



Federal
Passenger
Company

LEADER

in passenger mobility

JSC FPC's
Annual Report
was approved
by resolution
of the Board
of Directors dated
24 May 2019
(Minutes No. 22
dated 27 May 2019)

>100

million people

transported by long-distance
trains in 2018

6%

was the growth

of passenger traffic

37%

the growth

in passenger traffic
in double-deckers

MESSAGE FROM THE CEO – CHAIRMAN OF THE MANAGEMENT BOARD, RUSSIAN RAILWAYS

The railway industry proved highly competitive in 2018. Passengers choose rail when they expect faster trips due to higher travelling speeds and a great customer experience.

FPC maintained growth in key metrics during the year by focusing on passenger services operating new types of carriages, while our long-distance trains carried over 100 million people, with passenger km travelled up by 6%. This growth is particularly prominent in the segments of high-speed and daytime trains made up of the newest and latest carriages – our double-deckers carried 37% more passengers than the year before.

Our outstanding service for football fans during the 2018 FIFA World Cup also contributed towards FPC's strong performance and international recognition.

In response to our passengers' evolving needs, we have been consistently replacing and upgrading our carriage fleet while offering new routes, launching marketing campaigns and new high-quality services, and enhancing our digital proposition. More than a half of all long-distance rail tickets are now sold online, driven by the continuous improvements to both our RZD Passengers mobile app and the RZD Bonus Loyalty Programme.

We aim to provide only the very best customer experience across all of our routes, paying close attention to feedback by carefully considering all passenger inquiries.

In the coming years, we are planning to replace or upgrade most of our rolling stock, with innovative types of carriages being designed in collaboration with major Russian manufacturers. We are maintaining our focus on new multimodal and digital services to offer a smooth door-to-door travelling experience and are expanding the routes covered by our high-speed train services. All these initiatives are captured in the Long-Term Development Programme of Russian Railways to 2025.

Oleg Belozеров



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1

COMPANY PROFILE



In **77**

Russian regions

passenger transportation
is carried out

23

international routes

to 19 countries
with in-house trains

459

train pairs

run on the railway
system

COMPANY PROFILE

OUR HISTORY

Carriage operator

2010

FPC was included in the Register of Natural Monopolies.

2011

FPC was officially admitted to the international Organisation for Cooperation of Railways (OSJD) and was made a member of the International Union of Railways (UIC).

2012

FPC was awarded with the Company of the Year 2012 National Award by RosBusinessConsulting (RBC) information agency.

2013

FPC was granted the observer status at the OSJD, enabling representation of the Company's interests at meetings of OSJD's working bodies, which reinforced the Company's position in the international transport market.

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Integrated mobility provider

2014

Credit ratings were assigned to FPC by leading rating agencies.

FPC's Annual Report won the Best Presentation of a Business Model by a Non-Public Company category at the Annual Report Competition by the Moscow Exchange.

2015

FPC won the Best Loyalty Programme by a Transport Company category at the national loyalty marketing competition Loyalty Awards Russia 2015.

A double-decker train seating 1,320 from Moscow to Voronezh was entered into the Russian Book of Records as "the year-round scheduled long-distance train with the most passenger seats".

FPC's Annual Report won the Best Presentation of a Business Model by a Non-Public Company category for the second time at the Annual Report Competition by the Moscow Exchange.

2016

FPC's 2015 Annual Report won the Best Annual Report by a Non-Public Company category at the Annual Report Competition by the Moscow Exchange.

FPC won the Best Employer for Young People 2016 award in the Reliable Partnerships category.

The Year of the Passenger Programme was successfully implemented: in 2016, FPC reversed its declining passenger rates for the first time in five years, achieving a growth of 4%.

2017

FPC won the Moscow government's Best Employer for Young People 2017 award for Efficient Fulfilment of Student Team Potential.

2018

FPC's 2017 Annual Report was awarded the second prize in the Best Presentation of a Business Model by a Non-Public Company at the Annual Report Competition by the Moscow Exchange.

FPC's 2017 Annual Report was also shortlisted for the Best Annual Report by a Non-Public Company.

FPC won an award for promoting corporate volunteering, granted by the Volunteer Centres Association at the International Volunteer Forum.

FPC successfully passed a QMS inspection for compliance with GOST R ISO 9001-2015 (Quality Management Systems – Requirements).



STATE AND RESTRUCTURING

2010

Restructuring of long-distance rail passenger services was completed under Stage III of the Railway Restructuring Programme.

2011

Regulatory and legal framework for calculating revenue shortfall was finalised.

2012

Cooperative agreements were signed with the governments of the Republic of Karelia, the Komi Republic, and the Republic of Ingushetia.

2013

The Plan to Develop and Implement a Mechanism for Long-Term Subsidising of Long-Distance Rail Passenger Transport was approved by instruction of the Russian Deputy Prime Minister Arkady Dvorkovich.

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2014

Third-class open sleeping and fourth-class seating carriage fares were reduced following a resolution by the Federal Tariff Service (FTS of Russia).

In accordance with Resolutions of the Russian Government No. 1223 dated 19 November 2014 and No. 1044 dated 11 October 2014, FPC was entitled to subsidies covering part of its interest expenses under loans granted to purchase rolling stock (double-decker carriages) and included as a beneficiary of the Programme to Support Investment Projects in Russia Based on Project Financing Arrangements.

2015

The Russian Government resolved to reduce the VAT rate from 18% to 10% for long-distance rail passenger services between 1 January 2016 and 31 December 2017.

2016

The Russian Government resolved to reduce the VAT rate for long-distance rail passenger services from 10% to 0% between 2017 and 2030.

The Federal Antimonopoly Service (FAS) of Russia agreed to reduce infrastructure tariffs for higher-speed trains travelling at 91 to 140 km/h.

2017

The draft Development Strategy of JSC FPC to 2030 was prepared.

