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity;

9.2.7 all authorisations, consents and approvals required under Irish law by the Lender for or in connection with the execution of this Agreement, the Trust Deed, the Agency Agreement and the Subscription Agreement and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect;

9.2.8 the Notes and the Loan will be fully accounted for by the Lender on its balance sheet, meaning that the Loan will be treated as an asset of the Lender under accounting guidance applicable to the Lender while the Notes will be treated as a liability of the Lender;

9.2.9 the Lender is liable to Irish corporate income tax at the applicable standard rates in respect of all its taxable profits derived from the transactions contemplated pursuant to the Lender Agreements, computed in accordance with the applicable Irish generally accepted accounting practice, where interest and other income on the Loan receivable by the Lender will be treated as taxable income for Irish tax purposes;

9.2.10 the Lender does not own, either directly or indirectly, any shares of the Borrower;

9.2.11 the Lender has taken no action (other than entering into loan arrangements with the Borrower and the transactions and documents connected therewith) which would cause it to become registered in Russia for tax purposes; and

9.2.12 there is no reference to the territory of Russia as the actual place of the Lender's activity in the memorandum or articles of association of the Lender.

10. Covenants

So long as the Loan or any other sum owing hereunder remains outstanding:

10.1 Negative Pledge

Neither the Borrower nor any of its Principal Subsidiaries (other than PPP Principal Subsidiaries and Joint Stock Company Federal Freight) will create or permit to subsist any Lien upon or in respect of any of its undertakings, property, income, assets or revenues, present or future, to secure any Relevant Indebtedness unless, at the same time or prior thereto, the Borrower's obligations hereunder are secured equally and rateably therewith or benefit from such other security or other arrangements, as the case may be, to the satisfaction of the Trustee, provided that there will be no such requirement to secure the Borrower's obligations hereunder at any time that the aggregate principal amount of Relevant Indebtedness outstanding at such time that is secured by any such Lien does not exceed U.S.$500,000,000 (or its equivalent in other currencies).

10.2 Mergers

The Borrower shall: (i) not enter into any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Russian legislation as these terms are construed by applicable Russian legislation); and (ii) ensure that no Principal Subsidiary enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable legislation) if, in the case of (i) or (ii) above, any such reorganisation or other type of corporate reconstruction could reasonably be expected to result in a Material Adverse Effect, other than (x) any merger, accession or transformation pursuant to the Reform Programme and/or any other legislative or regulatory acts adopted by Russian authorities and applicable to the Group, provided that the surviving entity will be the Borrower or, if different, the surviving entity will succeed to and fully assume the obligations of the Borrower under this Agreement and all other related documents, or (y) any merger, accession or transformation between two or more of Joint Stock Company Federal Freight, United Transportation and Logistics Company, Public Joint Stock Company TransContainer and(or) Joint Stock Company TransTelecom.

10.3 Disposals

The Borrower shall not, and shall procure that each of its Principal Subsidiaries do not, sell, lease (other than any operating leases where no title to any asset is transferred to the lessee), transfer or otherwise dispose of (each such action, a "**disposal**") by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets to any person, except where:

10.3.1 such disposal is made on an arms-length basis in the ordinary course of business of the Group, as at the Closing Date;

10.3.2 such disposal is made to a person that is either the Borrower or another Subsidiary (provided that prior to or upon such disposal, the Subsidiary becomes a Principal Subsidiary), as the case may be;

10.3.3 such disposal is made pursuant to the Reform Programme and/or any other legislative or regulatory acts adopted by Russian authorities and applicable to the Group;

10.3.4 such disposal is of an asset not necessary for the core business of the Group, as at the Closing Date, and is made on an arms-length basis;

10.3.5 such disposal is made on an arms-length basis and the proceeds of such disposal are invested in assets used in the ordinary business of the Group, as at the Closing Date, or the disposed assets are exchanged for other assets comparable, or superior, as to type, value and quality;

10.3.6 such disposal is of an equity interest in any of Joint Stock Company Federal Freight, United Transportation and Logistics Company, Public Joint Stock Company TransContainer and Joint Stock Company TransTelecom and in each case on an arm's-length basis;

10.3.7 such disposal is of obsolete or worn out equipment; or

10.3.8 such disposal would not otherwise have a Material Adverse Effect.

10.4 Financial and Other Information

10.4.1 The Borrower will furnish to the Lender, within nine months of the relevant year-end, audited annual financial statements prepared in accordance with applicable Accounting Standards as consistently applied, including a report thereon by the Borrower's auditors.

10.4.2 At the same time as delivering its audited annual financial statements to the Lender pursuant to Clause 10.4.1 and also within 10 Business Days of any request by the Lender, the Borrower shall deliver to the Lender a written notice in the form of an Officer's Certificate (in the form or substantially in the form set out in the Schedule hereto) stating whether, to the best of the knowledge, information and belief of such officers as at the date of the certificate, having made all reasonable enquiries, since the date of the last such certificate or (if none) the date of this Agreement, the Borrower is complying with its obligations under this Agreement and whether a Potential Event of Default or Event of Default or Change of Control has occurred, its status and what action the Borrower is taking or proposes to take with respect thereto.

10.4.3 At any time when the Borrower or any of its Subsidiaries shall have purchased any Notes and retained such Notes for its own account or for the account of any other company, the Borrower will notify the Lender to that effect and thereafter deliver to the Lender as soon as practicable after being so requested in writing by the Lender an Officer's Certificate setting out the total number of Notes which, at the date of such Officer's Certificate, are beneficially held by or on behalf of the Borrower or any of its Subsidiaries and are not cancelled.

10.4.4 The Borrower will, on written request of the Lender, promptly (and in any event within 15 Business Days after such request) provide the Lender with such further information (and substantially in such form as requested by the Lender) including, but not limited to, information about the business and financial condition of the Borrower and its Principal Subsidiaries (including as to those of the Borrower's Subsidiaries which are, at the date of such request, Principal Subsidiaries), other than information containing state secrets and/or commercial secrets as defined in Federal Law No. 5485-1 dated 21 July 1993 (as amended) and Federal Law No. 98-F7 dated 29 July 2004 (as amended), respectively, as the Lender may reasonably require. Without prejudice to the foregoing, on each Interest Payment Date or promptly upon request by the Lender (and in any event within 15 Business Days after such request), the Borrower shall deliver to the Lender, a written notice in the form of an Officer's Certificate listing its Principal Subsidiaries.

10.4.5 Following the occurrence of any matter or event specified in this Agreement where this Agreement provides for a determination of whether such matter or event has or will have a Material Adverse Effect, or if requested in writing by the Lender, the Borrower shall provide the Lender with an Officer's Certificate certifying whether or not such matter or event has or will have a Material Adverse Effect and setting out such additional information as may be required to support such determination. The Lender shall be entitled, without liability to any person, to rely solely on an Officer's Certificate from the Borrower, certifying whether or not such matter has or will have a Material Adverse Effect.

10.4.6 The Borrower shall deliver within 10 Business Days of receipt of any written request by the Lender: (i) an Officer's Certificate as to any fact or matter *prima facie* within the knowledge of Borrower as sufficient evidence thereof and (ii) a like certificate to the effect that any particular dealing or transaction or step or thing is, in the opinion of the person so certifying, expedient as sufficient evidence that it is expedient, and the Lender shall not be bound in any such case to call for further evidence or be responsible for any loss that may be occasioned by its failing so to do.

10.5 Compliance with Terms of Trust Deed

The Lender agrees that it will observe and comply with its obligations set out in the Trust Deed and will not agree to any amendment to the terms of the Trust Deed without prior consultation if reasonably practicable with the Borrower and, with regard to any amendment of the Terms and Conditions of the Notes or Provisions for Meetings of the Noteholders as set out in schedules 2 and 4 to the Trust Deed, respectively, without prior written consent of the Borrower. In addition, the Lender agrees that it will only exercise its power to appoint a new Trustee pursuant to Clause 26 of the Trust Deed with the consent of the Borrower (such consent not to be unreasonably withheld or delayed).

10.6 Withholding Tax Exemption

10.6.1 The Lender shall use its best endeavours to provide the Borrower, not later than 20 calendar days prior to the date of the first Interest Payment Date (and thereafter as soon as possible at the beginning of each calendar year, but not later than 20 Business Days prior to the first Interest Payment Date in that year), with a certificate, issued and/or certified by the competent Irish authorities, confirming that the Lender is tax resident in Ireland (the "**Residency Certificate**"), provided that the Residency Certificate shall be properly legalised or apostilled by the Lender. The Lender shall not be liable for any failure to provide, or any delays in providing, the Residency Certificate as a result of any action or inaction of the competent Irish authorities, but shall notify the Borrower without delay about any such failure or delay with a written description of the actions taken by the Lender to obtain the Residency Certificate. In the event that the Lender has not complied with its duty to provide the Residency Certificate as set out in this Clause 10.6, the Borrower may, in accordance with the Trust Deed, require the substitution of the Lender as lender under this Agreement and as issuer of the Notes.

10.6.2 The Borrower and the Lender (using its best endeavours and in accordance with applicable law) agree that should the Russian legislation regulating the procedure for obtaining an exemption from Russian income tax withholding or the interpretation thereof by the relevant competent authority change, then the procedure referred to in Clause 10.6.1 will be deemed changed accordingly.

10.6.3 The Lender shall use its best efforts to within 20 days of the request of the Borrower (to the extent it is able to do so under applicable law including Russian law), deliver to the Borrower such other information or forms to be duly completed and delivered as may be needed to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained. If required, the other forms referred to in this Clause 10.6 shall be duly signed by the Lender and stamped or otherwise approved by the competent tax authority in Ireland and any requisite power of attorney issued by the Lender to the Borrower shall be duly signed and apostilled or otherwise legalised. The Lender shall provide the Borrower with all assistance it may reasonably require to ensure that the Borrower can deliver to the tax authorities the information or forms specified in this Clause 10.6. If a relief from deduction or withholding of Russian Tax under this Clause 10.6 has not been obtained and further to an application of the Borrower to the relevant Russian taxing authorities the latter requests the Lender's Rouble bank account details, the Lender shall, at the request of the Borrower, (x) use reasonable efforts to procure that such Rouble bank account of the Lender is duly opened and maintained and (y) thereafter furnish the Borrower with the details of such Rouble bank account. The Borrower shall pay for all costs, if any, associated with opening and maintaining such Rouble bank account. The Lender shall not be obliged to take any step under this Clause 10.6 if, in the reasonable opinion of the Lender, such step would be materially prejudicial to it (other than incurring of costs and expenses of an administrative nature).

10.6.4 The Borrower shall advise the Lender as soon as reasonably practicable of any modification to or development in Russian tax laws and regulations which affect or are capable of affecting the relief of the Lender from Russian withholding tax in respect of payments under this Agreement in order to ensure that, prior to the first Interest Payment Date and at the beginning of each calendar year, the Lender can provide the Borrower with the documents required under applicable Russian law for the relief of the Lender from Russian withholding tax in respect of payments under this Agreement.

10.7 Lender's Shareholders

The Lender shall notify the Borrower of any modification after the date of this Agreement to its shareholders (including ultimate beneficial owners) and directors within five Business Days following any such modification having occurred.

11. Events of Default

11.1 If one or more of the following events of default (each, an "**Event of Default**") shall occur, the Lender shall be entitled to the remedies set forth in Clause 11.3.

11.1.1 The Borrower fails to pay within ten Business Days either the principal amount under the Loan or any amount of interest payable under this Agreement as and when such amount becomes payable in the currency and in the manner specified therein.

11.1.2 The Borrower fails to pay within fifteen Business Days any other amount payable under this Agreement as and when such amount becomes payable in the currency and in the manner specified therein, provided that such default will not be an Event of Default if such amount is paid within 25 Business Days as and when such amount becomes payable provided that such delay is caused by a technical difficulty affecting transfer of funds due from RZD.

11.1.3 The Borrower fails to perform or observe any of its other obligations under this Agreement and (except where in any such case that failure is not capable of remedy) that failure continues for the period of 45 calendar days.

11.1.4 (i) The Borrower or any of its Principal Subsidiaries fails to pay any of its Financial Indebtedness as and when such Financial Indebtedness becomes due and payable, taking into account any applicable grace period; or (ii) any Financial Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Borrower or such Principal Subsidiary or (provided that no event of default, howsoever described, has occurred) any person or entity entitled to such Financial Indebtedness; provided that the total amount of such Financial Indebtedness unpaid or becoming due and payable exceeds U.S.$75,000,000 (or its equivalent in another currency) and further provided that this Clause 11.1.4 shall not apply to (i) any PPP Principal Subsidiary and (ii) any bilateral credit facilities entered into between any of the Borrower's Principal Subsidiaries and a third party creditor (being a creditor that is not a member of the Group).

11.1.5 The occurrence of any of the following events: (i) the Borrower or any of the Principal Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation commission (*likvidatsionnaya komissiya*) or a similar officer; (ii) the presentation or filing of a petition in respect of the Borrower or any of the Principal Subsidiaries in any court of competent jurisdiction, arbitration court or before any agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of the Borrower or any of the Principal Subsidiaries (ignoring any petition that is not accepted by such court or agency for review on its merits), unless such petition is demonstrated to the reasonable satisfaction of the Lender to be vexatious or frivolous; (iii) the institution of supervision (*nablyudeniye*), financial rehabilitation (*finansovoye ozdorovleniye*), external management (*vneshneye upravleniye*) or bankruptcy management (*konkursnoye proizvodstvo*) over the Borrower or any of the Principal Subsidiaries; (iv) entry by the Borrower or any of the Principal Subsidiaries into, or the agreement by the Borrower or any of the Principal Subsidiaries to enter into, amicable settlement (*mirovoe soglasheniye*) with its creditors, as such terms are defined in the Federal Law of Russia No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002 (as amended or replaced from time to time); and/or (v) any judicial liquidation in respect of the Borrower or any of the Principal Subsidiaries.

11.1.6 The Borrower or any of its Principal Subsidiaries is unable or admits inability to pay its debts as they fall due, generally suspends making payments on its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with its creditors generally with a view to rescheduling any of its Financial Indebtedness or makes a general assignment for the benefit of or a composition with its creditors generally; and/or a moratorium is declared in respect of any Financial Indebtedness of the Borrower or any of the Principal Subsidiaries (provided that, for the purposes of this Clause 11.1.6, in the case of a Principal Subsidiary only the same could have a Material Adverse Effect).

11.1.7 Any governmental authorisation necessary for the performance of any obligation of the Borrower under this Agreement fails to be in full force and effect and, without prejudice to any other provision of this Clause 11.1, such failure has not been remedied within 30 Business Days after the occurrence thereof.

11.1.8 Any governmental authority or court takes any action that has a Material Adverse Effect on the Borrower's ability to perform its obligations under this Agreement or the validity or enforceability of this Agreement or the rights or remedies of the Lender under this Agreement (other than such rights and remedies of the Lender which are dealt with pursuant to Clause 5.3 above), save where such action is being contested in good faith by the Borrower and is not removed, paid out, stayed or discharged within 60 calendar days of such action being taken.

11.1.9 Any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part (in the reasonable opinion of the Lender) of, the assets of the Borrower or any event occurs which under the laws of any jurisdiction has a similar or analogous effect and the same could have a Material Adverse Effect unless such execution, distress, enforcement of a Lien or similar or analogous event is being contested in good faith by the Borrower and is not removed, paid out, stayed or discharged within 45 days of such execution, distress being levied, taking of possession or similar or analogous act, as the case may be.

11.1.10 There are unsatisfied final judgments, decrees or orders of courts of competent jurisdiction or other appropriate and competent law-enforcement bodies for the payment of money against the Borrower and its Principal Subsidiaries which could have a Material Adverse Effect and there is a period of 60 calendar days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for 20 calendar days after the notice specified in Clause 11.2.

11.1.11 Any seizure, compulsory acquisition, expropriation, nationalisation without appropriate compensation or renationalisation after the date of this Agreement by or under the authority of a government authority of all or part (the book value of which is 15 per cent. or more of the book value of the whole, as determined under IFRS) of the assets of the Borrower or any Principal Subsidiary, provided that, in the case of a Principal Subsidiary, the same could have a Material Adverse Effect.

11.1.12 The Borrower ceases to carry on the principal business activities it carries on as at the date of this Agreement.

11.1.13 At any time it is or becomes unlawful for the Borrower to perform or comply with any or all of its material (in the Lender's reasonable opinion) obligations under this Agreement or any of such material obligations (subject as provided in Clause 9.1.3) are not, or cease to be, legal, valid, binding and enforceable.

11.1.14 Any event occurs which under the laws of Ireland or the Russian Federation or, in the case of a Principal Subsidiary, the jurisdiction of its incorporation has an analogous effect to any of the events referred to in Clauses 11.1.4, 11.1.5, 11.1.9 and 11.1.10, subject to the same thresholds and cure periods as set out in the relevant clauses above.

11.2 Notice of Potential Event of Default

The Borrower shall deliver to the Lender and the Trustee: (i) within 10 Business Days of any written request by the Lender or the Trustee; or (ii) promptly upon becoming aware thereof, written notice in the form of an Officer's Certificate stating whether any Potential Event of Default or an Event of Default has occurred, its status and what action the Borrower is taking or proposes to take with respect thereto.

11.3 Default Remedies

If any Event of Default shall occur and be continuing, the Lender and/or the Trustee as applicable in accordance with the Trust Deed may, by notice in writing to the Borrower: (a) declare the obligations of the Lender under this Agreement to be immediately terminated, whereupon such obligations shall terminate; and (b) declare all amounts payable under this Agreement by the Borrower that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are all expressly waived by the Borrower; provided, however, that if any event of any kind referred to in Clause 11.1.6 or 11.1.7 occurs, the obligations of the Lender under this Agreement shall immediately terminate, and all amounts payable under this Agreement by the Borrower that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are all expressly waived by the Borrower.

11.4 Rights Not Exclusive

The rights provided for herein are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12. Indemnity

12.1 Indemnification

The Borrower undertakes to the Lender that if the Lender or any director, officer, employee or agent (other than the Principal Paying Agent or any of the Paying Agents) of the Lender (each an "**Indemnified Party**") incurs any loss, liability, cost, claim, charge, expense (including all legal fees properly incurred) demand or damage (the "**Loss**") which may be properly incurred in respect of this Agreement (or enforcement thereof), and/or the issuance, constitution, sale, listing and/or enforcement of the Notes and/or the Notes being outstanding (excluding the Loss that is the subject of the undertakings contained in Clauses 3.3, 8 and 12.5 (it being understood that the Lender may not recover twice in respect of the same Loss)) the Borrower shall pay to the Indemnified Party on demand an amount equal to such Loss (as evidenced by an invoice issued to the Borrower by the Lender in accordance with Clause 15) unless, in any such case, such Loss was either caused by such Indemnified Party's negligence or wilful misconduct or arose out of a breach of the representations and warranties of the Lender contained herein or in the Subscription Agreement. It is understood that the amount of Loss that is to be paid pursuant to the preceding provisions of this Clause 12.1, provided such amount is duly documentarily evidenced, will be paid by the Borrower on the basis of an itemised invoice distributed to the Borrower by the Lender on the letterhead of the latter and a delivery and acceptance act signed by the parties.

12.2 Notice and Payment of Loss, Defence of Action and Settlement

If any proceeding (including a governmental investigation), claim or demand shall be instituted involving an Indemnified Party, it shall promptly notify the Borrower in writing and the Borrower shall have the right to assume the defence thereof and appoint lawyers which are acceptable to the Indemnified Party (acting reasonably in assessing acceptability) and shall be liable to pay the fees and expenses of such lawyers related to such proceeding. In any proceeding, the Indemnified Party shall have the right to retain its own lawyers, but the fees and expenses of such lawyers shall be at the expense of the Indemnified Party unless (i) the Borrower and the Indemnified Party shall have mutually agreed to the retention of such lawyers; (ii) the named parties to any such proceeding (including any joined parties) include the Borrower and the Indemnified Party and representation of both parties by the same lawyers (in the reasonable opinion of the Indemnified Party) would be inappropriate due to actual or potential differing interests between them; (iii) pursuant to the previous sentence the Borrower has elected to assume the defence itself but has within a reasonable time after the notification of the institution of such action failed to appoint lawyers as contemplated above; or (iv) pursuant to the previous sentence the Borrower has elected not to assume such defence itself and the Indemnified Party has assumed such defence and retained lawyers in respect thereof. It is understood that the Borrower shall reimburse such fees and expenses as they are incurred in respect of (i), (ii), (iii) and (iv) above. The Borrower shall not be liable for any settlement of any such proceeding, claim or demand effected without its written consent (provided that such consent shall not be unreasonably withheld or delayed), but if settled with such consent (or without such consent in circumstances where such consent shall have been unreasonably withheld or delayed as aforesaid) or if there be a final judgment for the Indemnified Party, the Borrower agrees to indemnify the Indemnified Party from and against any loss or liability by reason of such settlement or judgment. The Borrower will not settle any proceeding in respect of which indemnity may be sought pursuant to Clause 12.1 without the written consent of the relevant Indemnified Party, unless such settlement includes an unconditional release of each Indemnified Party from all liability arising out of such proceeding, claim or demand.

12.3 Independent Obligation

Clause 12.1 constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issue of the Notes by the Lender and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

12.4 Evidence of Loss

A certificate of the Lender, supported by relevant documentation, setting forth the amount of Loss and specifying in full detail the basis therefor shall, in the absence of manifest error, be conclusive evidence of the amount of such Loss.

12.5 Currency Indemnity

To the fullest extent permitted by law, the obligations of the Borrower under this Agreement in respect of any amount due in the currency (the "**first currency**") in which the same is payable shall, in the event of any payment made by the Borrower in any other currency (the "**second currency**") (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the first currency that the Lender may, acting reasonably and in accordance with normal banking procedures, purchase with the sum paid in the second currency (after any premium and costs of exchange) on the Business Day immediately following the day on which the Lender receives such payment. If the amount in the first currency that may be so purchased for any reason falls short of the amount originally due (the "**Due Amount**"), the Borrower hereby agrees to indemnify and hold harmless the Lender against any deficiency in the first currency. Any obligation of the Borrower not discharged by payment in the first currency shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Agreement, shall continue in full force and effect. If the amount in the first currency that may be purchased by the Lender exceeds the Due Amount the Lender shall promptly pay the amount of the excess to the Borrower.

13. Survival

The obligations of the Borrower pursuant to Clauses 6.2, 6.3, 12 and 14.1 shall survive the execution and delivery of this Agreement, the drawdown of the Facility and the repayment of the Loan, in each case by the Borrower.

14. General

14.1 Stamp Duties

14.1.1 The Borrower shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed on the Borrower by any person in the Russian Federation or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and shall make a payment to the Lender calculated on the basis of all properly documented costs which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to pay such taxes or similar charges.

14.1.2 The Borrower agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes or similar charges (if any) imposed by any person in the Russian Federation or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and any documents related hereto, the Borrower shall repay the Lender on demand an amount equal to such stamp or other documentary taxes or duties and shall make a payment to the Lender in the amount equal to all costs and expenses properly documented and connected with the payment of such amounts.

14.2 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or the Borrower, any right, power or privilege hereunder and no course of dealing between the Borrower and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies provided herein are cumulative and not exclusive of any rights or remedies provided by applicable law.

14.3 Prescription

In the event that any Notes become void pursuant to Condition 11, the Lender shall forthwith repay to the Borrower the principal amount of such Note and the interest accrued thereon, subject to the Lender having previously received from the Borrower a corresponding amount in respect of principal and interest pursuant to this Agreement. If requested by the Borrower in such circumstances, the Lender and the Borrower shall enter into an amendment to this Agreement providing for such repayment and the corresponding reduction of the Loan in form satisfactory to the Borrower.

14.4 No Unlawful Payments

The Lender undertakes with the Borrower as follows:

(a) While performing their obligations under this Agreement, the parties hereto, their affiliates, employees and intermediaries shall not pay, or offer to pay, or permit the payment of, whether directly or indirectly, any funds or valuables to any persons in order to influence the actions or decisions of such persons for the purposes of obtaining any unlawful benefit or for other unlawful purposes.

(b) While performing their obligations under this Agreement, the parties hereto, their affiliates, employees and intermediaries shall not carry out any action which may be, under the law applicable to this Agreement, considered the giving or taking of bribes, commercial bribery, or any other action breaching applicable law or international anticorruption acts.

(c) In the event that any party suspects that the other party or its affiliates, employees and intermediaries have breached the provisions of paragraph (a) or (b) above or any anti-bribery or anti-corruption laws applicable to that party in connection with its performance of any obligations under this Agreement (the "**Breach**"), such party (the "**Notifying Party**") will notify the other party of the Breach as below:

<u>Contact details of the Borrower to be used:</u>

+7 (499) 262-66-66, www.rzd.ru (official website on which the relevant form can be completed).

<u>Contact details of the Lender to be used:</u>

Fax: +353 1 905 8029

Postal address: 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland

(d) The Notifying Party shall provide the other party with information and evidence reasonably requested by the latter in connection with the Breach, but in no event shall the Notifying Party be required to disclose any information in connection with the Breach which violates any confidentiality, regulatory or legal restrictions on the disclosure of such information.

(e) The parties hereby warrant to each other that, having being notified of any Breach, they will not take any adverse action in retaliation for such notification of the Breach in respect of the Notifying Party or any employee of the Notifying Party.

(f) A party having being notified of any Breach by the Notifying Party shall review the relevant notice and inform the Notifying Party of the results of such review within thirty (30) calendar days of receiving such notice. The parties warrant to each other to carry out a proper investigation of the facts of any Breach with due regard for confidentiality and taking their best efforts to mitigate any possible dispute.

(g) If a party is in Breach and/or the other party does not receive a response to the notice required paragraph (f) of this sub-clause 14.4, such other party may unilaterally terminate this Agreement out of court by a written notice at least thirty (30) calendar days prior to the date of such termination.

15. Notices

All notices (including in connection with any arbitration proceedings), requests, demands or other communications to or upon the respective parties hereto shall be given or made in the English language by fax or electronic communication or otherwise in writing (by hand or by courier) and shall be deemed to have been duly given or made (if delivered by hand or courier) at the time of delivery, (if sent by facsimile transmission or by airmail) at the time, in the case of a facsimile transmission, when the relevant delivery receipt is received by the sender or (if by electronic communication) when the relevant receipt of such communication being read is given, or where no read receipt is requested by the sender, at the time of sending, provided that no delivery failure notification is received by the sender within 24 hours of sending such communication, and, in each case, provided that any communication that is received (or deemed to take effect in accordance with the foregoing) outside business hours or on a non-business day in the place of receipt shall be deemed to take effect at the opening of business on the next following business day in such place, to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this Agreement addressed as follows:

if to the Borrower:

Joint Stock Company "Russian Railways"
2, Novaya Basmannaya St.
107174 Moscow
Russian Federation

Fax: +7 495 262 9280, +7 499 260 0186

E-mail: orlovate@css-rzd.ru, chumakovas@center.rzd.ru
Attention: Corporate Finance Department

if to the Lender:

RZD Capital P.L.C.
2nd Floor, Palmerston House
Fenian Street
Dublin 2
Ireland

Fax: +353 1 905 8029

Email: corporate.services@caficointernational.com
Attention: The Directors

If to the Trustee:

BNY Mellon Corporate Trustee Services Limited
One Canada Square
London E14 5AL
United Kingdom

Fax: +44 20 7964 2509
Attention: Trustee Administration Manager

or to such other postal address, facsimile number or electronic address as any party may hereafter specify in writing to the other.

16. Assignment

16.1 General

This Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender or the forming of an opinion or the making of any determination, following notification to the Borrower of the assignment and/or enforcement of the security, each as referred to in Clause 16.3, shall include references to the exercise of such rights or discretions or the forming of an opinion or the making of any determination by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any determinations by the Lender, or any discussions between the Lender and the Borrower or any agreements of the Lender or the Borrower, pursuant to Clause 6.4, 6.5 or 8.2.

16.2 By the Borrower

The Borrower shall not be entitled to assign or transfer all or any part of its rights or obligations hereunder to any other person.

16.3 By the Lender

Subject to the provisions of Clause 16 of the Trust Deed, the Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement other than the Reserved Rights except: (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of certain of the Lender's rights and benefits under this Agreement; and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under this Agreement, in each case pursuant to Clause 4 of the Trust Deed. Nothing herein shall prevent the Trustee from assigning or transferring any rights held by it in relation to or under this Agreement, provided that any such assignment or transfer is in accordance with Clause 26 of the Trust Deed.

17. Law and Arbitration

17.1 Governing Law

This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law.

17.2 Arbitration

The parties irrevocably agree that any dispute arising out of or in connection with this Agreement, including a dispute as to the validity, existence or termination of this Agreement or the consequences of its nullity and/or this Clause 17.2 (a "**Dispute**"), shall be resolved by arbitration in London, England, conducted in the English language by three arbitrators, in accordance with the rules set down by the LCIA (formerly the London Court of International Arbitration) ("**LCIA Rules**"), which rules are deemed to be incorporated by reference into this Clause, save that Article 5.6 of the LCIA Rules shall be amended as follows: unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If he is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA. Notwithstanding the above, and for the avoidance of doubt, in the event that more than two parties are involved in the dispute, and the disputant parties have not agreed that they represent two separate sides for the formation of the tribunal, LCIA Rule 8.1 shall apply. Where disputes arise under this Agreement and/or under any other RZD Agreement, in the event of any further dispute(s) under this Agreement and/or any other RZD Agreement, the first LCIA tribunal to be appointed in any of the disputes shall have the power, upon request of any party to any dispute, to order that the proceedings to resolve the further dispute(s) be consolidated with the arbitration proceedings pursuant to which the first LCIA tribunal has been appointed (whether or not proceedings to resolve the further dispute(s) have yet been instituted), if the further dispute(s) are so closely connected that it is efficient and appropriate to resolve them in the same proceedings and provided that no date for exchange of witness statements has been fixed in the proceedings pursuant to which the first LCIA tribunal has been appointed. If the LCIA tribunal so orders, the parties to each dispute which is a subject of its order shall be treated as having consented to that dispute being finally decided:

(i) by the LCIA tribunal that ordered the consolidation unless the LCIA decides that any arbitrator would not be suitable or impartial; and

(ii) in accordance with the procedure, at the seat and in the language specified in the arbitration agreement in the contract under which the LCIA tribunal that ordered the consolidation was appointed, save as otherwise agreed by all parties to the consolidated proceedings or, in the absence of such agreement, ordered by the LCIA tribunal in the consolidated proceedings.

17.3 Waiver of Immunity

To the extent that the Borrower or the Lender may, in relation to any Dispute, claim in any jurisdiction, for itself or its assets or revenues, immunity from the jurisdiction of any court or tribunal, service of process, injunctive or other interim relief, or any process for execution of any award or judgment against its property, the Borrower and the Lender irrevocably waive such immunity, other than, in relation to the Borrower only, pursuant to the Resolution of the Government of the Russian Federation No. 57 dated 6 February 2004, which relates to assets such as, *inter alia*, infrastructure objects which serve national security purposes.

18. Severability

If any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

19. Contracts (Rights of Third Parties) Act 1999

Other than the Trustee who shall have such third party rights, a person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

20. Language

The language which governs the interpretation of this Agreement is the English language.

21. Amendments

Except as otherwise provided by its terms, this Agreement may not be varied except by an agreement in writing signed by the parties hereto.

22. Counterparts

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties hereto.

23. Limited Recourse and Non Petition

23.1 Non-Petition

Neither the Borrower nor any other person acting on its behalf shall be entitled at any time to institute against the Lender, or join in any institution against the Lender of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender under this Agreement, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

23.2 Limited Recourse

The Borrower hereby agrees that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, received (after deduction or withholding of such taxes or duties as may be required to be made by the Lender by law in respect of such sum or in respect of the Notes and for which the Lender has not received a corresponding payment (also after deduction or withholding of such taxes or duties as may be required to be made by the Lender in respect thereof) pursuant to this Agreement) by or for the account of the Lender pursuant to this Agreement (the "**Lender Assets**"), subject always (i) to the Security Interests (as defined in the Trust Deed) and (ii) to the fact that any claims of the Joint Lead Managers under the Subscription Agreement shall rank in priority to any claims of the Borrower hereunder, and that any such claim by any and all such Joint Lead Managers or the Borrower shall be reduced pro rata so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them. The Trustee having realised the same, neither the Borrower nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to such person in respect of any such further sum. In particular, neither the Borrower nor any person acting on its behalf) shall be entitled at any time to institute against the Lender, or join with any other person as instituting or joining, insolvency proceedings (or any proceedings mentioned in the paragraph above) against the Lender.

The Borrower shall have no recourse against any director, shareholder, or officer of the Lender in respect of any obligations, covenants or agreement entered into or made by the Lender in respect of this Agreement, except to the extent that any such person acts in bad faith or is negligent in the context of its obligations.

The provisions of this Clause 23 shall survive the termination of this Agreement.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Conditions which contains summaries of certain provisions of the Trust Deed and which (subject to completion and amendment) will be endorsed on each Definitive Certificate and will be attached and (subject to the provisions thereof) apply to the Global Certificate:

The U.S.$500,000,000 4.375 per cent. Loan Participation Notes due 2024 (the "**Notes**", which expression includes any further Notes issued pursuant to Condition 15 and forming a single series therewith) of RZD Capital P.L.C. (the "**Issuer**", which expression shall include any entity substituted for the Issuer pursuant to Condition 10(C)) are constituted by, are subject to, and have the benefit of, a trust deed (the "**Trust Deed**", which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated 1 March 2017 and made between the Issuer and BNY Mellon Corporate Trustee Services Limited (the "**Trustee**", which expression shall include any trustees or trustee for the time being under the Trust Deed) as trustee for the Noteholders (as defined below).

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a U.S.$500,000,000 loan (the "**Loan**") to Joint Stock Company "Russian Railways" (the "**Borrower**"). The terms of the Loan are recorded in a loan agreement (the "**Loan Agreement**") dated 27 February 2017 between the Issuer (as lender) and the Borrower.

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any), respectively actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined below). Noteholders must therefore rely on the covenant to pay under the Loan Agreement, the benefit of the Security Interests (as defined below) and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other asset of the Issuer.

The Issuer has charged by way of first fixed charge in favour of the Trustee, for the benefit of the Trustee and the Noteholders certain of its rights and interests as Lender under the Loan Agreement as security for its payment obligations in respect of the Notes and under the Trust Deed (the "**Charge**") and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (the "**Assigned Rights**" and, together with the Charge, the "**Security Interests**") in each case excluding the Reserved Rights. "**Reserved Rights**" are the rights excluded from the Charge and the Assigned Rights, being all and any rights, interests and benefits in respect of the obligations of the Borrower under Clauses 3.3 and 5.3 (other than the right to receive any amount payable under such Clause), 6.2 (to the extent that the Borrower shall reimburse the Issuer on demand for any amount paid by the Issuer in respect of taxes, penalties or interest), 6.3 (to the extent that the Issuer has received amounts to which the Noteholders are not entitled), 6.4, 8, 12, 13 and 14.1 (to the extent they apply to payments made with respect to any other Reserved Rights) of the Loan Agreement.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured and/or pre-funded to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding (as defined in the Trust Deed) or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Borrower) pursuant to an agency agreement (the "**Agency Agreement**") dated 27 February 2017 and made between the Borrower, the Issuer, The Bank of New York Mellon, London Branch, as the principal paying agent (the "**Principal Paying Agent**", which expressions shall include any successors), The Bank of New York Mellon (Luxembourg) S.A., the registrar (the "**Registrar**", which expression shall include any successors), and the transfer agents and paying agents named therein (the "**Transfer Agents**" and "**Paying Agents**" respectively, which expressions shall include any successors, and together with the Principal Paying Agent and the Registrar, the "**Agents**") and the Trustee.

Copies of the Trust Deed, the Loan Agreement and the Agency Agreement are available for inspection and collection by Noteholders during normal business hours at: (i) the principal office of the Trustee, being, at the date hereof, One Canada Square, London E14 5AL United Kingdom; (ii) the registered office of the Issuer; and (iii) the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent.

Certain provisions of these terms and conditions (the "**Conditions**") are summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof and are deemed to have notice of all of the relevant provisions of the Loan Agreement.

Capitalised expressions used but not defined herein shall have the meaning given to them in the Trust Deed.

1. STATUS

The Notes are limited recourse obligations of the Issuer secured by a charge and assignment of certain contractual rights, interests and benefits.

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received (net of tax and other deductions whatsoever) by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights, will be made *pro rata* among all Noteholders, on the Business Day after, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Borrower.

Noteholders are deemed to have notice of, and have accepted, these Conditions and the contents of the Trust Deed, the Agency Agreement and the Loan Agreement. It is hereby expressly provided that, and Noteholders are deemed to have accepted that:

(a) neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed, in the Loan Agreement (in the case of the Issuer) or in Condition 1(f) below, liability or obligation in respect of, the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal, interest or any additional amounts, if any, due or to become due from the Borrower under the Loan Agreement;

(b) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower;

(c) neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;

(d) neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Agents of their respective obligations under the Agency Agreement;

(e) the financial servicing and performance of the terms of the Notes depend upon performance by the Borrower of its obligations under the Loan Agreement and the Borrower's credit and financial standing. The Borrower has represented and warranted to the Issuer in the Loan Agreement that, subject to certain qualifications, the Loan Agreement constitutes legal, valid, binding and enforceable obligations of the Borrower;

(f) the Issuer and the Trustee shall be entitled to rely on certificates of the Borrower (including an Officers' Certificate (as defined in the Loan Agreement)) without liability to any person (and, where applicable, certification by third parties) (whether or not addressed to or obtained by the Trustee and whether or not liability in relation thereto is limited by reference to a monetary cap, methodology or otherwise) as a means of monitoring whether the Borrower is complying with its obligations under the Loan Agreement and the Trustee may rely without liability to any person on certificates of the Issuer as a means of monitoring whether the Issuer is complying with its obligations under these Conditions and the Trust Deed and shall not otherwise be responsible for investigating any aspect of the Borrower's or the Issuer's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a lender or a security holder (as applicable) in relation to the property which is the subject to the Security Interests and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value, validity or adequacy of such security;

(g) neither the Trustee nor the Issuer shall at any time be required to expend or risk its own funds or otherwise incur any liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions unless the repayment of such funds or adequate indemnity against, or security for, such risk or liability is assured to the Issuer or the Trustee, as the case may be; and

(h) the Issuer will not be liable for any shortfall in respect of amounts payable by or resulting from any withholding or deduction or for any payment on account of Tax (as defined in the Loan Agreement) required to be made by the Issuer on or in relation to any sum received by it under the Loan Agreement, which will or may affect payments made or to be made by the Borrower under the Loan Agreement, save to the extent that it has received additional amounts under the Loan Agreement in respect of such withholding or deduction or payment, and the Issuer shall, furthermore, not be obliged to take any actions or measures as regards such deduction or withholding or payment, other than those set out in the Loan Agreement. The Trustee shall have no liability for any such shortfall in respect of any such deduction, withholding or payment.

Under the Trust Deed, the obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by the Borrower to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of the Issuer in respect of the Notes (unless, upon due presentation of a Note, payment is improperly withheld or refused).

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or direct recourse to the Borrower, except through action by the Trustee pursuant to the relevant Security Interests granted to the Trustee in the Trust Deed. Following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall not be required to take any step, action or proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured and/or pre-funded to its satisfaction.

As provided in the Trust Deed, and notwithstanding any other provision hereof, the obligations of the Issuer are solely to make payments of amounts in aggregate equal to each sum actually received by or for the account of the Issuer (after deduction or withholding of such taxes or duties as may be required to be made by the Issuer by law in respect of such sum or in respect of the Notes and for which the Issuer has not received a corresponding payment (also after deduction or withholding of such taxes or duties as may be required to be made by the Issuer in respect thereof) pursuant to clause 6 of the Loan Agreement) from the Borrower in respect of principal, interest, additional amounts or tax indemnity, as the case may be, pursuant to the Loan Agreement (less any amount in respect of the Reserved Rights), the right to which is being charged by way of security to the Trustee as aforesaid. Noteholders must therefore rely solely and exclusively upon the covenant to pay under the Loan Agreement and the credit and financial standing of the Borrower and no other assets of the Issuer will be available to the Noteholders.

Notwithstanding any other provisions of these Conditions and the provisions in the Trust Deed, the Trustee and the Noteholders shall have recourse only to the Charged Property and the Assigned Rights (each as defined in the Trust Deed) in accordance with the provisions of the Trust Deed. After realisation of the security which has become enforceable and application of the proceeds in accordance with clause 8 of the Trust Deed, the obligations of the Issuer with respect to the Trustee and the Noteholders in respect of the Notes shall be satisfied and none of the foregoing parties may take any further steps against the Issuer to recover any further sums in respect thereof and the right to receive any such sums shall be extinguished.

None of the Noteholders or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreements entered into or made by the Issuer in respect of the Notes, other than in the case of fraud.

2. FORM AND DENOMINATION

The Notes are issued in registered form without coupons attached in the denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each an "**Authorised Holding**").

3. REGISTER, TITLE AND TRANSFERS

A. REGISTER

The Registrar will maintain a register (the "**Register**") in respect of the Notes outside the United Kingdom in accordance with the provisions of the Agency Agreement on which shall be entered the names and addresses of the Noteholders and the particulars of the Notes held by them and of all transfers and redemptions of Notes. In these Conditions, the "**holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each a "**Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Certificate will be serially numbered with an identifying number which will be recorded in the Register. Each Noteholder shall be entitled to receive only one Certificate in respect of its entire holding.