The VAT rate applicable to long-distance rail passenger services was reduced from 10% to 0% until 2030.

2018

A federal law allowing carriers to sell non-refundable tickets was adopted on 18 April 2018 with effect from 1 January 2019.

BUSINESS DEVELOPMENT

2010

FPC commenced independent operations.

2011

Online registration was made available on all FPC's domestic trains.

The Russian Railways website was modified to enable mobile sales of e-tickets for FPC's trains.

A controlling share of LLC RZD Travel was acquired to expand FPC's presence in the rail travel market.

2012

The Development Strategy of JSC FPC to 2030 was approved.

Ticket sales on credit were launched.

Technology for including trains in the general turnaround schedule was expanded.

FPC-Logistics, a logistics subsidiary focused on unaccompanied baggage and mail transport, was established.

The Revenue Management System and RZD Bonus Loyalty Programme were launched.

Car transporters were put into service.

2013

A double-decker train was launched on the Moscow-Adler route.

A co-branded card was launched with Bank VTB 24 (PJSC).

A unified maintenance facility for double-decker rolling stock was launched at the Mineralnye Vody depot.

The procedure for e-ticket purchases and cancellations was simplified, and the English version of the website for ticket purchase was launched.

The High-Speed Traffic Improvement Programme was implemented.

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2014

A pilot project on multimodal transport was implemented (Moscow–Valuyki).

FPC fully adopted technology for transporting baggage in a dedicated compartment.

Lastochka electric trains were launched.

The Cost Optimisation Programme was implemented, bringing RUB 15 billion in savings. Total effect in 2010–2014 reached RUB 39 billion.

2015

The high-speed Strizh train made up of Talgo carriages was launched on the Moscow–Nizhny Novgorod route.

A double-decker train made up of carriages with seats was launched between Moscow and Voronezh.

Sales of e-tickets for multimodal routes were launched.

The Cost Optimisation Programme was implemented, bringing RUB 15.7 billion in savings.

2016

The new international Strizh train embarked on its first passenger journey from Moscow to Berlin with a travel time of 20 hours – a 4.5-hour reduction.

Booking windows for domestic trains were increased to 60 days.

Trains to resort destinations were accelerated.

Passengers were provided the option to use bank cards to pay for goods purchased on board all FPC trains.

Shower rooms were made available on 93 trains operated by FPC.

2017

Over 3 million customers registered with the RZD Bonus Loyalty Programme of RZD Holding.

Booking windows for domestic trains were increased to 90 days.

The Russian Railways website launched sales of e-tickets for wheelchair users and their accompanying persons.

Sales of e-tickets for trains going to and from the Kaliningrad Region via Lithuania were launched on the Russian Railways website.

During the FIFA Confederations Cup 2017, 42 additional trains for 262 journeys were added to the schedule.

Free transport totalling 33% of all passenger seating was provided for 52,900 football fans, and additional stops were introduced at Vladimir and Tver.

FPC conducted its first Net Promoter Score (NPS) survey, with an overall score registered at 4.1 on a five-point scale.

2018

Passenger km and the number of passengers carried increased by 6% and 8%, respectively, in 2018 – the largest year-on-year increases in FPC's history.

A record high number of passenger carriage replacements and upgrades was conducted (a 70% increase year-on-year).

Over 4 million customers registered with the RZD Bonus Loyalty Programme of RZD Holding (a 35% increase year-on-year).

Further progress was made on new online passenger services such as electronic queue management at railway stations, refund notifications through a customer's personal account on the Russian Railways website, e-ticket booking for subsidised categories of passengers on presenting coupons from the Social Insurance Fund.

The Russian Railways website was modified to enable the sale of electronic carriage documents for baggage, pets, and hand luggage on FPC's trains.

During the 2018 FIFA World Cup Russia, free transport was provided for 318,900 football fans, with 734 journeys run by free trains across 31 routes.

GEOGRAPHY

RUSSIAN RAILWAYS RAIL INFRASTRUCTURE

Federal Passenger Company is a national rail passenger carrier of the Russian Federation, and an entity subject to antimonopoly regulation.

Russian Railways rail infrastructure forms the basis of FPC's route network (over 85,500 km as at the end of 2018) – the world's third-longest rail network.



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FPC provides rail passenger services across 77 out of 85 Russian regions, ensuring transport accessibility and connectivity between regions.

FPC operates 23 international routes, providing direct and transit passenger services by its trains to and from 19 countries.

FPC's organisational structure includes administration, 13 regional branches, three subsidiaries, one central carriage site, and seven centres. The branches comprise 23 passenger carriage depots, 32 carriage sites, ten railway agencies, and the Vehicle Transport Centre.

The Company's route network includes several routes within Russia for which no other alternative modes of transport are available, such as Tynda-Komsomolsk, Petrozavodsk-Kostomuksha, Kamyshin-Moscow, and Tomsk-Bely Yar.

Neryungri

Khabarovsk

Blagoveshchensk

Bratsk

Krasnoyarsk

Chita

Ulan-Ude

Irkutsk

Vladivostok

More than
85,500

km

of the Company's
route network –
railway infrastructure
of Russian Railways

77

Russian regions

are covered by JSC FPK

18,000

carriages

are available
in the Company's
rolling stock fleet

61,000

employees

work in the Company

18

years

is average fleet age

The Company's headcount is 61,000 employees. FPC's rolling stock fleet counts 18,000 carriages within 459 train pairs. The average fleet age is 18 years.