B. TITLE

Title to the Notes will pass by transfer and registration in the Register. The holder of each Note shall (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Certificate) and no person shall be liable for so treating such holder.

C. TRANSFERS

Subject to the terms of the Agency Agreement and to Conditions 3(F) and 3(G) below, a Note may be transferred in whole or in part upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Certificate may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Notes will be issued to the transferor.

No transfer of a Certificate will be valid unless and until entered on the Register. A Note may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number) or a nominee.

D. REGISTRATION AND DELIVERY OF CERTIFICATES

Within five business days of the surrender of a Certificate in accordance with Condition 3(C) above, the Registrar will register the transfer in question and deliver a new Certificate of a like principal amount to the Notes transferred to each relevant holder for collection at its Specified Office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this Condition 3(D), "**business day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or the relevant Transfer Agent has its Specified Office.

E. NO CHARGE

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent but subject to the person making such application for transfer paying or procuring the payment of (or the giving of such indemnity as the Issuer, the Registrar or the relevant Transfer Agent, as the case may be, may require in respect of) any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

F. CLOSED PERIODS

The Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

G. REGULATIONS CONCERNING TRANSFERS AND REGISTRATION

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations and is available at the Specified Offices of the Transfer Agents.

4. RESTRICTIVE COVENANT

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or a Written Resolution, agree to any amendment to or any modification, rescission, cancellation, termination or waiver of, or authorise any breach by any counterparty of or proposed breach by any counterparty of, the terms of the Loan Agreement other than in the case of an amendment, modification, waiver, rescission, cancellation, termination or authorisation with respect to the Reserved Rights, and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement, as the case may be. Any such amendment, modification, waiver, rescission, cancellation, termination or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, *inter alia,* incur any other indebtedness for borrowed moneys other than issues of notes on a limited recourse basis for the sole purpose of making loans to the Borrower, engage in any business (other than entering into any agreements related to the Notes or any other issue of notes as aforesaid and performing any acts incidental to or necessary in connection with the Notes or such related agreements (including the holding of any security in connection therewith), making the Loan to the Borrower pursuant to the Loan Agreement or any future loans to the Borrower and performing any act incidental to or necessary in connection therewith), declare any dividends, have any subsidiaries or employees (save for its directors), purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity (to the extent the same is within the control of the Issuer) to any person (otherwise than as contemplated in these Conditions and the Trust Deed), issue any further shares (to the extent the same is within the control of the Issuer) or make any distribution to its shareholders, give any guarantee or assume any other liability or, except where required under the laws of Ireland, petition for any winding-up or bankruptcy.

5. INTEREST

On each Interest Payment Date, or as soon thereafter as the same is received, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement, which interest under the Loan is equal to 4.375 per cent. per annum calculated on the outstanding amount of the Loan at the end of each Interest Period (as set out in Clause 4 of the Loan Agreement). Each period from (and including) 1 March 2017 (the "**Issue Date**") or any Interest Payment Date to (but excluding) the next (or, if commencing from the Issue Date, first) Interest Payment Date is herein called an "**Interest Period**".

If interest is required to be calculated for any period of less than a year, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall accrue (as well as after as before judgment) at the rate of interest as set out in Clause 4 of the Loan Agreement, provided that the Issuer shall account to the relevant Noteholder for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement.

In this Condition 5, "**Interest Payment Date**" means 1 March and 1 September of each year, commencing on 1 September 2017.

6. REDEMPTION

A. SCHEDULED REDEMPTION

Unless previously prepaid or repaid, the Borrower will be required to repay the Loan one Business Day (as defined in the Loan Agreement) prior to 1 March 2024 (the "**Repayment Date**") and, subject to such repayment, as set forth in the Loan Agreement, all Notes then outstanding will on 1 March 2024, or as soon thereafter as such repayment of the Loan is actually received, be redeemed or repaid by the Issuer at 100 per cent. of the principal amount thereof, together with accrued interest.

B. EARLY REDEMPTION

If the Loan should become repayable (and be repaid) pursuant to the terms and conditions of the Loan Agreement in advance of the Repayment Date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at 100 per cent. of the principal amount thereof together with accrued interest and (subject to the Loan being repaid together with accrued interest) shall be redeemed or repaid and the Issuer will endeavour to give not less than eight business days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

Under the Loan Agreement:

(i) the Borrower may prepay the Loan in whole (but not in part) in the circumstances set out in Clause 5.2 of the Loan Agreement; and

(ii) the Issuer may require the Borrower to prepay the Loan in whole (but not in part) in the circumstances set out in Clause 5.3 of the Loan Agreement.

To the extent that the Issuer receives amounts of principal, interest or additional amounts (other than amounts in respect of the Reserved Rights) from the Borrower under the Loan Agreement following prepayment of the Loan, the Issuer shall pay an amount equal to such amounts on the business day (as defined in Condition 7) following receipt of such amounts, subject as provided in Condition 7.

C. CANCELLATION

The Loan Agreement provides that the Borrower or any Subsidiary of the Borrower may, among other things, from time to time purchase Notes in the open markets or by tender or by a private transaction or otherwise at any price and deliver to the Issuer Notes, having an aggregate principal value of at least U.S.$1,000,000, together with a request for the Issuer to present such Notes to the Registrar for cancellation, whereupon the Issuer shall, pursuant to the Agency Agreement, request the Registrar to cancel such Notes. Upon any such cancellation by or on behalf of the Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes surrendered for cancellation shall be extinguished as of the date of such cancellation, together with accrued interest (if any) thereon, and no further payment shall be made or required to be made by the Issuer in respect of such Notes.

D. CHANGE OF CONTROL

If a Change of Control Put Event shall have occurred, the holder of a Note will have the option (the "**Change of Control Put Option**") to require the Issuer to redeem such Note on the Change of Control Put Settlement Date (as defined below) at 100 per cent. of its principal amount together with accrued, but unpaid, interest (if any) to, but excluding, the Change of Control Put Settlement Date.

Promptly upon the Issuer becoming aware (by receiving written notice from the Borrower) that a Change of Control Put Event has occurred, the Issuer shall give notice (a "**Change of Control Put Event Notice**") to the Noteholders in accordance with Condition 14 and to the Trustee, specifying the details relating to the occurrence of the Change of Control Put Event and the procedure for exercising the Change of Control Put Option.

In order to exercise the Change of Control Put Option, the holder of a Note must deliver no later than 30 days after the Change of Control Put Event Notice is given (the "**Change of Control Put Period**"), to the specified office of the Principal Paying Agent, evidence satisfactory to the Principal Paying Agent or Paying Agent of such holder's entitlement to such Note and a duly completed put option notice (a "**Change of Control Put Option Notice**") specifying the principal amount of the Notes in respect of which the Change of Control Put Option is exercised, in the form obtainable from the Principal Paying Agent or any Paying Agent. The Principal Paying Agent or Paying Agent will provide such Noteholder with a non-transferable receipt. On the Business Day (as defined in the Loan Agreement) following the end of the Change of Control Put Period, the relevant Paying Agent shall notify the Issuer and the Borrower in writing of the exercise of the Change of Control Put Option specifying the aggregate principal amount of the Notes to be redeemed in accordance with the Change of Control Put Option. Provided that the Notes that are the subject of any such Change of Control Put Option Notice have been delivered to the Principal Paying Agent or a Paying Agent prior to the expiry of the Change of Control Put Period, then the Issuer shall (subject (i) to the receipt of sufficient funds to do so from the Borrower; and (ii) as provided in Condition 8) redeem all such Notes on the date falling five Business Days (as defined in the Loan Agreement) after the expiration of the Change of Control Put Period (the "**Change of Control Put Settlement Date**"). No Change of Control Put Option Notice, once delivered in accordance with this Condition 6(D), may be withdrawn.

"**Change of Control Put Event**" means the occurrence of a Change of Control (as defined in the Loan Agreement).

The Trustee shall not be required to take any steps to ascertain whether a Change of Control Put Event or any event which could lead to the occurrence of a Change of Control Put Event has occurred and will not be responsible or liable to any holder of a Note for any loss arising from any failure by it to do so. The Trustee may assume until notified otherwise pursuant to this Condition 6 that no Change of Control Put Event has occurred and shall have no liability to any person for so doing.

7. PAYMENTS

A. PRINCIPAL

Payments of principal shall be made by U.S. Dollar cheque drawn on, or, upon application by a holder of a Note to the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent not later than the 15th day before the due date for any such payment, by transfer to a U.S. Dollar account maintained by the payee with a bank in London upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or the specified office of the Transfer Agent.

B. INTEREST

Payments of interest shall be made by U.S. Dollar cheque drawn on, or, upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the 15th day before the due date for any such payment, by transfer to a U.S. Dollar account maintained by the payee with a bank in London, and (in the case of interest payable on redemption) upon surrender (or, in the case either of an interest payment prior to redemption or of part payment only, endorsement) of the relevant Notes at the specified office of any Paying Agent.

C. PAYMENTS SUBJECT TO FISCAL LAWS

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8, no commissions or expenses shall be charged to the Noteholders in respect of such payments.

D. PAYMENTS ON BUSINESS DAYS

If the due date for payment of interest or principal is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 7, "**business day**" means a day on which (a) U.S. Dollar deposits may be dealt in on the London inter-bank market and commercial banks and foreign exchange markets are open in London, and (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Dublin, London, New York City and in the city where the Specified Office of the Principal Paying Agent is located.

E. RECORD DATE

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's Specified Office) on the 15th day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the holder in the Register at the opening of business on the relevant Record Date.

F. ACCRUED INTEREST

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the date of issuance of the Notes, shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

G. PAYMENTS BY BORROWER

Save as directed by the Trustee at any time after the Security Interests become enforceable, the Issuer will require the Borrower to make all payments of principal, interest and additional amounts, if any, to be made pursuant to the Loan Agreement to an account in the name of the Issuer with the Principal Paying Agent. Pursuant to the Charge, the Issuer will charge by way of first fixed charge all its rights, title and interest in and to all sums of money (with the exception of sums relating to the Reserved Rights) then or in the future deposited in such account in favour of the Trustee for the benefit of the Trustee and the Noteholders.

H. SUCCESSOR PAYING AGENTS

The Agency Agreement provides that the Issuer may at any time, in consultation with and subject to the consent of the Borrower and also with the prior written approval of the Trustee (which approval may be given without the consent of the Noteholders), appoint a successor Registrar or Principal Paying Agent and/or additional or successor Paying Agents or Transfer Agents provided that the Issuer maintains (i) a Principal Paying Agent; (ii) for so long as the Notes are listed and/or admitted to trading on any stock exchange, a Paying Agent as may be required by the rules and regulations of such stock exchange; and (iii) a Registrar having a Specified Office outside the United Kingdom. Any such variation, termination or appointment of successor or other Agents shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the continuing Agents, the Borrower, the Trustee and to the Noteholders in accordance with Condition 14.

I. FRACTIONS

Each payment by the Issuer to a Noteholder will be rounded down to the nearest cent.

8. TAXATION

All payments in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Ireland or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law.

In such event, the Issuer shall, subject as provided below, make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required. However, the Issuer shall only make such additional payments to the extent and at such time as it shall receive equivalent sums from the Borrower under the Loan Agreement. To the extent that the Issuer does not receive any such equivalent sum, the Issuer shall account to the relevant Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer, provided that no such additional amount will be payable in respect of any Note:

(a) to a Noteholder who (i) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (ii) is liable for such taxes or duties by reason of his having some connection with Ireland other than the mere holding of such Notes or the receipt of payments in respect thereof;

(b) in respect of a Certificate presented for payment of principal or interest on redemption more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Certificate had been presented for payment on such 30th day; or

(c) in respect of a Note held by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a Member State of the European Union.

As used herein, "**Relevant Date**" means (i) the date on which the equivalent payment under the Loan Agreement first becomes due but (ii) if the full amount payable by the Borrower has not been received by, or for the account of, the Issuer pursuant to the Loan Agreement on or prior to such date, means the date on which such full amount shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed. If the Issuer becomes subject to any taxing jurisdiction other than or in addition to Ireland, references in these Conditions to Ireland shall be construed as references to Ireland and/or such other jurisdiction.

9. ENFORCEMENT

The Trust Deed provides that only the Trustee (subject to Condition 1) may pursue remedies under general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails to do so within a reasonable period and such failure is continuing.

The Trust Deed also provides that, at any time after an Event of Default (as defined in the Loan Agreement), or if a Relevant Event (as defined in the Trust Deed) has occurred and is continuing, the Trustee may, at its discretion, and shall, if requested to do so by Noteholders whose Notes constitute at least one-quarter in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution or a Written Resolution and, in either case, subject to it being indemnified and/or secured and/or pre-funded to its satisfaction, institute such steps, actions or proceedings as it may think fit to enforce the rights of the Noteholders and the provisions of the Trust Deed, including to (i) declare all amounts payable under the Loan Agreement by the Borrower to be immediately due and payable (in the case of an Event of Default); and/or (ii) exercise any rights under the Security Interests created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid at their principal amount, together with accrued interest thereon and thereupon shall cease to be outstanding.

10. MEETINGS OF NOTEHOLDERS; MODIFICATION; WAIVER; SUBSTITUTION OF THE ISSUER

A. MEETINGS OF NOTEHOLDERS

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, the Loan Agreement or the Trust Deed. Such meeting may be convened by the Issuer, the Borrower or the Trustee and shall be convened by the Trustee, subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, upon the request in writing of holders of the Notes holding not less than one-tenth of the aggregate principal amount of outstanding Notes. The quorum for any meeting will be one or more persons present holding Notes or being proxies or representatives and holding or representing in the aggregate a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present holding Notes or being proxies or representatives, whatever the principal amount of the Notes so held or represented, unless the business of such meeting includes consideration of matters requiring a special quorum, in which case the necessary quorum will be one or more persons holding Notes or being proxies or representatives and holding or representing not less than two-thirds, or at any adjourned meeting not less than one-half, in principal amount of the Notes for the time being outstanding. The Trust Deed provides that special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amount payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

The Trust Deed provides that a resolution in writing (a "**Written Resolution**") signed by or on behalf of the holders of not less than 75 per cent. of the aggregate principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

B. MODIFICATION AND WAIVER

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes and the Trust Deed, the Agency Agreement or the Loan Agreement which in the sole opinion of the Trustee is (i) of a formal, minor or technical nature or is made to correct a manifest error or (ii) (save as provided in the Trust Deed) not materially prejudicial to the interests of the Noteholders. The Trustee may also, without the consent of the Noteholders, waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions, or the Trust Deed or by the Borrower of the terms of the Loan Agreement or determine that any event which would or might otherwise give rise to (i) a right of acceleration under the Loan Agreement or (ii) a Relevant Event shall not be treated as such, if in the sole opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders; provided always that (subject to certain exceptions) the Trustee may not exercise such power of waiver in contravention of a request given by the holders of one quarter in aggregate principal amount of the Notes then outstanding or of any express direction by an Extraordinary Resolution or a Written Resolution of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

C. SUBSTITUTION

The Trust Deed contains provisions to the effect that the Issuer may, having obtained the prior written consent of the Borrower and the Trustee (which latter consent may be given without the consent of the Noteholders) and subject to having complied with certain requirements as set out therein, including the substitute obligor's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes, substitute any entity in place of the

Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as obligor under the Trust Deed. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 14 or the Issuer shall use its best endeavours to ensure that the substitute obligor does so.

D. EXERCISE OF POWERS

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not be obliged to have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, the Borrower or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

11. PRESCRIPTION

Notes will become void unless presented for payment within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12. TRUSTEE AND AGENTS

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking any action or step including proceedings to enforce payment unless indemnified and/or secured and/or pre-funded to its satisfaction, and to be paid its costs and expenses in priority to the claims of Noteholders.

The Trustee may rely without liability to Noteholders on a report, evaluation, information, confirmation or certificate or any opinion or advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, evaluation, information, confirmation, certificate, opinion or advice and, if accepted, such report, evaluation, information, confirmation, certificate, opinion or advice shall be binding on the Issuer, the Borrower, the Trustee and the Noteholders.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by the Borrower in respect of the Loan Agreement. The Trustee is entitled to assume that the Borrower is performing all of its obligations pursuant to the Loan Agreement (and shall not incur liability for doing so).

The Trustee shall have no liability to Noteholders for any shortfall they may suffer if it is liable for tax in respect of any payments received by it or as a result of the Security Interests being enforced by it.

The Trust Deed contains provisions for the appointment of new trustees by the Issuer (subject to approval by an Extraordinary Resolution of Noteholders) and for the removal of a Trustee by a meeting of Noteholders passing an Extraordinary Resolution, provided that in the case of the removal of a Trustee, at all times there remains a trustee (being a trust corporation (as defined in the Trust Deed)) in office after such removal. Any appointment or removal of a Trustee shall be notified to the Noteholders in accordance with Condition 14. The Trustee may also resign such appointment giving not less than sixty days' notice to the Issuer provided that such retirement shall not become effective unless there remains a Trustee in office after such retirement.

The Trustee is entitled to enter into contracts or transactions with the Issuer and/or the Borrower and any entity related to the Issuer and/or the Borrower without accounting for any profit, fees, interest, discounts or share of brokerage earned, arising or resulting from any such contract or transactions.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given by the Issuer to the Noteholders in accordance with Condition 14.

13. REPLACEMENT OF CERTIFICATES

If a Certificate shall become mutilated, defaced, lost, stolen or destroyed, it may, subject to all applicable laws and regulations and requirements of any stock exchange on which the Notes are from time to time listed or quoted, be replaced at the Specified Office of the Registrar and the Transfer Agent having its Specified Office at Vertigo Building – Polaris, 2-4 rue Eugène Ruppert, L-2453 Luxembourg (or any other place of which notice shall have been given to the Noteholders in accordance with Condition 14), on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14. NOTICES

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. The Issuer shall also ensure that all notices are duly published (if such publication is required) in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been given on the date of such notice.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee in accordance with the rules of the stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading shall constitute sufficient notice to such holders for every purpose hereunder.

15. FURTHER ISSUES

The Issuer may from time to time, with the consent of the Borrower but without the consent of the Noteholders, create and issue further notes or bonds having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) so as to be consolidated and form a single series with the Notes. Such further Notes shall be issued under a deed supplemental to the Trust Deed. In relation to any further issue which is to be consolidated and form a single series with the Notes, the Issuer will enter into a loan agreement with the Borrower on the same terms as the Loan Agreement and supplemental to the Loan Agreement, or may amend and restate the same with the Borrower on substantially the same terms as the Loan Agreement. The Issuer will provide a first fixed charge in favour of the Trustee in respect of certain of its rights and interests under such loan agreement and will assign absolutely certain of its rights under such loan agreement, which will secure both the Notes and such further Notes and which will supplement the Security Interests in relation to the existing Notes or may amend and supplement the Security Interests for such purpose. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the prior written consent of the Trustee), be constituted by a deed supplemental to the Trust Deed containing such provisions as the Trustee may require. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides. Application will be made for such further notes or bonds to be listed and admitted to trading on the stock exchange on which the Notes are from time to time listed or quoted.

16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. GOVERNING LAW

A. The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with them shall be governed by, and construed in accordance with, English law.

B. The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes and accordingly any legal action or proceedings arising out of or in connection with the Notes ("**Proceedings**") may be brought in such courts. Pursuant to the Trust Deed, the Issuer has irrevocably submitted to the jurisdiction of such courts.

C. Pursuant to the Trust Deed, the Issuer has irrevocably appointed an agent for the service of process in England to receive service of process in any Proceedings in England based on the Notes.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Certificate which will apply to, and in some cases modify, the Conditions while the Notes are represented by the Global Certificate:

The Notes will be represented by a Global Certificate which will be registered in the name of BT Globenet Nominees Limited as nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg.

Subject to receipt of funds from the Company, the Global Certificate will become exchangeable in whole but not in part (free of charge to the holder) for Definitive Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reasons of legal holidays) or announces an intention to permanently cease business or does in fact do so; or (b) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 (Taxation) which would not be suffered were the Notes in the form of Definitive Certificates.

Whenever the Global Certificate is to be exchanged for Definitive Certificates, such Definitive Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate following delivery, by or on behalf of the registered holder of the Global Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as required to complete and deliver such Definitive Certificates (including, but without limitation to, the names and addresses of the persons in whose names the Definitive Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the Specified Office (as defined in the Agency Agreement) of the Registrar or the Transfer Agent. Such exchange will be effected in accordance with the provisions of the Agency Agreement, the Trust Deed and the Global Certificate.

The Conditions are modified as follows insofar as they apply to the Notes in respect of which the Global Certificate is issued:

Payments

Payments of principal and interest in respect of the Global Certificate shall be made to the person who appears at the relevant time on the register of Noteholders as holder of the Global Certificate against presentation and (if no further payment falls to be made on it) surrender thereof to or to the order of the Principal Paying Agent (or to or to the order of such other Paying Agent as shall have been notified to the Noteholders for this purpose) which shall endorse such payment or cause such payment to be endorsed on the relevant schedule thereto (such endorsement being prima facie evidence that the payment in question has been made). No person shall however be entitled to receive any payment on the Global Certificate falling due after the Exchange Date, unless the exchange of the Global Certificate for Definitive Certificates is improperly withheld or refused by or on behalf of the Issuer. Each payment will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

Meetings

The holder of the Global Certificate and any proxy or representative appointed by it will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and, in any such meeting, as having one vote in respect of each €1,000 in principal amount of Notes represented by the Global Certificate.

Purchase and Cancellation

Cancellation of any Notes evidenced by the Global Certificate required by the Conditions to be cancelled following its redemption will be effected by reduction in the principal amount of the Notes in the Register and notation of the Global Certificate.

Trustee's Powers

In considering the interests of Noteholders, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (a) have regard to such information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of Notes; and (b) consider such interests on the basis that such accountholders were the holders of the Notes in respect of which the Global Certificate is issued.

Notices

So long as the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system, notices required to be given to Noteholders may be given by their being delivered to the relevant clearing system for communication by it to entitled accountholders in substitution for notification as required by the Conditions. For so long as the Notes are listed, the Issuer will also publish notices in accordance with the rules and regulations of the relevant stock exchange.

Prescription

Claims in respect of principal, interest and other amounts payable in respect of the Global Certificate will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest or any other amounts) from the due date for payment in respect thereof.

Transfers

Transfers of interests in the Notes with respect to which the Global Certificate is issued shall be made in accordance with the rules and procedures of Euroclear or, as the case may be, Clearstream, Luxembourg.

Enforcement

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, the persons named in a certificate of the holder of the Notes in respect of which the Global Certificate is issued shall be recognised as the beneficiaries of the trusts set out in the Trust Deed to the extent of the principal amount of their interest in the Notes set out in the certificate of the holder as if they were themselves the holders of Notes in such principal amounts.

SUBSCRIPTION AND SALE

J.P. Morgan Securities plc and VTB Capital plc (collectively, the "**Joint Lead Managers**") have, pursuant to the Subscription Agreement, upon the terms and subject to the conditions therein, jointly and severally agreed to subscribe and pay for the Notes at the issue price of 100 per cent. of their principal amount.

The Joint Lead Managers are entitled to a combined underwriting, management and selling commission pursuant to the Subscription Agreement, a portion of which will be used to pay certain expenses related to the Notes and may also be entitled to a discretionary fee. The Issuer is required to be put in funds in respect of such commissions and expenses of the Joint Lead Managers by the Company. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

The Joint Lead Managers or their respective affiliates from time to time have provided in the past and may provide in the future investment banking, commercial lending, consulting, financial advisory and commercial banking services to the Company and other members of the Group and their respective affiliates in the ordinary course of business for which they have received or may receive customary advisory and transaction fees and commissions and expense reimbursement.

SELLING RESTRICTIONS

United States

The Notes and the Loan have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in transactions exempt from the registration requirements of the Securities Act. Each of the Joint Lead Managers has severally, but not jointly, agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes and the Loan, (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering or the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells the Notes and the Loan during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes and the Loan in the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes and the Loan are being offered and sold outside of the United States in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes and the Loan, an offer or sale of the Notes or the Loan within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes and the Loan outside the United States. The Issuer and the Joint Lead Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States. Distribution of this Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States is prohibited.

United Kingdom

Each of the Joint Lead Managers has severally, but not jointly, represented and warranted, that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 ("**FSMA**")) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of FSMA does not apply to the Issuer and the Company; and

(b) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Each of the Joint Lead Managers has severally, but not jointly, represented, warranted and agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

Ireland

Each of the Joint Lead Managers has severally, but not jointly, represented, warranted and agreed that:

(a) it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) (as amended, the "**MiFID Regulations**"), including, without limitation, Regulations 7 (Authorisation) and 152 (Restrictions on advertising) thereof, any codes of conduct made under the MiFID Regulations, and the provisions of the Investor Compensation Act 1998 (as amended);

(b) it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the Companies Act 2014 (as amended, the "**Companies Act**"), the Central Bank Acts 1942-2015 (as amended) and any codes of practice made under Section 117(1) of the Central Bank Act 1989 (as amended);

(c) it will not underwrite the issue of, or place, or do anything in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 (as amended) and any rules issued by the Central Bank under Section 1363 of the Companies Act; and

(d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Market Abuse Regulation (EU 596/2014) (as amended), the European Union (Market Abuse) Regulation 2016 (as amended) and any rules and guidance issued by the Central Bank under Section 1370 of the Companies Act.

General

No action has been or will be taken in any jurisdiction by the Issuer, the Company or the Joint Lead Managers that would permit a public offering of the Notes or possession or distribution of this Prospectus in any country or jurisdiction where action for that purpose is required.

Each Joint Lead Manager, the Issuer and the Company has, severally, but not jointly, agreed that it has (to the best of its knowledge and belief) complied and will comply with all applicable securities laws and regulations in each jurisdiction in which it offers, sells or delivers Notes.

TAXATION

The following is a general description of certain tax consequences of the purchase, ownership and disposition of the Notes as well as the taxation of interest payments on the Loan which is based on the applicable laws, regulations, rulings and decisions in effect as of the date of this Prospectus, all of which are subject to change (possibly with retroactive effect). Neither the Company nor the Issuer assumes any obligation to update this summary after the date of the issuance of the Notes for any such changes in the applicable laws. This discussion does not purport to be a comprehensive analysis of all tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Prospectus should be regarded as advice on the tax position of any Noteholder or any persons acquiring, selling or otherwise dealing with the Notes or on any tax implications arising from the acquisition, sale or other dealings with the Notes. Prospective purchasers of the Notes are advised to consult their own tax advisors with respect to the tax consequences of the purchase, ownership and disposal of the Notes arising in their particular circumstances, including, but not limited to, the consequences of the receipt of interest on the Notes and the sale or redemption of the Notes (in particular, in view of tax laws of countries of which they are residents, the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as at the date of this Prospectus, and of any actual changes in applicable tax laws after such date).

The information and analysis contained within this section are limited to tax issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes and/or the Loan.

This summary should not be used for the purposes of the analysis of any tax implications arising for any instruments other than the Notes and the Loan.

RUSSIAN FEDERATION

The following is a general summary of certain Russian tax considerations relevant to the purchase, ownership and disposal of the Notes as well as taxation of interest payments and some other payments on the Loan.

This summary does not seek to address the applicability of, and/or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of Russia or tax implications arising for the Noteholders applying special tax regimes available under the Russian tax legislation. Similarly, this summary does not seek to address the availability of double tax treaty relief to and the eligibility for double tax relief of any Noteholder in respect of income payable to that Noteholder on the Notes, or practical difficulties connected with claiming and obtaining such double tax treaty relief. The analysis set out herein does not include any comments on tax implications which could arise for the Noteholders in connection with entering into REPO or stock-lending transactions with the Notes or into term deals, derivatives or any similar types of transactions with the Notes either.

Many aspects of Russian tax laws and regulations are subject to significant uncertainty and lack of interpretive guidance resulting in differing interpretations and inconsistent application thereon by the various Russian authorities in practice.

Further, the substantive provisions of Russian tax law and regulations applicable to financial instruments may be subject to more rapid and unpredictable changes (possibly with retroactive effect) and inconsistent interpretation as compared with jurisdictions with more developed capital markets and tax systems.

In practice, interpretation and application of tax laws and regulations by different tax inspectorates in Russia and their representatives may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by the law. Furthermore, court rulings may also be inconsistent or contradictory.

Prospective investors should consult their own tax advisors in relation to tax consequences relevant to investing in the Notes that may arise in their own particular circumstances. No representation with respect to Russian tax consequences relevant to any particular Noteholder is made hereby.

Taxation of the Notes

General

For the purposes of this summary, the term "**Resident Noteholder**" means:

- (i) a Russian legal entity which acquires, holds and disposes the Notes, (ii) a legal entity or an organisation, in each case organised under a non-Russian law, which acquires, holds and disposes the Notes through its permanent establishment in Russia or (iii) a foreign legal entity or an organisation organised under a non-Russian law and recognized as Russian tax resident in accordance with the requirements set out in the Russian Tax Code which acquires, holds and disposes the Notes (the "**Resident Noteholder-Legal Entity**"). A foreign entity or organization organised under a non-Russian law shall be deemed to be tax resident of the Russian Federation for the purposes of the Russian Tax Code if (1) it is deemed to be tax resident of the Russian Federation in accordance with an applicable double tax treaty or (2) its place of management is in the Russian Federation unless a different conclusion follows from an applicable double tax treaty;
- a Noteholder who is an individual and satisfies the criteria for being a Russian tax resident, who acquires, holds and disposes of the Notes. A "Russian tax resident" is an individual who is actually present in Russia for an aggregate period of 183 calendar days or more in any period comprised of 12 consecutive months (the "**Resident Noteholder-Individual**"). Presence in Russia for Russian personal income tax residency purposes is not considered interrupted if an individual departs from Russia for short periods of time (less than six months) for medical treatment, education purposes or completion of employment or other duties related to work (rendering services) at offshore hydrocarbon fields.

For the purposes of this summary, a "**Non-Resident Noteholder**" means:

- a Noteholder that is a legal entity or an organisation, in each case not organised under Russian law, which acquires, holds and disposes of the Notes otherwise than through its permanent establishment in Russia and does not satisfy the criteria for being a Russian tax resident as defined above (the "**Non-Resident Noteholder-Legal Entity**"); and
- a Noteholder who is an individual and does not satisfy the criteria for being a Russian tax resident as defined above and who acquires, holds and disposes the Notes (the "**Non-Resident Noteholder-Individual**").

Currently, the Russian Tax Code is generally interpreted by both the Russian tax authorities and taxpayers such that days of arrival as well as days of departure should be taken into account when calculating the total number of days of presence of an individual in Russia. However, the Company is aware of a court case where the court expressed the opinion that days of arrival should not be taken into account as opposed to days of departure.

For the purposes of this summary, the definitions of "Resident Noteholder" and "Non-Resident Noteholder" in respect of individuals are taken at face value based on the wording of Russian tax law as currently written. In practice, however, the application of the above formal residency definition by the Russian tax authorities may differ depending on their position in each case.

Tax residency rules and Russian Federation's rights with regard to taxation may be affected by an applicable double tax treaty. The Russian tax treatment of interest payments made by the Company to the Issuer (or to the Trustee, as the case may be) under the relevant Loan Agreement may affect taxation of the Noteholders. See Section *"Taxation of Interest on the Loan"* below.

Taxation of Resident Noteholders

Resident Noteholders will be subject to all applicable Russian taxes in respect of income realised by them in connection with the acquisition, ownership and/or disposal of the Notes (including interest received on the Notes) or in connection with payments under the Loan Agreement made by the Company to the Issuer (or to the Trustee, as the case may be) if Resident Noteholder qualify for persons that have actual right to the income concerned. See Section "*Taxation of Interest on the Loan*" below).

Resident Noteholders should consult their own tax advisers with regards to the effect that the acquisition, holding and/or disposal of the Notes may have on their tax position.

Taxation of Non-Resident Noteholders-Legal Entities

Acquisition of the Notes

Acquisition of the Notes by the Non-Resident Noteholders-Legal Entities (whether upon their issue or in the secondary market) should not trigger any adverse Russian tax implications for the Non-Resident Noteholders-Legal Entities.

Interest on the Notes

Non-Resident Noteholders-Legal Entities generally should not be subject to any Russian taxes in respect of payment of interest on the Notes received from the Issuer.

Taxation of interest payable on the Notes may however be affected by the taxation treatment of interest on the Loan (see "*Taxation of interest on the Loan*").

Sale or other Disposal of the Notes

Generally, there should be no Russian tax on gains from sale or other disposition of the Notes imposed on Non-Resident Noteholder-Legal Entity. There is some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds, if any, attributable to accrued interest (coupon) on the Notes (i.e. debt obligations) where proceeds from sale or other disposition of the Notes are received from a source within Russia by a Non-Resident Noteholder–Legal Entity, which is caused by isolated precedents in which the Russian tax authorities challenged the non-application of the Russian tax to the amount of accrued interest (coupon) embedded into the sale price of Eurobonds. Although the Russian Ministry of Finance in its most recent clarification letters opined that the amount of sale or other disposal proceeds attributable to the accrued interest on Eurobonds paid to a non-Russian organisation should not be regarded as Russian source income and on this basis should not be subject to taxation in Russia, there remains a possibility that a Russian entity or a foreign entity having registered tax presence in Russia which purchases the Notes or acts as an intermediary may seek to assess Russian withholding tax at the rate of 20 per cent. (or such other rate as could be effective at the time of such sale or other disposal) on the accrued interest portion of the disposal proceeds of the Notes.

Redemption of the Notes

The Non-Resident Noteholders-Legal Entities generally should not be subject to any Russian taxes in respect of repayment of principal on the Notes received from the Issuer.

Taxation of Non-Resident Noteholders-Individuals

Acquisition of the Notes

Acquisition of the Notes by the Non-Resident Noteholders-Individuals may constitute a taxable event for Russian personal income tax purposes pursuant to provisions of the Russian Tax Code relating to the material benefit (deemed income) received by individuals as a result of the acquisition of securities. In particular, if the acquisition price of the Notes is below the lower margin of their fair market value (determined based on the specific procedure), the difference may become subject to Russian personal income tax at the rate of 30 per cent. (or such other tax rate as may be effective at the time of the acquisition), which is, arguably, subject to reduction or elimination under the applicable double tax treaty.

Under the Russian tax legislation, taxation of income of the Non-Resident Noteholders-Individuals will depend on whether this income qualifies as received from Russian or non-Russian sources. Since the Russian Tax Code does not contain any provisions in relation to how the related material benefit receivable by individuals should be sourced, in practice the Russian tax authorities may infer that such income should be considered as Russian source income, if the Notes are purchased "in Russia". In absence of any additional guidance as to what should be considered as a purchase of securities "in Russia", in practice the Russian tax authorities may apply various criteria in order to determine the source of the related material benefit, including looking at the place of conclusion of the acquisition transaction, the location of the Issuer, or other similar criteria. There is no assurance therefore that as a result any material benefit received by the Non-Resident Noteholders—Individuals in connection with the acquisition of the Notes will not become taxable in Russia.

Interest on the Notes

The Non-Resident Noteholders-Individuals generally should not be subject to Russian personal income tax in respect of payment of interest on the Notes received from the Issuer.

Taxation of interest on the Notes may however be affected by the taxation treatment of income from sale of the Notes and/or interest on the Loan (see "*Sale or other Disposal of the Notes*" and "*Taxation of interest on the Loan*").

Sale or other Disposal of the Notes

A Non-Resident Noteholder-Individual should not be subject to any Russian taxes in respect of gain or other income realized on a redemption, sale or other disposal of the Notes outside of Russia, provided that the proceeds of such sale, redemption or disposal are not received from a source within Russia.

Subject to any available tax treaty relief, if receipt of any proceeds from the sale or other disposal of the Notes by a Non-Resident Noteholder-Individual is classified as income from Russian sources for Russian personal income tax purposes, these proceeds will become subject to Russian personal income tax at the rate of 30 per cent. (or such other tax rate as may be effective at the time of disposal).

Since the Russian Tax Code does not contain any additional guidance as to when the sales or disposal proceeds should be deemed to be received from Russian sources by an individual not qualifying as a tax resident for Russian personal income tax purposes, in practice the Russian tax authorities may infer that such income should be considered as Russian source income, if the Notes are sold or disposed "in Russia". In absence of any guidance as to what should be considered as a sale or other disposal of securities "in Russia", the Russian tax authorities may apply various criteria in order to determine the source of the sale or other disposal, including looking at the place of conclusion of the transaction, the location of the Issuer, or other similar criteria. There is no assurance therefore that as a result sales or disposal proceeds received by the Non-Resident Noteholders-Individuals will not become taxable in Russia.

If the disposal proceeds are considered as being derived from Russian sources, Russian personal income tax will apply to the gross amount of disposal proceeds (including proceeds attributable to accrued and paid interest on the Notes) decreased by the amount of any duly documented cost deductions (including the original acquisition costs of the Notes and other documented expenses related to the acquisition, holding and the sale or other disposal of the Notes) provided that the relevant documentation is duly executed. There is a risk that if the documentation supporting the cost deductions is deemed insufficient by the Russian tax authorities, the deduction will be disallowed and the tax will apply to the gross amount of the sales or other disposal proceeds.

In certain circumstances, if sales and/or disposal proceeds (including proceeds attributable to accrued and paid interest on the Notes) are paid to a Non-Resident Noteholder-Individual by a licensed broker or an asset manager who carries out operations for the benefit of the Non-Resident Noteholder-Individual under an asset management agreement, a brokerage service agreement, under an agency agreement, a commission agreement or a commercial mandate agreement the applicable Russian personal income tax at the rate of 30 per cent. (or such other tax rate as may be effective at the time of payment) will be withheld at source by that person considered as the tax agent.

The amount of tax withheld will be calculated after taking into account available documented deductions for the original acquisition cost and related expenses on the acquisition, holding and sale or other disposal of the Notes to the extent such deductions and expenses can be determined by the entity making the payment of income to the Non-Resident Noteholder-Individual. The tax agent would be required to report to the Russian tax authorities in respect of its inability to withhold personal income tax in full within one month upon termination of the agreement (mentioned above) or by March 1 of the year following the calendar year in which the income was received. Failure or inability of the tax agent to timely withhold the applicable Russian personal income tax in full will place the onus of payment of such tax on the Non-Resident Noteholder-Individual based on tax notification issued by the tax authorities.

If the duly documented acquisition costs and other documented expenses related to the acquisition, holding and the sale or other disposal of the Notes were born within the relationship with a party other than the tax agent who is currently obliged to calculate and withhold Russian personal income tax, then these original duly documented costs and other documented expenses may be taken into account by the tax agent upon written application of the Noteholder and presentation of the documents confirming the costs and expenses.

Where the Notes are sold by a Non-Resident Noteholder-Individual to other legal entities, organisations (other than licensed brokers or asset managers mentioned above) or individuals, generally no Russian personal income tax should be withheld at source by these persons. The Non-Resident Noteholder-Individual will be then required to file a personal income tax return individually, report on the amount of income realised to the Russian tax authorities and apply for a deduction in the amount of the acquisition and other expenses related to the acquisition, holding and the sale or other disposal of the Notes confirmed by the supporting documentation. The applicable personal income tax will then have to be paid by the Non-Resident Noteholder-Individual on the basis of the filed personal income tax return.

Under certain circumstances gains received and losses incurred by a Non-Resident Noteholder-Individual as a result of the sale or other disposal of the Notes and other securities of the same category (i.e., securities qualified as traded or non-traded for Russian personal income tax purposes) occurring within the same tax year may be aggregated for Russian personal income tax purposes which would affect the total amount of personal income tax payable by the Non-Resident Noteholder-Individual in Russia.

There is also a risk that any gain derived by a Non-Resident Noteholder-Individual from the sale or other disposal of the Notes may be affected by changes in the exchange rate between the currency of the acquisition of the Notes, the currency of sale or other disposal of the Notes and Roubles. For personal income tax purposes, deductible costs and proceeds from disposal of the Notes are converted into Roubles at the exchange rate of the CBR as of the date when the costs were incurred and proceeds were received. This may result in taxable income in Rouble terms solely due to devaluation of the Rouble (whereas, in foreign currency terms, there might be even a capital loss).

Non-Resident Noteholders-Individuals should consult their own tax advisors with respect to tax consequences arising in connection with the sale or other disposal of the Notes, including the receipt of sales or other disposal proceeds from a source within Russia upon the sale or other disposal of the Notes.

Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These double tax treaties may contain provisions allowing to reduce or eliminate Russian income taxes applicable to income received by the Non-Resident Noteholders from Russian sources in connection with the acquisition, holding, disposal (including sale) of the Notes.

To the extent double taxation benefits are available in order to obtain them a Non-Resident Noteholder will have to comply with the certification, information, and reporting requirements being in force in Russia (relating, in particular, to confirmation of its entitlement and eligibility to the respective double tax treaty benefits).

In order to enjoy double tax treaty benefits, a Non-Resident Noteholder–Legal Entity which has the actual right to receive income (i.e., who qualifies as a "beneficial owner of income") and is eligible for the benefits of the applicable double tax treaty should provide the tax agent with the satisfactory documentary evidence to these facts as well as the tax residency certificate before the date of the income payment.

In order to apply for tax exemption or payment of tax at a reduced tax rate under the respective double tax treaty, a Non-Resident Noteholder-Individual must provide to the tax agent a passport of a foreign citizen in order to prove his/her tax residency status in the foreign jurisdiction. If this document is not sufficient to prove the residency status, the tax agent will request the Non-Resident Noteholder-Individual to provide a tax residency certificate issued by the competent authorities in his/her country of residence for tax purposes. If the documents proving residency in the respective state are submitted to the tax agent after the personal income tax is withheld, the tax agent will be required to reimburse to the Non-Resident Noteholder-Individual the amount of tax withheld.

The law does not clearly establish how the tax agent shall determine whether a passport is sufficient to confirm the individual's eligibility to double tax treaty benefits.

It is not explicit whether under the new law Russian citizens will be able to enjoy exemption from taxation at source under an applicable double tax treaty in practice.

Within 30 days upon payment of income subject to tax exemption or withholding at a reduced tax rate under the respective double tax treaty, the tax agent is obliged to submit information to the tax authorities on foreign individuals (passport details and citizenship) and income (type of income, amount of income and date of payment).

The procedure of elimination of double taxation by means of exemption under an applicable double tax treaty of the Non-Resident Noteholders-Individuals in case of absence of a tax agent is not explicitly indicated in the Russian Tax Code.

The Non-Resident Noteholders should consult their own tax advisors with respect to possible tax treaty relief and procedures which have to be satisfied in order to obtain tax relief with respect to Russian income taxes imposed in respect of interest income on the Notes or any income received in connection with the acquisition, sale or other disposal of the Notes.

Refund of Tax Withheld

If Russian withholding tax on income derived from Russian sources by a Non-Resident Noteholder-Legal Entity was withheld at source, a claim for a refund of the tax that was excessively withheld at source can be filed by that Non-Resident Noteholder-Legal Entity with the Russian tax authorities within three years following the year in which the tax was withheld, provided that such Non-Resident Noteholder-Legal Entity is entitled to the benefits of the applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at a reduced tax rate in relation to such income. It is unlikely that such refund will be available in practice to the Non-Resident Noteholder-Legal Entity.

If Russian personal income tax applicable to income derived from Russian sources by a Non-Resident Noteholder–Individual, for whom double tax treaty relief is available, was withheld at source despite the right of this Non-Resident Noteholder–Individual to rely on benefits of the applicable double tax treaty allowing the individual not to pay the tax in Russia or allowing the individual to pay the tax at the reduced tax rate in relation to such income, a claim for a refund of Russian personal tax which was excessively withheld at source and an application of the benefits of the applicable double tax treaty, together with a passport of a foreign individual / tax residency certificate issued by the competent authorities in his/her country of residence may be filed by that Non-Resident Noteholder–Individual with the tax agent within three years following the tax year when the corresponding income was received. In the absence of a tax agent who withheld the Russian personal income tax under consideration (for instance, in case of a liquidation of the tax agent), such an application for a refund may be filed with the Russian tax authorities within the same period (three years from the date when the tax was paid) accompanied by the Russian tax return, a tax residency certificate and documents proving tax withholding to the Russian tax authorities.

Although the Russian Tax Code arguably contains the exhaustive list of documents and information which have to be provided by the Non-Resident Noteholder to the Russian tax authorities for the tax refund purposes, the Russian tax authorities may, in practice, require a wide variety of documentation confirming the right of a Non-Resident Noteholder to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates.

Obtaining a refund of Russian income taxes which were excessively withheld at source is likely therefore to be a time consuming process requiring many efforts and no assurance can be given that such refund will be granted to the Non-Resident Noteholders in practice.

Non-Resident Noteholders should consult their own tax advisors regarding procedures required to be fulfilled in order to obtain refund of Russian income taxes, which were excessively withheld at source.

Taxation of Interest on the Loan

In general, payments of interest on borrowed funds made by a Russian legal entity to a non-resident legal entity or organisation having no registered presence, i.e. no permanent establishment or no tax residency in Russia, are subject to Russian withholding tax at the rate of 20 per cent. (or such other tax rate as may be effective at the time of payment), which could be reduced or eliminated under the terms of an applicable double tax treaty.

Generally, no withholding tax should arise in Eurobond structures by virtue of the special exemption envisaged by the Russian Tax Code. The Russian Tax Code provides that Russian borrowers should be fully released from the obligation to withhold tax from interest and other payments made to foreign entities provided that the following conditions are all met:

(1) interest is paid on debt obligations of Russian entities that arose in connection with the placement by foreign entities of "**issued bonds**", which are defined as bonds or other debt obligations (a) listed and/or admitted to trading on one of the qualifying foreign exchanges and/or (b) that have been registered in qualifying foreign depository/clearing organisations, where:

    (a) the lists of qualifying foreign exchanges and foreign depositary/clearing organisations were approved by Order No 12-91/pz-n of the Federal Financial Markets Service of the Russian Federation dated 25 October 2012 which came into force on 30 December 2012 (the "**Lists**"). The Irish Stock Exchange and the clearing systems Clearstream, Luxembourg and Euroclear are included in the Lists;

    (b) the connection between the loan and the issued bonds should be evident and supported with certain documents which are set forth in the Russian Tax Code,

(2) the recipient of interest on the loan is a foreign entity which is the issuer of issued bonds (i.e., the Issuer), or a foreign entity authorised to receive interest income payable on the issued bonds, or a foreign entity to which rights and obligations under bonds issued by another foreign entity have been assigned;

(3) there is a double tax treaty between Russia and the jurisdiction of tax residence of the recipient of payments on the loan which can be confirmed by a tax residency certificate.

The Group believes that it should be possible to satisfy conditions established by the Russian Tax Code and obtain a release from the obligation to withhold by the Company of tax from payments of interest and certain other amounts, as the case may be, on the Loan to the Issuer, which satisfies the conditions set forth above throughout the term of the Loan and the Notes.

Importantly, the Russian Tax Code does not provide for the exemption of the foreign interest recipients from Russian withholding tax and/or Russian personal income tax, as the case may be. Currently there is no requirement and mechanism in the Russian tax legislation for the foreign legal entities to self-assess and pay the tax to the Russian tax authorities, in case the tax was not withheld at source. Moreover, the Russian Ministry of Finance acknowledged in its information letter published on its website that the release of Russian companies from withholding tax agent obligations arising in Eurobonds structures should effectively mean that no Russian withholding tax should arise, since there is neither a mechanism nor obligation for a non-resident to calculate and pay independently under such circumstances the tax to the Russian budget. There can be no assurance, however, that such requirements and mechanism will not be introduced in the future or that the Russian tax authorities would not make attempts to collect the tax from the foreign income recipients, including the Issuer or the Noteholders.

If interest and/or any other amounts due under the Loan become payable to the Trustee pursuant to the Trust Deed, there is some residual uncertainty whether the release from the obligation to withhold tax under the Russian Tax Code will be available to the Company.

Specifically, there is some uncertainty whether the Trustee will qualify for the "entity authorised to receive interest income payable on the issued bonds" containing in the Russian Tax Code. It creates a potential risk that in case the payments under the Loan are deemed to be made to the Non-Resident Noteholders the Russian withholding tax at the rate of 20 per cent. (or such other tax rate as may be effective at the time of payment) or Russian personal income tax at the rate of 30 per cent. (or such other tax rate that may be effective at the time of payment) should be deducted from the amount of interest and some other payments under the Loan Agreement, if a Non-Resident Noteholder-Legal Entity or a Non-Resident Noteholder – Individual, respectively, has the actual right to the income concerned. Resident Noteholders that have actual right to interest and other income on the Loan will be subject to Russian personal income tax (for Resident Noteholders – Individuals) or corporate income tax (for Resident Noteholders – Legal Entities) at applicable Russian tax rates, which may be withheld at source or payable on a self-assessed basis. It is not expected that the Trustee will, or will be able to, claim a Russian withholding tax exemption or reduction under any applicable double tax treaty under such circumstances. In addition, while some Non-Resident Noteholders may seek a reduction or elimination of Russian withholding tax or personal income tax, as applicable, or a refund of the respective taxes under applicable double tax treaties entered into between their countries of tax residence and the Russian Federation, where such treaties exist and to the extent they are applicable, there is no assurance that any treaty relief will be available to them in practice under such circumstances.

If any payments under the Loan become subject to Russian withholding tax (as a result of which the Issuer will be required to reduce payments made by it under the Notes by the amount of such withholding tax) the Company will be obliged (subject to certain conditions) under the terms of the Loan Agreement to increase payments made under the Loan, as may be necessary so that the net payments received by the Issuer will be equal to the amounts it would have received in absence of such withholding tax. There is a risk that gross-up for Russian withholding tax may not take place and that payments made by the Company under the Loan will be reduced by the amount of Russian income tax or Russian personal income tax withheld by us at source.

If the Company is obliged to increase interest payments under the Loan or to make additional payments on the Loan as described above, it may (without premium or penalty), subject to certain conditions, prepay the Loan in full. In such case, all outstanding Notes will each be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of repayment.

No VAT will be payable in Russia in respect of interest and principal payments under the Loan.

IRELAND

The following is a summary of the principal Irish tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts, etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Taxation of Noteholders

Withholding Tax

In general, tax at the standard rate of income tax (currently 20 per cent.) is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

(a) the Notes are Quoted Eurobonds, i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange (such as the Irish Stock Exchange) and which carry a right to interest; and

(b) the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:

(i) the Notes are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or

(ii) the person who is the beneficial owner of the Notes is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form; and

(c) one of the following conditions is satisfied:

(i) the Noteholder is resident for tax purposes in Ireland or, if not so resident, is otherwise within the charge to corporation tax in Ireland in respect of the interest; or

(ii) the interest is subject, under the laws of a relevant territory, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a Relevant Territory which corresponds to income tax or corporation tax in Ireland and which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory; or

(iii) the Noteholder is not a company which, directly or indirectly, controls the Issuer, is controlled by the Issuer, or is controlled by a third company which also directly or indirectly controls the Issuer, and neither the Noteholder, nor any person connected with the Noteholder, is a person or persons:

(A) from whom the Issuer has acquired assets;

(B) to whom the Issuer has made loans or advances; or

(C) with whom the Issuer has entered into a Swap Agreement,

where the aggregate value of such assets, loans, advances or Swap Agreements represents not less than 75 per cent. of the aggregate value of the assets of the Issuer, or

(iv) the Issuer is not aware at the time of the issue of any Notes that any Noteholder of those Notes is (i) a person of the type described in (c)(iii) above AND (ii) is not subject, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a Relevant Territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory,

where for these purposes, the term

"**Relevant Territory**" means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty; and

"**Swap Agreement**" means any agreement, arrangement or understanding that:

(a) provides for the exchange, on a fixed or contingent basis, of one or more payments based on the value, rate or amount of one or more interest or other rates, currencies, commodities, securities, instruments of indebtedness, indices, quantitative measures, or other financial or economic interests or property of any kind, or any interest therein or based on the value thereof, and

(b) transfers to a person who is a party to the agreement, arrangement or undertaking, or to a person connected with that person, in whole or in part, the financial risk associated with a future change in any such value, rate or amount without also conveying a current or future direct or indirect ownership interest in the asset (including any enterprise or investment pool) or liability that incorporates the financial risk so transferred.

Thus, so long as the Notes continue to be quoted on the Irish Stock Exchange are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised), and one of the conditions set out in paragraph (c) above is satisfied, interest on the Notes can be paid by any Paying Agent acting on behalf of the Issuer free of any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a Paying Agent outside Ireland, and one of the conditions set out in paragraph (c) above is satisfied.

Encashment Tax

In certain circumstances, Irish tax will be required to be withheld at the standard rate of income tax (currently 20 per cent.) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Income Tax, PRSI and Universal Social Charge

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, social insurance (PRSI) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax, notwithstanding that the Noteholder is not resident in Ireland. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. Firstly, interest payments made by the Issuer are exempt from income tax so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA, the recipient is not resident in Ireland and is resident in a Relevant Territory and, the interest is paid out of the assets of the Issuer. Secondly, interest payments made by the Issuer in the ordinary course of its trade or business to a company are exempt from income tax provided the recipient company is not resident in Ireland and is a company which is either resident for tax purposes in a Relevant Territory which imposes a tax that generally applies to interest receivable in that Relevant Territory by companies from sources outside that Relevant Territory and which tax corresponds to income tax or corporation tax in Ireland or, in respect of the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which is not yet in force but which will come into force once all ratification procedures have been completed. Thirdly, interest paid by the Issuer free of withholding tax under the quoted Eurobond exemption is exempt from income tax, where the recipient is a person not resident in Ireland and resident in a Relevant Territory or is a company not resident in Ireland which is under the control, whether directly or indirectly, of person(s) who by virtue of the law of a Relevant Territory are resident for the purpose of tax in a Relevant Territory and are not under the control of person(s) who are not so resident or is a company not resident in Ireland where the principal class of shares of the company or its 75 per cent. parent is substantially and regularly traded on a recognised stock exchange. For the purposes of these exemptions and where not specified otherwise, residence is determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions is within the charge to income tax, and, in the case of Noteholders who are individuals, is subject to the universal social charge. In the past the Irish Revenue Commissioners have not pursued liability to income tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

Capital Gains Tax

A Noteholder will not be subject to Irish tax on capital gains on a disposal of Notes unless such holder is either resident or ordinarily resident in Ireland or carries on a trade or business in Ireland through a branch or agency in respect of which the Notes were used or held and, in the case of Notes which derive their value or more than 50 per cent. of their value from Irish real estate, mineral rights or exploitation rights, unless the Notes cease to be quoted on a stock exchange.

Capital Acquisitions Tax

A gift or inheritance comprising of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, will be levied at 33 per cent.) if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer is domiciled in Ireland irrespective of his residence or that of the donee/successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e. if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland)).

Stamp Duty

No stamp duty or similar tax is imposed in Ireland (on the basis of an exemption provided for in Section 85(2)(c) of the Stamp Duties Consolidation Act, 1999 so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA and the proceeds of the Notes are used in the course of the Issuer's business), on the issue, transfer or redemption of the Notes.

INDEPENDENT AUDITORS

The 2015 and 2014 Consolidated Financial Statements included in the Prospectus have been audited by Ernst & Young LLC in accordance with the International Standards on Auditing as stated in its report appearing herein. The 2016 Unaudited Interim Condensed Consolidated Financial Statements included in this Prospectus have been reviewed by Ernst & Young LLC in accordance with the International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, as stated in its report appearing herein. All capitalised terms set out in those reports shall have the meaning ascribed to them in those reports.

GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The International Securities Identification Number (ISIN) of the Notes is XS1574068844, the CFI of the Notes is DYFXXR and the Common Code of the Notes is 157406884.

2. Application has been made to list the Notes on the Irish Stock Exchange by the Issuer, through the Listing Agent, Arthur Cox Listing Services Limited ("**ACLSL**"). ACLSL is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission to the official list of the Irish Stock Exchange or to trading on the Main Securities Market. It is expected that listing of the Notes will be granted on or before 27 February 2017.

3. Transactions will normally be effected for delivery on the third business day after the transaction.

4. For so long as any Notes are outstanding, copies in English of the following documents in physical form may be obtained free of charge at the registered office of the Issuer and the offices of the Trustee and the Principal Paying Agent during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

   - the charter of the Company;
   - the Constitution of the Issuer;
   - this Prospectus, together with any amendment or supplement hereto;
   - the Issuer's audited financial statements for the periods ended 31 December 2015 and 31 December 2014;
   - the latest annual report and consolidated financial statements of the Company for the years ended 31 December 2015 and 31 December 2014 prepared in accordance with IFRS;
   - the interim condensed consolidated financial statements as at and for the six months ended 30 June 2016 prepared in accordance with IFRS; and
   - the Trust Deed in respect of the Notes (including the form of the Global Certificate and the Definitive Certificates), the Loan Agreement and the Agency Agreement.

5. Since 30 June 2016, there has been no significant change in the financial or trading position of the Company or the Group and since 31 December 2015, there has been no material adverse change in the financial position and prospects of the Company or the Group.

6. Since 31 December 2015, there has been no significant change in the financial or trading position of the Issuer and no material adverse change in the financial position and prospects of the Issuer. The Issuer has no subsidiaries.

7. The Issuer and the Company have obtained all necessary consents, approvals and authorisations in Ireland and Russia, respectively, in connection with the issue and performance of the Notes and the making of the Loan. The issue of the Notes and the making of the Loan was authorised by a resolution of the board of directors of the Issuer dated 24 February 2017.

8. In the 12 months preceding the date of this Prospectus, the Issuer is not and has not been involved in any governmental, legal or arbitration proceedings that may have, or have had in the recent past, a significant effect on the Issuer's financial position or profitability, nor is the Issuer aware that any such proceedings are pending or threatened, except as otherwise disclosed in "*Business−Legal Proceedings*".

9. In the 12 months preceding the date of this Prospectus, neither the Company nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings that may have, or have had in the recent past, a significant effect on the financial position or profitability of either of the Company or the Group. The Company is not aware of any such proceedings that are pending or threatened.

10. The Trust Deed provides, amongst other things, that the Trustee may act or rely upon the opinion or advice of, or upon a certificate or other information from, any lawyer, banker, valuer, surveyor, broker, auctioneer, accountant, auditor or other expert (whether or not addressed to the Trustee), notwithstanding the fact that such opinion, advice, certificate or other information contains a monetary or other limit on the liability of any such persons in respect thereof.

11. Save for the fees payable to the Joint Lead Managers, the Trustee, the Principal Paying Agent and the Registrar, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest that is material to the issue of the Notes.

12. The Issuer does not intend to provide any post-issuance transaction information regarding the Notes or the Loan.

13. The audited financial statements of the Issuer for the periods ended 31 December 2015 and 31 December 2014 have been filed with the Irish Stock Exchange and are incorporated by reference herein.

14. The Company was incorporated as an open joint-stock company under the laws of Russia on 23 September 2003 with main state registration number 1037739877295 for an indefinite period of time.

15. The Issuer estimates the total expenses directly related to the admission of the Notes to trading on the Main Securities Market to be €5,000.

16. Interest and principal on the Loan will be paid into an account operated by the Principal Paying Agent for the benefit of the Issuer.

17. The language of the prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

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Unaudited Interim Condensed Consolidated Financial Statements

As at 30 June 2016 and for the six months then ended

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Report on review of interim condensed consolidated financial statements

To the Shareholder of
Open Joint Stock Company “Russian Railways”

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of OJSC “Russian Railways” and its subsidiaries, which comprise the interim consolidated statement of financial position as at 30 June 2016 and the related interim consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the six-month period then ended and selected notes. Management of OJSC “Russian Railways” is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard (IAS) 34, Interim Financial Reporting. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Financial Reporting Standard (IAS) 34, *Interim Financial Reporting*.

Ernst & Young LLC

5 September 2016
Moscow, Russia

Interim Consolidated Statement of Financial Position as at 30 June 2016

(All amounts are in millions of Russian Rubles)

	Notes	30 June 2016 Unaudited	31 December 2015 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	6	3,398,554	3,356,025
Investment property		16,794	16,882
Goodwill		21,534	23,796
Intangible assets other than goodwill	7	88,816	99,636
Investments in associates and joint ventures		13,557	14,436
Other non-current financial assets		26,499	26,952
Deferred tax assets	21	17,135	16,918
Derivative financial assets	24	3,058	4,093
Other non-current assets		7,301	7,024
Total non-current assets		**3,593,248**	**3,565,762**
Current assets			
Inventories		106,012	96,390
Prepayments and other current assets	8	56,102	45,727
Income tax receivable		1,387	16,267
Receivables	9	129,196	117,656
Other current financial assets		3,718	2,755
Derivative financial assets	24	22	524
Cash and cash equivalents	10	160,588	177,460
		457,025	**456,779**
Assets classified as held for sale	11	14,835	10,010
Total current assets		**471,860**	**466,789**
Total assets		**4,065,108**	**4,032,551**

Continued on next page.

Interim Consolidated Statement of Financial position as at 30 June 2016 (continued)
(All amounts are in millions of Russian Rubles)

	Notes	30 June 2016 Unaudited	31 December 2015 Audited
EQUITY AND LIABILITIES			
Equity attributable to equity holder of the parent			
Share capital	14	2,144,315	2,100,163
Revaluation reserve on hedging instruments	25	(20,471)	(52,293)
Revaluation reserve on investment property		19,782	19,858
Retained earnings and other reserves		54,334	24,508
		2,197,960	**2,092,236**
Non-controlling interests	5	19,286	23,381
Total equity		**2,217,246**	**2,115,617**
Non-current liabilities			
Deferred tax liabilities	21	30,703	24,927
Long-term borrowings	13	785,581	899,530
Finance lease obligations, net of current portion		30,158	32,871
Net employee defined benefit liabilities		196,971	187,380
Derivative financial liabilities	24	29,627	25,844
Other non-current liabilities		14,068	12,959
Total non-current liabilities		**1,087,108**	**1,183,511**
Current liabilities			
Trade and other payables		279,274	327,656
Advances received for transportation		75,215	80,134
Finance lease obligations, current portion		17,533	18,910
Income tax payable		2,353	1,037
Taxes and similar charges payable (other than income tax)	12	56,901	50,437
Short-term borrowings	13	195,386	125,765
Derivative financial liabilities	24	15,920	14,455
Provisions and other current liabilities		113,010	111,542
		755,592	**729,936**
Liabilities, directly associated with the assets classified as held for sale	11	5,162	3,487
Total current liabilities		**760,754**	**733,423**
Total equity and liabilities		**4,065,108**	**4,032,551**

Belozerov O.V. President

29 August 2016

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

Open Joint Stock Company “Russian Railways”

Interim Consolidated Statement of Profit or Loss for the six months ended 30 June 2016
(All amounts are in millions of Russian Rubles)

	Notes	2016	2015
		Unaudited	
Revenues			
Cargo and infrastructure access revenues		648,475	626,228
Logistics revenues	15	190,235	148,102
Passenger revenues		92,180	83,813
Other revenues	16	108,851	103,840
Total revenues	4	**1,039,741**	**961,983**
Operating expenses			
Wages, salaries and related contributions		(370,369)	(370,554)
Materials, repairs and maintenance		(103,193)	(101,825)
Fuel		(42,242)	(46,431)
Purchased freight forwarding and logistics services	15	(141,960)	(109,255)
Electricity		(70,484)	(64,154)
Depreciation and amortization		(107,205)	(113,449)
Taxes other than income tax		(30,220)	(28,036)
Commercial expenses		(2,848)	(2,738)
Bad debt expense, net		(2,258)	(2,136)
Social expenses		(3,512)	(3,632)
Loss on impairment of property, plant and equipment, net	6	(25,109)	(8,449)
Other operating expenses	17	(80,886)	(71,630)
Total operating expenses		**(980,286)**	**(922,289)**
Operating profit before subsidies from federal and municipal budgets		**59,455**	**39,694**
Subsidies from federal and municipal budgets	18	28,165	29,592
Operating profit after subsidies from federal and municipal budgets		**87,620**	**69,286**
Finance expense and similar items	13	(43,289)	(29,289)
Finance income and similar items		7,832	6,654
Finance expense and similar items, net		**(35,457)**	**(22,635)**
Gain on disposal of controlling interest in subsidiaries, net		–	2,072
Changes in fair value of derivative financial instruments, net	24	(5,020)	(10,419)
Other income	19	13,810	9,953
Other expenses	20	(14,782)	(24,086)
Foreign exchange gain, net		22,854	11,768
Hedge accounting effects	25	(2,726)	–
Income before taxation	4	**66,299**	**35,939**
Income taxes			
Current taxes		(13,847)	(18,379)
Deferred taxes		(7,601)	8,477
Total income taxes	21	**(21,448)**	**(9,902)**
Net income for the period		**44,851**	**26,037**
Attributable to:			
Equity holder of the parent		46,309	25,595
Non-controlling interests		(1,458)	442

Belozerov O.V. President

29 August 2016

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

Interim Consolidated Statement of Other Comprehensive Income for the six months ended 30 June 2016
(All amounts are in millions of Russian Rubles)

	Notes	2016 Unaudited	2015
Net income for the period		**44,851**	**26,037**
Other comprehensive (loss)/income			
Items not to be reclassified to profit or loss in subsequent periods, net of tax			
Revaluation of investment property		(76)	25
Loss on remeasurement of net defined benefit liabilities		(8,607)	(8,339)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(8,683)**	**(8,314)**
Items to be reclassified to profit or loss in subsequent periods, net of tax			
Translation difference		(9,336)	(6,247)
Net loss attributable to investments in associates and joint ventures, including effects of translation difference		(373)	(275)
Revaluation of hedging instruments	25	31,822	–
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**22,113**	**(6,522)**
Other comprehensive income/(loss) for the period, net of tax		**13,430**	**(14,836)**
Total comprehensive income for the period, net of tax		**58,281**	**11,201**
Attributable to:			
Equity holder of the parent		61,737	11,855
Non-controlling interests		(3,456)	(654)

Open Joint Stock Company "Russian Railways"

Interim Consolidated Statement of Changes in Equity

for the six months ended 30 June 2016

(All amounts are in millions of Russian Rubles, except share amounts)

		Attributable to equity holder of the parent								
		Share capital								
	Notes	Common shares	Preference shares	Amount	Revaluation reserve on hedging instruments	Revaluation reserve on investment property	Retained earnings and other reserves	Total	Non-controlling interests	Total equity
As at 1 January 2016		**2,050,163,180**	**50,000,000**	**2,100,163**	**(52,293)**	**19,858**	**24,508**	**2,092,236**	**23,381**	**2,115,617**
Net income for the period		–	–	–	–	–	46,309	46,309	(1,458)	44,851
Other comprehensive income		–	–	–	31,822	(76)	(16,318)	15,428	(1,998)	13,430
Total comprehensive income		–	–	–	**31,822**	**(76)**	**29,991**	**61,737**	**(3,456)**	**58,281**
Capital contribution by shareholder	14	44,151,961	–	44,152	–	–	–	44,152	–	44,152
Disposal of non-controlling interest in subsidiaries and other movements		–	–	–	–	–	137	137	78	215
Dividends	14	–	–	–	–	–	(302)	(302)	(717)	(1,019)
As at 30 June 2016 (unaudited)		**2,094,315,141**	**50,000,000**	**2,144,315**	**(20,471)**	**19,782**	**54,334**	**2,197,960**	**19,286**	**2,217,246**

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

Open Joint Stock Company “Russian Railways”

Interim Consolidated Statement of Changes in Equity

for the six months ended 30 June 2015

(All amounts are in millions of Russian Rubles, except share amounts)

		Attributable to equity holder of the parent							
		Share capital							
	Notes	**Common shares**	**Preference shares**	**Amount**	**Revaluation reserve on investment property**	**Retained earnings and other reserves**	**Total**	**Non-controlling interests**	**Total equity**
As at 1 January 2015		**1,976,932,342**	**–**	**1,976,932**	**16,395**	**21,263**	**2,014,590**	**21,797**	**2,036,387**
Net income for the period		–	–	–	–	25,595	25,595	442	26,037
Other comprehensive loss		–	–	–	25	(13,765)	(13,740)	(1,096)	(14,836)
Total comprehensive income		**–**	**–**	**–**	**25**	**11,830**	**11,855**	**(654)**	**11,201**
Capital contribution by shareholder	14	–	50,000,000	50,000	–	–	50,000	–	50,000
Disposal of controlling interest in subsidiary		–	–	–	–	–	–	(2,022)	(2,022)
Acquisition of non-controlling interest in subsidiaries and other movements		–	–	–	–	–	–	38	38
Dividends		–	–	–	–	(45)	(45)	(1,173)	(1,218)
As at 30 June 2015 (unaudited)		**1,976,932,342**	**50,000,000**	**2,026,932**	**16,420**	**33,048**	**2,076,400**	**17,986**	**2,094,386**

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

Interim Consolidated Statement of Cash Flows for the six months ended 30 June 2016

(All amounts are in Russian Rubles)

	Notes	2016	2015
		Unaudited	
Cash flows from operating activities			
Income before taxation		66,299	35,939
Adjustments to reconcile income to cash generated from operations			
Depreciation and amortization		107,205	113,449
Gain on disposal of controlling interest in subsidiaries, net		–	(2,072)
Equity income from associates and joint ventures, net	19	(511)	(279)
Loss on impairment of investments in associates and joint ventures	20	320	5,644
Changes in fair value of derivative financial instruments, net		5,020	10,419
Bad debt expense, net		2,258	2,136
Loss on disposal of property, plant and equipment, net	20	2,272	2,173
Loss on impairment of property, plant and equipment, net		25,109	8,449
Finance expense and similar items, net		35,457	22,635
Change in provision and write-off of obsolete and damaged inventory		3,110	232
Change in provision for legal claims, net	19,20	(378)	2,567
Foreign exchange gain, net		(22,854)	(11,768)
Hedge accounting effects		2,726	–
Effects of employee benefits		1,786	5,389
Other non-cash movements in property, plant and equipment		(2,851)	(1,880)
Other gains, net		(1,163)	(173)
Operating profit before working capital changes		**223,805**	**192,860**
Increase in receivables		(22,636)	(31,984)
(Increase)/decrease in prepayments and other current assets		(11,131)	286
Increase in inventories		(12,710)	(9,123)
Decrease in trade and other payables		(13,192)	(10,119)
Decrease in advances received for transportation		(5,155)	(12,608)
Increase in taxes and similar charges payable (other than income tax)		7,578	10,029
Increase in other current liabilities		4,763	7,086
(Increase)/decrease in other non-current assets		(1,781)	1,509
Increase/(decrease) in other non-current liabilities		1,417	(1,199)
Net cash from operating activities before income tax		**170,958**	**146,737**
Income tax paid		(3,407)	(12,455)
Net cash from operating activities		**167,551**	**134,282**

Continued on next page.

Interim Consolidated Statement of Cash Flows for the six months ended 30 June 2016 *(continued)*
(All amounts are in millions of Russian Rubles)

	Notes	2016	2015
		Unaudited	
Cash flows from investing activities			
Purchases of property, plant and equipment		(198,150)	(157,786)
Proceeds from disposal of property, plant and equipment		2,210	1,698
Purchases of intangible assets		(2,008)	(1,716)
Proceeds from disposal of assets classified as held for sale		243	264
Loans issued, deposits placed and acquisition of other financial assets, net		(2,102)	(4,350)
Acquisition of subsidiary, net of cash acquired		–	(55)
Dividends received		790	696
Interest received		5,603	6,438
Proceeds from disposal of controlling interests in subsidiaries, net of cash disposed		–	1,486
Net cash used in investing activities		**(193,414)**	**(153,325)**
Cash flows from financing activities			
Proceeds from long-term borrowings		86,871	84,203
Repayment of long-term borrowings		(69,539)	(48,709)
Proceeds from/(repayment of) short-term borrowings, net		2,793	(49,018)
Interest paid		(51,398)	(37,459)
Repayment of finance lease obligations, including finance charges		(11,148)	(10,596)
Proceeds from sale-leaseback		8,359	5,314
Proceeds under derivative contracts, net		2,531	3,074
Contribution to share capital from shareholder	14	44,152	50,000
Dividends paid		(72)	(362)
Proceeds from disposal of non-controlling interest in existing subsidiaries		219	–
Net cash from / (used in) financing activities		**12,768**	**(3,553)**
Net decrease in cash and cash equivalents		**(13,095)**	**(22,596)**
Net foreign exchange differences		(1,690)	(744)
Cash and cash equivalents at the beginning of the period	10	175,706	130,652
Cash and cash equivalents at the end of the period	**10**	**160,921**	**107,312**

1. Description of Business and Operating Environment

Corporate Information

Open Joint Stock Company “Russian Railways” (“RZD” or “the Company”) was established on 1 October 2003 pursuant to Decree of the Russian Government No. 585 *On Foundation of Open Joint Stock Company RZD* dated 18 September 2003 and in connection with implementation of the Program of Railway Transportation Industry Restructuring. The Company is 100% owned by the Russian Federation.

These interim condensed consolidated financial statements of RZD and its subsidiaries (the “Group”) for the six months ended 30 June 2016 were authorized for issue by the management of RZD on 29 August 2016.

The principal activities of the Group are described in Note 4.

Factors Affecting Financial Position of the Group

Operating Environment

During the first six months of 2016, the Russian economy continued to be negatively impacted by the low level of crude oil prices, relatively low exchange rates of Russian ruble (“ruble” or “Rbl”) against other currencies, as well as sanctions imposed on Russia by several countries in 2014. Resulting uncertainties regarding economic growth could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

Foreign Exchange

The exchange rate of the ruble to 1 US dollar equated to 64.26 and 72.88 as at 30 June 2016 and 31 December 2015, respectively. The exchange rate of the ruble to 1 euro (“EUR”) equated to 71.21 and 79.70 as at 30 June 2016 and 31 December 2015, respectively. The exchange rate of the ruble to 1 pound sterling (“GBP”) equated to 86.05 and 107.98 as at 30 June 2016 and 31 December 2015, respectively. The exchange rate of the ruble to 1 Swiss franc (“CHF”) equated to 65.53 and 73.53 as at 30 June 2016 and 31 December 2015, respectively.

As at 29 August 2016, the exchange rate was rubles 64.74 to 1 US dollar, rubles 73.09 to 1 EUR, rubles 85.60 to 1 GBP and rubles 67.03 to 1 CHF.

Liquidity

As at 30 June 2016, the Group’s current liabilities exceeded its current assets by Rbls 288,894 million (31 December 2015: Rbls 266,634 million) which is to a large extent explained by the nature of Group’s current liabilities mainly represented by payables for construction, development, modernization and maintenance of property, plant and equipment (PP&E) as a part of Company’s investment program, as well as by advances received for transportation due to the fact that the Company’s sales of transportation services are made predominantly on prepayment basis. The Company does not expect any changes in the general business terms of its contracts with customers and suppliers.

The Company determines the source of financing of an appropriate terms and duration for all the projects included in the Company’s investment program in accordance with the approved financial plan. The Group is investing in expansion, modernization and maintenance of its PP&E. The Group finances its investment activities through cash generated from operations and short-term and long-term borrowings and governmental financing received in the form of subsidies and contributions to the Company’s share capital.

Management uses the following instruments in order to manage the Group’s liquidity:

- continuous monitoring and management of credit portfolio structure aiming at extending its duration and maintaining even flows of borrowings repayment in future periods;
- maintaining diversified sources of external borrowings, including borrowings from commercial banks and issuance of debt securities;
- entering into long-term and medium-term credit agreements with local banks to ensure sufficiency of available financial resources;

- gradual decrease of the foreign currency nominated share of the loan portfolio by making timely and early repayments of borrowings nominated in foreign currencies, in order to reduce the currency exposure and to enhance financial stability;
- using short-term bridge facilities to ensure smooth cash flows to finance investments and operations.

Management believes that through twelve months after the date of authorization of these interim condensed consolidated financial statements, there will be sufficient funding from (a) existing cash balances, (b) cash generated from operations, (c) debt financing and (d) government support.

2. Basis of Preparation of Interim Condensed Consolidated Financial Statements

The interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with IAS 34 *Interim Financial Reporting.*

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2015 and for the year then ended.

The Group's interim condensed consolidated financial statements are presented in Russian rubles ("Rbls"), unless otherwise indicated.

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new amendments to the standards effective for the annual periods beginning on or after 1 January 2016 and some other changes as described below.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Goodwill and intangible assets with indefinite useful life impairment test

Prior to 2016, under the Group's accounting policies, 30 June was set as a date of the annual impairment test for goodwill and intangible assets with indefinite useful lives. Starting from 1 January 2016, the Group changed the date of such annual impairment test to 31 December which allows, as management believes, to more closely align the impairment testing with the Group's financial and operational planning and forecasting processes.

As described in Group's annual financial statements for 2015, as at 31 December 2015, the Group's management has identified the impairment indicators for the cash generating unit to which goodwill and intangible assets with indefinite useful lives were mainly allocated and performed the impairment test as at this date.

Amendments to the standards adopted by the Group

The following amendments affected the Group's accounting policies but did not have material impact on these interim condensed consolidated financial statements:

- *Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments address both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively.

Annual Improvements 2012-2014 Cycle

These improvements include:

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

- *IFRS 7 Financial Instruments: Disclosures*

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual financial statements. This amendment must be applied retrospectively.

- *IAS 19 Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

- *Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statements of profit or loss and other comprehensive income (OCI) and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and OCI.

3. Seasonality of Operations

The Group's business is not significantly affected by seasonality. The Group's cargo revenues remain relatively stable during the year. However, due to seasonal nature of passenger transportation revenue, higher revenues are usually expected in the second half of the year than in the first six months. Higher passenger transportation revenue during the period from June to August is mainly attributed to the summer vacations season.

4. Segment Reporting

For management purposes, the Group is organized into business units based on their services, and has five reportable operating segments as presented below.

The following tables present revenue and segment results information regarding the Group's reportable operating segments:

Six months ended 30 June 2016

	RZD cargo	Long-distance passenger	Auxiliary operations	Subsidiaries cargo	Logistics services of Gefco Group	All other segments	Eliminations (A)	Adjustments (B)	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Sales to third parties................	592,999	88,473	70,532	43,331	173,830	90,228	–	(19,652)	1,039,741
Inter-segment sales..................	32,044	4,095	68,705	10,812	215	71,423	(187,294)	–	–
Total revenue.........................	**625,043**	**92,568**	**139,237**	**54,143**	**174,045**	**161,651**	**(187,294)**	**(19,652)**	**1,039,741**
Segment operating result (income/(loss) before taxation)	**58,188**	**(10,070)**	**11,802**	**1,019**	**5,069**	**7,815**	**(5,933)**	**(1,591)**	**66,299**

Six months ended 30 June 2015

	RZD cargo	Long-distance passenger	Auxiliary operations	Subsidiaries cargo	Logistics services of Gefco Group	All other segments	Eliminations (A)	Adjustments (B)	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Sales to third parties................	577,129	81,125	64,244	36,618	137,947	84,605	–	(19,685)	961,983
Inter-segment sales..................	25,762	3,659	65,797	7,465	33	76,995	(179,711)	–	–
Total revenue	602,891	84,784	130,041	44,083	137,980	161,600	(179,711)	(19,685)	961,983
Segment operating result (income/(loss) before taxation)	**66,195**	**(13,623)**	**7,232**	**(4,211)**	**1,134**	**5,644**	**(6,775)**	**(19,657)**	**35,939**

(A) Inter-segment revenues and margins are eliminated on consolidation.

(B) Operating profit or loss of each operating segment does not include the following adjustments representing differences between management accounts and these interim condensed consolidated financial statements prepared in accordance with IAS 34 for the six months ended 30 June:

	2016	2015
	Rbls mln	*Rbls mln*
Reclassification of subsidies	(14,609)	(13,631)
Income from rent of other property (Note 19)	(6,897)	(5,263)
Effect of net presentation of income and cost of goods sold	(2,014)	(2,260)
Recognition of revenues under construction contracts	4,820	–
Other adjustments to revenue	(952)	1,469
	(19,652)	**(19,685)**
PP&E adjustments [(C)]	51,267	26,656
Effect of net presentation of income and cost of goods sold	1,947	2,226
Bad debt expense, net	(2,258)	(2,136)
Additional non-current employee benefit liabilities	(1,786)	(5,389)
Subsidies from federal and municipal budgets not included in segment results (Note 18)	28,165	29,592
Finance expense and similar items, net, not included in segment results	(35,457)	(22,635)
Changes in fair value of derivative financial instruments, net, not included in segment results	(5,020)	(10,419)
Foreign exchange gain, net, not included in segment results	22,854	11,768
Hedge accounting effects (Note 25)	(2,726)	–
Commercial expenses	(2,848)	(2,738)
Bank charges (Note 20)	(1,180)	(1,090)
Payments under collective labor agreement	(3,766)	(3,041)
Loss on impairment of property, plant and equipment, net (Note 6)	(25,109)	(8,449)
Penalties charged to/(by) customers, net (Notes 19 and 20)	1,371	510
Contributions to trade union, membership in professional associations (Note 20)	(1,678)	(1,785)
Social expenses	(3,512)	(3,632)
Gain on disposal of controlling interest in subsidiaries, net	–	2,072
Loss on impairment of investments in associates and joint ventures (Note 20)	(320)	(5,644)
Change in provision for legal claims, net (Notes 19 and 20)	378	(2,567)
Charity expenses (Note 20)	(1,761)	(1,284)
Other adjustments	(500)	(1,987)
Total adjustments to income before taxation	**(1,591)**	**(19,657)**

(C) PP&E adjustments represent the effect of different carrying values and useful lives of property, plant and equipment, accounting treatment of PP&E components and other differences between management accounts and these interim condensed consolidated financial statements prepared in accordance with IAS 34.