TYPES OF ACTIVITIES

FPC engages in:

- Rail passenger services on domestic routes in the regulated sector using:
 - third-class open sleeping carriages
 - fourth-class seating carriages
 - motorised carriages
- Rail passenger services on domestic routes in the deregulated sector using:
 - deluxe and saloon carriages
 - first-class sleeping compartment carriages
 - second-class sleeping compartment carriages
 - carriages with seats
 - “special order” passenger services and regular tourist trips
 - movement of third-party carriages on FPC trains on domestic routes
 - ensuring the mileage of cars of third-party companies in trains of JSC “FPC” in domestic communication
- International long-distance passenger services:
 - passenger services on international routes
 - movement of third-party carriages on FPC trains running on international routes
- Baggage, unaccompanied baggage, and mail transport:
 - baggage transport
 - unaccompanied baggage transport
 - movement of carriages for freight forwarders on FPC trains
- Other lines of business:
 - repair and maintenance of clients’ rolling stock
 - providing additional services on trains
 - other types of activities:
 - leasing rolling stock
 - leasing real estate and equipment.

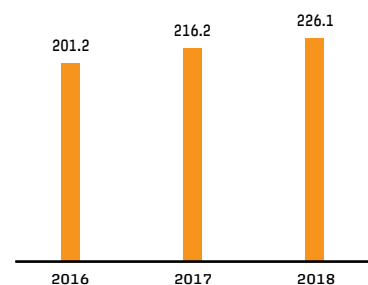
COMPETITIVE ADVANTAGES OF LONG-DISTANCE TRAINS

Competitive advantages of FPC’s long-distance trains:

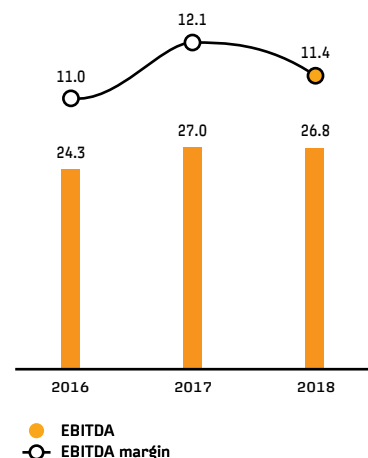
- passenger safety
- comfortable travel
- provision for the carriage of passengers with special needs
- children up to five years old travelling free of charge
- minimum commission charged for ticket cancellation and reissue; cancellations and refunds can be processed via the website
- increased baggage allowance: second-class sleeping compartment carriage – up to 36 kg; deluxe carriage – up to 50 kg
- no lengthy check-in procedure and railway station proximity to centres of cities and other locations
- an environmentally-friendly and safe mode of transport.

¹ The decline in the EBITDA margin as compared to 2017 was due to expenses (105.8% of the 2017 level) outstripping revenue growth (104.6% of the 2017 level) as a result of higher locomotive lease costs.

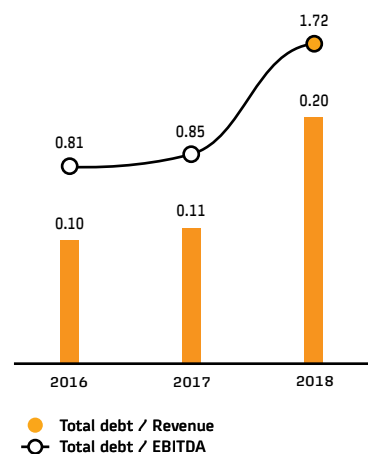
OPERATING REVENUES, RUB BILLION



EBITDA AND EBITDA MARGIN (INCLUDING SUBSIDIES)¹



TOTAL DEBT/EBITDA (INCLUDING SUBSIDIES) RATIO AND TOTAL DEBT/REVENUE RATIO



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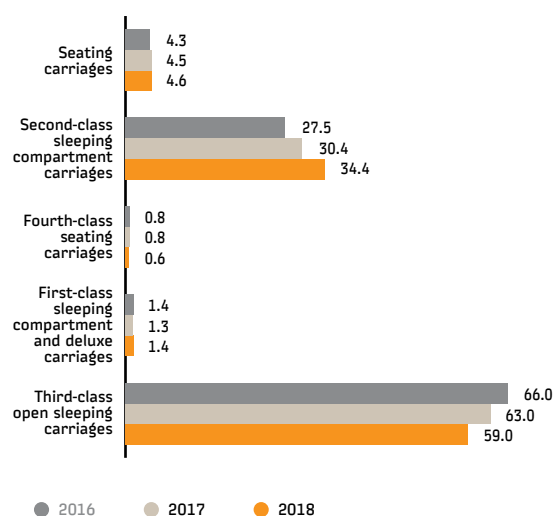
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KEY METRICS

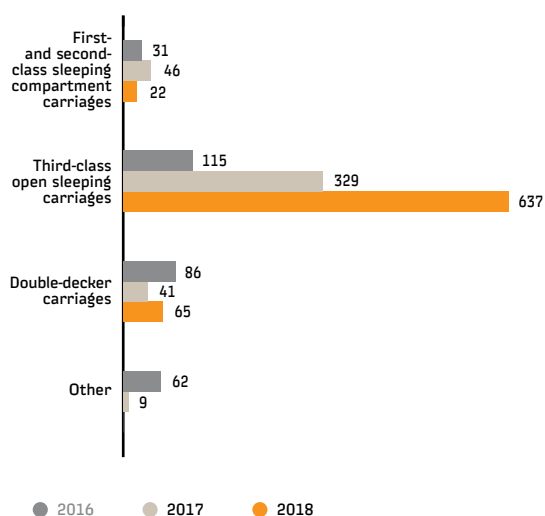
OPERATING HIGHLIGHTS

| METRICS | 2016 | 2017 | 2018 | CHANGE 2018/2017, % |
|---|------|------|-------|------------------------|
| Passenger km travelled, billion | 89.5 | 87.0 | 91.6 | 105.3 |
| On FPC's trains | 85.1 | 82.8 | 87.7 | 106.0 |
| Deregulated segment | 26.0 | 28.1 | 33.6 | 119.5 |
| Domestic traffic | 24.3 | 26.5 | 31.9 | 120.4 |
| Interstate traffic | 1.7 | 1.7 | 1.8 | 106.4 |
| Regulated segment | 59.1 | 54.6 | 54.1 | 99.0 |
| On trains of the CIS and Baltic states | 4.4 | 4.2 | 3.8 | 91.8 |
| Passengers carried, million | 93.8 | 95.1 | 102.0 | 107.2 |
| Deregulated segment | 31.1 | 35.2 | 41.7 | 118.4 |
| Regulated segment | 62.7 | 59.9 | 60.3 | 100.6 |
| Average number of carriages in a train, carriages | 12.7 | 12.8 | 12.7 | 100.0 |