5. Non-controlling Interests

Details of Non-wholly Owned Subsidiaries that Have Material Non-controlling Interests

The table below shows details of non-wholly owned subgroups of the Group that have material non-controlling interests as at 30 June 2016 and 31 December 2015:

Name of Subgroup	Principle place of business	Proportion of ownership interests and voting rights held by non-controlling interests: 30 June 2016	Proportion of ownership interests and voting rights held by non-controlling interests: 31 December 2015	Total comprehensive income/(loss) allocated to non-controlling interests: 30 June 2016	Total comprehensive income/(loss) allocated to non-controlling interests: 31 December 2015	Accumulated non-controlling interests: 30 June 2016	Accumulated non-controlling interests: 31 December 2015
				Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
TransContainer Group	Russian Federation	50%	49.48%	770	984	15,482	14,712
Gefco Group	France, Western Europe	25%	25%	(1,468)	2,101	12,263	14,129
Individually immaterial subsidiaries with non-controlling interests						(8,459)	(5,460)
						19,286	**23,381**

6. Property, Plant and Equipment

Property, plant and equipment as at 30 June 2016 and 31 December 2015 comprised the following:

30 June 2016

Gross book value	Balance as at 1 January 2016	Additions	Disposals	Transfers	Reclassification from assets classified as held for sale	Reclassification to assets classified as held for sale	Effect of translation difference	Balance as at 30 June 2016
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Land	14,094	–	(116)	61	1	(85)	(506)	13,449
Buildings	329,655	45	(1,844)	4,204	34	(2,187)	(1,814)	328,093
Constructions	1,244,862	89	(5,090)	8,928	13	(384)	–	1,248,418
Roadbed	551,988	–	(82)	1,142	–	(6)	–	553,042
Superstructure	1,045,428	16	(5,111)	5,926	2	(246)	–	1,046,015
Operating equipment	999,536	2,360	(5,782)	13,941	21	(3,665)	(447)	1,005,964
Locomotives	610,533	152	(6,512)	33,433	14	(27)	–	637,593
Rolling stock, cargo	208,364	1,546	(14,753)	2,080	1,696	(140)	(1,360)	197,433
Rolling stock, passenger	551,288	51	(7,594)	15,411	30	(26)	–	559,160
Other fixed assets	173,205	96	(1,628)	2,375	7	(541)	(693)	172,821
Construction-in-progress	580,729	176,352	(2,675)	(87,501)	5	(104)	(70)	666,736
Total	**6,309,682**	**180,707**	**(51,187)**	**–**	**1,823**	**(7,411)**	**(4,890)**	**6,428,724**

Accumulated depreciation	Balance as at 1 January 2016	Deprecia-tion charge for the period	Accumu-lated deprecia-tion on disposals	Reclassi-fications	Reclassi-fication from assets classified as held for sale	Reclassi-fication to assets classified as held for sale	Effect of translation difference	Balance as at 30 June 2016
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Land	–	–	–	–	–	–	–	–
Buildings	(100,903)	(3,253)	159	(4)	(14)	789	752	(102,474)
Constructions	(555,572)	(15,167)	2,638	(82)	(5)	188	–	(568,000)
Roadbed	(235,854)	(4,324)	9	–	–	–	–	(240,169)
Superstructure	(640,650)	(30,189)	4,274	3	(2)	41	–	(666,523)
Operating equipment	(485,420)	(26,667)	4,940	61	(9)	1,787	227	(505,081)
Locomotives	(228,221)	(11,629)	5,049	16	(13)	22	–	(234,776)
Rolling stock, cargo	(91,919)	(4,467)	13,232	7	(1,545)	68	565	(84,059)
Rolling stock, passenger	(204,704)	(4,145)	5,486	25	(22)	15	–	(203,345)
Other fixed assets	(68,773)	(4,445)	964	(26)	(3)	271	286	(71,726)
Impairment	(341,641)	(15,436)	1,495	–	–	1,565	–	(354,017)
Total	**(2,953,657)**	**(119,722)**	**38,246**	**–**	**(1,613)**	**4,746**	**1,830**	**(3,030,170)**

30 June 2015

Gross book value	Balance as at 1 January 2015	Additions	Disposals	Transfers	Disposal of subsi-diaries	Reclassi-fication from assets classified as held for sale	Reclassi-fication to assets classified as held for sale	Effect of translation difference	Balance as at 30 June 2015
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Land	13,493	5	(5)	30	(1)	48	(22)	(344)	13,204
Buildings	320,359	51	(1,852)	3,913	(151)	269	(117)	(801)	321,671
Constructions	1,197,817	96	(1,502)	8,796	(75)	10	(26)	–	1,205,116
Roadbed	530,460	–	(255)	6,392	–	2	–	–	536,599
Superstructure	986,249	519	(11,904)	3,703	–	9	(2)	–	978,574
Operating equipment	947,549	3,788	(8,111)	19,681	(259)	3	(20)	(174)	962,457
Locomotives	563,771	502	(3,870)	26,302	(2)	–	(151)	–	586,552
Rolling stock, cargo	230,678	1,269	(21,921)	1,155	(2)	–	(1)	(924)	210,254
Rolling stock, passenger	522,691	110	(5,049)	24,206	–	11	–	–	541,969
Other fixed assets	165,081	80	(990)	(151)	(29)	131	(151)	(327)	163,644
Construction-in-progress	440,235	213,234	(2,017)	(94,027)	(8)	–	(56)	(18)	557,343
Total	**5,918,383**	**219,654**	**(57,476)**	**–**	**(527)**	**483**	**(546)**	**(2,588)**	**6,077,383**

Accumulated Depreciation	Balance as at 1 January 2015	Deprecia-tion charge for the period	Accumu-lated deprecia-tion on disposals	Reclassi-fications	Disposal of subsi-diaries	Reclassi-fication from assets classified as held for sale	Reclassi-fication to assets classified as held for sale	Effect of trans-lation difference	Balance as at 30 June 2015
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Land	–	–	–	–	–	–	–	–	–
Buildings	(93,450)	(3,481)	113	(31)	54	(201)	66	(144)	(97,074)
Constructions	(529,715)	(15,494)	1,200	(369)	52	(10)	24	–	(544,312)
Roadbed	(224,674)	(4,422)	26	112	–	(1)	–	–	(228,959)
Superstructure	(593,930)	(36,654)	8,634	65	–	(6)	1	–	(621,890)
Operating equipment	(445,917)	(27,222)	6,083	918	221	(2)	14	85	(465,820)
Locomotives	(215,886)	(11,291)	1,637	(955)	2	–	128	–	(226,365)
Rolling stock, cargo	(107,365)	(5,355)	19,155	(133)	1	–	1	326	(93,370)
Rolling stock, passenger	(208,281)	(3,410)	3,152	14	–	(7)	–	–	(208,532)
Other fixed assets	(61,507)	(4,046)	761	379	14	(26)	90	262	(64,073)
Impairment	(317,240)	(2,458)	1,287	–	–	–	–	–	(318,411)
Total	**(2,797,965)**	**(113,833)**	**42,048**	**–**	**344**	**(253)**	**324**	**529**	**(2,868,806)**

Net book value	30 June 2016	30 June 2015	31 December 2015
	Rbls mln	*Rbls mln*	*Rbls mln*
Land	13,449	13,204	14,094
Buildings	225,619	224,597	228,752
Constructions	680,418	660,804	689,290
Roadbed	312,873	307,640	316,134
Superstructure	379,492	356,684	404,778
Operating equipment	500,883	496,637	514,116
Locomotives	402,817	360,187	382,312
Rolling stock, cargo	113,374	116,884	116,445
Rolling stock, passenger	355,815	333,437	346,584
Other fixed assets	101,095	99,571	104,432
Construction-in-progress	666,736	557,343	580,729
Impairment	(354,017)	(318,411)	(341,641)
Total	**3,398,554**	**3,208,577**	**3,356,025**

As at 30 June 2016, the Group identified impairment indicators and performed an impairment test for cash generating unit Suburban Passenger Transportation (CGU SPT) and, as a result, recognized impairment losses of Rbls 12,705 million for this CGU calculated as the excess of the CGU carrying value over respective recoverable amount as follows (in millions of rubles):

	30 June 2016	31 December 2015
Recoverable amount determined based on value-in-use calculation	–	–
The pre-tax discount rate applied in value-in-use calculation	10.73%	10.73%

During six months ended 30 June 2015, the Group recognized impairment losses for this CGU of Rbls 2,346 million.

During six months ended 30 June 2016, the Group additionally recognized impairment losses for other CGUs of Rbls 2,731 million (for six months ended 30 June 2015: Rbls 112 million).

In addition, during six months ended 30 June 2016, the Group recognized impairment loss of Rbls 10,159 million (for the six months ended 30 June 2015: Rbls 6,159 million) for individual items of PP&E on the basis of the management's assessment of probability of future sale or use of PP&E and construction-in-progress projects. The Group also reversed the previously recognized impairment of Rbls 486 million (for the six months ended 30 June 2015: Rbls 168 million).

Property, plant and equipment as at 30 June 2016 and 31 December 2015 include borrowing costs incurred in connection with the construction and acquisition of PP&E. Borrowing costs capitalized as PP&E and construction-in-progress during the six months ended 30 June 2016 using a capitalization rate of 5.9% amounted to Rbls 7,906 million (for the six months ended 30 June 2015: Rbls 11,987 million using capitalization rate of 6.5%).

As at 30 June 2016, PP&E with the carrying amount of Rbls 4,459 million were pledged as collateral under the borrowings obtained by JSC "Federal Passenger Company" from JSC "Gazprombank" and PJSC "VTB Bank", related parties of the Group (31 December 2015: Rbls 5,190 million).

Leased assets as at 30 June 2016 and 31 December 2015 included into PP&E, where the Group is a lessee under a finance lease, comprised the following:

	30 June 2016	**31 December 2015**
	Rbls mln	*Rbls mln*
Cost – capitalized finance leases	79,344	78,081
Accumulated depreciation	(11,218)	(9,455)
Net book value	**68,126**	**68,626**

Included in leased assets above are assets with the aggregate cost of Rbls 54,983 million as at 30 June 2016 (31 December 2015: Rbls 53,527 million) obtained from related parties (Note 22).

7. Intangible Assets other than Goodwill

Changes in carrying value of intangible assets, other than goodwill, are mainly attributed to the effect of translation to presentation currency of intangible assets of Gefco S.A. and of its subsidiaries ("Gefco Group").

8. Prepayments and Other Current Assets

Prepayments and other current assets as at 30 June 2016 and 31 December 2015 comprised the following:

	30 June 2016	**31 December 2015**
	Rbls mln	*Rbls mln*
Input Value Added Tax ("VAT")	11,526	12,693
Less: impairment	(1,018)	(879)
	10,508	11,814
Advances paid to suppliers (A)	22,216	16,411
Less: impairment	(6,573)	(6,618)
	15,643	9,793
Prepaid other taxes	4,032	4,765
Other current assets (B)	25,919	19,355
Total prepayments and other current assets	**56,102**	**45,727**

(A) Advances paid to subcontractors in relation to construction contracts increased in the first half of 2016.

(B) As at 30 June 2016, there was an increase in VAT attributable to the advances received by the Group under construction contracts.

9. Receivables

Receivables as at 30 June 2016 and 31 December 2015 comprised the following:

	30 June 2016	31 December 2015
	Rbls mln	*Rbls mln*
Receivables for logistics services, net [(A)]	68,928	64,805
Receivables for transportation services, net [(B)]	11,417	8,451
Other accounts receivable, net [(C)]	48,851	44,400
Total receivables	**129,196**	**117,656**

(A) Receivables for logistics services, net were primarily represented by receivables of Gefco Group mainly denominated in EUR.

(B) Receivables for transportation services, net as at 30 June 2016 and 31 December 2015 comprised the following:

	30 June 2016	31 December 2015
	Rbls mln	*Rbls mln*
Receivables for transportation services	15,844	12,872
Less: allowance for impairment	(4,427)	(4,421)
Total receivables for transportation services, net	**11,417**	**8,451**

(C) Other accounts receivable as at 30 June 2016 and 31 December 2015 comprised the following:

	30 June 2016	31 December 2015
	Rbls mln	*Rbls mln*
Other accounts receivable	57,666	52,985
Less: allowance for impairment	(8,815)	(8,585)
Total other accounts receivable, net	**48,851**	**44,400**

Increase in other accounts receivable is mainly represented by receivable from the Federal Agency on Railway Transport ("the Agency") on subsidies related to compensation for the effects of tariffs regulation in provision of infrastructure access to suburban passenger companies and for the effects of tariffs regulation in long distance passenger transportation for six months ended 30 June 2016 in the amount of Rbls 2,939 million and Rbls 1,141 million, respectively (Note 18).

10. Cash and Cash Equivalents

Cash and cash equivalents as at 30 June 2016 and 31 December 2015 comprised the following:

	30 June 2016	31 December 2015
	Rbls mln	*Rbls mln*
Cash in Russian rubles	29,132	33,999
Bank deposits and other cash equivalents in Russian rubles and foreign currencies	120,128	117,847
Cash in foreign currencies (primarily in EUR and US dollars)	11,328	25,614
Total cash and cash equivalents presented in the statement of financial position	160,588	177,460
Bank overdrafts	(1,282)	(1,957)
Cash and cash equivalents attributable to assets classified as held for sale	1,615	203
Total cash and cash equivalents presented in the statement of cash flows	**160,921**	**175,706**

11. Assets Classified as Held for Sale

As at 30 June 2016, assets and liabilities of OJSC "BetElTrans" of Rbls 8,354 million and Rbls 3,302 million, respectively (31 December 2015: Rbls 8,689 million and Rbls 3,487 million, respectively), and assets and liabilities of JSC "Carriage Repair Company-3" of Rbls 5,140 million and Rbls 1,860 million, respectively (31 December 2015: was not classified as disposal group), were classified as disposal groups held for sale and accounted for in accordance with IFRS *5 Assets Held for Sale and Discontinued Operations.*

12. Taxes and Similar Charges Payable (Other than Income Tax)

Taxes and similar charges payable (other than income tax) as at 30 June 2016 and 31 December 2015 comprised the following:

	30 June 2016	**31December 2015**
	Rbls mln	*Rbls mln*
Settlement with social funds	20,883	23,092
VAT [(A)]	16,191	8,105
Property tax	13,667	11,499
Personal income tax	4,603	4,131
Other taxes	1,557	3,610
Total taxes and similar charges payable (other than income tax)	**56,901**	**50,437**

(A) Decrease in input VAT in the first half of 2016 is primarily attributable to seasonal decrease of construction works volumes.

13. Long-term and Short-term Borrowings

The outstanding balances of short-term and long-term borrowings, including accrued interest, as at 30 June 2016 and 31 December 2015 comprised the following:

30 June 2016	**Original currency**	**Principal amount in original currency**	**Interest rate**	**Maturity of non-current portion**	**Current**	**Non-current**
		Mln			*Rbls mln*	*Rbls mln*
Short-term bank loans						
Fixed rates						
Other banks	Rbl	6,670	12.1%-19.0%		6,674	–
Variable rates						
Central Bank of Russia key rate +	Rbl	300	2.7%		302	–
EURIBOR+	EUR	15	1.3%		1,067	–
Long-term bank loans						
Fixed rates						
Other banks (C)	Rbl	31,669	8.4%-15.0%	2017-2022	19,536	12,219
Other banks (C)	US$	45	8.4%-8.5%		2,898	–
Other banks (C)	EUR	5	6.3%		370	–
Variable rates						
Central Bank of Russia key rate + (C)	Rbl	8,614	2.0%-3.65%	2017-2020	4,106	4,516
EURIBOR+	EUR	170	1.49%-2.0%	2017-2021	2,166	9,637
Debt securities issued						
Loan participation notes (A)	Rbl	37,500	8.3%	2019	769	37,566
Loan participation notes (A)	US$	2,900	5.7%-5.74%	2022	98,946	91,489
Loan participation notes (A)	EUR	1,401	3.37%-4.6%	2021-2023	779	99,799
Loan participation notes (A)	GBP	650	7.49%	2031	1,117	55,881
Loan participation notes (A)	CHF	675	2.18%-2.73%	2018-2021	353	44,232
Bonds						
CPI+	Rbl	287,200	1.0%-2.1%	2028-2044	4,502	236,899
Other (B)	Rbl	236,248	7.7%-11.75%	2018-2046	48,879	192,493
Other borrowings						
Other (C)	Various		0.0%-15.0%	2018-2021	2,922	850
Total					**195,386**	**785,581**

31 December 2015	**Original currency**	**Principal amount in original currency**	**Interest rate**	**Maturity of non-current portion**	**Current**	**Non-current**
		mln			*Rbls mln*	*Rbls mln*
Short-term bank loans						
Fixed rates						
Other banks	Rbl	5,583	9.3%-19%		5,592	–
Variable rates						
Central Bank of Russia key rate +	Rbl	30	4.25%		30	–
Long-term bank loans						
Fixed rates						
Other banks (C)	Rbl	36,567	8.4%-15%	2017-2022	12,627	24,034
Other banks (C)	US$	45	8.4%-8.5%		3,287	–
Other banks	EUR	5	6.3%	2023	14	400
Variable rates						
Central Bank of Russia key rate +	Rbl	8,258	2%-3.65%	2017-2020	5,207	3,087
MosPrime+	Rbl	2,910	1.8%	2017-2019	910	1,998
EURIBOR+	EUR	193	1.75%-2.5%	2017-2018	1,633	13,759
Debt securities issued						
Loan participation notes (A)	Rbl	37,500	8.3%	2019	769	37,576
Loan participation notes (A)	US$	2,900	5.7%-5.74%	2017-2022	2,923	213,223
Loan participation notes (A)	EUR	1,500	3.37%-4.6%	2021-2023	3,177	119,546
Loan participation notes (A)	GBP	650	7.49%	2031	1,401	70,134
Loan participation notes (A)	CHF	675	2.18%-2.73%	2018-2021	967	49,631
Bonds						
CPI+	Rbl	287,200	1%-2.1%	2028-2044	6,326	236,562
Other (B)	Rbl	201,037	7.7%-11.75%	2018-2035	76,682	128,733
Other borrowings						
Other	Various		7.2%-15%	2017-2021	4,220	847
Total					**125,765**	**899,530**

(A) In 2010-2014, the Group placed loan participation notes at the Irish Stock Exchange and at SIX Swiss Stock Exchange.

During six months ended 30 June 2016, the Company early redeemed a portion of EUR nominated loan participation notes at 93.55% of the nominal value and paid to bondholders EUR 92 million (Rbls 7,394 million at the exchange rate as at the transaction date).

(B) During the reporting period, the Company issued new long term bonds series BO-05, BO-07, BO-17 and 42 with the aggregate nominal value of Rbls 60,000 million with the face value of Rbls 1 thousand each, providing for semi-annual coupon payments at fixed interest rates of 9.7%-10.3%, and maturing in 2026, 2026, 2041 and 2046, respectively. The terms of bonds provide their bondholders with the right for early redemption in 2023, 2020, 2031 and 2026, respectively.

The terms of certain bonds issued by the Group provide their bondholders with the right for early redemption within twelve months subsequent to 30 June 2016. Respectively, bonds in the aggregate nominal value of Rbls 39,370 million were classified as current as at 30 June 2016 (31 December 2015: Rbls 53,744 million). During six months ended 30 June 2016, the Company purchased bonds series 16 claimed for early redemption by the bondholders in the aggregate nominal value of Rbls 14,789 million.

Also, during the first half of 2016, the Company redeemed bonds series 15 with nominal value of Rbls 15,000 million upon reaching maturity.

(C) Included in the current portion of long-term bank loans as at 30 June 2016 are borrowings of the Group's subsidiaries in the total amount of Rbls 15,880 million repayable on demand and comprising Rbl denominated borrowings of Rbls 12,612 million, US dollars denominated borrowings of Rbls 2,898 million and EUR denominated borrowings of Rbls 370 million (31 December 2015: total amount of Rbls 14,725 million comprising Rbl denominated borrowings of Rbls 11,438 million and US dollars denominated borrowings of Rbls 3,287 million).

Increase of *Finance expense and similar items* of the interim consolidated statement of profit or loss is mainly related to: increase of Rbl equivalent of foreign currency denominated liabilities; growth of variable interest rates linked to consumer price index on bonds with the proceeds used for the realization of infrastructure projects; attraction of additional borrowings in the second half of 2015 and first half of 2016 and decrease in the amount of finance expenses eligible for capitalization due to putting into operation of PP&E financed by borrowings.

14. Equity

The share capital of the Company as at 30 June 2016 consists of 2,094,315,141 (31 December 2015: 2,050,163,180) authorized, issued and outstanding common shares with par value of Rbls 1 thousand each and of 50,000,000 (31 December 2015: 50,000,000) authorized, issued and outstanding preference shares with par value of Rbls 1 thousand each. In addition, as at 30 June 2016, 3,229,030 (31 December 2015: nil) authorized and issued common shares with par value of Rbls 1 thousand each were recorded at the Company's share issuance account.

In March 2016, the Company issued 47,380,991 common shares with par value of Rbls 1 thousand each in the total amount of Rbls 47,381 million. The issuance was approved by the Company's shareholder for the purpose of implementation of priority projects on public railway infrastructure development, including Moscow region, implementation of investment project Reconstruction of Maxim Gorky – Kotelnikovo – Tikhoretskaya – Krymskaya route, implementation of investment project Construction of Prokhorovka – Zhuravka – Chertkovo – Bataisk railway line and construction of high speed railway Moscow – Kazan. Cash consideration received for these shares equated to Rbls 44,152 million. According to the shareholder's decision, shares of Rbls 3,229 million were not acquired (Note 27).

In June 2016, the Company's shareholder approved dividends for the year 2015 in the amount of Rbls 302 million, including Rbls 297 million for common shares and Rbls 5 million for preference shares. As at 30 June 2016, dividends were not paid.

15. Logistics Revenues, Purchased Freight Forwarding and Logistics Services

Logistics revenues are mainly comprised of revenues of Gefco Group. Purchased freight forwarding and logistics services, included in Operating Expenses, comprised logistics services purchased from the third parties and mainly relate to Gefco Group. Increase in these revenues and expenses is primarily attributable to the effect of translation to presentation currency.

16. Other Revenues

Other revenues for the six months ended 30 June 2016 and 30 June 2015 comprised the following:

	2016	2015
	Rbls mln	*Rbls mln*
Repair of rolling stock	20,106	20,219
Sale of goods	18,002	23,216
Healthcare services	16,623	14,944
Telecommunication services	10,854	11,195
Construction services	10,301	4,524
Transit and sale of electrical and heat energy	6,625	5,815
Rent of locomotive crew	4,215	4,161
Rent of rolling stock and railway objects	4,084	3,280
Social services	2,861	2,603
Information and IT services	1,548	1,381
Utilities services	1,149	1,093
Other	12,483	11,409
Total other revenues	**108,851**	**103,840**

17. Other Operating Expenses

Other operating expenses for the six months ended 30 June 2016 and 30 June 2015 comprised the following:

	2016	2015
	Rbls mln	*Rbls mln*
Security costs	10,295	9,933
Auto transportation services [(A)]	8,566	1,076
Services related to construction	8,680	3,939
Foreign railroads services	6,058	7,303
Business trips	5,046	5,947
Operating rent of rolling stock, including cargo cars	4,845	4,989
Telecommunication fees	4,680	4,327
Consulting services	3,920	3,824
Operating rent of property	3,545	3,489
Bedding and servicing expenses	2,740	2,688
Rolling stock servicing and handling	2,519	2,249
Railtrack and right-of-way maintenance expenses	2,052	2,790
Information and IT services	1,756	2,174
Insurance costs	1,595	1,445
Cost of premises sold	1,191	892
Expenses related to provision of logistics services	1,164	1,523
Fire safety maintenance	1,039	1,369
Infrastructure services	323	1,030
Other	10,872	10,643
Total other operating expenses	**80,886**	**71,630**

(A) In the second half of 2015, auto transportation services were outsourced to third parties.

18. Subsidies from Federal and Municipal Budgets

Subsidies from federal and municipal budgets for the six months ended 30 June 2016 and 30 June 2015 comprised the following:

	2016	2015
	Rbls mln	*Rbls mln*
Subsidies received from federal budget for compensation of the effects of tariffs regulation – long distance passenger transportation	9,673	13,084
Subsidies received from federal budget for compensation of the effects of tariffs regulation in provision of infrastructure access – suburban transportation	14,609	13,631
Other subsidies and compensations	3,883	2,877
Total subsidies from federal and municipal budgets	**28,165**	**29,592**

19. Other Income

Other income for the six months ended 30 June 2016 and 30 June 2015 comprised the following:

	2016	2015
	Rbls mln	*Rbls mln*
Income from rent of other property	6,897	5,263
Penalties charged to customers	1,765	1,128
Change in provision for legal claims, net	378	–
Equity income from associates and joint ventures, net	511	279
Other income	4,259	3,283
Total other income	**13,810**	**9,953**

20. Other Expenses

Other expenses for the six months ended 30 June 2016 and 30 June 2015 comprised the following:

	2016	2015
	Rbls mln	*Rbls mln*
Rent expenses	4,356	3,993
Charity expenses	1,761	1,284
Contributions to trade union, membership in professional associations	1,678	1,785
Bank charges	1,180	1,090
Loss on disposal of inventory, net	1,089	2,434
Loss on disposal of PP&E, net	2,272	2,173
Penalties charged by customers	394	618
Loss on impairment of investments in associates and joint ventures	320	5,644
Change in provision for legal claims, net	–	2,567
Other expenses	1,732	2,498
Total other expenses	**14,782**	**24,086**

21. Income Taxes

The major components of income taxes for the six months ended 30 June 2016 and 30 June 2015 comprised the following:

	2016	2015
	Rbls mln	*Rbls mln*
Consolidated statement of profit or loss		
Current income taxes		
Current income tax charge	(12,194)	(18,118)
Adjustments in respect of current income tax of previous periods and penalties related to income tax, net	18	(2)
Income tax-related provision	(1,671)	(259)
Deferred tax		
Relating to origination and reversal of temporary differences	(7,601)	8,477
Income tax expense recognized in statement of profit or loss	**(21,448)**	**(9,902)**
Income tax recognized in other comprehensive income	(5,493)	2,020
Total income taxes	**(26,941)**	**(7,882)**

Deferred tax relates to the following:

	30 June 2016	31 December 2015
	Rbls mln	*Rbls mln*
Tax effects of taxable temporary differences		
Valuation of property, plant and equipment	(37,637)	(35,445)
Valuation of investments in subsidiaries, associates and joint ventures	(4,716)	(4,469)
Valuation of investment property	(2,813)	(2,734)
Valuation of intangible assets	(15,984)	(18,358)
Other	(303)	–
Tax effects of deductible temporary differences		
Net employee defined benefit liabilities	16,305	16,067
Valuation of accounts receivable	4,026	5,040
Payables/accruals	11,707	12,474
Valuation of derivative financial instruments	8,667	7,464
Tax losses carried forward	7,180	11,869
Other	–	83
Total deferred tax liability, net	**(13,568)**	**(8,009)**
Deferred tax assets	17,135	16,918
Deferred tax liabilities	(30,703)	(24,927)

22. Related Party Transactions

As defined by IAS 24 *Related Parties Disclosures* the entity is related to a reporting entity if any of the following conditions applies:

a. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

b. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

c. Both entities are joint ventures of the same third party;

d. One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

e. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;

f. The entity is controlled or jointly controlled by a person, that:

   i. has control or joint control over the reporting entity;

   ii. has significant influence over the reporting entity; or

   iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely to the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The most significant balances with related parties as at 30 June 2016 and 31 December 2015 are as follows (for description of the nature of relationships between the Group and its related parties refer to definitions in a.-f. above):

	30 June 2016		31 December 2015	
Related party, Nature of relations, Type of service/product	**Amounts receivable**	**(Amounts payable)**	**Amounts receivable**	**(Amounts payable)**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
OPERATING ACTIVITIES				
Transactions with associates and joint ventures (b)				
Attributed to sales and income				
Transportation services	533	(62)	170	(139)
Rent	4,614	(5)	2,751	(13)
Repairs and technical maintenance	345	(23)	596	(6)
Other	1,501	(224)	1,482	(200)
Attributed to purchases and expenses				
Acquisition of rolling stock and spare parts	66	(686)	32	(708)
Acquisition of equipment other than rolling stock	–	(215)	–	(812)
Transportation services	–	(134)	–	(407)
Design and exploratory work and construction	10	(4,739)	10	(13,141)
Repairs and technical maintenance	619	(2,702)	699	(5,870)
Other	188	(1,629)	347	(1,233)
Ministries of the Russian Federation (a)				
Attributed to sales and income				
Subsidies (Note 9)	4,080	–	–	–
Transportation services	6,750	(31)	3,729	(310)
Other	1,590	(9)	801	(11)
Attributed to purchases and expenses				
Security and fire safety services	–	(1,337)	–	(1,367)
Other	5	(320)	3	(208)
Transactions with State-controlled entities (a)				
Attributed to sales and income				
Transportation services	18	(6,500)	99	(9,742)
Electricity	565	–	885	(1)
Construction	6,501	(13,729)	1,615	(3,028)
Communication services	–	–	5	–
Other	848	(1,060)	578	(409)

Related party, Nature of relations, Type of service/product	30 June 2016 Amounts receivable	30 June 2016 (Amounts payable)	31 December 2015 Amounts receivable	31 December 2015 (Amounts payable)
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Attributed to purchases and expenses				
Fuel	22	(2,779)	7	(3,137)
Electricity and heating	20	(69)	34	(89)
Settlement and cash services, encashment	–	(101)	–	(115)
Other	494	(2,478)	144	(2,200)
Transactions with entities under control or joint control of the Group's key management personnel (f)				
Attributed to sales and income				
Electricity	24	–	54	–
Attributed to purchases and expenses				
Electricity and heating	–	(3,686)	–	(5,670)
INVESTMENT ACTIVITIES				
Transactions with associates and joint ventures (b)				
Dividends received	677	–	–	–
FINANCING ACTIVITIES				
State-controlled entities (a)				
Loans received	–	(94,069)	–	(99,951)
OPERATIONS WITH PENSION FUNDS				
Pension funds (e)				
Payable to the pension fund	94	(387)	23	(421)

The most significant of transactions with related parties are as follows (for description of the nature of relationships between the Group and its related parties refer to definitions in a.-f. above):

Related party, Nature of relations, Type of service/product	For six months ended 30 June 2016 Sales/ income*	For six months ended 30 June 2016 (Purchases)/ (expenses)*	For six months ended 30 June 2015 Sales/ income*	For six months ended 30 June 2015 (Purchases)/ (expenses)*
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
OPERATING ACTIVITIES				
Transactions with associates and joint ventures (b)				
Attributed to sales and income				
Transportation services	1,437	–	1,263	–
Rent	10,118	–	9,950	–
Repairs and technical maintenance	3,918	–	3,752	–
Other	1,851	–	3,686	–
Attributed to purchases and expenses				
Acquisition of rolling stock and spare parts	–	(4,335)	–	(32,874)
Acquisition of equipment other than rolling stock	–	(373)	–	(336)
Transportation services	–	(1,538)	–	(1,773)
Design, exploratory work and construction	–	(7,061)	–	(6,201)
Repairs and technical maintenance of rolling stock	–	(15,313)	–	(14,145)
Other	–	(6,453)	–	(5,366)
Ministries of the Russian Federation (a)				
Attributed to sales and income				
Subsidies (Note 18)	28,165	–	29,592	–
Transportation services	9,504	–	10,517	–

Related party, Nature of relations, Type of service/product	For six months ended 30 June 2016		For six months ended 30 June 2015	
	Sales/ income*	(Purchases)/ (expenses)*	Sales/ income*	(Purchases)/ (expenses)*
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Repairs and technical maintenance of rolling stock	16	–	3	–
Other	2,290	–	1,257	–
Attributed to purchases and expenses				
Security and fire safety services	–	(7,871)	–	(8,261)
Other	–	(1,280)	–	(659)
Transactions with State-controlled entities (a)				
Attributed to sales and income				
Transportation services	100,445	–	104,354	–
Electricity	4,699	–	3,978	–
Design, exploratory work and construction	4,820	–	24	–
Communication services	756	–	846	–
Other	6,597	–	5,388	–
Attributed to purchases and expenses				
Fuel	–	(32,435)	–	(27,580)
Acquisition of rolling stock	–	(897)	–	–
Settlement and cash services, encashment	–	(1,156)	–	(958)
Electricity and heating	–	(1,289)	–	(1,291)
Communication services	–	(560)	–	(644)
Other	–	(7,512)	–	(3,899)
OPERATING ACTIVITIES				
Transactions with entities under control or joint control of the Group's key management personnel (f)				
Attributed to sales and income				
Electricity	77	–	99	–
Attributed to purchases and expenses				
Electricity and heating	–	(79,486)	–	(72,221)
INVESTMENT ACTIVITIES				
Transactions with associates and joint ventures (b)				
Dividends received	754	–	697	–
OPERATIONS WITH PENSION FUNDS				
Pension funds (e)				
Pension contributions	382	(10,977)	222	(9,777)

* *Amounts include VAT, where applicable.*

During six months ended 30 June 2016, the Group's companies maintained several accounts in credit institutions related to the Group. The amount of cash and deposits held in these credit institutions as at 30 June 2016 and 31 December 2015 comprised the following:

	30 June 2016	31 December 2015
	Rbls mln	*Rbls mln*
Cash and cash equivalents in state-controlled banks	137,603	153,352
Cash and cash equivalents in associated bank	–	168
Short term deposits in state-controlled banks	3,905	3,867
Total	**141,508**	**157,387**

Interest income from related parties comprised Rbls 4,910 million for the six months ended 30 June 2016 (for the six months ended 30 June 2015: Rbls 5,128 million). Interest expense from related parties comprised Rbls 7,056 million for the six months ended 30 June 2016 (for the six months ended 30 June 2015: Rbls 7,217 million).

Loans obtained by the Group from related parties attract interest varying during the six months ended 30 June 2016 from 1.9% to 17.5% (for the six months ended 30 June 2015: from 2.5% to 19.5%).

Related party guarantees issued and received as at 30 June 2016 and 31 December 2015 are presented below:

	30 June 2016	31 December 2015
	Rbls mln	*Rbls mln*
Amounts guaranteed by the Group in favor of related parties	3,355	6,376
Amounts guaranteed by the Group to related parties	1,110	1,106
Amounts guaranteed to the Group by related parties	1,013	3,654

Further, as at 30 June 2016, amounts guaranteed by related parties in favor of the Group amounted to Rbls 8,198 million (31 December 2015: Rbls 5,029 million).

One of the subsidiaries of the Group has entered into a number of contracts for the purchase of rolling stock, and repayment of advances issued under these contracts is secured by bank guarantees received from a related party for the total amount up to Rbls 13,465 million (31 December 2015: up to Rbls 12,584 million).

For the six months ended 30 June 2016, the Group is entitled to receive tariff compensation of Rbls 3,980 million (for the six months ended 30 June 2015, as restated: Rbls 2,557 million) from federal and regional ministries of the Russian Federation for transportation of certain categories of passengers. Accounts receivable balance outstanding regarding the compensation for transportation of certain categories of passengers as at 30 June 2016 is Rbls 3,605 million (31 December 2015: Rbls 2,864 million). The Group recognized an impairment of Rbls 1,947 million relating to these accounts receivable balance outstanding as at 30 June 2016 (31 December 2015: Rbls 1,957 million).

In 2014-2016, the Group received subsidies from federal budget for a compensation of the effects of tariffs regulation in provision of infrastructure access to suburban passenger companies for the years 2011-2014. These subsidies are administered by the Agency. As at 30 June 2016, the related receivables from the Agency amounted to Rbls 17,078 million (31 December 2015: Rbls 15,868 million). For the six months ended 30 June 2016, the Group received from the Agency Rbls 100 million (for the six months ended 30 June 2015: Rbls 100 million) as a repayment of these receivables.

In 2014 and 2015, the Group entered into several government contracts for development of project documentation and construction for the total amount of Rbls 18,520 million (including VAT). As at 30 June 2016, advances received under these contracts amounted to Rbls 3,223 million (31 December 2015: Rbls 1,944 million), revenue for the six months ended 30 June 2016 amounted to Rbls 1,259 million (for the six months ended 30 June 2015: Rbls 1,090 million).

The aggregate amount of finance lease liabilities under agreements signed with the Group's related parties equated to Rbls 29,216 million as at 30 June 2016 (31 December 2015: Rbls 32,445 million). The weighted average effective interest rate on the finance lease agreements with related parties entered into during six months ended 30 June 2016 comprised 15% p.a. (six months ended 30 June 2015: 14% p.a.).

Further, for the six months ended 30 June 2016, subsidiaries of the Group have sold to related parties cargo rolling stock items for the total amount of Rbls 3,445 million (for the six months ended 30 June 2015: Rbls 5,478 million) which were subsequently obtained by the Group from the related parties under finance lease agreements described above.

Leased assets with the aggregate cost of Rbls 54,983 million as at 30 June 2016 (31 December 2015: Rbls 53,527 million) were obtained from state controlled and other entities considered related to the Group (Note 6).

23. Commitments and Contingencies

Taxation

Starting 1 January 2012, a new Russian transfer pricing legislation came into force which allows the Russian tax authorities to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all “controlled” transactions if the transaction price differs from the market price.

For the six months ended 30 June 2016, the Group determined its tax liabilities arising from “controlled” transactions using actual transaction prices.

Management believes that it has adequately provided for tax liabilities in these interim condensed consolidated financial statements as at 30 June 2016. However, the general risk remains that relevant state authorities could take different positions with regard to interpretative issues, and the effect on the Group’s financial statements could be significant.

Claims and Potential Claims against the Group

The Group is a defendant in a number of court proceedings arising out of the normal course of its business. As at 30 June 2016, a provision in respect of such proceedings of Rbls 10,759 million (31 December 2015: Rbls 13,142 million) was recognized by the Group.

Significant Purchase Commitments

Purchase commitments are disclosed including VAT, where applicable.

Starting 2007, the Group has signed several long-term contracts for reconstruction of railroads, tunnels, bridges and contact system and for purchase of electric trains and other equipment with the local and foreign providers, including contracts with related parties:

	The total amount of the contracts	**Commitments as at 30 June 2016**
	Rbls mln	*Rbls mln*
Contracts for construction and modernization of the Eastern region of the Group’s operations	263,013	223,898
EUR denominated contracts (amount of the contracts and the outstanding commitments: EUR 149 million and EUR 24 million, respectively, at the exchange rate as at 30 June 2016)	10,610	1,709
Other contracts	711,026	450,097
Total	**984,649**	**675,704**

Included in the table above, the contracts concluded with related parties amounted to Rbls 27,300 million as at 30 June 2016. Commitments outstanding under the contracts with related parties as at 30 June 2016 amounted to Rbls 16,339 million.

The Group has also entered into a number of long-term contracts for technical maintenance of passenger rolling stock for the period of up to 40 years with Siemens AG and Patentes Talgo S.L. for the total amount of Rbls 193,504 million (including Rbls 117,567 million for the services to be paid in EUR at the exchange rate as at 30 June 2016). The amount of the services planned to be received under the contracts after 30 June 2016 amounted to Rbls 181,833 million (including Rbls 106,144 million for services to be paid in EUR at the exchange rate as at 30 June 2016).

Operating Lease Commitments

The Groups' subsidiaries have entered into non-cancellable operating lease contracts comprising mainly lease of cargo cars, office space and manufacturing buildings, production facilities, equipment and vehicles. Future minimum lease payments under contracted operating leases as at 30 June 2016 and 31 December 2015 are as follows:

	30 June 2016	31 December 2015
	Rbls mln	*Rbls mln*
Not later than one year	11,554	14,626
Later than one year and not later than five years	24,509	28,122
Later than five years	36,657	39,053
Total minimum lease payments	**72,720**	**81,801**

24. Derivative Financial Instruments

The notional amounts and fair values of derivative instruments held as at 30 June 2016 and 31 December 2015 are set out in the following table:

	30 June 2016			31 December 2015		
	Notional amount	Fair values Asset	Fair values Liability	Notional amount	Fair values Asset	Fair values Liability
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Foreign exchange contracts						
Swaps – domestic	257,277	22	(42,668)	296,549	757	(36,446)
Foreign exchange – interest rate contracts						
Swaps – domestic	9,665	–	(680)	10,846	–	(1,672)
Securities contracts						
Forwards – domestic	4,382	–	(2,199)	4,382	–	(2,181)
Options – domestic	6,314	3,058	–	6,314	2,942	–
Other	–	–	–	868	918	–
Total derivative assets/(liabilities)		**3,080**	**(45,547)**		**4,617**	**(40,299)**

Gains and losses on changes in fair value of derivative financial instruments are included in *Changes in fair value of financial instruments, net* of the interim consolidated statement of profit or loss, *Hedge accounting effects* of the interim consolidated statement of profit or loss and *Revaluation of hedging instruments* of the interim consolidated statement of other comprehensive income in the part relating to the revaluation of cash flow hedging instruments.

25. Hedge Accounting Effects

The information on hedge accounting effects recognized in the interim consolidated statement of other comprehensive income for the six months ended 30 June 2016 is set out below:

	Cash flows hedging instruments	Hedging instruments of a net investment in a foreign operation	Total
	Rbls mln	*Rbls mln*	*Rbls mln*
Accumulated revaluation of hedging instruments as at 1 January 2016	**(42,169)**	**(10,124)**	**(52,293)**
Revaluation recognized in the current period – gain	30,329	6,209	36,538
Reclassified to profit or loss	3,240	–	3,240
Income tax	(6,714)	(1,242)	(7,956)
Accumulated revaluation of hedging instruments as at 30 June 2016	**(15,314)**	**(5,157)**	**(20,471)**

The information on hedge accounting effects recognized in interim consolidated statement of profit or loss for the six months ended 30 June 2016 is set out below:

	2016
	Rbls mln
Effective portion of revaluation of cash flows hedging instruments reclassified to profit or loss	(2,203)
Revaluation of cash flow hedging instruments on terminated hedging relationship reclassified to profit or loss	(1,037)
Total reclassified to profit or loss	**(3,240)**
Ineffective portion of revaluation of hedging instruments of future periods cash flows	250
Ineffective portion of revaluation of hedging instruments of a net investment in a foreign operation	264
Total recognized within profit or loss	**(2,726)**

26. Fair Value of Financial Instruments

The carrying amounts of financial instruments that are liquid or have a short term maturity (less than three months), such as cash and cash equivalents, short-term investments, short-term accounts receivable and payable, short-term loans receivable and payable, are assumed to approximate their fair value. This assumption is also applicable to all variable interest financial instruments.