PASSENGER KM BY CARRIAGE TYPE, %



ROLLING STOCK ACQUISITION, CARRIAGES



FPC'S PEER COMPANIES

KEY OPERATING METRICS OF FPC AND ITS INTERNATIONAL PEERS

| METRICS | FPC | | DB BAHN LONG DISTANCE ¹ | | SNCF VOYAGES ² | |
|------------------------------------|------|-------|------------------------------------|-------|---------------------------|-------|
| | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| Passengers carried, million people | 95.1 | 102.0 | 142.2 | 147.9 | 120.0 | 127.0 |
| Revenue, EUR billion ³ | 3.1 | 3.1 | 4.3 | 4.7 | 7.4 | 7.4 |

DB BAHN LONG DISTANCE (GERMANY)

DB Bahn Long Distance is a Deutsche Bahn Group business unit providing national and cross-border long-distance rail services and road transport services, and comprising several carriers with a wide geography of operations across a range of business segments.

Rolling stock repair, maintenance, and management, as well as communications and IT technology services are provided by specialist companies within DB Services, another Deutsche Bahn Group business unit.

SNCF VOYAGES (FRANCE)

Voyages is a business unit of SNCF Holding, which comprises several companies offering rail and bus services in Europe, as well as specialist companies engaged in sales, customer relations, IT, and rolling stock management.

Repair operations are not part of the unit's activities and are provided by Masteris, a company within the Holding that provides services to SNCF Holding and third-party customers across Europe.

JSC FPC

FPC is the national operator of long-distance rail passenger services. Unlike the cited peer companies, FPC's activities cover the majority of significant business processes: acquisition, maintenance, and repair of rolling stock, sales organisation, revenue collection, as well as management and administration, IT, and communications. FPC has 13 regional branches and an extensive network of depots and carriage sites, as well as ample amount of highly skilled personnel to support all business processes. FPC currently does not provide road transportation services but is considering entry into this market segment in line with the Long-Term Development Programme of Russian Railways to 2025.



¹ Deutsche Bahn – Deutsche Bahn Facts & Figures 2018.

² SNCF – SNCF Mobilités group annual financial report (2018).

³ FPC's revenue is expressed in EUR using the average annual exchange rate for 2018: EUR 1 = RUB 74.133.

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INVESTMENT APPEAL

Key drivers of FPC's investment appeal:

- a monopolistic position in the long-distance rail passenger transport market in Russia
- FPC is vital both socially and strategically to Russia as the main transport operator for long- and medium-distance travel spanning most of the country, including travel to regions with extreme natural and climatic conditions and lacking road and air infrastructure
- significant growth potential of population mobility
- railway services to support major passenger flows in Russia
- a conservative financial policy and low debt level
- state-regulated fares for long-distance rail passenger services and compensation of revenue shortfall paid by the Russian Government
- low competition from international companies in the domestic rail passenger services market due to high entry barriers for new players entering the Russian market
- strategic importance in achieving the long-term objectives of the state-owned RZD Holding.

CREDIT RATINGS

In early 2018, rating agencies upgraded FPC's credit ratings:

- Moody's to an investment grade "Baa3", with a positive outlook (one notch higher than the sovereign credit rating)
- Standard & Poor's to "BBB-", with the stable outlook changed to negative in March 2018.

Fitch affirmed its "BB+" rating, with a positive outlook.

In December 2018, the Russian national rating agency ACRA affirmed its "AA+(RU)" high credit quality rating for FPC, with a stable outlook.

FPC'S CREDIT RATINGS AS AT THE END OF 2018

| AGENCY | RATING | OUTLOOK |
|-------------------|---------|----------|
| Moody's | Baa3 | positive |
| Standard & Poor's | BBB- | negative |
| Fitch | BB+ | positive |
| ACRA | AA+(RU) | stable |

Events after the reporting date:

- in February 2019, Moody's upgraded FPC's rating to "Baa2" with a stable outlook. FPC's current rating from Moody's is one notch higher than the sovereign credit rating
- in March 2019, Fitch upgraded FPC's rating to "BBB-" with a positive outlook.

Consequently, since Q1 2019, the Company has investment grade credit ratings from all three leading global rating agencies.

KEY EVENTS IN 2018

POPUTCHIK (FELLOW PASSENGER) MULTIMEDIA PORTAL

In 2018, FPC continued to develop its Poputchik (Fellow Passenger) multimedia portal service offered on the Company's branded trains. The portal's standard services include:

- an interactive map of the journey's route with details of tourist attractions located both along it and generally across Russia
- the train schedule
- train-related information
- on-board store
- on-board restaurant (delivery service)
- on-board feedback feature
- news and games

- Luchshe Poezdom (Better by Train) magazine
- educational films produced by the Russian Geographical Society.

Value-added services are offered to passengers in deluxe, first- and second-class sleeping carriages: on-board movies, audiobooks, press, books, music streaming, and internet access (provided there is coverage from any available mobile data network).

THE LUCHSHE POEZDOM (BETTER BY TRAIN) AND VOLSHEBNOYE PUTESHESTVIYE (MAGICAL JOURNEY) ON-BOARD MAGAZINES

Since 2018, the Company's passenger communications include an on-board monthly titled Luchshe Poezdom (Better by Train). The publication features stories about comfortable and exciting rail journeys and about Russian cities' tourist attractions and cultural traditions. The magazine's circulation exceeds 70,000 copies. It is distributed in branded trains, trains with seating accommodation, and international trains.

Children travelling first and second class in sleeping carriages are offered an entertainment magazine titled Volshebnoye Puteshestviye (Magical Journey).

DEVELOPING RZD HOLDING'S RZD BONUS LOYALTY PROGRAMME

On 6 June 2018, FPC and Sberbank signed a cooperation and collaboration agreement. The agreement formalises the Parties' intentions to establish a partnership between the Spasibo from Sberbank and RZD Bonus loyalty programmes with points made transferable between the two. The two companies are also considering cooperation in yet another area – running joint socially significant projects, such as offering rail fare discounts to holders of Sberbank's Social Debit and Youth Debit cards. Holders of Youth Debit cards will enjoy a 25% fare discount, whereas the discount to be offered to Social Debit card holders will be determined later.

The RZD Bonus Programme has also partnered with Raiffeisenbank. As from June 2018, all Raiffeisenbank customers may exchange their points earned under the #vsesrazu (all-at-once) loyalty programme for RZD Bonus Programme points and use them to buy tickets for FPC long-distance trains, as well as Sapsan and Allegro trains.

ENHANCING NEW SERVICES

As from July 2018, FPC offers a new service: pet owners may have their pets carried in long-distance trains' baggage compartments unaccompanied. In November 2018, the routes covered by the service were expanded, and pets can now travel on 277 trains travelling across Russia.

In July 2018, the Company launched the Business Pass service for Strizh higher-speed trains running between Moscow and Nizhny Novgorod. The service targets frequent travellers, offering a number of benefits: paying a fixed fare, travelling by any class available under the customer's fare plan, and cancelling tickets without additional service charges.

In October 2018, the FPC Market service was made available to our passengers, functioning as an online store. It offers a selection of gifts, personal hygiene products, snacks, and confectionery. Once a customer has purchased a train ticket, the online store's products can be ordered and paid for in the My Orders section on the Russian Railways website. The purchased items are then delivered to the traveller by a train attendant.

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SOCIAL EDUCATIONAL PROJECTS

The Geographical Dictation

In 2018, the Geographical Dictation held by the Russian Geographical Society (RGS) took place on FPC trains for the second year running.

The dictation was conducted on Strizh higher-speed trains No. 703 from Nizhny Novgorod to Moscow, No. 704 from Moscow to Nizhny Novgorod, and No. 13 from Moscow to Berlin. A total 95 passengers took part in the event, testing their knowledge of geography and demonstrating their map interpretation skills.

The RGS “Golden Fund” – a joint project between the Russian Geographical Society and FPC

Federal Passenger Company's cooperation with the Russian Geographical Society goes back several years, with a number of science popularisation projects successfully implemented since the partnership started.

As part of the RGS “Golden Fund” project, passengers of the Rossiya branded train No. 1/2 operated on the Moscow–Vladivostok route which set off from Yaroslavsky railway station on 15 November 2018

had the opportunity to enjoy decorative design exhibition selected items from the RGS “Golden Fund” collection. The design featured reproductions of original historical documents, rare books, maps, and highly valuable exquisite items from the 15th to 20th centuries.

The Traveller's Library

In 2018, the Traveller's Library, FPC's non-profit cultural and educational project, was continued on both international and domestic trains. The project offers passengers classics by Russian and international authors, in Russian and in foreign languages, for any age group.

The Traveller's Library service is currently available on 17 domestic and international trains.



FPC PRESENTED A MODEL OF AN UPGRADED THIRD-CLASS OPEN SLEEPING CARRIAGE AT THE TRANSPORT OF RUSSIA INTERNATIONAL FORUM

At the Transport of Russia 2018 international forum, FPC presented a full-size model of a section of an upgraded third-class sleeping carriage by Vağonremmash.

The carriage's design features a new interior space solution, the main advantage of which is an option of getting personal space through partitions with built-in access ladders and personal screens which give privacy to every traveller.

The upgraded carriage has wide, long sofas with headrests, individual lights, power sockets, USB ports, and special storage compartments for personal items at the head of each berth. Tables are made of non-flammable plastic and feature built-in wireless chargers. Upper-berth travellers now have an extra table.

WISH LIST CARRIAGE MARKETING CAMPAIGN

On 26 and 27 December 2018, the New Year marketing campaign Wish List Carriage was run on branded train No. 015, Ural Premium, en route from Yekaterinburg to Moscow. As passengers were boarding the train, they were given wish list forms and asked to specify the gifts they would like to receive on the New Year's Eve. While the train was travelling, FPC employees who acted as "helpers" for Grandfather Frost and the Snow Maiden fetched the requested gifts and brought them to the train at an intermediate stop. Then Grandfather Frost

and the Snow Maiden went through the train, handing out the gifts requested by the travellers, along with some sweet extras.

2018 FIFA WORLD CUP

The 2018 FIFA World Cup games were held in 11 cities of Russia.

For the first time in the Cup's history, fans were granted free rail travel to host cities¹.

Spectators were granted free travel to cities hosting the matches they were attending provided they had:

- a valid football match ticket or a document that entitled them to receive one
- an official ID
- a hard-copy FAN ID.

During the days of the World Cup, 75 additional trains were made up by nine branches of the Company, performing 734 free train runs to serve football fans, with 318,900 fans using the free service.



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¹ FPC's costs were subsequently reimbursed by regional authorities.

Train attendant teams for these additional trains were staffed with our best front-line people from train attendant teams with exemplary customer service recognised with a Trust Certificate (a corporate service quality award).