With regard to fixed rate financial instruments, the fair value was estimated by comparing market interest rates at the initial recognition date with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for deposits with similar credit risk and maturity. For quoted financial instruments the fair values are calculated based on quoted market prices. For those financial instruments where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Fair value of derivative financial instruments is calculated based on market conditions with adjustment for credit risk, i.e. including credit default swap ("CDS") curves of banks and countries which are used as the basis for CDS curve of the Company.

The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market from the sale of its full holdings of a particular instrument.

The following table summarizes differences between the carrying amounts and fair values of financial assets and liabilities of the Group as at 30 June 2016:

	Carrying value including accrued interest	Fair value
	Rbls mln	*Rbls mln*
Financial assets		
Loans issued	3,248	3,248
Bank deposits	2,842	2,842
Financial liabilities		
Long-term fixed rate loans (Note 13)	35,023	38,815
Debt securities issued		
- Bonds (Note 13)	241,372	242,592
- Loan participation notes (Note 13)	430,931	449,108
Finance lease obligations	47,691	45,765

As at 30 June 2016, the Group had the following financial assets and liabilities recognized at fair value:

	Fair value measurements using		
	Level 1 inputs	**Level 2 inputs**	**Level 3 inputs**
	Rbls mln	*Rbls mln*	*Rbls mln*
Financial assets measured at fair value			
Derivative financial instruments (Note 24)	–	3,080	–
Financial liabilities measured at fair value			
Derivative financial instruments (Note 24)		45,547	

There were no transfers of assets and liabilities between fair value measurement levels during six months ended 30 June 2016 and 30 June 2015.

The following table summarizes differences between the carrying amounts and fair values of financial assets and liabilities of the Group as at 31 December 2015.

	Carrying value including accrued interest	Fair value
	Rbls mln	*Rbls mln*
Financial assets		
Loans issued	2,641	2,641
Bank deposits	851	851
Financial liabilities		
Long-term fixed rate loans (Note 13)	40,362	39,034
Debt securities issued		
- Bonds (Note 13)	205,415	203,017
- Loan participation notes (Note 13)	499,347	485,310
Finance lease obligations	51,781	50,857

As at 31 December 2015, the Group had the following financial assets and liabilities recognized at fair value:

	Fair value measurements using		
	Level 1 inputs	**Level 2 inputs**	**Level 3 inputs**
	Rbls mln	*Rbls mln*	*Rbls mln*
Financial assets measured at fair value			
Derivative financial instruments (Note 24)	–	4,617	–
Financial liabilities measured at fair value			
Derivative financial instruments (Note 24)	–	40,299	–

Management believes that the carrying values of other financial assets and liabilities not detailed in the tables above approximate their fair values as at 30 June 2016 and 31 December 2015.

27. Events after the Reporting Period

Borrowings

In August 2016, the Company entered into a general revolving credit facility agreement with PJSC "Sberbank of Russia", a related party of the Group, with aggregate credit limit of Rbls 50,000 million available until 31 December 2020.

In July 2016, the Company purchased and redeemed bonds series 18 in the aggregate amount of Rbls 8,599 million claimed by the bondholders for the early redemption in accordance with the terms of the offer.

Subsequent to the reporting date, the Group has entered into a number of credit facility agreements with PJSC "Sberbank of Russia" and PJSC "VTB Bank", related parties of the Group, for the periods of up to 1.5 years and aggregate credit limits of Rbls 2,150 million and Rbls 650 million, respectively.

Subsequent to the reporting date, the Group has repaid borrowings of Rbls 5,291 million and attracted borrowings of Rbls 7,934 million (both under new and existing loan agreements).

Share capital

In July 2016, the shareholder of the Company has renounced its decision to purchase 3,229,030 shares of the Company issued in March 2016 (Note 14).

Dividends

In July 2016, the Company paid dividends for the results for the year 2015 in the amount of Rbls 302 million on common and preference shares (Note 14).

Contractual obligations

Subsequent to 30 June 2016, the Group entered into several contracts for the purchase of rolling stock and railway equipment for the total amount of Rbls 12,030 million (including VAT).

Open Joint Stock Company “Russian Railways”

Consolidated Financial Statements

As at 31 December 2015 and 2014 and for the years then ended

Open Joint Stock Company "Russian Railways"

Consolidated Financial Statements

As at 31 December 2015 and 2014 and for the years then ended

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Open Joint Stock Company "Russian Railways"

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Russian Railways" and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at 31 December 2015 and 2014, and the consolidated statements of profit or loss, consolidated statements of other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Совершенствуя бизнес, улучшаем мир

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

25 April 2016
Moscow, Russia

Consolidated Statements of Financial Position
as at 31 December 2015 and 2014

(All amounts are in millions of Russian rubles)

	Notes	2015	2014
ASSETS			
Non-current assets			
Property, plant and equipment	6	3,356,025	3,120,418
Investment property		16,882	14,156
Goodwill	4	23,796	18,292
Intangible assets other than goodwill	7	99,636	85,979
Investments in associates and joint ventures	5	14,436	32,319
Other non-current financial assets	8	26,952	21,513
Deferred tax assets	27	16,918	13,964
Derivative financial assets	30	4,093	2,984
Other non-current assets		7,024	8,162
Total non-current assets		**3,565,762**	**3,317,787**
Current assets			
Inventories	9	96,390	99,281
Prepayments and other current assets	10	45,727	55,676
Income tax receivable		16,267	16,583
Receivables	11	117,656	95,130
Other current financial assets		2,755	5,397
Derivative financial assets	30	524	1,784
Cash and cash equivalents	12	177,460	129,280
		456,779	**403,131**
Assets classified as held for sale	13	10,010	84,519
Total current assets		**466,789**	**487,650**
Total assets		**4,032,551**	**3,805,437**

Continued on next page.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Financial Position
as at 31 December 2015 and 2014 (continued)

(All amounts are in millions of Russian rubles)

	Notes	2015	2014
EQUITY AND LIABILITIES			
Equity attributable to equity holder of the parent			
Share capital	19	2,100,163	1,976,932
Revaluation reserve on hedging instruments	31	(52,293)	–
Revaluation reserve on investment property		19,858	16,395
Retained earnings and other reserves		24,508	21,263
		2,092,236	**2,014,590**
Non-controlling interests	4	23,381	21,797
Total equity		**2,115,617**	**2,036,387**
Non-current liabilities			
Deferred tax liabilities	27	24,927	25,789
Long-term borrowings	15	899,530	737,950
Finance lease obligations, net of current portion	18	32,871	31,416
Net employee defined benefit liabilities	17	187,380	185,172
Derivative financial liabilities	30	25,844	21,783
Other non-current liabilities		12,959	13,233
Total non-current liabilities		**1,183,511**	**1,015,343**
Current liabilities			
Trade and other payables		327,656	267,043
Advances received for transportation		80,134	75,620
Finance lease obligations, current portion	18	18,910	17,466
Income tax payable		1,037	1,378
Taxes and similar charges payable (other than income tax)	14	50,437	53,554
Short-term borrowings	15	125,765	176,950
Derivative financial liabilities	30	14,455	10,351
Provisions and other current liabilities	16	111,542	138,593
		729,936	**740,955**
Liabilities, directly associated with the assets classified as held for sale	13	3,487	12,752
Total current liabilities		**733,423**	**753,707**
Total equity and liabilities		**4,032,551**	**3,805,437**

Belozerov O.V. President

Lem N.A. Head of Accounting Department

25 April 2016

Open Joint Stock Company "Russian Railways"

Consolidated Statements of Profit or Loss for the years ended 31 December 2015 and 2014

(All amounts are in millions of Russian rubles)

	Notes	2015	2014
Revenues			
Cargo and infrastructure access revenues		1,258,638	1,168,811
Logistics revenues		307,443	221,340
Passenger revenues		192,754	193,629
Other revenues	20	232,124	212,380
Total revenues	3	**1,990,959**	**1,796,160**
Operating expenses			
Wages, salaries and related contributions		(734,070)	(697,461)
Materials, repairs and maintenance		(248,993)	(215,034)
Fuel		(92,904)	(95,516)
Purchased freight forwarding and logistics services		(229,488)	(162,942)
Electricity		(132,688)	(127,221)
Depreciation and amortization		(218,644)	(220,669)
Taxes other than income tax	21	(58,127)	(47,816)
Commercial expenses		(7,171)	(6,667)
Gain on release of bad debt allowance, net	31	8,876	8,939
Social expenses		(7,854)	(9,311)
Loss on impairment of property, plant and equipment and intangible assets	6, 7	(31,350)	(31,635)
Other operating expenses	22	(162,653)	(141,222)
Total operating expenses		**(1,915,066)**	**(1,746,555)**
Operating profit before subsidies from federal and municipal budgets		**75,893**	**49,605**
Subsidies from federal and municipal budgets	23	62,578	50,721
Operating profit after subsidies from federal and municipal budgets		**138,471**	**100,326**
Finance expense and similar items	24	(76,734)	(41,642)
Finance income and similar items		15,952	4,544
Finance expense and similar items, net		**(60,782)**	**(37,098)**
Gain on disposal of controlling interest in subsidiaries, net	4	2,369	6,030
Equity income from associates and joint ventures, net	5	197	1,763
Changes in fair value of financial instruments, net	30	(15,513)	(4,113)
Other income	25	25,955	19,107
Other expenses	26	(40,891)	(43,040)
Foreign exchange loss, net	31	(27,414)	(143,930)
Income/(loss) before taxation	3	**22,392**	**(100,955)**
Income taxes			
Current taxes		(7,733)	(5,514)
Deferred taxes		(6,477)	7,149
Total income taxes	27	**(14,210)**	**1,635**
Net income/(loss) for the period		**8,182**	**(99,320)**
Attributable to:			
Equity holder of the parent		4,658	(98,966)
Non-controlling interests		3,524	(354)

Belozerov O.V. — President

Lem N.A. — Head of Accounting Department

25 April 2016

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Other Comprehensive Income
for the years ended 31 December 2015 and 2014

(All amounts are in millions of Russian rubles)

	Notes	2015	2014
Net income/(loss) for the period		**8,182**	**(99,320)**
Other comprehensive income/(loss)			
Items not to be reclassified to profit or loss in subsequent periods, net of tax:			
Revaluation of investment property		3,463	3,816
(Loss)/gain on remeasurement of net defined benefit liabilities	17	(11,599)	43,860
Net other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods		**(8,136)**	**47,676**
Items to be reclassified to profit or loss in subsequent periods, net of tax:			
Translation difference		13,015	24,658
Net gain on available-for-sale financial assets		–	517
Net (loss)/gain attributable to investments in associates and joint ventures, including effects of translation difference		(1,309)	1,466
Revaluation of hedging instruments	31	(52,293)	–
Other gains/(losses), net		100	(931)
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		**(40,487)**	**25,710**
Other comprehensive (loss)/income for the period, net of tax		**(48,623)**	**73,386**
Total comprehensive loss for the period, net of tax		**(40,441)**	**(25,934)**
Attributable to:			
Equity holder of the parent		(45,441)	(30,213)
Non-controlling interests		5,000	4,279

The accompanying notes are an integral part of these consolidated financial statements.

Open Joint Stock Company "Russian Railways"

Consolidated Statement of Changes in Equity
for the year ended 31 December 2015

(All amounts are in millions of Russian rubles, except share amounts)

		Attributable to equity holder of the parent								
		Share capital								
	Notes	**Common shares**	**Preference shares**	**Amount**	**Revaluation reserve on hedging instruments**	**Revaluation reserve on investment property**	**Retained earnings and other reserves**	**Total**	**Non-controlling interests**	**Total equity**
As at 1 January 2015		**1,976,932,342**	**–**	**1,976,932**	**–**	**16,395**	**21,263**	**2,014,590**	**21,797**	**2,036,387**
Net income for the period		–	–	–	–	–	4,658	4,658	3,524	8,182
Other comprehensive loss		–	–	–	(52,293)	3,463	(1,269)	(50,099)	1,476	(48,623)
Total comprehensive loss		**–**	**–**	**–**	**(52,293)**	**3,463**	**3,389**	**(45,441)**	**5,000**	**(40,441)**
Capital contribution by shareholder	19	73,230,838	50,000,000	123,231	–	–	–	123,231	–	123,231
Disposal of controlling interest in subsidiary	4	–	–	–	–	–	–	–	(2,022)	(2,022)
Acquisition of non-controlling interest in subsidiaries and other movements		–	–	–	–	–	(99)	(99)	(96)	(195)
Dividends	19	–	–	–	–	–	(45)	(45)	(1,298)	(1,343)
As at 31 December 2015		**2,050,163,180**	**50,000,000**	**2,100,163**	**(52,293)**	**19,858**	**24,508**	**2,092,236**	**23,381**	**2,115,617**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2014

(All amounts are in millions of Russian rubles, except share amounts)

		Attributable to equity holder of the parent							
		Share capital							
	Notes	Common shares	Amount	Unrealized loss on available-for-sale financial assets, net of tax	Revaluation reserve on investment property	Retained earnings and other reserves	Total	Non-controlling interests	Total equity
As at 1 January 2014		**1,947,179,187**	**1,947,179**	**(517)**	**12,579**	**55,448**	**2,014,689**	**15,054**	**2,029,743**
Net loss for the period		–	–	–	–	(98,966)	(98,966)	(354)	(99,320)
Other comprehensive income		–	–	517	3,816	64,420	68,753	4,633	73,386
Total comprehensive loss		**–**	**–**	**517**	**3,816**	**(34,546)**	**(30,213)**	**4,279**	**(25,934)**
Capital contribution by shareholder	19	29,753,155	29,753	–	–	–	29,753	–	29,753
Non-controlling interest in subsidiaries newly established and acquired	4	–	–	–	–	–	–	1,504	1,504
Sale of non-controlling interest in existing subsidiary	4	–	–	–	–	523	523	2,502	3,025
Acquisition of non-controlling interest in existing subsidiary and other movements		–	–	–	–	23	23	(376)	(353)
Dividends	19	–	–	–	–	(185)	(185)	(1,166)	(1,351)
As at 31 December 2014		**1,976,932,342**	**1,976,932**	**–**	**16,395**	**21,263**	**2,014,590**	**21,797**	**2,036,387**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows
for the years ended 31 December 2015 and 2014

(All amounts are in millions of Russian rubles)

	Notes	2015	2014
Cash flows from operating activities			
Income/(loss) before taxation		22,392	(100,955)
Adjustments to reconcile income/loss to cash generated from operations			
Depreciation and amortization		218,644	220,669
Gain on disposal of controlling interest in subsidiaries, net	4	(2,369)	(6,030)
Equity income from associates and joint ventures, net	5	(197)	(1,763)
Changes in fair value of financial instruments, net		15,513	4,113
Gain on release of bad debt allowance, net	31	(8,876)	(8,939)
Impairment of assets classified as held for sale	26	–	3,953
(Gain)/loss on disposal of property, plant and equipment and intangible assets, net	25, 26	5,344	(408)
Loss on impairment of property, plant and equipment and intangible assets	6, 7	31,350	31,635
Finance expense and similar items, net		60,782	37,098
Tax-related provision		1,630	–
Change in provision and write-off of obsolete and damaged inventory		(1,762)	4,663
Change in provision for legal claims, net	16, 25, 26	(459)	3,533
Foreign exchange loss, net		27,414	143,930
Effects of employee benefits	17	(11,228)	(11,818)
Loss on impairment of investments in associates and joint ventures	5, 26	5,543	–
Change in provision for guarantees, net	16, 25	(5,438)	55
Other non-cash movements of property, plant and equipment		(1,933)	(2,734)
Other losses, net		3,980	1,278
Operating income before working capital changes		**360,330**	**318,280**
Increase in receivables		(15,651)	(15,442)
Decrease/(increase) in prepayments and other current assets		14,931	(13,070)
Decrease in inventories		2,375	8,884
Increase in trade and other payables		17,264	408
Increase in advances received for transportation		4,099	9,067
(Decrease)/increase in taxes and similar charges payable (other than income tax)		(4,206)	14,849
Increase/(decrease) in other current liabilities		3,437	(1,336)
Decrease/(increase) in other non-current assets		1,385	(153)
Increase in other non-current liabilities		372	767
Net cash from operating activities before income tax		**384,336**	**322,254**
Income tax paid		(10,132)	(10,648)
Net cash from operating activities		**374,204**	**311,606**

Continued on next page.

Consolidated Statements of Cash Flows
for the years ended December 2015 and 2014 (continued)

(All amounts are in millions of Russian rubles)

	Notes	2015	2014
Cash flows from investing activities			
Purchases of property, plant and equipment		(405,824)	(461,802)
Proceeds from disposal of property, plant and equipment and intangible assets		2,746	5,785
Purchases of intangible assets		(7,942)	(8,417)
Proceeds from disposal of assets classified as held for sale		369	1,407
Loans issued, deposits placed and acquisition of other financial assets, net		(721)	10,314
Proceeds from sale and decrease of equity interest in associates and joint ventures	5	14,114	706
Acquisition of associates and joint ventures		–	(396)
Dividends received	5	895	2,125
Acquisition of subsidiaries, net of cash acquired	4	(3,457)	(598)
Interest received		14,252	4,544
Proceeds from disposal of controlling interests in subsidiaries, net of cash disposed	4	1,486	9,374
Net cash used in investing activities		**(384,082)**	**(436,958)**
Cash flows from financing activities			
Proceeds from long-term borrowings		179,239	167,674
Repayment of long-term borrowings		(51,365)	(123,227)
(Repayment of) / proceeds from short-term borrowings, net		(102,400)	56,822
Interest paid		(81,785)	(51,732)
Repayment of finance lease obligations, including finance charges		(21,600)	(15,913)
Proceeds from sale-leaseback		12,863	20,101
(Payments)/proceeds under derivative contracts, net		(2,899)	3,232
Contributions to share capital from shareholder	19	121,176	29,753
Proceeds from government grants		1,515	49,170
Dividends paid		(1,260)	(1,351)
Acquisition of non-controlling interest in existing subsidiaries		(195)	(150)
Proceeds from disposal of non-controlling interest in existing subsidiary	4	–	3,025
Cash contributions to share capital of subsidiaries by non-controlling shareholders		–	450
Net cash from financing activities		**53,289**	**137,854**
Net increase in cash and cash equivalents		**43,411**	**12,502**
Net foreign exchange differences		1,643	4,228
Cash and cash equivalents at the beginning of the period	12	130,652	113,922
Cash and cash equivalents at the end of the period	12	**175,706**	**130,652**

The accompanying notes are an integral part of these consolidated financial statements.

1. Description of Business and Operating Environment

Corporate Information

Open Joint Stock Company “Russian Railways” (“RZD” or “the Company”) was established on 1 October 2003 pursuant to Decree of the Russian Government No. 585 *On Foundation of Open Joint Stock Company RZD* dated 18 September 2003 and in connection with implementation of the Program of Railway Transportation Industry Restructuring. The Company is 100% owned by the Russian Federation.

The legal address of RZD is Novaya Basmannaya Street, 2, 107174, Moscow, the Russian Federation.

These consolidated financial statements of RZD and its subsidiaries (the “Group”) for the years ended 31 December 2015 and 2014 were authorized for issue by the management of RZD on 25 April 2016.

In accordance with the decree of the Government of the Russian Federation dated 20 August 2015, Oleg Valentinovich Belozerov has been appointed president of RZD.

The principal activities of the Group are described in Note 3.

Factors Affecting Financial Position of the Group

Operating Environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

In 2015, the Russian economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian ruble (“ruble” or “Rbl”), as well as sanctions imposed on Russia by several countries in 2014. The ruble interest rates remained high after the Central Bank of Russia raised its key rate in December 2014, with subsequent gradual decrease in 2015. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

Pricing Policy

The Government of Russian Federation, acting through a designated federal regulating body, sets certain tariffs for the Group’s transportation services based on anticipated macroeconomic indicators and the Group’s projected funding requirements targeted to cover operating expenditures, capital expenditures and repayment of borrowings. The Company’s tariffs for cargo (other than cargo-in-transit through Russia) transportation and the tariffs of JSC “Federal Passenger Company”, a subsidiary of the Group, for certain classes of passenger transportation (third- and fourth-class long-distance passenger transportation) are regulated. Prior to July 2015, the Federal Tariff Service (FTS) was acting as the regulating body. Starting July 2015, FTS was abolished, and its functions were transferred to the Federal Antimonopoly Service (FAS).

Cargo-in-transit tariffs are agreed annually between the interested countries and are fixed in international agreements. The Ministry of Transportation of Russian Federation represents Russia in such negotiations.

The Company and JSC “Federal Passenger Company” are required to price their regulated cargo and third- and fourth-class long-distance passenger transportation services on the basis of a detailed price lists set out in Tariff 10-01 and Tariff 10-02-16, respectively. Prices set out in Tariff 10-01 and 10-02-16 are subject to annual, and occasionally supplemental, indexation.

Generally, the total cargo transportation price payable by a shipper of cargo consists of the following components: a charge for locomotive traction and infrastructure services and a charge for the use of a railcar. If a customer uses a railcar owned or leased by the Company, railcar component is also subject to tariff regulation (as opposed to when a railcar is owned by a private railcar operator). These tariffs are binding on the Company as a natural monopoly.

Private railcar operators which do not have a status of a natural monopoly (including the Company's subsidiaries) are free to set their own prices for the railcar component of cargo transportation tariff, while infrastructure and locomotive components that are fixed by Tariff 10-01 are paid to the Company either directly by the shippers or on their behalf by private railcar operators.

As discussed above, the Government regulates tariffs of JSC "Federal Passenger Company" for third- and fourth-class long distance transportation", while deluxe-, first- and second-class long distance passenger transportation is unregulated and subject to market pricing.

Tariffs for suburban passenger transportation are regulated by regional authorities.

International tariffs for passenger transportation are set according to inter-governmental and interagency agreements, and vary depending on the countries involved.

In December 2015, FAS approved the cargo tariff growth rates as follows:

- in 2016 – 9%;
- in 2017 – 4.5%;
- in 2018 – 4.1%.

In 2015, FAS also approved regulated passenger tariffs growth rate for 2016 at 4%. Further, as described in Note 32, starting from March 2016, regulated passenger tariffs for 2016 were additionally increased by 7%.

In addition, as a part of the cargo tariff regulation policy, starting from the year 2013 the Company is allowed to change the levels of cargo transportation tariffs for certain cargo types within the price limits predetermined by the federal regulating bodies. The Company's decisions on the tariff changes within these limits are based on the comprehensive analysis of the economic effects of such changes.

It is currently uncertain whether and when any further changes will be introduced in the tariff setting policy. The consolidated financial statements do not include any adjustments that might result from these uncertain effects. Such adjustments, if any, will be reported in the Group's consolidated financial statements in the period when they become known and estimable.

Foreign Exchange

The exchange rate of the ruble to 1 US dollar equated to 72.88 and 56.26 as at 31 December 2015 and 31 December 2014, respectively. The exchange rate of the ruble to 1 euro ("EUR") equated to 79.70 and 68.34 as at 31 December 2015 and 31 December 2014, respectively. The exchange rate of the ruble to 1 pound sterling ("GBP") equated to 107.98 and 87.42 as at 31 December 2015 and 31 December 2014, respectively. The exchange rate of the ruble to 1 Swiss franc ("CHF") equated to 73.53 and 56.98 as at 31 December 2015 and 31 December 2014, respectively.

As at 25 April 2016, the exchange rate was rubles 66.22 to 1 US dollar, rubles 74.70 to 1 EUR, rubles 95.09 to 1 GBP and rubles 67.88 to 1 CHF.

Government Subsidies

The Group continued to receive subsidies from federal and local authorities to compensate the effects of passenger and cargo transportation tariffs' regulation. These subsidies are shown as a separate line item in the consolidated statement of profit or loss (Note 23). The Company also receives government grants for capital repairs of railway infrastructure (please refer to Notes 2 and 6 for the details of accounting treatment).

Liquidity

As at 31 December 2015, the Group's current liabilities exceeded its current assets by Rbls 266,634 million (31 December 2014: Rbls 266,057 million) which is to a large extent explained by the nature of Group's current liabilities mainly represented by payables for construction, development, modernization and maintenance of property, plant and equipment (PP&E) as a part of Company's investment program, as well as by advances received for transportation due to the fact that the largest part of the Company's sales of transportation services are made on prepayment basis. The Company does not expect any changes in the general business terms of its contracts with customers and suppliers.

The Company determines the source of financing of an appropriate terms and duration for all the projects included in the Company's investment program in accordance with the approved financial plan.

The Group is investing in expansion, modernization and maintenance of its PP&E. The Group finances its investment activities through cash generated from operations and short-term and long-term borrowings and governmental financing received in the form of subsidies, grants and contributions to the Company's share capital.

Management uses the following instruments in order to manage the Group's liquidity:

- continuous monitoring and management of credit portfolio structure aiming at extending its duration and maintaining even flows of borrowings repayment in future periods;
- maintaining diversified sources of external borrowings, including borrowings from commercial banks and issuance of debt securities;
- entering into long-term and medium-term credit agreements with local banks to ensure sufficiency of available financial resources;
- gradual decrease of the foreign currency nominated share of the loan portfolio by making timely and early repayments of borrowings nominated in foreign currencies in order to reduce the currency exposure and to enhance financial stability;
- using short-term bridge facilities to ensure smooth cash flows to finance investments and operations.

Management believes that through twelve months after the date of authorization of these consolidated financial statements, there will be sufficient funding from (a) existing cash balances, (b) cash generated from operations, (c) debt financing and (d) government support.

2. Summary of Significant Accounting Policies

Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Russian ruble is used as functional currency of the Company and majority of its significant subsidiaries as it is the currency of the primary economic environment in which these entities operate. These consolidated financial statements are presented in Russian rubles ("Rbls") and all values are rounded to the nearest million (Rbls mln. or Rbls million), unless otherwise indicated.

The Company and most of its subsidiaries, except for Gefco S.A. and its subsidiaries, are required to maintain their accounting records and prepare their statutory accounting reports in Russian rubles and in accordance with the Russian accounting legislation. These consolidated financial statements are based upon the statutory accounting records, as adjusted and reclassified in order to comply with IFRS. The principle adjustments relate to revenues recognition, valuation of property, plant and equipment, impairment of non-current assets, finance leases, financial instruments, application of hedge accounting, long-term employees defined benefit obligations, provisions, deferred income taxes and accounting for subsidiaries, associates and joint ventures.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

Changes in Accounting Policy and Disclosures

New and Amended Standards and Interpretations

The Group applied, for the first time, certain amendments to the standards which are affective for annual periods beginning on or after 1 January 2015.

The following amendments affected the Group's accounting policy and disclosures but did not have material impact on its financial performance:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 *Employee Benefits* requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014.

Annual IFRS Improvements 2010-2012 and 2011-2013 Cycles

The amendments applicable to the Group and effective for annual periods beginning on or after 1 July 2014 were applied for the first time in these consolidated financial statements and include the following:

- IFRS 3 Business Combinations: accounting for contingent consideration in a business combination;
- IFRS 8 Operating Segments: aggregation of operating segments;
- IAS 40 Investment Property: clarifying the interrelationship between IFRS 3 and IAS 40 when determining if the transaction is the purchase of asset or a business combination.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Standards and Amendments Issued but not yet Effective

The standards and amendments that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. These standards and amendments are those that the Group reasonably expects potentially to have an impact on accounting policy, disclosures, financial position or performance when applied at a future date. Group intends to adopt these standards and amendments when they become effective.

IFRS 16 Leases

In January 2016, IASB issued IFRS 16 *Leases*, which requires lessees to recognise assets and liabilities for most leases. For lessors, there is a little change to the existing accounting in IAS 17 *Leases*. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 *Revenue from Contracts with Customers* has been applied, or is applied at the same date as IFRS 16.

The Group is currently assessing the impact of the standard on its consolidated financial statements.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group is currently assessing the impact of this standard on its consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. The new standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and all other current revenue recognition requirements under IFRS. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, with earlier application permitted.

The Group is currently assessing the impact of the standard on its consolidated financial statements.

Annual Improvements 2012-2014 Cycle

In September 2014, the IASB issued *Annual Improvements to IFRS 2012-2014 Cycle*, representing five amendments to four standards. These amendments are effective for annual periods beginning on or after 1 January 2016.

The following amendments are expected to be potentially relevant to the Group:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: changes in disposal method.
- IFRS 7 Financial Instruments: Disclosures: servicing contracts that include a fee.
- IFRS 7 Financial Instruments: Disclosures: applicability of the amendments to IFRS 7 to condensed interim financial statements.
- IAS 19 Employee Benefits: discount rate and market depth issue.

Amendments to IAS 1 Presentation of Financial Statements: Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statements of profit or loss and other comprehensive income (OCI) and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have material impact on the Group’s financial statements.

Principles of Consolidation

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, i.e. investees controlled by the Group, as at 31 December 2015.

In certain instances, the Group sponsors the formation of structured entities for the purpose of issuance of debt securities or other purposes. The Group consolidates structured entities it controls.

The financial statements of the subsidiaries are prepared for the same reporting period as a parent company. All intragroup transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, financial statements of subsidiaries have been adjusted to ensure consistency of their accounting policies with the policies adopted by the Group.

Total comprehensive income within a subsidiary is attributed to equity holders of the parent and the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Acquisition of subsidiaries

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree at the proportionate share of the acquiree’s net identifiable assets at the date of acquisition. Acquisition costs incurred are expensed and included in *Other expenses* in the consolidated statement of profit or loss.

Transactions under common control

The transactions with entities under common control are measured at the actual consideration stated in any agreement related to the each transaction, provided that there is no requirement of IFRS to measure the transaction at fair value.

Functional currencies

The Group’s consolidated financial statements are presented in rubles, which is also the Company’s functional currency and the functional currency of all significant subsidiaries, except Gefco S.A. which has EUR as a functional currency. Items included in the financial statements of each entity are measured using the functional currency of each entity.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as the hedging instruments. These are recognised in OCI as described in more details in Financial *Assets and Liabilities* section below. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Fair Value Measurements

The Group measures financial instruments, such as derivatives, and non-financial assets such as investment properties, at fair value at each reporting date.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest input that is significant to the fair value measurement as a whole:

- Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs: unobservable inputs for the asset or liability.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy at the end of each reporting period.

The management determines the policies and procedures for both recurring fair value measurement, such as investment properties, and for non-recurring measurement, such as assets held for sale.

External appraisers are involved for valuation of significant assets and significant liabilities. Involvement of external appraisers is decided upon annually by the Company’s management. Selection criteria include market knowledge, reputation, independence and whether professional standards are properly maintained. The management decides, after discussions with the appraisers, which valuation techniques and inputs to use for each case.

For the purposes of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Property, Plant and Equipment

Property, plant and equipment are recognized at historical cost of acquisition or construction less accumulated depreciation and any accumulated impairment losses (the Group’s approach to the accounting for impairment is described in *Significant Accounting Judgments, Estimates and Assumptions* section below). Construction-in-progress comprises costs directly related to construction and acquisition of property, plant and equipment plus an appropriate allocation of directly attributable variable and fixed overheads that are incurred in construction. Depreciation commences once the asset becomes available for use.

Subsequent expenditures relating to an item of property, plant and equipment, which qualify for recognition as assets in accordance with provisions of IAS 16 *Property, Plant and Equipment*, are capitalized and the replaced parts are derecognised. When each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

Costs other than those referred to above are recognized as an expense when incurred.

Land occupied by the Group’s facilities is owned by the Russian Federation. In 2003, at the date of incorporation, some of such land plots were contributed as in-kind contribution to the Company’s share capital and, consequently, were included in PP&E as at 31 December 2015 and 2014. The land is not depreciated.

Depreciation is calculated on a straight-line basis over the asset’s estimated useful life. Depreciation is included into operating expenses in the respective period.

The useful lives used to calculate depreciation are as follows (years):

Buildings	10-60
Constructions	10-100
Roadbed	10-100
Superstructure	20-25
Locomotives	20-40
Rolling stock, passenger	25-28
Rolling stock, cargo	13-40
Operating equipment	4-60
Other fixed assets	4-60

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

Investment Property

Investment property is initially recognized at cost, including directly attributable expenditure, and subsequently remeasured at fair value which reflects market conditions at the end of the reporting period. Fair values are determined based on an annual evaluation performed by an accredited external independent appraiser, applying a valuation model recommended by the International Valuation Standards Committee.

Intangible Assets Other than Goodwill

Intangible assets are initially measured at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. After initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses (the Group’s approach to the accounting for impairment is described in *Significant Accounting Judgments, Estimates and Assumptions* section below). Internally generated intangible assets, excluding capitalized development costs, are not capitalized and related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Useful lives of the Group’s intangible assets vary from 3 to 38 years. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Amortization expense on intangible assets with finite lives is included into operating expenses of the respective period.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit (CGU) level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Financial Assets and Liabilities

The Group's financial assets include cash and cash equivalents, trade and other receivables and loans issued classified as loans and receivables, derivative financial instruments designated upon initial recognition as financial assets at fair value through profit or loss or as hedging instruments in an effective hedge and financial assets classified as available-for-sale investments.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset.

The Group's financial liabilities include trade and other payables and interest bearing loans and borrowings classified as loans and borrowings or as hedging instruments in an effective hedge, derivative financial instruments designated upon initial recognition as financial liabilities at fair value through profit or loss or as hedging instruments in an effective hedge and financial guarantee contracts.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are the contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specific debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are initially recognised as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the best estimate of expenditure required to settle present obligation at the reporting date and the amount initially recognized less, when appropriate, cumulative amortization.

Derivative financial instruments

The Group uses derivative financial instruments, such as forward currency contracts and interest rate and currency swaps. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

Application of hedge accounting

In 2015, the Group designated certain financial instruments as hedging instruments and applied hedge accounting.

For the purpose of hedge accounting, Group's hedges are classified as:

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment;
- hedges of a net investment in a foreign operation.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

Cash flow hedges

The Group uses the combination of certain foreign currency denominated borrowings and related swap contracts, if applicable, to hedge its exposure to foreign currency risk in forecasted transactions. Refer to Note 31 for more details.

The effective portion of the gain or loss on the hedging instrument is recognised in OCI within revaluation reserve on hedging instruments, while any ineffective portion is recognised immediately in the statement of profit or loss.

Gain or loss on hedging instruments recognised as OCI are transferred to profit or loss when the forecasted hedged cash flow affects profit or loss, i.e. when a forecast sale occurs.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in OCI remains separately in equity until the forecast transaction occurs.

Hedges of a net investment

The Group uses borrowings denominated in EUR to hedge its exposure to foreign exchange risk on its investment in a subsidiary Gefco S.A. Refer to Note 31 for more details.

Such hedges are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instruments relating to the effective portion of the hedge are recognised as OCI while any gains or losses relating to the ineffective portion are recognised in the statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of profit or loss.

Inventories

Inventories, which include raw materials, spare parts and construction materials, fuel and lubricants and merchandise inventories, are valued at the lower of cost, as determined by the weighted average method, and net realizable value.

Cash and Cash Equivalents

Cash consists of cash on hand and balances with banks. Cash equivalents comprise short-term deposits with original maturities of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of Group’s cash management.

Revenue and Expense Recognition

Revenues are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenues can be measured reliably.

Revenues and expenses are accounted for at the time the actual flow of related goods and services occurs and transfer of risks and rewards has been completed, regardless of when cash or its equivalent is received or paid, and are reported in the statement of profit or loss in the period to which they relate. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or as an agent.

The revenues generated by the Group comprise:

- cargo and infrastructure access revenues representing revenues from cargo transportation, provision of access to the Company’s infrastructure and locomotive traction services;
- logistics revenues mainly represented by revenues from logistics services provided by Gefco S.A. and its subsidiaries (“Gefco Group”);
- passenger revenues representing revenues obtained from transportation of passengers;
- other revenues including revenues obtained from sale of goods, repair of rolling stock, healthcare services, telecommunication services, construction services, transit and sale of electrical and heat energy and other revenues as detailed in Note 20.

Cargo and passenger transportation

In respect of services related to cargo transportation, revenue is recognised by reference to the stage of completion of the transportation at the reporting date provided that the stage of completion of the transportation and the amount of revenue can be measured reliably. In the event that either of the conditions above is not met as at the reporting date, the recognition of revenue is deferred to the date when transportation is completed, i.e. cargo delivered to the place of destination. The stage of completion is determined as a percentage of services performed to date to total services to be performed.

In respect of services related to passenger transportation, revenue is recognized when transportation is completed.

Logistics revenues

Revenue from logistics services is recognised over the period when the services are rendered.

Rental income

Rental income arising from operating leases on investment properties, rolling stock and railway infrastructure objects is accounted for on a straight-line basis over the lease terms and is included in revenue due to its operating nature.

Revenue from construction services

The Group renders construction services to third parties under long-term construction contracts.

Revenue from construction services rendered is recognised in the statement of profit or loss by reference to the stage of completion which is measured based on the actual volume of works completed. The stage of completion is assessed monthly. When the outcome of the contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. The Group provides for estimated losses on uncompleted contracts in the period, in which such losses are identified.

Interest Income and Expense

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as available for sale, interest income and expense are recorded using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of such an instrument taking into consideration all contractual terms of the instrument. Interest income and expense is included in finance income and expense, respectively, in the consolidated statement of profit or loss.

Government Subsidies

The Group receives subsidies and grants from the Russian Government for compensation of the effect of tariffs' regulation, capital repairs and acquisition of assets and other purposes. Government subsidies related to income are recognised as income over the periods necessary to match them on the systematic basis with the related cost which they are intended to compensate. Income relating to government subsidies is presented separately in the statement of profit or loss. Subsidies related to an expense items are deducted in the reporting related expenses.

Subsidies and grants contributed towards the acquisition of or capitalizable subsequent expenditures on assets are deducted from the cost of those assets in the periods where related costs are incurred. Such subsidies and grants are then recognized as income over the useful life of a depreciable asset by way of reduced depreciation charge.

When loans or similar assistance are provided by the Government or related institutions at below-market interest rate, the effect of this favourable interest rate is regarded as a government grant and measured as the difference between the initial carrying value of the loan and the proceeds received.

Cash proceeds from subsidies and grants related to assets are presented separately from the cash outflows on purchase of assets, within financing activities in the statement of cash flows.

Employee Benefits

Defined benefit plans

The Group operates defined benefit pension plans. These benefits are partially funded. In addition, the Group provides certain other retirement and post-employment benefits to its employees. These benefits are unfunded. The obligation and cost of benefits under the plans are determined separately for each plan using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under the line *Wages, salaries and related contributions* in consolidated statement of profit or loss:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements;
- net interest expense or income.

Past service costs are recognised in profit or loss on the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs.

Defined contribution plans

In addition to the defined benefit plans described above, the Group also sponsors a defined contribution plan for certain of its employees. The plan provides for contributions by the Group ranging from 1% to 4.8% of salary, and by employees ranging from 0.6% to 10.7% of salary. The Group's contributions relating to the defined contribution plan are expensed in the period to which they relate.

State plan

In addition, the Group is legally obliged to make contributions to the Pension Fund of the Russian Federation (a multi-employer defined contribution plan). The Group's only obligation is to pay the contributions as they fall due. As such, the Group has no legal obligation to pay and does not guarantee any future benefits to its Russian employees. The Group's contributions to the State Pension Fund relating to defined contribution plans are expensed in the period to which they relate.

Contributions to the State Pension Fund together with other state social contributions are calculated as 30% (2014: 30%) on the annual gross salary of each employee. Excess of annual gross salary of employee over Rbls 711 thousand (2014: Rbls 624 thousand) is taxed at 15.1% (2014: 10%).

Other long-term benefits

The Group makes a number of other long-term employee benefits, including loyalty bonus. The obligation and cost of benefits are determined separately for each benefit using the projected unit credit method. Service cost, net interest on the net defined benefit liability and remeasurements of the net defined benefit liability for other long-term benefits are recognised in the statement of profit or loss.

Provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

If the effect of time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance expense.

Contractual Commitments

Contractual commitments comprise legally binding trading or purchase agreements with stated amount, price and date or dates in the future.

The Group discloses significant contractual commitments for major types of purchases in the notes to the consolidated financial statements.

Sale and Leaseback Transactions

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term. The leased asset is restated to its fair value (or the present value of the minimum lease payments, if lower) in exactly the same way as any other asset acquired under a finance lease.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs, and accompanying disclosures, and disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in the future periods.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Accounting for non-production property, plant and equipment

Included in property, plant and equipment are social infrastructure assets. Management believes that expenditures incurred in respect of acquisition or construction of such assets qualify for the recognition as an asset on the premises that such expenditures are capable of contributing indirectly to the flow of cash and cash equivalents to the Group through a reduction of cash benefits to employees. This is driven by the fact that such non-production assets are employed by the Group to provide in-kind benefits to its employees.

Accounting for leases – Group as lessee

A lease is classified as finance lease if it transfers substantially all the risks and rewards incidental to ownership, otherwise it is classified as operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the arrangement rather than the form of the contract. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in the arrangement. If the lease term is for the major part of the economic life of the asset even if title is not transferred, or if at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset, the lease is classified by the Group as finance lease, unless it is clearly demonstrated otherwise.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease – Group as lessor

The Group has entered into commercial property leases on its investment property. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, and the present value of minimal lease payments at the inception of the lease is significantly lower than the fair value of the leased asset, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Assets classified as held for sale

As at 31 December 2015, certain PP&E items and the assets and liabilities of the Group's subsidiary OJSC "BetElTrans" were classified as assets and disposal group held for sale, respectively, and accounted for in accordance with IFRS 5 *Assets Held for Sale and Discontinued Operations* (Note 13).