A total of 2,636 FPC train attendant team members completed the Serving Travellers during the Days of the 2018 FIFA World Cup training course, with 434 train attendants taking crash courses in English. In addition, all train attendant teams took ad-hoc professional training covering football culture, rules for effective communication, including cross-cultural communication, handling problem passengers, and the basics of stress management.

On FPC trains, the Poputchik (Fellow Passenger) multimedia portal service was made available to all travellers. The portal provides passengers with on-board access to regular internet services and multimedia (press, books, music streaming, films, games, etc.) regardless of whether 3G/4G mobile networks are available. A total of 97,700 passengers used the portal.

Transport security officers were travelling on all additional passenger trains made up to serve football fans.

The event organisers, the FIFA leadership, and, most importantly, football fans highly commended the superior customer service provided on our trains.





2

DEVELOPMENT STRATEGY



286

RUB billion

estimated investment amount by 2025
(accrued since 2019)

53

RUB billion

estimated EBITDA
in 2025

20

RUB billion

estimated net profit
in 2025

DEVELOPMENT STRATEGY

MESSAGE FROM THE CHAIRMAN

Dear colleagues and shareholders,

Throughout its history, FPC has performed an important function for society by serving as a national long-distance rail carrier that connects cities, regions, and countries.

Long-distance rail services have increasingly become the travel option of choice for Russian citizens. In 2018, we dispatched over 227,000 long-distance passenger trains, and 99.41% of scheduled departures from originating and turnaround stations were on time. Improved customer service and our expanded route network contributed to a 6.0% year-on-year increase in passenger km travelled on FPC's trains to 87.7 billion passenger km in total for the year.

We continued to expand our long-distance route network in 2018, launching a new express train service between Veliky Novgorod and Nizhny Novgorod – a route which connects several large regions of Russia. We also launched new double-decker trains between Izhevsk and Moscow. The new international train service No. 363/364 between Tomsk and Karaganda has been in operation since 9 December 2018. Additionally, 19 new year-round scheduled trains were introduced on our most popular routes.

Operating modern rolling stock is a key component to providing a high-quality rail passenger service. In 2018, FPC increased its budget for acquiring new carriages and continued to replace and upgrade its passenger rolling stock. In 2018, we acquired a total of 724 new passenger carriages through our investment programme, including 659 single-decker and 65 double-decker carriages, while 584 carriages were repaired.

The number of passengers on double-decker trains has been growing, with 4.5 million recorded in 2018. Modern double-decker trains provide comfort for travellers while carrying double the amount of passengers their conventional counterparts do.

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In pursuit of high standards in passenger comfort, FPC presented a model of an upgraded third-class open sleeping carriage at the Transport of Russia international forum. The carriage's interior was reconceptualised, featuring comfortable berths, partitions with built-in ladders, and personal screens to provide each traveller with a comfortable level of privacy.

In order to drive customer demand for rail passenger services, we ran a number of marketing campaigns during the year and our RZD Bonus Loyalty Programme was also expanded. The programme is highly popular among passengers, with its member count rising over 4 million in 2018.

To sum up, I can confidently state that 2018 was a year of records and transformations for FPC. I am certain that in 2019 the Company will stay true to its mission: the provision of safe, reliable, and comfortable passenger services.

Dmitry Pečov



COMPANY STRATEGY



As a key business unit of RZD Holding, FPC's operations are focused on achieving financial, economic, and volume targets set out in the Long-Term Development Programme of Russian Railways to 2025 (LDP) approved by the Russian Government. As part of the effort to develop the LDP and to ensure the achievement of its goals related to long-distance passenger services, FPC designed a draft Long-Term Development Strategy to 2030 and set up a strategic project management office responsible for monitoring the progress on FPC-relevant strategic goals of Russian Railways' LDP.

MISSION

We are improving the quality of life by offering extremely safe, affordable, and comfortable passenger experience.

VISION

FPC is Russia's leader in passenger mobility, being a highly efficient, financially sound, and customer-focused company that strives to enhance value while ensuring sustainable development in passenger mobility across travel classes and regions of Russia as it transitions to franchise contracts for regular rail passenger services.

Russia's leader in passenger mobility

- a national carrier providing traditional and high-speed long-distance rail passenger services both in Russia and abroad
- the leader by passenger traffic in long-distance transport in Russia
- the leader in long-distance ticket aggregation services offering single multimodal tickets connecting rail passenger services across Russia's regions with bus and air transport services at complementary destinations, as well as providing the most convenient range of multimodal route options covering the most popular, key long-distance destinations.

118

million passengers

will be carried
in 2025

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Highly efficient, financially stable company

- maximising financial results and ensuring self-sufficiency in operations.

330

RUB billion

estimated earnings in 2025

Customer-focused company

- a leader in service quality in long-distance land transport providing high-quality value proposition and a comfortable long-distance travel experience, including transit connections with other modes of transport and multimodal transport services.

236

RUB billion

total amount of rolling stock purchases from 2019 till 2025

Socially responsible company

- sustainably developing mobility across travel classes and regions of Russia, including operating less technically profitable routes through franchise contracts for regular rail passenger services.

54

billion pkm

passenger turnover in the regulated passenger transportation segment in 2025

STRATEGIC GOALS OF THE COMPANY

According to the LDP, the Company's main focus will be on significantly increasing the average train speeds, developing comprehensive combined transport operations (such as multimodal transport services), increasing passenger traffic on the busiest routes in Russia, and improving the competitiveness of our existing services. The Company will also continue to act as a public carrier, which means servicing single or socially significant routes.

The LDP's key targets relevant to FPC address changes in the transport market, the competitive situation, evolving customer requirements,

and development trends in the passenger transport regulatory environment. FPC's Strategy assumes the Company retains its current role within the long-term strategic development programme of RZD Holding.