Consolidation of a structured entity

The Company has no voting rights in respect of RZD Capital P.L.C., a public limited company incorporated in Ireland. Principal activity of RZD Capital P.L.C. ("RZD Capital") is the issue of debt securities for the sole purpose of providing loans to the Company. There is insufficient equity to allow RZD Capital to finance its activities without the financial support from the Company.

Based on these facts and circumstances, the Group assessed that the voting rights are not dominant factor in determination of whether the Company controls RZD Capital and concluded that RZD Capital is a structured entity under IFRS 10 *Consolidated Financial Statements* controlled by the Company. Respectively, RZD Capital is consolidated in the Group's consolidated financial statements.

All series of loan participation notes of the Group were issued by RZD Capital (see Note 15 for details). The Company's obligations under the loan agreements with RZD Capital serve as a security for loan participation notes issued.

Application of hedge accounting

Hedge accounting is complex and involves application on management judgment in concluding on whether hedging relationship qualifies for hedge accounting, including whether hedging instrument is effective in hedging the risk.

Assumptions and judgments are made about the continued effectiveness of the hedging strategies and the nature and timing of forecasted transactions. In case the hedging strategies become ineffective or the assumptions applied about the nature and timing of forecasted transactions are inaccurate, the hedge accounting could no longer be applied and the results reported in these consolidated financial statements would be significantly affected.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimates on the latest information available when the consolidated financial statements were approved for issue. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

The most significant estimates relate to the depreciable lives of property, plant and equipment, impairment of non-financial and financial assets, determination of the net employee defined benefit liabilities and the related current service costs with regard to pension plans and other long-term employee benefits, fair value of financial instruments, revaluation of investment property, provision for tax and legal contingencies, deferred taxation, development costs and construction contracts. Actual results could differ from these estimates.

Useful life of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in profit or loss.

Impairment of property, plant and equipment and other non-financial assets

The Group assesses at each reporting date whether there is any indication that an asset or any of the Groups' CGUs may be impaired and determines recoverable amount of an asset or a CGU if impairment indicators are identified. Recoverable amount is the higher of an asset's or CGUs fair value less costs of disposal and its value in use. When the carrying amount of an asset or a CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount.

The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset.

The Group bases its value in use calculation on detailed budgets and forecasts which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecasts generally cover the period of three years and are further extrapolated for the mid-term period applying forecasted inflation rate, cargo and passenger turnover and tariffs growth rates. For longer periods, a long-term growth rate is determined and applied to projected future cash flows. For the purposes of impairment test performed as of 31

December 2015, the Group based its mid-term projections on the forecasted inflation rate, cargo and passenger turnover and tariffs growth rates for the period up to and including the year 2030. In particular, forecasted cargo tariffs growth rates used in the impairment test as of 31 December 2015 are based on the tariff growth rates approved by the FAS in December 2015 for the year 2016 (Note 1) and on the forecasted long-term CPI[1] rates for the periods subsequent to 2016. Projected cash outflows include capital expenditures for PP&E maintenance in accordance with the Group's three-year financial plan for 2016-2018 and are further indexed by forecasted inflation rate. Projected cash outflows also take into account forecasted decrease in operating expenses planned by the management in accordance with the Group's costs reduction program. Discount rate used to calculate CGU recoverable amount is based on the weighted average cost of capital (WACC) as a starting point, adjusted to reflect asset-specific risks for each CGU.

The Group identifies the following most significant CGUs:

- CGU *Infrastructure* (CGU IS) which includes predominantly infrastructure assets owned by the Group and assets used by the Group for their development and maintenance;
- CGU *Long-Distance Passenger Transportation* (CGU LDPT) which includes assets used for provision of the long-distance transportation owned both by the Group and its respective subsidiaries;
- CGU *Gefco* which includes assets of Gefco Group; and
- CGU *Suburban Passenger Transportation* (CGU SPT) which includes assets used for provision of suburban passenger transportation owned both by the Group and its respective subsidiaries.

No goodwill is allocated to the CGUs IS, LDPT and SPT.

The Group determined recoverable amounts of CGU IS, CGU LDPT and CGU SPT as of 31 December 2015 based on a value in use calculation. As a result of the impairment test performed as of 31 December 2015, the Group identified impairment losses, calculated as the excess of the CGU carrying value over respective recoverable amount, for CGU SPT as follows (in millions of rubles):

CGU SPT

	2015	2014
Recoverable amount as at 31 December	–	–
The pre-tax discount rate applied in value in use calculation	10.73%	10.53%
Impairment loss	(26,784)	(4,598)

CGU LDPT

As at 31 December 2015, no impairment was identified for CGU LDPT while for 2014 the Group recognized the impairment loss for this CGU of Rbls 11,588 million calculated as the excess of the CGU carrying value as at 31 December 2014 over its recoverable amount of Rbls 241,071 million determined based on the value in use calculation with the application of 11.64% pre-tax discount rate.

In 2015, the Group also identified impairment losses of Rbls 2,878 million for other CGUs (2014: Rbls 8,109 million).

Identified impairment losses are reported in *Loss on impairment of property, plant and equipment and intangible assets* of the consolidated statement of profit or loss.

The measure of the Group's assets is not included in segment reporting. Respectively, the Group does not allocate impairment losses between reportable segments.

No impairment of CGU IS was identified as of 31 December 2015. However, adverse changes in the cargo turnover and tariffs growth rates, as well as in other projection factors described above, in the future periods, if any, could result in the material impairment loss for CGU IS in the periods where such changes occur.

The Group believes that impairment of CGU SPT results mainly from the overall losses in suburban passenger transportation caused by insufficient level of compensation for lost revenues in suburban passenger transportation due to tariffs regulation by the state authorities.

[1] Consumer price index.

These estimates, including the methodologies used, may have a material impact on the amount of any property, plant and equipment and other non-financial assets impairment.

Goodwill and intangible assets with indefinite useful life

Goodwill is tested for impairment annually as at 30 June and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Impairment loss is recognized when CGU carrying value exceeds its recoverable amount. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at 30 June at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Losses on impairment of non-financial assets are recognized in the consolidated statement of profit or loss within operating expenses, except for impairment of assets classified as held for sale which are recognized within other expenses in consolidated statement of profit or loss.

For the impairment testing as at 30 June 2015, goodwill and intangible assets with indefinite useful life were mainly allocated to CGU *Gefco*. The recoverable amount of CGU *Gefco* was determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering the period up to 2020, and a pre-tax discount rate of 13%. Operating margin rate in 2021-2024 is forecasted at the level of the year 2020. For the longer periods a long-term steady growth rate of 2% was applied. Management believes that any reasonably possible change in the key assumptions on which CGU *Gefco* recoverable amount is based would not cause this CGU carrying amount to exceed its recoverable amount.

As at 30 June 2015, no impairment of goodwill or intangible assets with indefinite useful lives allocated to CGU *Gefco* was identified.

As at 31 December 2015, the Group's management has identified the impairment indicators for CGU *Gefco* and performed the impairment test as at this date. Similar to 30 June 2015, as at 31 December 2015, the recoverable amount of CGU *Gefco* was determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management for the five-year-period, and a pre-tax discount rate of 14%. The cash flows beyond five-year-period and up to 2024 have been further forecasted with the application of the almost flat operating margin rate at the level of the year 2021 with only insignificant growth. For longer periods a long-term growth rate of 1.9% was applied. Management believes that any reasonably possible change in the key assumptions on which CGU *Gefco* recoverable amount is based would not cause this CGU carrying amount to exceed its recoverable amount.

As a result, as at 31 December 2015, no impairment was identified for the goodwill and intangible assets with indefinite useful life allocated to CGU *Gefco*. Also, no impairment indicators were identified for this CGU as at 31 December 2014.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulties, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of profit or loss in finance expense for loans issued and in operating expenses for receivables. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance expense in the statement of profit or loss.

Long-term employee benefits – defined benefit plans

The cost of defined benefit pensions plans, other post-employment benefit plans and other long-term benefits and present values of related obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from the actual developments in the future. These assumptions include determination of mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefits levels and, to a lesser extent, expected return on plan assets. Due to complexities involved in valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. In determining the appropriate discount rate, management considers the interest rates of government bonds with the currency and terms consistent with the currency and estimated terms of the defined benefit obligation. All assumptions are reviewed at each reporting date. More details are provided in Note 17.

Litigations

The Group exercises considerable judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as legal counsel. Revisions to the estimates may significantly affect future operating results.

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. Periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As at 31 December 2015, the management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Notes 16, 27 and 29.

Deferred tax assets

Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward and tax planning strategies. If actual results differ from the estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be materially affected. Further details are provided in Note 27.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities cannot be derived from active markets, they are determined using appropriate valuation techniques including the discounted cash flows models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The analysis of fair values of financial instruments is provided in Note 31.

Revaluation of investment property

The Group carries its investment property at fair value, with changes in fair value being recognised in the statement of profit or loss. The Group engaged an independent valuation specialist to assess fair value as at 31 December 2015. Investment property was valued with a reference to market-based evidence, using comparable prices adjusted for specific market factors, such as nature, location and condition of the property.

Development costs

Development costs are capitalized in accordance with the Group's accounting policy as intangible assets. Initial capitalization of costs is based on management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits.

Construction contracts

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable; and contract costs are recognised as an expense in the period in which they are incurred. Expected loss on construction contract is recognised as an expense immediately. Expected loss is assessed based on analysis performed by the management of the Group in accordance with approved project budget.

3. Segment Reporting

For management purposes, the Group is organized into business units based on their services, and has five reportable operating segments:

- *RZD cargo segment* includes cargo transportation services provided by the Company and billed to the shippers in accordance with the tariff which includes charges for locomotive traction, access to infrastructure services and the use of a railcar.
- *Long-distance passenger segment* comprises all cross-regional passenger transportation services provided by the Group and aggregates long-distance passenger transportation provided by the Company and long-distance passenger transportation provided by JSC "Federal Passenger Company".
- *Auxiliary operations segment* includes repair and maintenance of rolling stock, energy re-sale, construction and other services provided by the Company's branches.
- *Subsidiaries cargo segment* includes cargo transportation services provided by the Group's subsidiaries including JSC "Federal Freight", PJSC "TransContainer" and JSC "Refservice".

- *Logistics services of Gefco Group* – comprised by operations Gefco Group.
- *All other segments* include activities of the Company's subsidiaries which provide logistic services, suburban passenger transportation services, telecommunication services, research and development services, construction, reconstruction and modernization of railways and railway transport infrastructure services, repair and maintenance of different railway-related equipment, real estate construction, wholesale of property, plant and equipment and raw materials for external customers and other companies within the Group. None of these operations are of a sufficient size to be reported separately. None of these operations can be aggregated with reportable operating segments described above due to dissimilar economical characteristics.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated on a basis of segment operating profit or loss determined based on management accounts that differ from the IFRS consolidated financial statements for the reason that the management accounts are based on local GAAP figures. The operating segment results do not include effects of certain non-recurring transactions, such as business acquisitions, and the effects of some adjustments that may be considered necessary to reconcile the management accounts to IFRS consolidated financial statements.

Prices between operating segments are generally set on the basis described in Note 1 other than for services outside of domestic and international regulations where prices are set by the management on a basis, where applicable, similar to transactions with third parties.

Substantially all of the Group's operating assets, except for the assets of Gefco Group and some other subsidiaries, are located and most of the services are also provided in the Russian Federation.

Segment revenue is revenue that is directly attributable to a segment, whether from sales to external customers or from transactions with other segments. Segment revenue does not include:

- subsidies from federal and municipal budgets;
- finance income and similar items;
- income from rent of other property;
- foreign exchange gain;
- gain on changes in fair value of financial instruments;
- gain on disposal of PP&E and intangible assets;
- gain on disposal of assets classified as held for sale;
- gain on release of bad debt allowance;
- penalties charged to customers;
- gain on disposal of controlling interest in subsidiaries;
- equity income from associates and joint ventures;
- income tax benefit;
- other income.

Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments. Segment expense does not include:

- finance expense and similar items;
- foreign exchange loss;
- loss on changes in fair value of financial instruments;
- loss on disposal of PP&E and intangible assets;

- loss on impairment of assets classified as held for sale;
- loss on impairment of PP&E and intangible assets;
- contributions to trade union, membership in professional associations;
- bank charges;
- bad debt expense;
- social expenses;
- commercial expenses;
- loss on change in provision for legal claims;
- penalties charged by customers;
- loss on investments in associates and joint ventures;
- charity expenses;
- other expenses.

Segment operating result is measured as segment revenue less segment expense.

The following tables present revenue and segment results information regarding the Group's reportable operating segments:

Year ended 31 December 2015

	RZD Cargo	Long-distance passenger	Auxiliary operations	Subsidiaries cargo	Logistics services of Gefco Group	All other segments	Eliminations (A)	Adjustments (B)	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Sales to third parties	1,149,489	185,181	149,044	79,373	282,661	189,068	–	(43,857)	1,990,959
Inter-segment sales	64,219	9,062	130,163	12,261	214	209,075	(424,994)	–	–
Total revenue	**1,213,708**	**194,243**	**279,207**	**91,634**	**282,875**	**398,143**	**(424,994)**	**(43,857)**	**1,990,959**
Wages, salaries and related contributions	(463,849)	(41,211)	(101,006)	–	–	–	–	(128,004)	(734,070)
Fuel	(81,696)	(859)	(9,009)	–	–	–	–	(1,340)	(92,904)
Electricity	(109,865)	(921)	(21,043)	–	–	–	–	(859)	(132,688)
Depreciation and amortization	(165,603)	(16,194)	(38,388)	–	–	–	–	1,541	(218,644)
Segment operating result	**68,495**	**(15,654)**	**15,210**	**(4,478)**	**5,729**	**24,165**	**(22,710)**	**(48,365)**	**22,392**

Year ended 31 December 2014

	RZD cargo	Long-distance passenger	Auxiliary operations	Subsidiaries cargo	Logistics services of Gefco Group	All other segments	Eliminations (A)	Adjustments (B)	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Sales to third parties	1,068,879	188,570	132,568	74,641	204,989	166,651	–	(40,138)	1,796,160
Inter-segment sales	47,358	8,409	139,730	13,805	58	222,265	(431,625)	–	–
Total revenue	**1,116,237**	**196,979**	**272,298**	**88,446**	**205,047**	**388,916**	**(431,625)**	**(40,138)**	**1,796,160**
Wages, salaries and related contributions	(437,501)	(41,310)	(105,456)	–	–	–	–	(113,194)	(697,461)
Fuel	(82,317)	(1,003)	(10,169)	–	–	–	–	(2,027)	(95,516)
Electricity	(102,698)	(780)	(22,150)	–	–	–	–	(1,593)	(127,221)
Depreciation and amortization	(161,959)	(16,129)	(41,322)	–	–	–	–	(1,259)	(220,669)
Segment operating result	**60,583**	**(16,295)**	**(4,244)**	**3,356**	**5,208**	**18,366**	**(19,895)**	**(148,034)**	**(100,955)**

(A) Inter-segment revenues and margins are eliminated on consolidation.

(B) The operating profit or loss of each operating segment does not include the following adjustments representing differences between management accounts and consolidated financial statements for the years ended 31 December:

	2015	2014
	Rbls mln	*Rbls mln*
Reclassification of subsidies	(27,848)	(20,657)
Income from rent of other property (Note 25)	(11,078)	(10,013)
Effect of net presentation of income and cost of goods sold	(3,799)	(5,563)
Effect of deferral of revenues	(5,044)	(2,362)
Other adjustments to revenue	3,912	(1,543)
	(43,857)	**(40,138)**
PP&E adjustments (C)	79,415	79,090
Adjustments related to intangible assets	(4,037)	(1,507)
Effect of net presentation of income and cost of goods sold	3,688	5,398
Gain on release of bad debt allowance (Note 31)	8,876	8,939
Effects of employee benefits	11,228	12,436
Subsidies from federal and municipal budgets not included in segment results (Note 23)	62,578	50,721
Finance expense and similar items, net, not included in segment results	(60,782)	(37,098)
Changes in fair value of financial instruments, net, not included in segment results	(15,513)	(4,113)
Foreign exchange loss, net, not included in segment results	(27,414)	(143,930)
Commercial expenses	(7,171)	(6,667)
Bank charges (Note 26)	(3,269)	(2,817)
Payments under collective labour agreement	(7,828)	(5,487)
Loss on impairment of property, plant and equipment and intangible assets	(31,350)	(31,635)
Penalties charged to/(by) customers, net (Notes 25 and 26)	331	(3,917)
Contributions to trade union, membership in professional associations (Note 26)	(3,603)	(3,513)
Social expenses	(7,854)	(9,311)
Impairment of assets classified as held for sale (Note 26)	–	(3,953)
Gain on disposal of controlling interest in subsidiaries, net (Note 4)	2,369	6,030
Change in provision for legal claims, net (Notes 16, 25 and 26)	459	(3,533)
Change in provision for guarantees (Notes 16 and 25)	5,438	(55)
Charity expenses (Notes 26)	(2,457)	(2,421)
Other adjustments	(7,612)	(10,553)
Total adjustments to income/loss before taxation	**(48,365)**	**(148,034)**

(C) PP&E adjustments represent the effect of different carrying values and useful lives of property, plant and equipment, accounting treatment of property, plant and equipment components and other differences between management accounts and consolidated financial statements prepared in accordance with IFRS.

4. Subsidiaries

The RZD's major subsidiaries included in the consolidated financial statements as at 31 December 2015 and 31 December 2014 and for the years then ended are as follows:

		Group's equity interest, %	
Name of Company	**Nature of business**	**31 December 2015**	**31 December 2014**
JSC "Federal Passenger Company"	Passenger transportation	100	100
Gefco S.A.	Logistics operator	75	75
JSC "Federal Freight"	Freight forwarding services	100	100
JSC "United Transport and Logistics Company"	Freight forwarding services	99.84	99.84
JSC "Refservice"	Freight forwarding services	100	100
OJSC "RailTransAuto"	Freight forwarding services	51	51
OJSC "High-speed Rail Lines"	High-speed rail transportation	100	100
JSC "RZDstroy"	Construction works	100	100
OJSC "RZD Trading Company"	Supply of rolling stock, railway equipment and spare parts	50 + 1 common share	50 + 1 common share
CJSC "Company TransTeleCom"	Telecommunication services	100	100
NO "Zhilsotsipoteka"	Residential construction	100	100
CJSC "Zheldoripoteka"	Residential construction	100	100
JSC "TransWoodService"	Manufacturing	100	100
OJSC "BetElTrans"	Manufacturing	50 + 2 common shares	50 + 2 common shares
OJSC "Zeleznodorozhnaya Torgovaya Kompaniya"	Trading	100	100
JSC "Carriage Repair Company – 1"	Rolling stock repair and maintenance	100	100
JSC "Carriage Repair Company – 2"	Rolling stock repair and maintenance	100	100
OJSC "Carriage Repair Company – 3"	Rolling stock repair and maintenance	100	100
JSC "Kaluga plant "Remputmash"	Manufacturing and repair of railway equipment	100	100
OJSC "The Incorporated Electrotechnical Plants"	Manufacturing of electrical engineering equipment	50 + 1 common share	50 + 1 common share

Major companies of the Group, except for Gefco S.A. (incorporated in France), are registered in the Russian Federation.

Details of Non-wholly Owned Subsidiaries that Have Material Non-controlling Interests

The table below shows details of non-wholly owned subgroups of the Group that have material non-controlling interests as at 31 December:

Name of Subgroup	Principle place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Income/(loss) allocated to non-controlling interests		Other comprehensive income/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2015	2014	for 2015	for 2014	for 2015	for 2014	2015	2014
				Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
TransContainer Group	Russian Federation	49.48%	49.48 %	1,455	2,086	(471)	599	14,712	14,209
Gefco Group	France, Western Europe	25%	25%	22	(239)	2,079	4,106	14,129	12,490
Individually immaterial subsidiaries with non-controlling interests								(5,460)	(4,902)
								23,381	**21,797**

The summarized financial information of these subgroups is provided below. This information is based on the amounts reported in the subsidiary's consolidated financial statements prepared in accordance with IFRS adjusted for the purposes of the consolidation into these consolidated financial statements before intercompany eliminations and hence it differs from the information presented in the consolidated IFRS financial statements of the subgroups.

	Gefco Group		TransContainer Group	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Non-current assets	118,252	100,921	34,152	34,243
Current assets	81,092	67,073	6,833	7,348
Non-current liabilities	(44,936)	(38,732)	(5,294)	(7,252)
Current liabilities	(80,390)	(63,955)	(6,657)	(5,584)
Total net assets	**74,018**	**65,307**	**29,034**	**28,755**

	2015	2014	2015	2014
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Revenues	282,351	205,047	41,321	36,709
Net (loss)/income for the period	(271)	(1,088)	1,691	4,225
Total comprehensive income for the period, net of tax	**10,298**	**20,902**	**737**	**5,438**
Dividends declared and paid, attributable to non-controlling interest	(379)	(41)	(481)	(551)
Net cash from operating activities	7,984	5,234	4,201	5,998
Net cash used in investing activities	(5,605)	(2,017)	(2,297)	(3,914)
Net cash used in financing activities	(2,914)	(488)	(1,956)	(2,752)
Net (decrease)/increase in cash and cash equivalents	**(535)**	**2,729**	**(52)**	**(668)**

Changes in the Group's Ownership Interests in Subsidiaries

Acquisition in 2015

Acquisition of controlling interest in IJS Global Group

In October 2015, the Group, through its subsidiary, Gefco S.A., acquired 100% equity stake in IJS Global (Netherlands) for cash consideration of EUR 52 million (Rbls 3,608 million at the exchange rate at the date of payment). IJS Global and its subsidiaries ("IJS Global Group") are mainly engaged in provision of logistic services.

The amounts recognized in these consolidated financial statements for the assets and liabilities of IJS Global Group have been determined provisionally since the Group did not complete the initial accounting for this business combination at the date when these consolidated financial statements were authorised for issue.

	Provisional fair value as recognized on acquisition
	Rbls mln
Total assets	3,290
Total liabilities	2,802
Net assets	**488**
Goodwill	3,120
Cost of acquisition	**3,608**

Since the acquisition date the amounts of revenues and net income contributed to the Group by the acquired subsidiary were Rbls 1,627 million and Rbls 14 million, respectively.

If the business combination had taken place at the beginning of the year, the Group's revenues for 2015 would have increased by Rbls 9,529 million and the net income for 2015 would have decreased by Rbls 27 million.

Acquisition in 2014

Acquisition of controlling interest in Far East Land Bridge Ltd

In September 2014, the Group acquired 50.2% equity stake in Far East Land Bridge Ltd. ("FELB"), previously an associate of the Group, for consideration of US dollars 47.5 million (Rbls 1,871 million at the exchange rate at the date of acquisition), increasing its ownership in this entity to 75.5%. FELB is engaged in providing rail container transportation and logistics services on the route China – European Union – China. As at 31 December 2015 and 31 December 2014, the equity stake acquired in 2014 was pledged as a collateral under the credit facility received from PJSC "VTB Bank" in 2014.

The amounts recognized in the Group's consolidated financial statements as at 31 December 2014 and for the year then ended for the assets and liabilities of FELB and respective non-controlling interest have been determined provisionally. In the second half of 2015, the management finalised accounting for this business combination, and as a result, no adjustments were recognized to the initially recorded provisional values of assets, liabilities and non-controlling interest as at the date of acquisition.

Disposals in 2015

Disposal of controlling interest in JSC "Roszheldorproject"

In April 2015, the Company sold 25% equity stake in JSC "Roszheldorproject" for cash consideration of Rbls 2,450 million. The Group's interest in JSC "Roszheldorproject" decreased to 25% plus one share, and the Group lost control over JSC "Roszheldorproject".

As a result of the disposal of the interest in JSC "Roszheldorproject", a gain of Rbls 2,175 million was recognized in the consolidated statement of profit or loss within *Gain on disposal of controlling interest in subsidiaries, net*.

Calculation of the gain on disposal of controlling interest in JSC "Roszheldorproject" is presented below:

	At the disposal date
	Rbls mln
Proceeds from disposal	2,450
Investment in joint venture JSC "Roszheldorproject" at fair value	2,548
Carrying value of net assets disposed	(4,845)
Non-controlling interest	2,022
Gain on disposal of controlling interest in JSC "Roszheldorproject"	**2,175**

The Group's retained investment in JSC "Roszheldorproject" of 25% plus one share is accounted for using equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures* (Note 5).

Disposals in 2014

Disposal of controlling interest in OJSC "First Nonmetallic Company"

In June 2014, the Company sold 75% less two shares in OJSC "First Nonmetallic Company" for cash consideration of Rbls 4,862 million. The Group's interest in OJSC "First Nonmetallic Company" decreased to 25% plus two shares and the Group lost control over OJSC "First Nonmetallic Company". As a result of the disposal of controlling interest in OJSC "First Nonmetallic Company", a gain of Rbls 3,403 million was recognized in the consolidated statement of profit or loss within *Gain on disposal of controlling interest in subsidiaries, net.*

Calculation of the gain on disposal of controlling interest in OJSC "First Nonmetallic Company" is presented below:

	At the disposal date
	Rbls mln
Proceeds from disposal	4,862
Investment in joint venture OJSC "First Nonmetallic Company" at fair value	1,374
Carrying value of net assets disposed	(2,833)
Gain on disposal of controlling interest in OJSC "First Nonmetallic Company"	**3,403**

The Group's retained investment in OJSC "First Nonmetallic Company" is accounted for using equity method in accordance with IAS 28 (Note 5).

Disposal of controlling interest in OJSC "Vagonremmash"

In June 2014, the Company sold 75% less two shares in OJSC "Vagonremmash" for cash consideration of Rbls 2,501 million. The Group's interest in OJSC "Vagonremmash" decreased to 25% plus two shares and the Group lost control over OJSC "Vagonremmash". As a result of the disposal of controlling interest in OJSC "Vagonremmash", a gain of Rbls 1,193 million was recognized in the consolidated statement of profit or loss within line *Gain on disposal of controlling interest in subsidiaries, net.*

The Group's retained investment in OJSC "Vagonremmash" is accounted for using equity method in accordance with IAS 28 (Note 5).

5. Investments in Associates and Joint Ventures

Investments in associates and joint ventures as at 31 December 2015 and 31 December 2014 comprised the following:

	Principal activity	Proportion of ownership interest held by the Group 31 December 2015	Proportion of ownership interest held by the Group 31 December 2014	Carrying amount of the investment 31 December 2015	Carrying amount of the investment 31 December 2014
Associates				*Rbls mln*	*Rbls mln*
The Breakers Investments B.V. (CJSC "Transmashholding")	Manufacturing of locomotives and rolling stock	–	25% + 1 share	–	14,835
OJSC "Central Exurban Passenger Company"	Suburban transportation	25% + 1 share	25% + 1 share	2,958	2,240
OJSC "Moscow Tver passenger company"	Suburban transportation	50% – 2 shares	50% – 2 shares	587	398
Other				2,315	2,294
Investments in associates				**5,860**	**19,767**
Joint ventures					
JSC "Kedentransservice"	Container shipments	50%	50%	2,910	3,246
JSC "Roszheldorproject"	Design and engineering	25% + 1 share	50%	2,454	–
OJSC "First Nonmetallic Company"	Extraction, processing and sale of nonmetallic minerals	25% + 2 shares	25% + 2 shares	587	1,214
LLC "Aeroexpress"	Suburban transportation	25%	25%	572	912
JSC "Zeldorremmash"	Repair of locomotives and locomotive equipment	25% + 2 shares	25% + 2 shares	148	1,676
JSC "Moscow Rail Ring"	Passenger transportation	–	50%	–	2,897
Other				1,905	2,607
Investments in joint ventures				**8,576**	**12,552**
Total				**14,436**	**32,319**

All the above associates and joint ventures are non-listed companies. All companies are registered and operate in the Russian Federation except for The Breakers Investments B.V. and JSC "Kedentransservice". The Breakers Investments B.V. is registered in the Netherlands and operates mainly in the Russian Federation and Ukraine. JSC "Kedentransservice" is registered and operates in Kazakhstan.

The Breakers Investments B.V. (CJSC "Transmashholding")

In December 2015, the Company sold 25% plus one share in The Breakers Investments B.V. for cash consideration of EUR 162 million (Rbls 12,523 million at the exchange rate as at the payment date).

The summarized financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRS and adjusted by the Group for equity accounting purposes.

	31 December 2014
	Rbls mln
Non-current assets	53,691
Current assets	64,397
Non-current liabilities	(17,669)
Current liabilities	(41,078)
Net assets	**59,341**

	2015 (until disposal)	2014
	Rbls mln	*Rbls mln*
Revenues	98,453	139,643
Net income for the year	1,412	12,458
Other comprehensive (loss)/income for the year	(1,358)	929
Total comprehensive income for the year	54	13,387
Dividends declared and paid by the associate during the year	27	(7,203)

Reconciliation of the above summarized financial information to the carrying amount of the investment in The Breakers Investments B.V. recognized in the consolidated financial statements as of 31 December 2014 is presented below:

	31 December 2014
	Rbls mln
Net assets of the associate	59,341
Group’s interest in The Breakers Investments B.V. (CJSC “Transmashholding”)	25% + 1 share
Carrying amount of the investment	**14,835**

JSC “Roszheldorproject”

In April 2015, the Group lost control over JSC “Roszheldorproject” (Note 4). The Group’s retained 25% plus one share interest in JSC “Roszheldorproject” was recognized at its fair value at the date when control was lost and accounted for in accordance with IAS 28. The management assessed that goodwill related to this transaction amounted to Rbls 400 million.

JSC “Moscow Rail Ring”

In October 2015, the Company sold 50% equity stake in joint venture JSC “Moscow Rail Ring” for cash consideration of Rbls 3,182 million (Note 28).

Aggregate information of associates and joint ventures that are not individually material is presented below. The summarized financial information below represents amounts shown in the associates’ and joint ventures’ financial statements prepared in accordance with IFRS, adjusted for the purposes of the equity accounting, before elimination of unrealized gains and losses.

Aggregate information of associates that are not individually material

	2015	2014
	Rbls mln	*Rbls mln*
The Group’s share of net income	849	953
The Group’s share of other comprehensive (loss)/income	(13)	72
The Group’s share of total comprehensive income	836	1,025
Aggregate carrying amount of the Group’s interest in these associates as at 31 December	5,860	4,932

Aggregate information of joint ventures that are not individually material

	2015	2014
	Rbls mln	*Rbls mln*
The Group's share of net income	915	682
The Group's share of other comprehensive (loss)/income	(973)	1,162
The Group's share of total comprehensive (loss)/income	(58)	1,844
Aggregate carrying amount of the Group's interest in these joint ventures as at 31 December	8,576	12,552

As at 30 June 2015, the Group has identified indicators of impairment of several investments in associates and joint ventures. The Group performed impairment test as at the specified date and, as a result, identified and recognized loss on impairment of these investments of Rbls 5,543 million within *Other expenses* of the consolidated statement of profit or loss for the year ended 31 December 2015 (2014: nil).

6. Property, Plant and Equipment

Property, plant and equipment as at 31 December 2015 and 2014 comprised the following:

31 December 2015

Gross book value	Balance as at 1 January 2015	Additions	Disposals	Transfers	Disposal of subsi-diaries	Reclassification from assets classified as held for sale	Reclassification to assets classified as held for sale	Effect of translation difference	Balance as at 31 December 2015
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Land	13,493	63	(118)	174	(1)	49	(187)	621	14,094
Buildings	320,359	1,403	(6,429)	11,971	(619)	390	(1,134)	3,714	329,655
Constructions	1,197,817	456	(4,630)	51,789	(42)	54	(582)	–	1,244,862
Roadbed	530,460	–	(851)	22,378	–	2	(1)	–	551,988
Superstructure	986,249	2,430	(25,266)	82,201	(33)	11	(164)	–	1,045,428
Operating equipment	947,549	14,628	(15,691)	58,759	(259)	107	(5,999)	442	999,536
Locomotives	563,771	1,178	(14,979)	60,733	(1)	26	(195)	–	610,533
Rolling stock, cargo	230,678	1,772	(29,780)	4,298	(2)	1	(123)	1,520	208,364
Rolling stock, passenger	522,691	137	(16,559)	45,035	–	150	(166)	–	551,288
Other fixed assets	165,081	491	(3,684)	11,925	(29)	163	(741)	(1)	173,205
Construction-in-progress	440,235	493,448	(3,492)	(349,263)	(9)	–	(244)	54	580,729
Total	**5,918,383**	**516,006**	**(121,479)**	**–**	**(995)**	**953**	**(9,536)**	**6,350**	**6,309,682**

Accumulated depreciation	Balance as at 1 January 2015	Depreciation charge for the year	Accumulated depreciation on disposals	Reclassifications	Disposal of subsidiaries	Reclassification from assets classified as held for sale	Reclassification to assets classified as held for sale	Effect of translation difference	Balance as at 31 December 2015
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Land	–	–	–	–	–	–	–	–	–
Buildings	(93,450)	(7,816)	1,410	(234)	132	(236)	365	(1,074)	(100,903)
Constructions	(529,715)	(32,552)	3,349	3,020	33	(37)	330	–	(555,572)
Roadbed	(224,674)	(8,554)	98	(2,723)	–	(1)	–	–	(235,854)
Superstructure	(593,930)	(63,635)	16,872	(31)	18	(8)	64	–	(640,650)
Operating equipment	(445,917)	(54,574)	12,144	994	215	(41)	2,024	(265)	(485,420)
Locomotives	(215,886)	(22,121)	10,572	(913)	1	(26)	152	–	(228,221)
Rolling stock, cargo	(107,365)	(10,095)	25,912	247	1	(1)	56	(674)	(91,919)
Rolling stock, passenger	(208,281)	(6,993)	10,744	(112)	–	(113)	51	–	(204,704)
Other fixed assets	(61,507)	(9,676)	2,544	(248)	12	(61)	353	(190)	(68,773)
Impairment	(317,240)	(28,991)	4,590	–	–	–	–	–	(341,641)
Total	**(2,797,965)**	**(245,007)**	**88,235**	**–**	**412**	**(524)**	**3,395**	**(2,203)**	**(2,953,657)**

31 December 2014

Gross book value	Balance as at 1 January 2014	Additions	Disposals	Transfers	Disposal of subsidiaries	Reclassification from assets classified held for sale	Reclassification to assets classified as held for sale	Effect of translation difference	Balance as at 31 December 2014
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Land	11,858	71	(406)	755	–	32	(165)	1,348	13,493
Buildings	304,572	1,802	(4,621)	17,326	(1,365)	438	(1,787)	3,994	320,359
Constructions	1,239,371	254	(14,248)	52,537	(27)	25	(80,095)	–	1,197,817
Roadbed	502,598	681	(897)	28,079	–	1	(2)	–	530,460
Superstructure	927,281	1,460	(17,425)	74,966	(8)	5	(30)	–	986,249
Operating equipment	883,067	18,125	(15,139)	62,492	(313)	24	(1,610)	903	947,549
Locomotives	496,781	430	(2,430)	68,994	(7)	51	(48)	–	563,771
Rolling stock, cargo	223,640	2,822	(10,988)	8,737	(5)	3,052	(9)	3,429	230,678
Rolling stock, passenger	486,567	313	(10,842)	47,665	–	5	(1,017)	–	522,691
Other fixed assets	151,943	1,287	(3,952)	14,852	(24)	237	(1,406)	2,144	165,081
Construction-in-progress	374,694	446,905	(4,978)	(376,403)	(15)	124	(181)	89	440,235
Total	**5,602,372**	**474,150**	**(85,926)**	**–**	**(1,764)**	**3,994**	**(86,350)**	**11,907**	**5,918,383**

Accumulated depreciation	Balance as at 1 January 2014	Depreciation charge for the year	Accumulated depreciation on disposals	Reclassifications	Disposal of subsidiaries	Reclassification from assets classified held for sale	Reclassification to assets classified as held for sale	Effect of translation difference	Balance as at 31 December 2014
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Land	–	–	–	–	–	–	–	–	–
Buildings	(87,376)	(6,652)	765	(216)	36	(145)	985	(847)	(93,450)
Constructions	(502,978)	(36,594)	5,110	1,021	(1)	(15)	3,742	–	(529,715)
Roadbed	(215,218)	(8,371)	108	(1,193)	–	(1)	1	–	(224,674)
Superstructure	(540,953)	(66,655)	13,675	(17)	2	(3)	21	–	(593,930)
Operating equipment	(405,294)	(53,494)	12,060	361	87	(8)	744	(373)	(445,917)
Locomotives	(195,071)	(21,728)	824	70	3	(29)	45	–	(215,886)
Rolling stock, cargo	(100,877)	(10,768)	7,872	59	4	(2,732)	5	(928)	(107,365)
Rolling stock, passenger	(209,341)	(6,923)	7,294	(55)	–	(1)	745	–	(208,281)
Other fixed assets	(55,319)	(7,547)	2,058	(30)	11	(117)	623	(1,186)	(61,507)
Impairment	(302,156)	(24,295)	9,211	–	–	–	–	–	(317,240)
Total	**(2,614,583)**	**(243,027)**	**58,977**	**–**	**142**	**(3,051)**	**6,911**	**(3,334)**	**(2,797,965)**

Net book value	31 December 2015	31 December 2014
	Rbls mln	*Rbls mln*
Land	14,094	13,493
Buildings	228,752	226,909
Constructions	689,290	668,102
Roadbed	316,134	305,786
Superstructure	404,778	392,319
Operating equipment	514,116	501,632
Locomotives	382,312	347,885
Rolling stock, cargo	116,445	123,313
Rolling stock, passenger	346,584	314,410
Other fixed assets	104,432	103,574
Construction-in-progress	580,729	440,235
Impairment	(341,641)	(317,240)
Total	**3,356,025**	**3,120,418**

As described in Note 2, as at 31 December 2015 and 2014, the Group performed impairment test for certain CGUs and as a result recognized impairment losses for PP&E for the years 2015 and 2014 of Rbls 28,991 million and Rbls 24,295 million, respectively.

In addition, during 2015, the Group recognized impairment loss of Rbls 7,074 million (2014: Rbls 6,281 million) for individual items of property, plant and equipment on the basis of management’s assessment of probability of future sale or use of property, plant and equipment and construction-in-process projects. The Group also reversed the previously recognized impairment of Rbls 1,018 million (2014: Rbls 1,537 million).

As at 31 December 2015, the Group has placed the infrastructure bonds for the amount of Rbls 297,200 million (31 December 2014: Rbls 200,000 million) (Note 15). The difference of Rbls 51,783 million (31 December 2014: Rbls 35,966 million) between the fair value of bonds as at the initial recognition and related cash proceeds was recognized as government grants. As at 31 December 2015, Rbls 51,783 million (31 December 2014: Rbls 35,349 million) of these government grants were deducted from the carrying value of PP&E acquired or constructed for the bonds proceeds in accordance with the Group’s accounting policy.

In 2014, the Group received Rbls 30,000 million of government grant for capital repairs of railway infrastructure in 2015. As at 31 December 2015, the Group has utilized the funds received of Rbls 29,909 million of which Rbls 23,386 million related to capitalized capital repairs performed in the year 2015 were deducted from the cost of PP&E. The remaining amount of Rbls 6,523 million reduced the amount of *Materials, repairs and maintenance* in the consolidated statement of profit or loss in accordance with the Group's accounting policy.

As at 31 December 2015, PP&E with the carrying amount of Rbls 5,190 million were pledged as collateral under the borrowings obtained by JSC "Federal Passenger Company" from JSC "Gazprombank" and PJSC "VTB Bank", related parties of the Group (31 December 2014, restated: Rbls 4,740 million).

Property, plant and equipment as at 31 December 2015 and 31 December 2014 include borrowing costs incurred in connection with the construction of PP&E. Borrowing costs capitalized as PP&E during 2015 using a capitalization rate of 7.0% amounted to Rbls 26,438 million (2014: Rbls 31,015 million using capitalization rate of 8.0%).

Leased assets as at 31 December 2015 and 31 December 2014 included into PP&E, where the Group is a lessee under a finance lease, comprised the following:

	31 December 2015	31 December 2014
	Rbls mln	*Rbls mln*
Cost – capitalized finance leases	78,081	64,147
Accumulated depreciation	(9,455)	(5,925)
Net book value	**68,626**	**58,222**

Included in leased assets above are assets with the aggregate cost of Rbls 53,527 million as at 31 December 2015 (31 December 2014: Rbls 41,373 million obtained from related parties (Note 28)).