FPC today

2018

FPC's Strategy goals

FPC tomorrow

2025 (LDP)

Passenger turnover

92

billion passenger km



107

billion passenger km

RAIL CARRIER

Reliance on subsidies, insufficient customer focus, ageing fleet, complex value proposition, network optimisation potential, limited multimodal offering

Passengers transported

102

million passengers



118

million passengers

RUSSIA'S LEADER IN PASSENGER MOBILITY

A highly efficient, customer-focused company that strives to enhance value while improving passenger mobility across travel classes and regions of Russia as it transitions to franchise contracts for regular rail passenger services

Net profit

6

RUB billion



20

RUB billion

Market share¹

28

%



32

%

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¹ Including personal transport.



Target performance indicators have been set for the Company until 2021.

FPC TARGET PERFORMANCE INDICATORS

| INDICATORS | 2018 | | 2019 | 2020 | 2021 |
|--|--------|--------|---------------------|--------|--------|
| | PLAN | ACTUAL | | | PLAN |
| Investment volume net of VAT, RUB billion | 44.9 | 43.9 | 42.1 | 45.3 | 47.9 |
| Revenue, RUB billion | 217.4 | 226.1 | 231.7 | 243.0 | 256.2 |
| EBITDA margin (incl. subsidies), RUB billion | 22.5 | 26.8 | 27.7 | 33.8 | 38.7 |
| Federal subsidies, RUB billion | 8.5 | 8.6 | 7.7 | 8.5 | 8.6 |
| Traffic safety, incidents per million train km | 0.0098 | 0.0049 | 0.0064 ² | 0.0063 | 0.0062 |
| Labour productivity growth rate, % | 105.0 | 108.5 | 103.5 | 101.2 | 105.0 |
| Passenger km travelled, billion | 88 | 92 | 92 | 93 | 98 |
| Net profit, RUB billion | 2.2 | 6.1 | 5.0 | 8.3 | 11.0 |

² Including service companies providing rolling stock maintenance services.

STRATEGIC AREAS OF DEVELOPMENT

Network

Fundamental rail network optimisation is planned:

- in the under 1,500 km route segment:
 - accelerate trains
 - increase capacity
- in the over 1,500 km route segment:
 - improve efficiency
 - implement a hub-based model
 - develop high speed lines.

Fleet

Over 4,400 carriages will be retired from FPC's passenger fleet between 2019 and 2021. To compensate for the carriage fleet shortage, the Company has significantly increased the previously planned investment into rolling stock replacement and upgrades.

5,200 carriages (a third of the total rolling stock) will be replaced between 2019 and 2025. The innovative rolling stock will make up approximately 36% of the total rolling stock by 2025.

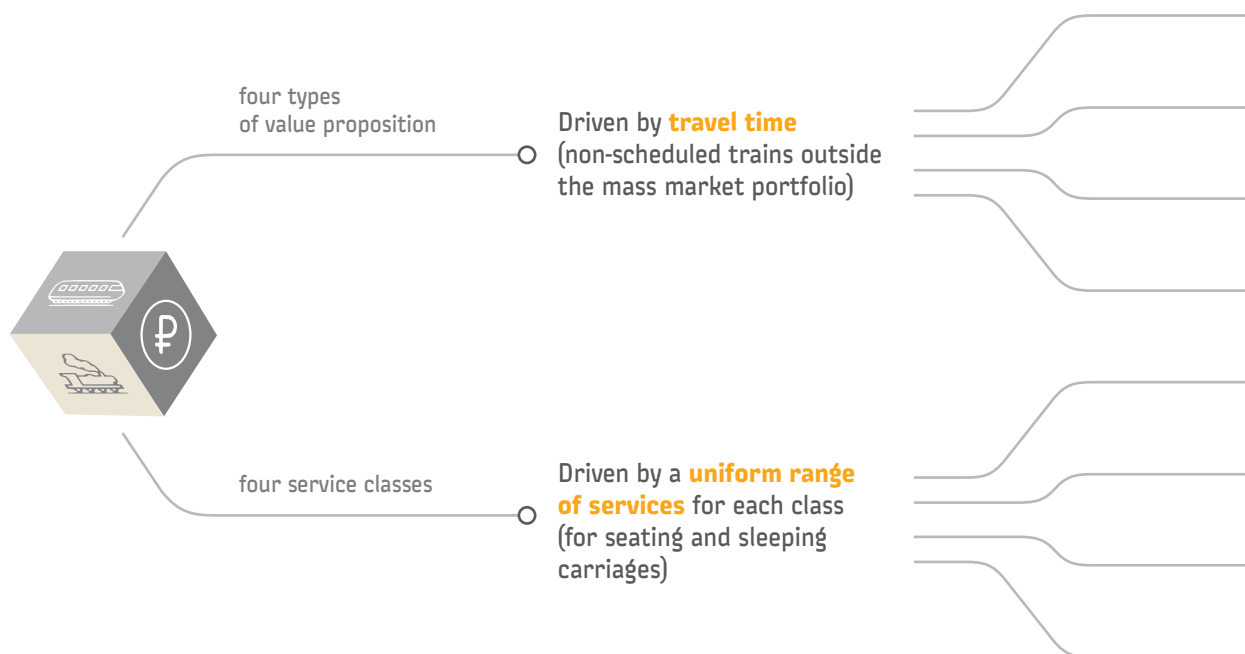
The carriages will be purchased under the long-term contract signed with JSC TVZ, valid until 2025 and providing for the supply of rolling stock in four batches:

- existing model range (Batch 2018)
- new single-decker carriages (Batch 2019)
- new double-decker carriages (Batch 2020)
- innovative single-deckers and double-deckers (Batch 2023).

The rolling stock will feature an improved carriage design characterised by:

- personal space and privacy during rest
- spacious accommodation and freedom of movement
- low floors for easy boarding and barrier-free environment
- dedicated baggage areas
- advanced technical equipment
- IT-driven development (Digital Railway).