7. Intangible Assets other than Goodwill

Intangible assets other than goodwill as at 31 December 2015 and 31 December 2014 comprised the following:

31 December 2015

Gross book value	Balance as at 1 January 2015	Additions	Disposals	Transfers	Additions through business combina-tions	Effect of translation difference	Balance as at 31 December 2015
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Software...........................	51,018	2,984	(1,982)	2,671	185	4,423	59,299
Brand [(B)]...........................	12,680	–	–	–	27	2,111	14,818
Contracts with customers [(A)]	38,246	29	(10)	–	766	5,730	44,761
Other intangible assets......	16,205	1,367	(1,993)	386	163	1,408	17,536
Intangible assets under development.....................	3,837	3,539	(535)	(3,057)	–	82	3,866
Total...............................	**121,986**	**7,919**	**(4,520)**	**–**	**1,141**	**13,754**	**140,280**

Accumulated amortization	Balance as at 1 January 2015	Charge for the year	Accumulated amortization on disposals	Effect of translation difference	Balance as at 31 December 2015
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Software..	(19,716)	(5,423)	1,881	(2,565)	(25,823)
Brand [(B)]..	–	–	–	–	–
Contracts with customers [(A)]	(2,278)	(1,288)	9	(450)	(4,007)
Other intangible assets............................	(10,316)	(2,130)	1,632	–	(10,814)
Impairment..	(3,697)	3,697	–	–	–
Total...	**(36,007)**	**(5,144)**	**3,522**	**(3,015)**	**(40,644)**

31 December 2014

Gross book value	Balance as at 1 January 2014	Additions	Disposals	Transfers	Additions through business combina-tions	Reclassifi-cation to assets classified as held for sale	Effect of translation difference	Balance as at 31 December 2014
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Software........	38,027	2,785	(515)	3,148	11	(531)	8,093	51,018
Brand [(B)]........	8,346	–	–	–	–	–	4,334	12,680
Contracts with customers [(A)]..	23,269	–	–	–	2,601	–	12,376	38,246
Other intangible assets	13,532	2,010	(1,729)	189	–	(34)	2,237	16,205
Intangible assets under development..	4,072	3,258	(166)	(3,337)	–	(291)	301	3,837
Total............	**87,246**	**8,053**	**(2,410)**	**–**	**2,612**	**(856)**	**27,341**	**121,986**

Accumulated amortization	Balance as at 1 January 2014	Charge for the year	Accumulated amortization on disposals	Reclassifi-cation to assets classified as held for sale	Effect of translation difference	Balance as at 31 December 2014
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Software...	(11,640)	(4,458)	409	325	(4,352)	(19,716)
Brand [(B)]...	–	–	–	–	–	–
Contracts with customers [(A)]	(871)	(870)	–	–	(537)	(2,278)
Other intangible assets.......................	(7,939)	(2,600)	666	26	(469)	(10,316)
Impairment.......................................	–	(2,596)	–	–	(1,101)	(3,697)
Total..	**(20,450)**	**(10,524)**	**1,075**	**351**	**(6,459)**	**(36,007)**

Net book value	31 December 2015	31 December 2014
	Rbls mln	*Rbls mln*
Software..	33,476	31,302
Brand [(B)]..	14,818	12,680
Contracts with customers [(A)]	40,754	35,968
Other intangible assets..	6,722	5,889
Intangible assets under development...	3,866	3,837
Impairment..	–	(3,697)
Total..	**99,636**	**85,979**

(A) Contracts with customers comprise contractual customer relationships identified at the acquisition of FELB, Gefco S.A., IJS Global, CJSC "Electro-com" and CJSC "MAGINFO" which are measured at fair value at the acquisition date and are being amortized on a straight line basis over the contractually agreed period of 7 to 38 years and taking into account the probability of renewal.

(B) Brand comprises intangible asset with indefinite useful life identified at the acquisition of Gefco S.A.

8. Other Non-current Financial Assets

Other non-current financial assets as at 31 December 2015 and 31 December 2014 comprised the following:

	31 December 2015		
	Cost	**Impairment**	**Carrying value**
	Rbls mln	*Rbls mln*	*Rbls mln*
Receivables from Federal Agency on Railway Transport	15,768	–	15,768
Receivables from Ministry of Labour and Social Protection [(A)]	3,228	–	3,228
Loans issued to legal entities	1,149	(301)	848
Other	9,715	(2,607)	7,108
Total other non-current financial assets	**29,860**	**(2,908)**	**26,952**

	31 December 2014		
	Cost	**Impairment**	**Carrying value**
	Rbls mln	*Rbls mln*	*Rbls mln*
Receivables from Federal Agency on Railway Transport	15,533	–	15,533
Loans issued to legal entities	1,000	(254)	746
Other	6,763	(1,529)	5,234
Total other non-current financial assets	**23,296**	**(1,783)**	**21,513**

(A) As at 31 December 2015, receivables from Ministry of Labour and Social Protection ("the Ministry"), represented by receivables for transportation of certain categories of passengers in the years 2009-2011 in the amount of Rbls 10,937 million, were reclassified to other non-current financial assets. These receivables were brought to fair value as at 31 December 2015 with the difference between the notional amount of receivables and the fair value of Rbls 7,709 million included in *Finance expense and similar items* of the consolidated statement of profit or loss (Notes 11, 24 and 28).

9. Inventories

Inventories as at 31 December 2015 and 31 December 2014 comprised the following:

	31 December 2015	**31 December 2014**
	Rbls mln	*Rbls mln*
Raw materials	37,188	33,238
Spare parts and construction materials	35,207	43,592
Fuel and lubricants	8,160	9,520
Merchandise inventories	1,792	1,596
Other [(A)]	22,780	21,997
Total	**105,127**	**109,943**
Less: provision for obsolete and damaged inventory [(A)]	(8,737)	(10,662)
Total inventories, net	**96,390**	**99,281**

(A) As at 31 December 2015, other inventories included costs of the construction of residential buildings in Sochi in the amount of Rbls 10,779 million (31 December 2014: Rbls 9,422 million). As at that date, provision for write-down of these inventories to net realizable value amounted to Rbls 2,914 million (31 December 2014: Rbls 4,024 million).

10. Prepayments and Other Current Assets

Prepayments and other current assets as at 31 December 2015 and 31 December 2014 comprised the following:

	31 December 2015	31 December 2014
	Rbls mln	*Rbls mln*
Input Value Added Tax ("VAT")	12,693	10,134
Less: impairment	(879)	(1,096)
	11,814	**9,038**
Advances paid to suppliers	16,411	14,205
Less: impairment	(6,618)	(7,294)
	9,793	**6,911**
Prepaid other taxes	4,765	6,596
Other current assets [(A)]	19,355	33,131
Total prepayments and other current assets	**45,727**	**55,676**

(A) As at 31 December 2014, other current assets included a deemed VAT-related asset of Rbls 14,235 million arising on temporary differences on recognition of output VAT related to the exchange agreement signed with Federal Property Management Agency ("Rosimuschestvo") in December 2014. This asset was realized as a result of transfer of the ownership title over the immovable property to Rosimuschestvo which took place in February 2015 and was accounted for within PP&E as an advance issued in respect of assets to be received under the exchange agreement (Notes 13 and 28).

11. Receivables

Receivables as at 31 December 2015 and 31 December 2014 comprised the following:

	31 December 2015	31 December 2014
	Rbls mln	*Rbls mln*
Receivables for logistics services, net [(A)]	64,805	52,144
Receivables for transportation services, net [(B)]	8,451	6,287
Other accounts receivable, net [(C)]	44,400	36,699
Total receivables	**117,656**	**95,130**

(A) Receivables for logistics services, net primarily related to receivables of Gefco Group mainly denominated in EUR.

(B) Receivables for transportation services, net as at 31 December 2015 and 31 December 2014 comprised the following:

	31 December 2015	31 December 2014
	Rbls mln	*Rbls mln*
Receivables for transportation services	12,872	21,740
Less: allowance for impairment	(4,421)	(15,453)
Total receivables for transportation services, net	**8,451**	**6,287**

As at 31 December 2015, the Group reclassified receivables from the Ministry for transportation of certain categories of passengers in the years 2009-2011 of Rbls 10,937 million, fully impaired as at 31 December 2014, to other non-current financial assets (Notes 8, 24 and 28). At the same time, the Group reversed respective impairment allowance in the amount of Rbls 10,937 million recognized in previous periods.

(C) Other accounts receivable as at 31 December 2015 and 31 December 2014 comprised the following:

	31 December 2015	31 December 2014
	Rbls mln	*Rbls mln*
Other accounts receivable	52,985	43,737
Less: allowance for impairment	(8,585)	(7,038)
Total other accounts receivable, net	**44,400**	**36,699**

12. Cash and Cash Equivalents

Cash and cash equivalents as of 31 December 2015 and 31 December 2014 comprised the following:

	31 December 2015	31 December 2014
	Rbls mln	*Rbls mln*
Cash in Russian rubles	33,999	70,796
Bank deposits and other cash equivalents in Russian rubles and foreign currencies	117,847	47,771
Cash in foreign currencies (primarily in EUR and US dollars)	25,614	10,713
Total cash and cash equivalents presented in the statement of financial position	**177,460**	**129,280**
Bank overdrafts	(1,957)	(745)
Cash and cash equivalents attributable to assets classified as held for sale	203	2,117
Total cash and cash equivalents presented in the statement of cash flows	**175,706**	**130,652**

13. Assets Classified as Held for Sale

As at 31 December 2015, assets and liabilities of OJSC "BetElTrans" (Rbls 8,689 million and Rbls 3,487 million, respectively) were classified as disposal group held for sale and accounted for in accordance with IFRS 5 *Assets Held for Sale and Discontinued Operations*.

In February 2015, the Group transferred the ownership title over immovable assets of motorway Adler – Krasnaya Polyana to Rosimuschestvo. As at 31 December 2014, these assets with the total carrying value of Rbls 76,142 million were accounted for as assets held for sale in accordance with IFRS 5.

As at the date of transfer, the Group recognized advances issued of Rbls 89,848 million, including VAT, in respect of the assets expected to be received under the exchange contract with Rosimuschestvo. In December 2015, the Group received assets of Rbls 24,177 million, including VAT, and reduced advances issued in respect of the assets to be received under the exchange contract with Rosimuschestvo as at 31 December 2015 by this amount (Note 28).

In April 2015, the assets and liabilities of JSC "Roszheldorproject" classified as disposal group held for sale as at 31 December 2014, were derecognized upon completion of the sale of controlling interest in this company (Note 4).

14. Taxes and Similar Charges Payable (Other than Income Tax)

Taxes and similar charges payable (other than income tax) as at 31 December 2015 and 31 December 2014 comprised the following:

	31 December 2015	31December 2014
	Rbls mln	*Rbls mln*
Settlement with social funds	23,092	21,183
VAT [(A)]	8,105	17,617
Property tax	11,499	9,327
Personal income tax	4,131	3,881
Other taxes	3,610	1,546
Total taxes and similar charges payable (other than income tax)	**50,437**	**53,554**

(A) The decrease in VAT payable is mainly related to payment of VAT on disposal of motorway Adler – Krasnaya Polyana (Note 28).

15. Long-term and Short-term Borrowings

The outstanding balances of short-term and long-term borrowings including interests accrued as at 31 December 2015 and 31 December 2014 comprised the following:

31 December 2015	**Original currency**	**Principal amount in original currency**	**Interest rate**	**Maturity of non-current portion**	**Current**	**Non-current**
		mln			*Rbls mln*	*Rbls mln*
Short-term bank loans						
Fixed rates						
Other banks	Rbl	5,583	9.3%-19%		5,592	–
Variable rates						
Central Bank of Russia key rate +	Rbl	30	4.25%		30	–
Long-term bank loans						
Fixed rates						
Other banks [(E)]	Rbl	36,567	8.4%-15%	2017-2022	12,627	24,034
Other banks [(E)]	US$	45	8.4%-8.5%		3,287	–
Other banks	EUR	5	6.3%	2023	14	400
Variable rates						
Central Bank of Russia key rate +	Rbl	8,258	2%-3.65%	2017-2020	5,207	3,087
MosPrime+	Rbl	2,910	1.8%	2017-2019	910	1,998
EURIBOR+	EUR	193	1.75%-2.5%	2017-2018	1,633	13,759
Debt securities issued						
Loan participation notes [(A)]	Rbl	37,500	8.3%	2019	769	37,576
Loan participation notes [(A)]	US$	2,900	5.7%-5.739%	2017-2022	2,923	213,223
Loan participation notes [(A)]	EUR	1,500	3.37%-4.6%	2021-2023	3,177	119,546
Loan participation notes [(A)]	GBP	650	7.49%	2031	1,401	70,134
Loan participation notes [(A)]	CHF	675	2.18%-2.73%	2018-2021	967	49,631
Bonds						
CPI+ [(B)]	Rbl	287,200	1%-2.1%	2028-2044	6,326	236,562
Other [(C)]	Rbl	201,037	7.7%-11.75%	2018-2035	76,682	128,733
Other borrowings						
Other	Various		7.2%-15%	2017-2021	4,220	847
Total					**125,765**	**899,530**

31 December 2014	Original currency	Principal amount in original currency	Interest rate	Maturity of non-current portion	Current	Non-current
		mln			*Rbls mln*	*Rbls mln*
Short-term bank loans						
Fixed rates						
Other banks [D]	Rbl	69,868	8.3%-22.45%		69,868	–
Variable rates						
EONIA+	EUR	11	2%		745	–
Long-term bank loans						
Fixed rates						
Other banks	Rbl	54,995	7.45%-15%	2016-2023	22,997	31,999
Other banks	EUR	6	6.30%	2023	–	386
Variable rates						
MosPrime+	Rbl	6,806	2.8%-13%	2018-2019	918	5,888
EURIBOR+	EUR	349	0.09%-2.5%	2016-2020	5,493	18,385
Debt securities issued						
Loan participation notes [A]	US$	2,900	5.7%-5.739%	2017-2022	2,286	163,966
Loan participation notes [A]	GBP	650	7.487%	2031	1,105	56,764
Loan participation notes [A]	Rbl	37,500	8.3%	2019	796	37,629
Loan participation notes [A]	CHF	675	2.177%-2.730%	2018-2021	749	38,456
Loan participation notes [A]	EUR	1,500	3.374-4.60%	2021-2023	2,724	102,514
Bonds						
CPI+ [B]	Rbl	210,000	1%-2.1%	2028-2044	2,648	174,337
Other [C]	Rbl	166,999	7.7%-11%	2016-2028	63,925	105,900
Other borrowings						
Other	Various		0%-10.25%	2016-2021	2,696	1,726
Total					**176,950**	**737,950**

(A) In 2010-2014, the Group placed loan participation notes at the Irish Stock Exchange and at SIX Swiss Exchange. The increase in carrying amount of notes as of 31 December 2015 as compared to 31 December 2014 was caused by the devaluation of Russian ruble against foreign currencies in which notes are nominated. Certain notes with total carrying amount of Rbls 326,597 million were designated as hedging instruments (Note 31).

(B) During the reporting period, the Group issued new long term bonds series BO-14 and 33-36 with the aggregate nominal value of Rbls 17,000 and Rbls 60,200 million, respectively, with face value of Rbls 1 thousands each, providing for semi-annual coupon payments at interest rate of CPI + 1% and maturing in 2035 and 2040, respectively. At the initial recognition the bonds were measured at fair value determined based on market interest rates of 16%-19%. Under the terms of the bonds, proceeds from bonds placement should be utilized for realization of certain infrastructure projects (Note 6).

Bonds series 33-36 were purchased through private offering by PJSC "VTB Bank", related party of the Group, with the use of funds provided by National Welfare Fund.

(C) The terms of certain bonds issued by the Group provide their bondholders with the right for early redemption within twelve months subsequent to 31 December 2015. Respectively, bonds in the aggregate nominal value of Rbls 53,744 million were classified as current as at 31 December 2015 (31 December 2014: Rbls 30,000 million). In 2015, the Group purchased the bonds claimed for early redemption by the bondholders in the aggregate nominal value of Rbls 16,104 million and placed these bonds at the secondary market. Also, during the year 2015, Company redeemed several bonds series with total nominal value of Rbls 30,000 million upon maturity.

In 2015, the Company placed new long term bonds series BO-02, BO-03, BO-04 and BO-08 with the aggregate nominal value of Rbls 15,000 million, Rbls 15,000 million, Rbls 15,000 million and Rbls 20,000 million, respectively, with the face value of Rbls 1 thousand each, providing for semi-annual coupon payments at interest rates of 11.2%-11.75% and maturing in 2025, 2030, 2030 and 2035, respectively. The terms of bonds series BO-04 provide their bondholders with the right for early redemption in the year 2019, bonds series BO-02 and BO-03 provide their bondholders with such right in the year 2020.

(D) In 2015, the Company fully repaid a short-term loan received from PJSC "VTB Bank", a related party of the Group, in the amount of Rbls 55,000 million.

(E) Included in the current portion of long-term bank loans as at 31 December 2015 are borrowings of the Group's subsidiaries in the total amount of Rbls 14,725 million payable on demand and comprising ruble denominated borrowings of Rbls 11,438 million and US dollars denominated borrowings of Rbls 3,287 million.

16. Provisions and Other Current Liabilities

Provisions and other current liabilities as at 31 December 2015 and 31 December 2014 comprised the following:

	31 December 2015	31 December 2014
	Rbls mln	*Rbls mln*
Settlements with employees (A)	59,630	53,769
Government grants (B)	91	30,000
Liabilities under construction contract	16,102	16,102
Provision for legal claims	13,142	13,653
Tax-related provision	13,756	10,331
Provision for guarantees (C)	47	5,737
Other liabilities	8,774	9,001
Total provisions and other current liabilities	**111,542**	**138,593**

(A) As at 31 December 2015, settlements with employees include Gefco Group provision related to planned personnel reduction.

(B) As at 31 December 2014, government grants comprised the balance of unused government grant, received in December 2014, for capital repairs of railway infrastructure in the year 2015 in the amount of Rbls 30,000 million. During the year 2015 the Group utilized Rbls 29,909 million of this grant (Note 6).

(C) As at 31 December 2015, the management of the Company decided to reverse provision related to performance obligations guarantee under the contract for construction of railway between Sirt and Benghazi in Libya due to the change in the assessment of its execution likelihood.

The movements of provisions for the year ended 31 December 2015 were as follows:

	Tax-related	Legal claims	Provision for guarantees (C)
	Rbls mln	*Rbls mln*	*Rbls mln*
As at 1 January 2015	**10,331**	**13,653**	**5,737**
Arising during the reporting period	3,942	2,402	–
Utilised	–	(2,058)	–
Unused amounts reversed	(517)	(2,861)	(5,438)
Other movements	–	1,531	(1,531)
Effect of foreign currencies translation	–	475	1,279
As at 31 December 2015	**13,756**	**13,142**	**47**

17. Employee Benefits

Defined Contribution Plans

The Group makes contributions to the Pension Fund of the Russian Federation. In addition, the Group also provides a defined contribution plan for certain of its employees administered by non-state pension fund “Blagosostoyanie”.

Total amount recognized as an expense in respect of payments to defined contribution plans for the years ended 31 December 2015 and 2014 were as follows:

	2015	2014
	Rbls mln	*Rbls mln*
Pension Fund of the Russian Federation	113,840	113,160
Defined contribution plan “Blagosostoyanie”	7,323	7,987
Total expense for defined contribution plans	**121,163**	**121,147**

Defined Benefit Plans

The Group provides benefits to its employees through defined pension plans. The plans require contributions to be made by the Group to a separately administered non-state pension fund “Blagosostoyanie” and not-for-profit fund “Pochet” and payments made to employees directly by the Company.

In order to be entitled to pension through the non-state pension fund “Blagosostoyanie” under a defined benefit plan an employee should meet a number of criteria, including the following:

1) an employee should be born before 1967;

2) an employee should join the pension plan by the due date, but not later than 1 July 2007;

3) an employee should make contributions to the pension plan at his/her own expense;

4) an employee should reach a statutory retirement age and retire from the Group;

5) at the date of retirement an employee should have 15 years of service within the Group, including two years of continuous service.

Not-for-profit fund “Pochet” provides pensions to employees of the Group retired before the defined benefit plans provided through the non-state pension fund “Blagosostoyanie” referred to above were introduced.

Benefits accrued through pension plan administered by non-state pension fund “Blagosostoyanie” are partially funded, whilst benefits administered by not-for-profit fund “Pochet” are unfunded.

The Group provides a number of long-term employee benefits, such as long-service (loyalty) bonus. In accordance with the plan, periodic payment of accumulated bonus is made after three, five, ten, fifteen and each next five years of service. Loyalty bonus plan provides for a benefit of approximately one monthly salary for each year of service subsequent to the last payment of this bonus. These benefits are unfunded.

In addition, the Group provides other retirement, post employment and other long-term benefits to its employees, which comprise lump-sum payment upon retirement ranging from 1 to 6 monthly salaries and depending on the duration of the service period, free of charge long-distance transportation provided on the annual basis, free of charge sanatorium treatment to retired employees and some other benefits. These benefits are unfunded.

Almost all employees of the Group are eligible to some elements of the post employment and other long-term employee benefit programs of the Group as at 31 December 2015 of which 37 thousand employees were considered as participants of the defined benefit pension plan administered by non-state pension fund “Blagosostoyanie” (31 December 2014: 46 thousand). In addition, there are approximately 309 thousand retired employees eligible for the post retirement benefit program of the Group provided through not-for-profit fund “Pochet” as at 31 December 2015 (31 December 2014: 333 thousand).

The amounts recognized in the consolidated statement of financial position are as follows:

As at 31 December 2015:

	Blagosostoyanie	Pochet	Other long-term benefits	Other post-employment benefits	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Defined benefit obligations	33,049	13,860	55,493	96,203	198,605
Fair value of plan assets	(10,109)	–	–	(1,116)	(11,225)
Net defined benefit liabilities	**22,940**	**13,860**	**55,493**	**95,087**	**187,380**

As at 31 December 2014:

	Blagosostoyanie	Pochet	Other long-term benefits	Other post-employment benefits	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Defined benefit obligations	34,575	14,131	64,529	84,037	197,272
Fair value of plan assets	(11,246)	–	–	(854)	(12,100)
Net defined benefit liabilities	**23,329**	**14,131**	**64,529**	**83,183**	**185,172**

The amounts recognised in the consolidated statement of profit or loss (line *Wages, salaries and related contributions)* and in the consolidated statement of other comprehensive income are as follows:

For the year ended 31 December 2015:

	Blagosostoyanie	Pochet	Other long-term benefits	Other post-employment benefits	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Service cost	1,441	–	23,413	2,976	27,830
Current service cost	*887*	–	*23,211*	*2,982*	*27,080*
Past service cost	*554*	–	*202*	*(6)*	*750*
Net interest on the net defined benefit liabilities	1,937	1,617	5,210	9,106	17,870
Remeasurement gain	–	–	(13,347)	–	(13,347)
Net expense recognized in statement of profit or loss	**3,378**	**1,617**	**15,276**	**12,082**	**32,353**
Remeasurement loss/(gain) recognized in other comprehensive income	**4,707**	**(162)**	**–**	**8,179**	**12,724**

For the year ended 31 December 2014:

	Blagosostoyanie	Pochet	Other long-term benefits	Other post-employment benefits	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Service cost	170	–	20,521	2,209	22,900
Current service cost	*1,168*	–	*24,745*	*5,414*	*31,327*
Past service cost	*(998)*	–	*(4,224)*	*(3,205)*	*(8,427)*
Net interest on the net defined benefit liabilities	1,740	1,307	3,619	8,600	15,266
Remeasurement gain	–	–	(6,098)	–	(6,098)
Net expense recognized in statement of profit or loss	**1,910**	**1,307**	**18,042**	**10,809**	**32,068**

Remeasurement gain recognized in other comprehensive income	**(581)**	**(3,155)**	**–**	**(40,507)**	**(44,243)**

Changes in defined benefit obligations are as follows:

	Blagosostoyanie	Pochet	Other long-term benefits	Other post-employment benefits	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Defined benefit obligations at 1 January 2014	**44,690**	**17,842**	**67,732**	**121,285**	**251,549**
Service cost	170	–	20,521	2,209	22,900
Current service cost	*1,168*	–	*24,745*	*5,414*	*31,327*
Past service cost	*(998)*	–	*(4,224)*	*(3,205)*	*(8,427)*
Interest on the defined benefit obligations	2,595	1,307	3,619	8,618	16,139
Remeasurement gain:	(1,101)	(3,155)	(6,098)	(40,507)	(50,861)
Actuarial gains from changes in demographic assumptions	–	*(290)*	–	*(213)*	*(503)*
Actuarial gains from changes in financial assumptions	*(4,669)*	*(2,406)*	*(2,643)*	*(39,225)*	*(48,943)*
Experience adjustments	*3,568*	*(459)*	*(3,455)*	*(1,069)*	*(1,415)*
Disposal of subsidiaries	(5)	(4)	(1)	(18)	(28)
Reclassification to liabilities, directly associated with the assets classified as held for sale	(520)	(69)	(47)	(869)	(1,505)
Effects of translation difference	–	–	66	2,072	2,138
Benefits paid	(11,254)	(1,790)	(21,263)	(8,753)	(43,060)
Defined benefit obligations at 31 December 2014	**34,575**	**14,131**	**64,529**	**84,037**	**197,272**
Service cost	1,441	–	23,413	2,976	27,830
Current service cost	*887*	–	*23,211*	*2,982*	*27,080*
Past service cost	*554*	–	*202*	*(6)*	*750*
Interest on the defined benefit obligations	3,149	1,617	5,210	9,120	19,096
Remeasurement (gain)/loss:	4,295	(162)	(13,347)	8,424	(790)
Actuarial losses from changes in demographic assumptions	*1,468*	*464*	*(44)*	*2,731*	*4,619*
Actuarial losses from changes in financial assumptions	*491*	*1,583*	*(9,848)*	*9,239*	*1,465*
Experience adjustments	*2,336*	*(2,209)*	*(3,455)*	*(3,546)*	*(6,874)*
Disposal of subsidiaries	(3)	–	–	(3)	(6)
Reclassification to liabilities, directly associated with the assets classified as held for sale	(34)	(65)	(18)	(307)	(424)
Effects of translation difference	–	–	28	930	958
Benefits paid	(10,374)	(1,661)	(24,322)	(8,974)	(45,331)
Defined benefit obligations at 31 December 2015	**33,049**	**13,860**	**55,493**	**96,203**	**198,605**

Movements in the fair value of defined benefit pension plan assets during 2015 and 2014 were as follows:

	2015	**2014**
	Rbls mln	*Rbls mln*
Fair value of plan assets at 1 January	**(12,100)**	**(10,590)**
Return on plan assets:	(1,059)	(353)
Interest income	*(1,226)*	*(873)*
Cost of plan assets except expenses included in net interest	*167*	*520*
Contributions by employer	(43,251)	(43,988)
Disposal of subsidiaries	2	1
Reclassification to liabilities, directly associated with the assets classified as held for sale	11	62
Effects of translation difference	(159)	(292)
Benefits paid	45,331	43,060
Fair value of plan assets at 31 December	**(11,225)**	**(12,100)**

The major categories of plan assets administered by non-state pension fund “Blagosostoyanie” as a percentage of the fair value of total plan assets were as follows as at 31 December 2015 and 2014:

	31 December 2015	**31 December 2014**
Corporate bonds and stocks of Russian companies	54%	53%
Shares in closed investment funds	20%	22%
Cash equivalents and bank deposits	11%	16%
Federal and municipal bonds	8%	3%
Other	7%	6%
Total	**100%**	**100%**

The Group is exposed to market risks arising from investments in closed investment funds and corporate stocks and credit risks arising from investments in corporate bonds and bank deposits.

As at 31 December 2015 and 2014, actuarial assumptions used were as follows:

	31 December 2015	**31 December 2014**
Discount rate	9.8%	13%
Average rate of employee turnover	4.7%	4.8%
Mortality rates:		
Mortality tables based on	Russia 2014	Russia 2013
Mortality tables are adjusted by	16%	10%

The Group assumes that salary will increase in line with inflation rate in Russia. Most benefits to employees and retired employees depend on salary growth and changes in future consumer prices.

The Group estimates future inflation rates in line with the assessments made by Economist Intelligence Unit. The Group is exposed to actuarial risk arising from the increase in life expectancy, inflation and salary.

The decrease of discount rate as at 31 December 2015 is caused by a decrease in the market yields of the government bonds in 2015.

Results of sensitivity analysis of defined benefit obligations at 31 December 2015:

Assumptions	Sensitivity level	Increase/ (decrease) of defined benefit obligations
		Rbls mln
Discount rate	-0.5 p.p.	4,732
	+0.5 p.p.	(4,433)
Average growth of salaries and fixed benefits	-0.5 p.p.	(5,137)
	+0.5 p.p.	5,440
Average rate of employee turnover	-10%	1,512
	+10%	(1,461)
Mortality rates	-10%	1,599
	+10%	(1,455)

The sensitivity analysis above is based on a method that extrapolates the impact on defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period. Each change in significant assumption was analyzed separately; interdependencies were not taken into account.

The weighted average duration of the defined benefit plan obligations as at 31 December 2015 is 5.6 years (31 December 2014: 4.7 years). Expected contributions by the Group to the defined benefit plan in 2016 are Rbls 42,100 million.

18. Finance Lease Obligations

The Group entered into several finance lease agreements for cargo transportation and other operating equipment. The lease agreements are for periods from 2 to 20 years (2014: from 2 to 20 years) with the weighted average effective interest rate of 16% p.a. (2014: 16% p.a.). Future minimum lease payments together with the present value of the net minimum lease payments as at 31 December 2015 and 31 December 2014 are as follows:

	31 December 2015		31 December 2014	
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Finance lease liabilities – minimum lease payments				
Not later than 1 year	20,410	18,910	19,437	17,466
Later than 1 year and not later than 5 years	35,316	22,252	33,995	20,590
Later than 5 years	23,206	10,619	24,270	10,826
Total minimum lease payments	**78,932**	**51,781**	**77,702**	**48,882**
Less: interest	(27,151)	–	(28,820)	–
Present value of minimum lease payments	**51,781**	**51,781**	**48,882**	**48,882**

Representing lease liabilities	31 December 2015	31 December 2014
	Rbls mln	*Rbls mln*
Current	18,910	17,466
Non-current	32,871	31,416

Finance charges for the year ended 31 December 2015 amounted to Rbls 6,478 million (2014: Rbls 5,904 million) and are included in *Finance expense and similar items* in the consolidated statement of profit or loss (Note 24).

The aggregate amount of finance lease liabilities on agreements signed with the Group's related parties (refer to Note 28 for definition) equated to Rbls 32,445 million as at 31 December 2015 (31 December 2014: Rbls 28,455 million). Weighted average interest rate on these agreements is 16% p.a. (2014: 16% p.a.).

19. Equity

The share capital of the Company as of 31 December 2015 consists of 2,050,163,180 (31 December 2014: 1,976,932,342) authorized, issued and outstanding common shares with par value of Rbls 1 thousand each and of 50,000,000 (31 December 2014: nil) authorized, issued and outstanding preference shares with par value of Rbls 1 thousand each.

In March 2015, the Company issued 50,000,000 non-convertible preference book-entry shares with par value of Rbls 1 thousand each. The issue was approved by the shareholder for the purpose of the modernization of the Baikal – Amur and Trans-Siberian railway infrastructure in order to increase the carrying capacity. Cash consideration received for these shares equated to Rbls 50,000 million.

The preference shares pay a dividend of 0.01% of the par value in the years 2015-2019 and 2.98% of the par value starting from the year 2020.

In June 2015, the Company issued 64,280,838 common shares with par value of Rbls 1 thousand each in the total amount of Rbls 64,281 million. The issuance was approved by the shareholder of the Company for the purposes of development of public railway infrastructure and the transportation complex of Moscow region, construction of high speed railway Moscow – Kazan, development of public railway infrastructure Mezhdurechensk – Taishet, modernization of the Baikal – Amur and Trans-Siberian railway infrastructure in order to increase the carrying capacity, implementation of investment project Reconstruction of Maxim Gorky – Kotelnikovo – Tikhoretskaya – Krymskaya route and implementation of investment project Construction of Prokhorovka – Zhuravka – Chertkovo – Bataisk railway line. Consideration received for these shares comprised cash of Rbls 62,226 million and property of Rbls 2,055 million.

In December 2015, the Company issued 8,950,000 ordinary shares to the sole shareholder with par value of Rbls 1 thousand each. The issuance was approved by the shareholder of the Company for the purposes of development of the Small ring of Moscow railroad, construction of railway overpass through Ryazanskyi prospect at Gorkovskiy direction of Moscow railway, modernization of railway infrastructure of Moscow region and construction of high speed railway Moscow – Kazan. Cash consideration received for these shares equated to Rbls 8,950 million.

In accordance with the Russian legislation, the dividends may be paid to the shareholders of the Company out of the profit after taxation (net profit) as determined based on the Company's Russian statutory financial statements.

In 2015, the shareholder of the Company approved dividends for 2014 in the amount of Rbls 45 million, which were fully paid in 2015.

20. Other Revenues

Other revenues for the years 2015 and 2014 comprised the following:

	2015	2014
	Rbls mln	*Rbls mln*
Sale of goods	56,836	51,288
Repair of rolling stock	41,117	41,414
Healthcare services	31,473	28,810
Telecommunication services	22,262	22,217
Construction services [(A)]	13,481	4,189
Transit and sale of electrical and heat energy	11,644	11,226
Rent of locomotive crew	8,285	8,417
Rent of rolling stock and railway objects	7,588	6,904
Social services	6,505	5,860
Information and IT services	2,895	2,838
Utilities services	2,204	2,180
Other	27,834	27,037
Total other revenues	**232,124**	**212,380**

(A) Increase in revenues from construction services was mainly caused by substantial growth in the volume of works performed under the contract for construction of railway infrastructure in the Republic of Serbia and government construction contracts (Note 28).

21. Taxes Other than Income Tax

Taxes other than income tax for the years ended 31 December 2015 and 2014 comprised the following:

	2015	2014
	Rbls mln	*Rbls mln*
Property tax (A)	48,955	38,671
Non-refundable VAT	4,250	5,191
Land tax	1,731	1,925
Other taxes	3,191	2,029
Total taxes other than income tax	**58,127**	**47,816**

(A) Increase of property tax resulted from the increase in property tax rate for public railways items and related inseparable technological constructions from 0.7% to 1% enacted starting from 1 January 2015.

22. Other Operating Expenses

Other operating expenses for the years 2015 and 2014 comprised the following:

	2015	2014
	Rbls mln	*Rbls mln*
Security costs	20,135	19,209
Services related to construction	18,210	14,061
Foreign railroads services	14,893	12,862
Business trips	12,504	13,054
Operating rent of rolling stock, including cargo cars	10,114	4,991
Consulting services	9,106	6,768
Telecommunication fees	8,901	8,295
Auto transportation services (A)	7,087	2,049
Railtrack and right-of-way maintenance expenses	6,602	5,958
Other operating rent	6,455	4,543
Bedding and servicing expenses	6,175	6,123
Information and IT services	5,345	4,600
Rolling stock servicing and handling	4,988	6,980
Fire safety maintenance	4,179	3,410
Expenses related to provision of logistics services	2,889	3,336
Insurance costs	2,834	2,633
Cost of premises sold	2,780	2,085
Infrastructure services	1,162	403
Other	18,294	19,862
Total other operating expenses	**162,653**	**141,222**

(A) Increase in auto transportation services in 2015 resulted primarily from the outsourcing of such services to third parties.

23. Subsidies from Federal and Municipal Budgets

Subsidies from federal and municipal budgets for the years ended 31 December 2015 and 2014 comprised the following:

	2015	2014
	Rbls mln	*Rbls mln*
Subsidies received from federal budget for compensation of the effects of tariffs regulation – long distance passenger transportation	24,651	23,279
Subsidies received from federal budget for compensation of the effects of tariffs regulation in provision of infrastructure access – suburban transportation	27,848	20,657
Subsidies received from federal, regional and municipal budgets for compensation of tariff regulations – suburban transportation	8,706	6,305
Other subsidies and compensations received from federal, regional and municipal budgets	1,373	480
Total subsidies from federal and municipal budgets	**62,578**	**50,721**

In addition to subsidies described above, the Group also receives government grants for capital repairs of its railway infrastructure (Notes 6 and 16).

24. Finance Expense and Similar Items

Finance expense and similar items for the years ended 31 December 2015 and 2014 comprised the following:

	2015	2014
	Rbls mln	*Rbls mln*
Interest expense on borrowings	61,242	23,098
Finance charges on finance leases (Note 18)	6,478	5,904
Other [(A)]	9,014	12,640
Total finance expense and similar items	**76,734**	**41,642**

(A) Other finance expenses for 2015 include effect of the difference between notional amount of the long term receivables from the Ministry for transportation of certain categories of passengers in the years 2009-2011 and their fair value of Rbls 7,709 million (Notes 8, 11 and 28).

Other finance expenses for 2014 include the difference between notional amount of the long term receivables from the Federal Agency of Railway Transport ("the Agency") and their fair value of Rbls 11,688 million (Note 28).

25. Other Income

Other income for the years ended 31 December 2015 and 2014 comprised the following:

	2015	2014
	Rbls mln	*Rbls mln*
Income from rent of other property	11,078	10,013
Penalties charged to customers	2,382	2,005
Assets received free of charge	153	1,111
Gain on disposal of PP&E	–	408
Change in provision for guarantees (Note 16)	5,438	–
Change in provision for legal claims, net (Note 16)	459	–
Other income	6,445	5,570
Total other income	**25,955**	**19,107**

26. Other Expenses

Other expenses for the years ended 31 December 2015 and 2014 comprised the following:

	2015	2014
	Rbls mln	*Rbls mln*
Rent expenses	7,900	7,583
Loss on impairment of investments in associates and joint ventures (Note 5)	5,543	–
Loss on disposal of PP&E and intangible assets, net [(A)]	5,344	–
Contributions to trade union, membership in professional associations	3,603	3,513
Bank charges	3,269	2,817
Loss on disposal of inventory, net	2,531	3,953
Charity expenses	2,457	2,421
Penalties charged by customers	2,051	5,922
Change in provision for legal claims, net (Note 16)	–	3,533
Impairment of assets classified as held for sale	–	3,953
Other expenses	8,193	9,345
Total other expenses	**40,891**	**43,040**

(A) Loss on disposal of PP&E in the year 2015 mainly comprises write-off of the rolling stock with expired useful life under the Technical Regulations of the Customs Union enacted in August 2014 and allowing extension of the rolling stock useful life only after its modernization and certification.

27. Income Taxes

The major components of income tax for the years ended 31 December 2015 and 2014 comprised the following:

Consolidated statement of profit or loss	2015	2014
	Rbls mln	*Rbls mln*
Current income taxes		
Current income tax charge	(5,559)	(5,882)
Adjustments in respect of current income tax of previous periods and penalties related to income tax, net	(379)	(283)
Income tax-related provision	(1,795)	651
Deferred taxes		
Relating to origination and reversal of temporary differences	(6,477)	7,149
Income tax (expense)/benefit reported in the statement of profit or loss	**(14,210)**	**1,635**
Income tax recognized in other comprehensive income	10,031	(7,438)
Total income taxes	**(4,179)**	**(5,803)**

Deferred tax, in millions of Russian rubles, relates to the following:

	31 December 2014	Acquisition of subsidiaries	Disposal of subsidiaries	Reclassification to assets classified as held for sale	Recognized in other comprehensive income	Recognition and reversal of temporary differences in profit or loss	31 December 2015
Tax effects of taxable temporary differences							
Valuation of property, plant and equipment	(37,601)	(220)	20	440	(984)	2,900	(35,445)
Valuation of investments in subsidiaries, associates and joint ventures	(5,639)	–	–	–	–	1,170	(4,469)
Valuation of investment property	(2,596)	–	–	1	(758)	619	(2,734)
Valuation of intangible assets	(15,853)	–	–	–	(2,636)	131	(18,358)
Tax effects of deductible temporary differences							
Net employee defined benefit liabilities	18,065	–	10	(5)	941	(2,944)	16,067
Valuation of accounts receivable	5,261	–	1	–	5	(227)	5,040
Payables/accruals	12,629	–	(2)	(25)	133	(261)	12,474
Government grants	6,000	–	–	–	–	(5,982)	18
Valuation of derivative financial instruments	5,015	–	–	–	–	2,449	7,464
Tax losses carried forward	2,693	–	(62)	(21)	558	8,701	11,869
Effect of hedge accounting (Note 31)	–	–	–	–	13,073	(13,073)	–
Other	201	–	82	43	(301)	40	65
Total deferred tax liability, net	**(11,825)**	**(220)**	**49**	**433**	**10,031**	**(6,477)**	**(8,009)**

	31 December 2013	Acquisition of subsidiaries	Disposal of subsidiaries	Reclassification to assets classified as held for sale	Recognized in other comprehensive income	Recognition and reversal of temporary differences in profit or loss	31 December 2014
Tax effects of taxable temporary differences							
Valuation of property, plant and equipment	(34,507)	(7)	113	203	(1,567)	(1,836)	(37,601)
Valuation of investments in subsidiaries, associates and joint ventures	(4,053)	–	–	–	–	(1,586)	(5,639)
Valuation of investment property.	(1,906)	–	–	4	(762)	68	(2,596)
Valuation of intangible assets	(9,488)	(110)		5	(5,593)	(667)	(15,853)
Tax effects of deductible temporary differences..............							
Net employee defined benefit liabilities......	20,125	–	2	(92)	399	(2,369)	18,065
Valuation of accounts receivable................	2,286	–	(20)	(2)	–	2,997	5,261
Payables/accruals	11,010	–	111	(111)	214	1,405	12,629
Government grants ..	–	–	–	–	–	6,000	6,000
Valuation of derivative financial instruments..............	3,245	–	–	–	–	1,770	5,015
Other.......................	1,356	210	16	74	(129)	1,367	2,894
Total deferred tax liability, net............	**(11,932)**	**93**	**222**	**81**	**(7,438)**	**7,149**	**(11,825)**

Movement of deferred tax of Rbls 3,039 million (expense) recognized in other comprehensive income for the year 2015 relates to the effects of translation to presentation currency (2014: Rbls 6,676 million – expense).

As at 31 December 2015, the Group has recognized deferred tax liability arising on taxable temporary differences associated with investments in subsidiaries, associates and joint ventures considered for disposal in foreseeable future in the aggregate amount of Rbls 4,469 million (31 December 2014: Rbls 5,639 million). The management concluded that it is impracticable to assess the remaining amount of temporary differences associated with investments in subsidiaries.

As at 31 December 2015, the Group did not recognize deferred tax assets in the amount of Rbls 10,366 million (31 December 2014: Rbls 15,960 million), and during the year 2015 previously unrecognized deferred tax asset related to tax losses in the amount of Rbls 1,108 million was utilized. Respective effect was included in *"other non-deductible expenses and other effects, net"* in the table on reconciliation of theoretical and actual income tax below.

There are no income tax consequences attached to the payment of dividends by the Group to its shareholder.

A reconciliation of theoretical income tax to the actual income tax recorded in the consolidated statement of profit or loss for the years ended 31 December 2015 and 2014 is as follows:

	2015	2014
	Rbls mln	*Rbls mln*
Accounting income /(loss) before income tax	**22,392**	**(100,955)**
At statutory income tax rate of 20% (2014: 20%)	**4,478**	**(20,191)**
Adjustments in respect to current income tax of previous years and penalties related to income tax, net	379	283
Income tax-related provision	1,795	(651)
Non-deductible expenses and other effects:		
non-deductible employee benefits	3,158	2,877
non-deductible social expenses	4,138	4,424
other non-deductible expenses and other effects, net	262	11,623
At the effective income tax rate of 63% (2014: 2%)	**14,210**	**(1,635)**
Income tax expense/(benefit) reported in the consolidated statement of profit or loss	**14,210**	**(1,635)**

28. Related Party Transactions

As defined by IAS 24 *Related Parties Disclosures* the entity is related to a reporting entity if any of the following conditions applies:

a. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

b. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

c. Both entities are joint ventures of the same third party;

d. One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

e. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;

f. The entity is controlled or jointly controlled by a person, that:

   i. has control or joint control over the reporting entity;

   ii. has significant influence over the reporting entity; or

   iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely to the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The most significant balances with related parties as at 31 December 2015 and 2014 are as follows (for description of the nature of relationships between the Group and its related parties refer to definitions in a.-f. above):

Related party, Nature of relations, Type of service/product	2015 Amounts receivable	2015 (Amounts payable)	2014 Amounts receivable	2014 (Amounts payable)
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
OPERATING ACTIVITIES				
Transactions with associates and joint ventures (b)				
Attributed to sales and income				
Transportation services	170	(139)	115	(153)
Rent	2,751	(13)	2,633	(14)
Repairs and technical maintenance	596	(6)	1,338	(4)
Other	1,482	(200)	2,276	(63)
Attributed to purchases and expenses				
Acquisition of rolling stock and spare parts	32	(708)	1,227	(9,211)
Acquisition of equipment other than rolling stock	–	(812)	19	(672)
Transportation services	–	(407)	–	(247)
Design and exploratory work and construction	10	(13,141)	3	(2,316)
Repairs and technical maintenance	699	(5,870)	667	(4,365)
Other	347	(1,233)	9	(994)
Ministries of the Russian Federation (a)				
Attributed to sales and income				
Transportation services	3,729	(310)	505	(931)
Other	801	(11)	954	(185)
Attributed to purchases and expenses				
Security and fire safety services	–	(1,367)	–	(698)
Other	3	(208)	1	(544)
Transactions with State-controlled entities (a)				
Attributed to sales and income				
Transportation services	99	(9,742)	51	(10,446)
Electricity	885	(1)	12	(1)
Construction	1,615	(3,028)	2	–
Communication services	5	–	7	–
Other	578	(409)	223	(857)
Attributed to purchases and expenses				
Fuel	7	(3,137)	33	(4,476)
Electricity and heating	34	(89)	19	(124)
Settlement and cash services, encashment	–	(115)	–	(125)
Other	144	(2,200)	138	(454)
Transactions with entities under control or joint control of the Group's key management personnel (f)				
Attributed to sales and income				
Electricity	54	–	91	–
Attributed to purchases and expenses				
Electricity and heating	–	(5,670)	–	(4,750)

Related party, Nature of relations, Type of service/product	2015 Amounts receivable	2015 (Amounts payable)	2014 Amounts receivable	2014 (Amounts payable)
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
INVESTMENT ACTIVITIES				
Transactions with associates and joint ventures (b)				
Dividends received	–	–	1	–
FINANCING ACTIVITIES				
State-controlled entities (a)				
Loans received	–	(99,951)	–	(130,519)
OPERATIONS WITH PENSION FUNDS				
Pension funds (e)				
Payable to the pension fund	23	(421)	24	(358)

The most significant of transactions with related parties are as follows (for description of the nature of relationships between the Group and its related parties refer to definitions in a.-f. above):

Related party, Nature of relations, Type of service/product	2015 Sales/ income*	2015 (Purchases)/ (expenses)*	2014 Sales/ income*	2014 (Purchases)/ (expenses)*
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
OPERATING ACTIVITIES				
Transactions with associates and joint ventures (b)				
Attributed to sales and income				
Transportation services	2,895	–	3,198	–
Rent	19,857	–	15,654	–
Repairs and technical maintenance	7,194	–	9,441	–
Other	6,859	–	6,116	–
Attributed to purchases and expenses				
Acquisition of rolling stock and spare parts	–	(76,378)	–	(102,035)
Acquisition of equipment other than rolling stock	–	(1,815)	–	(2,211)
Transportation services	–	(3,832)	–	(3,468)
Design, exploratory work and construction	–	(29,233)	–	(4,833)
Repairs and technical maintenance of rolling stock	–	(32,345)	–	(34,087)
Other	–	(11,029)	–	(8,590)
Ministries of the Russian Federation (a)				
Attributed to sales and income				
Subsidies (Note 23)	62,578	–	50,721	–
Transportation services	22,725	–	21,458	–
Repairs and technical maintenance of rolling stock	9	–	340	–
Other	3,121	–	2,667	–
Attributed to purchases and expenses				
Security and fire safety services	–	(16,865)	–	(17,539)
Other	–	(1,068)	–	(205)

Related party, Nature of relations, Type of service/product	2015 Sales/ income*	2015 (Purchases)/ (expenses)*	2014 Sales/ income*	2014 (Purchases)/ (expenses)*
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Transactions with State-controlled entities (a)				
Attributed to sales and income				
Transportation services	209,080	–	168,954	–
Electricity	8,728	–	7,365	–
Design, exploratory work and construction	1,088	–	1,069	–
Communication services	1,695	–	1,820	–
Other	12,521	–	5,882	–
Attributed to purchases and expenses				
Fuel	–	(60,504)	–	(46,038)
Acquisition of rolling stock	–	(1,178)	–	–
Settlement and cash services, encashment	–	(2,335)	–	(2,317)
Electricity and heating	–	(1,388)	–	(1,510)
Communication services	–	(1,468)	–	(1,503)
Other	–	(9,652)	–	(14,988)
Transactions with entities under control or joint control of the Group's key management personnel (f)				
Attributed to sales and income				
Electricity	242	–	925	–
Attributed to purchases and expenses				
Electricity and heating	–	(150,109)	–	(143,737)
INVESTMENT ACTIVITIES				
Transactions with associates and joint ventures (b)				
Dividends received	895	–	2,125	–
OPERATIONS WITH PENSION FUNDS				
Pension funds (e)				
Pension contributions	1,058	(23,388)	604	(25,399)

* Amounts include VAT, where applicable.

In the year ended 31 December 2015, the Group's companies maintained several accounts in state-controlled and associated banks. The amount of cash and deposits held in these credit institutions as at 31 December 2015 and 2014 comprised the following:

	31 December 2015	31 December 2014
	Rbls mln	*Rbls mln*
Cash and cash equivalents in state-controlled banks	153,352	97,256
Cash and cash equivalents in associated bank	168	737
Short term deposits in state-controlled banks	3,867	3,294
Total	**157,387**	**101,287**

Interest income from related parties comprised Rbls 12,082 million for the year ended 31 December 2015 (2014: Rbls 2,418 million). Interest expense from related parties comprised Rbls 7,082 million for the year ended 31 December 2015 (2014: Rbls 7,212 million).

Loans obtained by the Group from related parties attract interest varying during the year ended 31 December 2015 from 1.6% to 18.1% (2014: from 0% to 16%).

Related party guarantees issued and received as at 31 December 2015 and 31 December 2014 are presented below:

	31 December 2015	31 December 2014
	Rbls mln	*Rbls mln*
Amounts guaranteed by the Group in favour of related parties	6,376	6,352
Amounts guaranteed by the Group to related parties	1,106	2,948
Amounts guaranteed to the Group by related parties	3,654	3,593

Further, as at 31 December 2015, amounts guaranteed by related parties in favor of the Group amounted to Rbls 5,029 million (31 December 2014: Rbls 3,690 million).

One of the subsidiaries of the Group has entered into a number of contracts for the purchase of rolling stock, and repayment of advances issued under these contracts is secured by bank guarantees received from a related party for the total amount up to Rbls 12,584 million (31 December 2014, as restated: up to Rbls 13,612 million).

For the year 2015, the Group is entitled to receive tariff compensation of Rbls 7,855 million (2014, as restated: Rbls 5,388 million) from federal and regional ministries of the Russian Federation for transportation of certain categories of passengers. Accounts receivable balance outstanding regarding the compensation for transportation of certain categories of passengers as at 31 December 2015 is Rbls 2,864 million (31 December 2014, as restated: Rbls 12,842 million). The Group recognized an impairment of Rbls 1,957 million relating to these accounts receivable balance outstanding as at 31 December 2015 (31 December 2014, as restated: Rbls 12,252 million) .

Further, receivables from the Ministry for transportation of certain categories of passengers in the years 2009-2011 of Rbls 10,937 million, fully impaired as at 31 December 2014, were reclassified to other non-current financial assets and brought to fair value (Notes 8, 11 and 24). Impairment of these receivables was reversed in full.

In December 2014, the Company entered into a contract with Rosimuschestvo for the exchange of assets. As at 31 December 2015, the Group transferred to Rosimuschestvo assets with the carrying value of Rbls 79,084 million (including movable property of Rbls 2,942 million transferred to Rosimuschestvo in December 2014) and made related VAT payment of Rbls 14,235 million (Notes 10, 13 and 14). As of 31 December 2015, the Group received from Rosimuschestvo assets of Rbls 24,177 million. Total amount of advances issued in respect of the assets to be received under the exchange contract, accounted for within PP&E, amounted to Rbls 69,142 million as of 31 December 2015 (Note 13).

In 2014 and 2015, the Group received subsidies from federal budget for compensation of the effects of tariffs regulation in provision of infrastructure access to suburban passenger companies for the years 2011-2014. These subsidies are administered by the Agency. As at 31 December 2014, the Group reclassified receivables from the Agency of Rbls 27,221 million, fully impaired as at reclassification date, to other non-current financial assets and brought these receivables to their fair value of Rbls 15,533 million due to the restructuring of the repayment schedule. Impairment on these receivables was fully reversed. Payments received from the Agency in 2015 amounted to Rbls 939 million.

In 2014 and 2015, the Group entered into several government contracts for development of project documentation and construction for the total amount of Rbls 18,520 million (including VAT). As at 31 December 2015, advances received under these contracts amounted to Rbls 1,944 million (31 December 2014, as restated: Rbls 3,033 million), revenue for the year 2015 amounted to Rbls 5,379 million (2014: Rbls 133 million).

In 2015, the Company sold to Statutory Unitary Enterprise “Moscow Metro” its 50% stake in JSC “Moscow Rail Ring” for cash consideration of Rbls 3,182 million (Note 5). As of 31 December 2015, the Group recognized related accounts receivable of Rbls 1,591 million (31 December 2014: nil).

The aggregate amount of finance lease liabilities under agreements signed with the Group’s related parties equated to Rbls 32,445 million as at 31 December 2015 (31 December 2014: Rbls 28,455 million). The weighted average effective interest rate on the finance lease agreements with related parties entered into during year ended 31 December 2015 comprised 16% p.a. (2014: 16% p.a.).

Further, in 2015, a subsidiary of the Group has sold to related parties cargo rolling stock items for the total amount of Rbls 16,726 million (2014: Rbls 19,285 million) which were subsequently obtained by the Group from the related party under finance lease agreements described above.

Leased assets with the aggregate cost of Rbls 53,527 million as at 31 December 2015 (31 December 2014: Rbls 41,373 million) were obtained from state-controlled and other entities considered related to the Group.

Key management personnel comprise members of the Management Board and the Board of Directors of the Company. Total remuneration of the members of Management Board amounted to Rbls 1,396 million plus Rbls 207 million of related personal income tax for the year 2015 (2014: Rbls 1,231 million plus Rbls 184 million of related personal income tax) and includes short-term benefits. Total remuneration of the members of the Board of Directors for the year 2015 amounted to Rbls 42 million (2014: Rbls 40 million).

29. Commitments and Contingencies

Environment

The operations and earnings of the Group are affected by political, legislative, fiscal and regulatory developments. The nature and frequency of these developments and risks associated with these events, which generally are not covered by insurance, as well as their effect on future operations and earnings are not predictable.

Tariff Regulation Policy

Potential reforms in tariff-setting policy may have a significant effect on the Company's financial position and results of operations. The Company is continuously discussing the tariff setting policy, including both unification of such tariffs between domestic and foreign transportation and increases in the tariffs, with the Government of the Russian Federation.

It is currently uncertain whether and when any further changes will be introduced in the tariff setting policy. These consolidated financial statements do not include any adjustments that might result from these uncertain effects. Such adjustments, if any, will be reported in the Group's consolidated financial statements in the period when they become known and estimable.

Taxation

Russia currently has a number of taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profit tax), property tax, personal income tax and social contributions, together with others.

The Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional or federal authorities. Latest changes as well as forthcoming changes in tax legislation of Russian Federation suggest that the tax authorities may take a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Furthermore, based on recent litigation trends in Russia, it could be presumed that the courts become more pro-fiscal increasingly supporting position of the tax authorities. As such, significant additional taxes, penalties and interest may be assessed. In addition, the complexities of the Group's organizational and business structure negatively affect the Group's ability to ensure proper application of certain provisions of tax laws, thus creating additional risks, and, as a consequence, tax-related contingent liabilities.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Starting 1 January 2012, a new Russian transfer pricing legislation came into force, which allows the Russian tax authorities to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market price.

Due to the uncertainty and limited current practice of application of the current Russian transfer pricing legislation, Russian tax authorities may challenge the level of prices applied by the Group under "controlled" transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to "controlled" transactions and provide transfer pricing documentation as an evidence of the required reporting to the Russian tax authorities.

In order to ensure compliance with the current Russian transfer pricing legislation, the Group developed its pricing methods for major types of "controlled" transactions between affiliated parties and performs analysis of the market price levels for "controlled" transactions on the annual basis.

In 2015, the Group determined its tax liabilities arising from "controlled" transactions using actual transaction prices.

Management believes that it has adequately provided for tax liabilities in these consolidated financial statements as at 31 December 2015 (refer also to Notes 16 and 27). However, the general risk remains that relevant state authorities could take different positions with regard to interpretative issues and the effect on the Group's financial statements could be significant.

Claims and Potential Claims against the Group

The Group is a defendant in a number of court proceedings arising out of the normal course of its business. As at 31 December 2015, a provision in respect of such proceedings of Rbls 13,142 million (31 December 2014: Rbls 13,653 million) was recognized by the Group (Note 16).

Insurance

The Russian insurance industry is in a developing stage: insurance market capacity and low variety of product line does not completely meet customers' needs with regard to the insurance of the property and liability risks. Compulsory insurance common in other parts of the world is being introduced in stages and may not be available for some types of insurance.

Management has approved insurance policy for the Group. This policy sets general principles for the Group in respect of major terms of insurance contracts.

During 2015, the Group continued to maintain insurance coverage regarding major categories of its property. The Group did not maintain insurance coverage on business interruption as management assessed insurance expenses to be significantly higher than potential losses associated with this risk.

Significant Purchase Commitments

Purchase commitments are disclosed including VAT, where applicable.

Starting 2007, the Group has signed several long-term contracts for reconstruction of railroads, tunnels, bridges, contact system and telecommunication networks and for purchase of electric trains, rail track materials and other equipment with the local and foreign providers, including contracts with related parties:

	The total amount of the contracts	**Commitments as at 31 December 2015**
	Rbls mln	*Rbls mln*
Contracts for construction and modernization of the Eastern region of the Group's operations	269,275	246,008
EUR denominated contracts (amount of the contracts and the outstanding commitments: EUR 1,857 million and EUR 1,469 million, respectively, at the exchange rate as at 31 December 2015)	148,003	117,079
Other contracts	706,687	473,024
Total	**1,123,965**	**836,111**

Included in the table above, the contracts concluded with related parties amounted to Rbls 17,706 million as at 31 December 2015. Commitments outstanding under the contracts with related parties as at 31 December 2015 amounted to Rbls 10,957 million.

Operating Lease Commitments

The Groups' subsidiaries have entered into non-cancellable operating lease contracts comprising mainly lease of office space and manufacturing buildings, production facilities, equipment, vehicles and rolling stock. Future minimum lease payments under contracted operating leases as at 31 December 2015 and 31 December 2014 are as follows:

	31 December 2015	31 December 2014
	Rbls mln	*Rbls mln*
Not later than one year	14,626	10,418
Later than one year and not later than five years	28,122	21,263
Later than five years	39,053	37,052
Total minimum lease payments	**81,801**	**68,733**

30. Derivative Financial Instruments

The notional amounts and fair values of derivative instruments held as at 31 December 2015 and 31 December 2014 are set out in the following table.

	31 December 2015			31 December 2014		
	Notional amount	Fair values – Asset	Fair values – Liability	Notional amount	Fair values – Asset	Fair values – Liability
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Foreign exchange contracts						
Swaps – domestic	296,549	757	(36,446)	249,972	3,649	(27,719)
Foreign exchange – interest rate contracts						
Swaps – domestic	10,846	–	(1,672)	8,404	–	(1,080)
Securities contracts						
Forwards – domestic	4,382	–	(2,181)	4,773	74	(3,335)
Options – domestic	6,314	2,942	–	5,637	1,045	–
Other	868	918	–		–	–
Total (derivative) assets/(liabilities)		**4,617**	**(40,299)**		**4,768**	**(32,134)**

Gains and losses on changes in fair value of derivative financial instruments are included in *Changes in fair value of financial instruments, net* of the consolidated statement of profit or loss.

31. Fair Value Measurement, Financial Instruments and Risk Management Objectives and Policies

The Group's principal financial instruments comprise bank loans, finance leases, bonds, loan participations notes, derivative financial instruments, cash and bank deposits. The main purpose of these instruments is to raise finance for the Group's operations. The Group has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Group also holds available-for-sale investments and enters into transactions with derivatives.

The Group is exposed to credit and liquidity risks and market risk.

Financial risks are monitored by Financial Risks Management Committee and Corporate Finance Department of the Company. Credit, currency and interest rate risks are regulated by corporate financial risks management code and policies. The Company also maintains centralized financial risk management policy at all subsidiaries.

Credit Risk

Credit risk is the risk that a counter party will fail to discharge an obligation and cause the Group to incur a financial loss.

Cash is placed in financial institutions, which are considered at a time of deposit to have minimal risk of default. Management monitors the creditworthiness of the banks in which it deposits cash and ensures that the deposits placed by RZD in each financial institution do not exceed approved upper limit. These limits are recalculated quarterly in accordance with corporate policies, which include qualitative and quantitative analysis of financial institutions' performance. These limits are monitored and approved by the Company's Financial Risks Management Committee.

Financial assets, which potentially subject the Group to credit risk, consist principally of trade and other receivables and loans issued. The carrying amount of these financial assets, net of impairment, represents the maximum amount exposed to credit risk. With the exception for the matters discussed below, the Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the impairment already recorded.

The largest debtor of the Group as at 31 December 2015 is PSA Peugeot Citroen (holds 25% stake in Gefco S.A., a subsidiary of the Group) with outstanding receivables of EUR 372 million (Rbls 29,648 million at exchange rate at 31 December 2015) due to the Gefco Group for logistics services. Other trade receivables of the Gefco Group of EUR 405 million (Rbls 32,279 million at exchange rate at 31 December 2015) as at 31 December 2015 are widely dispersed among numerous customers.

The Company's sales of transportation services are principally made on prepayment basis. Accordingly, the Group's receivables, except for receivables of the Gefco Group, are originated by a limited number of customers, primarily governmental agencies. Further, certain Group's debtors for auxiliary services, such as resale of heat and electricity, represent municipal enterprises and governmental organizations.

The most significant debtors of the Group, apart from PSA Peugeot Citroen, are:

- the Agency, which administers federal subsidies due to RZD for compensation of the effects of tariffs' regulation (Notes 8, 24 and 28); and
- the Ministry which administers tariff compensations to RZD for transportation of certain categories of passengers (Notes 8, 11, 24 and 28).

The Group has no practical ability to amend the legislation governing provision of infrastructure access to the suburban passenger companies and provision of the benefits to certain categories of passengers, or to terminate the services to these counterparties. The Group continuously negotiates with federal, regional and municipal authorities the terms of these receivables collection.

The maximum exposure to credit risk is equal to the carrying amount of financial assets as at 31 December 2015 and 2014 which is disclosed below:

	2015	2014
	Rbls mln	*Rbls mln*
Cash and cash equivalents (excluding cash on hand)	177,300	129,275
Bank deposits	851	2,444
Loans issued	2,641	2,693
Receivables	117,656	95,130
Receivables from the Agency (Note 8)	15,768	15,533
Receivables from the Ministry (Note 8)	3,228	–
Derivatives (Note 30)	4,617	4,768
Other	6,915	5,940
Total credit risk exposure	**328,976**	**255,783**

The table below summarizes the ageing analysis of financial assets that are either past due or individually determined to be impaired as at 31 December 2015 and 2014.

	2015		2014	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Cash and cash equivalents (excluding cash on hand)	**177,300**	**–**	**129,275**	**–**
Not past due	154,189	(2,794)	135,320	(8,812)
Past due	14,365	(14,084)	15,481	(15,481)
less than one year	8,679	(8,679)	4,388	(4,388)
more than one year	5,686	(5,405)	11,093	(11,093)
Total	**345,854**	**(16,878)**	**280,076**	**(24,293)**

In the years ended 31 December 2015 and 2014, the movement in allowance for impairment was as follows:

Year ended 31 December 2015

	Balance as at 1 January 2015	**Charge for the year**	**Reversed**	**Utilized**	**Balance as at 31 December 2015**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Allowance on receivables					
Receivables for transportation services	(15,453)	(1,061)	12,093	–	(4,421)
Receivables for logistics services	–	(470)	–	–	(470)
Other accounts receivable	(7,038)	(3,690)	1,415	728	(8,585)
Long term accounts receivable	(1,272)	–	841	–	(431)
	(23,763)	**(5,221)**	**14,349**	**728**	**(13,907)**
Allowance for other financial assets					
Loans issued	(291)	(250)	–	–	(541)
Other financial assets	(239)	(2,191)	–	–	(2,430)
	(530)	(2,441)	**–**	**–**	**(2,971)**
Total	**(24,293)**	**(7,662)**	**14,349**	**728**	**(16,878)**

Year ended 31 December 2014

	Balance as at 1 January 2014	**Charge for the year**	**Reversed**	**Utilized**	**Balance as at 31 December 2014**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Allowance on receivables					
Receivables for transportation services	(12,561)	(3,422)	286	244	(15,453)
Other accounts receivable	(25,306)	(4,052)	22,007	313	(7,038)
Long term accounts receivable	(1,272)	(374)	374	–	(1,272)
	(39,139)	**(7,848)**	**22,667**	**557**	**(23,763)**
Allowance on other financial assets					
Loans issued	(166)	(125)	–	–	(291)
Other financial assets	(2,675)	(381)	2,799	18	(239)
	(2,841)	**(506)**	**2,799**	**18**	**(530)**
Total	**(41,980)**	**(8,354)**	**25,466**	**575**	**(24,293)**

Reversal of bad debt allowance, net of Rbls 8,876 million recognized in the consolidated statement of profit or loss for 2015 (2014: net reversal of Rbls 8,939 million), comprised the following:

- effect of allowance for impairment of receivables charged or reversed comprising the net reversal of Rbls 9,128 million (2014: net effect of reversal of Rbls 14,819 million);
- direct write-off of accounts receivable and other financial assets of Rbls 194 million (2014: Rbls 339 million); and
- change in allowance for impairment of advances issued and input VAT resulting in a net loss of Rbls 58 million (2014: net loss of 5,541 million).

In 2015, the Group recognized impairment of Rbls 2,051 million in respect of cash balances on current and deposit accounts in banks with revoked licenses (31 December 2014: nil). As at 31 December 2015, these assets were reported within other non-current financial assets in the consolidated statement of financial position. Respective impairment loss was included in *Other expenses* of the consolidated statement of profit or loss.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group’s approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Group’s reputation.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Net debt to EBITDA ratio is one of the key financial ratios regularly assessed by the management as a part of its debt level monitoring procedures.

Net debt is calculated as the aggregate amount of borrowings and finance lease obligations less cash and cash equivalents as at the reporting date.

EBITDA is calculated as operating profit after subsidies from federal and municipal budgets before the effects of depreciation, amortization and loss on impairment of PP&E and intangible assets for the period.

Under the Group’s financial strategy net debt to EBITDA ratio should not exceed a multiple of 2.5.

Calculation of net debt to EBITDA ratio as at 31 December 2015 and 2014 is presented below:

	2015	**2014**
	Rbls mln	*Rbls mln*
Total borrowings (Note 15)	1,025,295	914,900
Total finance lease obligations (Note 18)	51,781	48,882
Less:		
Cash and cash equivalents (Note 12)	(177,460)	(129,280)
Net debt	**899,616**	**834,502**
Operating profit after subsidies from federal and municipal budgets	138,471	100,326
Depreciation and amortization	218,644	220,669
Loss on impairment of PP&E and intangible assets	31,350	31,635
EBITDA	**388,465**	**352,630**
Net debt / EBITDA	**2.3**	**2.4**

The management also monitors EBITDA to net interest costs ratio.

The Group prepares a financial plan on a monthly basis which ensures that the Group has sufficient cash on demand to finance expected operational expenses, financial obligations and investing activities. The Group developed standard payment periods in respect of trade accounts payable and monitors the timeliness of payments to its suppliers and contractors.

The following tables summarise the maturity profile of the Group’s financial liabilities based on contractual undiscounted payments, including interest payments. Such undiscounted cash flows disclosed under the requirement of IFRS 7 *Financial Instruments: Disclosures* differ from the amounts included in the statement of financial position because the amounts in that statement are based on discounted cash flows. Thus, the information presented below differs from the information on the carrying values of the financial liabilities disclosed in the respective notes. Repayments, which are subject to notice, are treated as if notice were to be given immediately. Accordingly, the related liabilities were reported as payable within less than 1 year.

As at 31 December 2015	**Less than 1 year** *Rbls mln*	**1 to 3 year** *Rbls mln*	**Over 3 years** *Rbls mln*
Fixed-rate borrowings excluding debt securities issued			
Borrowings excluding interest	24,177	13,959	11,552
Interest on borrowings	3,984	4,031	1,254
Debt securities issued			
Debt securities issued excluding interest	72,294	191,670	712,500
Interest on debt securities issued	89,858	160,020	972,640
Derivative financial instruments			
- Contractual amounts payable	113,400	147,611	204,708
- Contractual amounts receivable	(105,005)	(136,142)	(209,713)
Finance lease obligations	20,410	25,139	33,383
Variable-rate borrowings excluding debt securities issued			
Borrowings excluding interest	8,771	15,976	3,033
Interest on borrowings	1,079	1,113	693
Non-interest bearing liabilities			
Trade and other payables	302,647	–	–
Other current liabilities	47	–	–

As at 31 December 2014	**Less than 1 year** *Rbls mln*	**1 to 3 year** *Rbls mln*	**Over 3 years** *Rbls mln*
Fixed-rate borrowings excluding debt securities issued			
Borrowings excluding interest	81,829	26,321	19,666
Interest on borrowings	8,672	7,220	4,589
Debt securities issued			
Debt securities issued excluding interest	60,750	155,432	559,046
Interest on debt securities issued	51,908	86,219	421,066
Derivative financial instruments			
- Contractual amounts payable	33,501	193,217	161,669
- Contractual amounts receivable	(33,778)	(183,125)	(170,031)
Finance lease obligations	19,437	24,346	33,919
Variable-rate borrowings excluding debt securities issued			
Borrowings excluding interest	5,763	13,785	11,896
Interest on borrowings	849	1,362	569
Non-interest bearing liabilities			
Trade and other payables	243,434	–	–
Other current liabilities	5,737	–	–

Market Risk

Market risk is the risk that changes in market factors will affect the Group's income or the value of its holdings of financial instruments. Market risk comprises currency, interest rate and quoted prices risks.

Currency risk

The currency risk is the risk of losses due to adverse changes in foreign exchange rates with regard to the Group's assets and liabilities denominated in foreign currencies.

The Group maintains centralized currency risk management system which establishes risk policy towards certain currencies and prescribes regular analysis of foreign currency risk exposure. This analysis includes the assessment of open foreign exchange position, forecast modelling of exchange rates and the analysis of deviations between forecast and budget rates. The Group aims at maintaining a neutral open foreign exchange position through offset of outflows in a foreign currency by inflows in corresponding currency.

The Group is exposed to currency risk on selected receivables, payables and borrowings that are denominated in a currency other than the Group companies' functional currencies. The currencies in which these transactions are denominated are primarily CHF, US dollars, GBP and EUR.

Hedge accounting

Starting from 16 July 2015, in accordance with IAS 39 and its approved currency risk management policy, and taking into consideration the increased risk of fluctuations of ruble exchange rate against foreign currencies, the management of the Company has designated borrowings denominated in CHF and US dollars, represented by loan participation notes (Note 15), and related swap contracts as the hedging instruments for future forecasted cash flows from revenues denominated in CHF.

As at the same date, the management has designated a part of EUR denominated borrowings, represented by loan participation notes (Note 15) as the hedging instrument for net investment in Gefco S.A.

Cash flow hedges

Hedged item is represented by forecasted CHF denominated revenue cash flows for cargo-in-transit transportation through Russia. Hedge accounting is applied in respect of steady forecasted revenue for cargo-in-transit transportation for the period from January 2016 to April 2023 considered as highly probable and comprising 78% of such revenue within the specified period.

The exchange rate fluctuations of ruble against CHF are hedged in the above hedging relationship. To the extent the exchange rate changes have effect on the hedging instrument, such effects are recognized in OCI and later reclassified to profit or loss in the period when hedged revenue is recognized.

Hedge of a net investment in foreign operations

Hedged item is represented by the investment of the Company in its subsidiary Gefco S.A. in a part of Gefco Group's operations with EUR as a functional currency.

Exchange rate fluctuations of ruble against EUR are hedged.

Fair value of hedging instruments

Carrying values and fair values of hedging instruments as at 31 December 2015 are presented below:

	Carrying value, including interest	**Fair value**
	Rbls mln	*Rbls mln*
Cash flows hedging instruments		
Loan participation notes (US dollars) (Note 15)	216,146	216,519
Loan participation notes (CHF) (Note 15)	50,598	48,203
Domestic swap contracts (Note 30)	18,512	18,512
Hedging instruments for a net investment in foreign operations		
Loan participation notes (EUR) (Note 15)	59,853	56,977
Total	**345,109**	**340,211**

Effects of hedge accounting application

Effect of revaluation of foreign currency hedging instruments recognized in OCI for 2015 is presented below:

	Cash flows hedging instruments	Hedging instruments of a net investment in foreign operations	Total
	Rbls mln	*Rbls mln*	*Rbls mln*
Accumulated revaluation of hedging instruments as at the beginning of the period	–	–	–
Negative revaluation recognized in the current period	(52,711)	(12,655)	(65,366)
Reclassified to profit or loss	–	–	–
Income tax (Note 27)	10,542	2,531	13,073
Accumulated negative revaluation of hedging instruments as at the end of the period	**(42,169)**	**(10,124)**	**(52,293)**

Ineffective portion of the revaluation of hedging instruments recognized in the consolidated statement of profit or loss for 2015 is presented below:

	2015
	Rbls mln
Cash flow hedges – expense	(759)
Hedge of a net investment in foreign operations – expense	(332)
Total	**(1,091)**

Sensitivity analysis

The following table demonstrates the sensitivity of the Group's profit/loss before taxation (PBT/LBT) to reasonably possible changes in the respective currencies with regard to its net monetary position[2] as at 31 December 2015 and 2014 after consideration of hedge accounting effects and the effects of currency SWAPs with all other variables held constant:

	2015		2014	
	Change in exchange rate	Effect on PBT	Change in exchange rate	Effect on LBT
	(%)	*Rbls mln*	*(%)*	*Rbls mln*
USD/Rbls	+40.0	(1,636)	+51.0	(77)
	-13.0	532	-22.0	33
EUR/Rbls	+43.0	(23,202)	+43.0	(50,383)
	-15.0	8,094	-24.0	28,466
CHF/Rbls	+48.0	(33,456)	+39.0	(103,235)
	-21.0	14,791	-26.0	67,612

Interest rate risk

The interest rate risk is the risk of financial losses due to adverse changes in the interest rates of the Group's financial assets and liabilities.

The Group borrows on both a fixed and variable rate basis and has other interest-bearing liabilities, such as finance lease liabilities. The Group incurs interest rate risk on assets and liabilities with variable interest rate.

In accordance with the policy with regard to acceptable exposure to fixed and variable interest rates, the Group periodically reviews current interest rates and uses the results of such analysis to decide whether attraction of

[2] Net monetary position comprises financial assets net of financial liabilities.

fixed-rate or variable-rate borrowings is more beneficial for the Group. As at 31 December 2015, approximately 75% of the Group's borrowings, including finance lease obligations, were at a fixed rate of interest (31 December 2014: 78%).

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's PBT/LBT (through the impact on variable-rate borrowings) for the years ended 31 December 2015 and 2014.

	2015		2014	
	Change in rate	**Effect on PBT**	**Change in rate**	**Effect on LBT**
	(%)	*Rbls mln*	*(%)*	*Rbls mln*
Variable interest financial liabilities	+6.0	(16,171)	+10.0	(20,841)
	-6.0	16,171	-10.0	20,841

Fair Value Measurement

The Group measures at fair value on a recurring basis certain financial instruments and investment property.

The Group discloses the fair value of its financial instruments as required by IFRS 13 Fair Value Measurement.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2015.

	Fair value measurements using		
	Level 1 inputs	**Level 2 inputs**	**Level 3 inputs**
	Rbls mln	*Rbls mln*	*Rbls mln*
Assets measured at fair value			
Investment property	–	–	16,882
Derivative financial instruments (Note 30)	–	4,617	–
Assets for which fair values are disclosed			
Loans issued	–	2,641	–
Liabilities measured at fair value			
Derivative financial instruments (Note 30)	–	40,299	–
Liabilities for which fair values are disclosed			
Long-term fixed rate loans (Note 15)	–	39,034	–
Debt securities issued			
- Bonds (Note 15)	182,106	20,911	–
- Loan participation notes (Note 15)	485,310	–	–
Finance lease obligations (Note 18)	–	50,857	–

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2014.

	Fair value measurements using		
	Level 1 inputs	**Level 2 inputs**	**Level 3 inputs**
	Rbls mln	*Rbls mln*	*Rbls mln*
Assets measured at fair value			
Investment property	–	–	14,156
Derivative financial instruments (Note 30)	–	4,768	–
Assets for which fair values are disclosed			
Loans issued	–	2,628	–
Liabilities measured at fair value			
Derivative financial instruments (Note 30)	–	32,134	–
Liabilities for which fair values are disclosed			
Long-term fixed rate loans (Note 15)	–	54,377	–
Debt securities issued			
- Bonds (Note 15)	154,643	–	–
- Loan participation notes (Note 15)	334,727	–	–
Finance lease obligations (Note 18)	–	48,696	–

There were no transfers of assets and liabilities between Level 1 and Level 2 during 2015 and 2014.

The carrying amounts of financial instruments that are liquid or have a short term maturity (less than three months), such as cash and cash equivalents, short-term investments, short-term accounts receivable and payable, short-term loans receivable and payable, are assumed to approximate their fair value. This assumption is also applicable to all variable interest financial instruments.

Fair value for quoted financial instruments is determined based on quoted market prices. Fair values of financial instruments where no readily available active market exists are determined using judgment based on current economic conditions and specific risks attributable to the instruments.

With regard to fixed rate financial instruments, the fair value was estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. For CPI-linked bonds, the fair value at initial recognition was estimated using market interest rate at the date of recognition. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for deposits with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those financial liabilities and non-current receivables where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Fair value of derivative financial instruments is calculated based on market conditions with adjustment for credit risk, i.e. including credit default swap ("CDS") curves of banks and countries which are used as the basis for CDS curve of the Company.

The estimates presented herein are not necessarily indicative of the amounts the Group could realize/expense in a market exchange from the sale of its full holdings of a particular instrument.

The following table summarizes differences between the carrying amounts and fair values of financial assets and liabilities of the Group as at 31 December 2015.

	Carrying value including accrued interest	Fair value
	Rbls mln	*Rbls mln*
Financial assets		
Loans issued	2,641	2,641
Bank deposits	851	851
Financial liabilities		
Long-term fixed rate loans (Note 15)	40,362	39,034
Debt securities issued		
- Bonds (Note 15)	205,415	203,017
- Loan participation notes (Note 15)	499,347	485,310
Finance lease obligations (Note 18)	51,781	50,857

The following table summarizes differences between the carrying amounts and fair values of financial assets and liabilities of the Group as at 31 December 2014.

	Carrying value including accrued interest	Fair value
	Rbls mln	*Rbls mln*
Financial assets		
Loans issued	2,693	2,628
Bank deposits	2,444	2,444
Financial liabilities		
Long-term fixed rate loans (Note 15)	55,382	54,377
Debt securities issued		
- Bonds (Note 15)	169,825	154,643
- Loan participation notes (Note 15)	406,989	334,727
Finance lease obligations (Note 18)	48,882	48,696

Management believes that the carrying values of other financial assets and liabilities not detailed in the tables above approximate their fair values as at both 31 December 2015 and 2014.

Capital Management

Capital includes equity attributable to the equity holder of the parent entity.

The Group manages its capital structure in light of changes in economic conditions and may adjust it by issue of new shares and dividend payments to the shareholder.

32. Events after the Reporting Period

Borrowings

In February 2016, the Company entered into a general agreement with PJSC "VTB Bank", related party of the Group, for the issuance of bank guarantees with the limit up to Rbls 10,000 million during the period up to and including 31 December 2020.

In March 2016, the Group partially repurchased and redeemed 8-year loan participation notes, denominated in EUR and placed at the Irish Stock Exchange, in the amount of EUR 98 million (Rbls 7,811 million at the exchange rate as at 31 December 2015) (Note 15).

In April 2016, the Company placed, on domestic market, bonds series BO-07 and BO-05 with the aggregate nominal value of Rbls 20,000 million and Rbls 10,000 million, respectively, maturity of 10 years and a coupon rate of 10.3%. The terms of bonds series BO-07 and BO-05 provide their bondholders with the right for early redemption in the years 2020 and 2023, respectively.

Subsequent to 31 December 2015, the Group entered into a number of credit facility agreements, with maximum financing period of 5 years, with PJSC "Sberbank of Russia", PJSC "VTB Bank", related parties of the Group, and JSC "Alfa-Bank" with aggregate credit limits of Rbls 11,500 million, Rbls 1,300 million and Rbls 3,000 million, respectively.

Aggregate amount of borrowings attracted by the Group subsequent to 31 December 2015 (both under the new and existing loan agreements) comprised Rbls 8,759 million. Also, in 2016, the Group received Euro 30 million (Rbls 2,391 million at the exchange rate as at 31 December 2015) under the new loan agreement.

Subsequent to 31 December 2015, the Group has repaid borrowings of Rbls 7,844 million.

Government Subsidies

The Government of the Russian Federation approved the following subsidies to the Group for the year 2016:

- in the amount of Rbls 37,100 million for compensation of the effect of tariffs' regulation for provision of infrastructure access in suburban transportation;
- in the amount of Rbls 1,304 million for compensation of the effect of tariffs' regulation for transportation of passengers from (to) the Kaliningrad region to (from) other regions of the Russian Federation;
- in the amount of Rbls 20,216 million for compensation of effects from tariffs' regulation for long distance passenger transportation.

Share Capital

In February 2016, the Government of the Russian Federation approved the increase of the share capital of the Company in the amount of Rbls 47,381 million by issuing 47,380,991 common shares with the face value of Rbls 1 thousand each for the purposes of:

- Rbls 12,393 million for realization of high priority investment projects for development of public railway infrastructure including the Moscow region;
- Rbls 100 million for construction of high speed railway Moscow – Kazan;
- Rbls 18,888 million for implementation of investment project Reconstruction of Maxim Gorky – Kotelnikovo – Tikhoretskaya – Krymskaya route;
- Rbls 16,000 million for implementation of investment project Construction of Prokhorovka – Zhuravka – Chertkovo – Bataisk railway line.

Tariffs

As approved by FAS, the regulated long distance passenger transportation tariffs were additionally increased by 7% starting from March 2016.

Taxes

According to amendments to Tax Code of the Russian Federation, long distance public railway transportation of passengers and luggage is subject to VAT of 10% (formerly - 18%) for the period from 1 January 2016 to 31 December 2017.

Commitments

Subsequent 31 December 2015, the Group entered into several contracts for purchase of rolling stock for the total amount of Rbls 48,092 million (including VAT).

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