FPC's target product portfolio



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Product offering

The Company is planning transition to a new unified high-quality product offering which includes:

- four train types – daytime express trains, night trains, traditional trains, and tourist trains
- four service classes – business, comfort, economy, and economy budget.

Multimodality

The Company provides transport services across six multimodal routes. A positive financial result in this segment was first achieved in 2018.









FPC is planning to further grow sales of its multimodal services and improve the performance of its existing routes by:

- running a marketing study across the Company's network to identify opportunities within the multimodal segment
- developing a ticket aggregation system for various modes of transport
- building a programme to launch FPC's multimodal services.

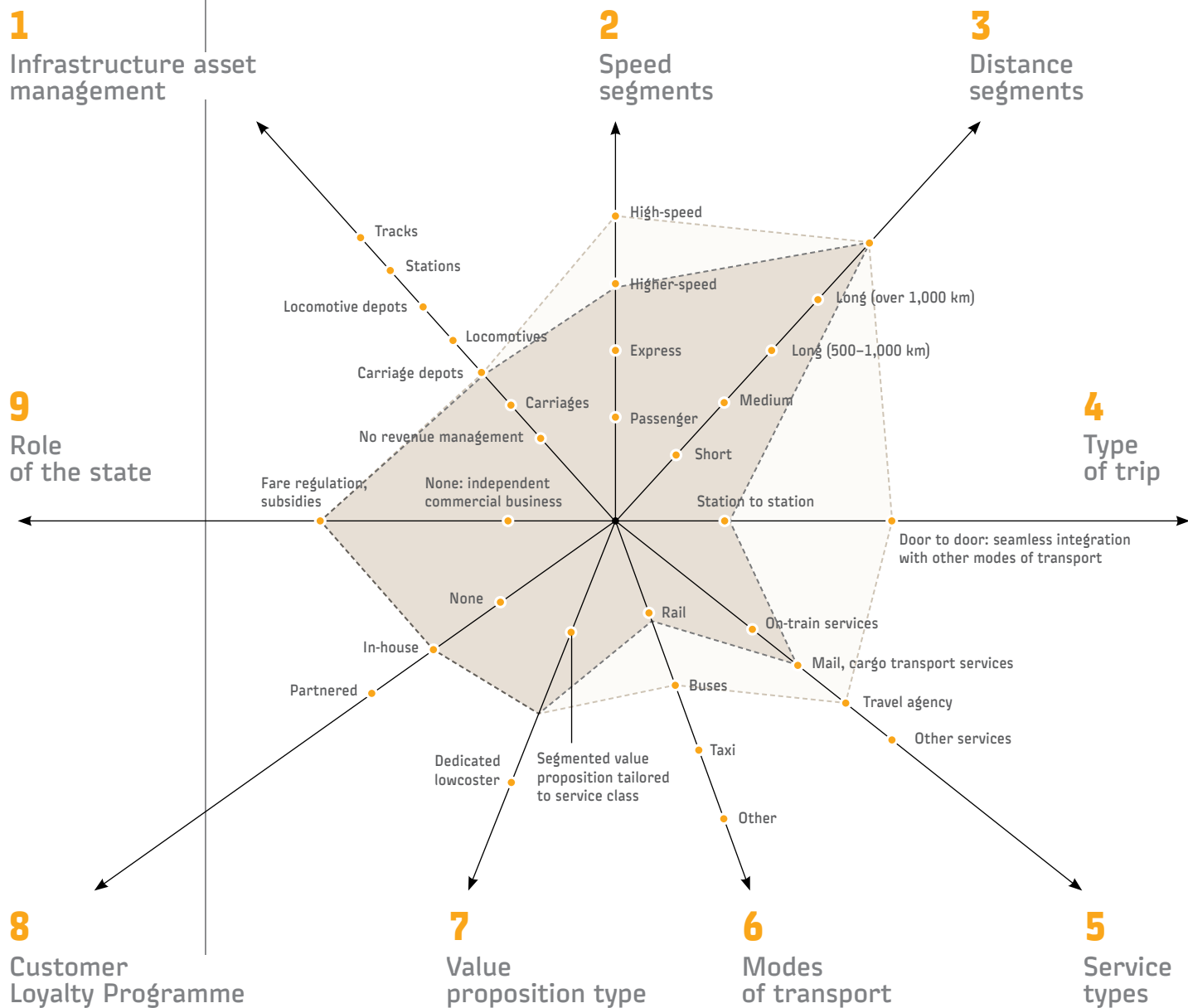
Other types of activities and adjacent businesses

FPC's sustainability will be further enhanced by diversifying its activities as well as developing businesses that improve profitability of passenger services through value-added service offerings:

- on-train passenger services
- services for travellers across transport modes
- logistics services (cargo, mail, etc.).

| | | |
|--------------------------|---|--|
| ○ Daytime express trains |  | Quick travel within a business day. Travel time up to 6 hours. Target distances under 600 km |
| ○ Night trains |  | Comfortable travel for a proper night's rest. Travel time up to 12 hours. Target distances under 1,200–1,500 km |
| ○ Traditional trains |  | Low-cost, comfortable long-distance travel. Travel time over 12 hours |
| ○ Tourist trains |  | Deluxe carriages offering five-star hotel-grade service. Unique branded trains (e.g. Red Arrow, Rossiya) |
| ○ Business |  | Premium comfort and hotel-grade service for productive use of travel time during the day or night |
| ○ Comfort |  | Comfort and an adequate range of services for affordable and comfortable travel during the day or night |
| ○ Economy |  | An affordable and comfortable travel choice with access to value-added services on demand |
| ○ Economy budget |  | The lowest-cost travel option offered on carriages from the earlier model range; service offering is limited |

TARGET BUSINESS MODEL¹



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¹ FPC's draft target business model outlined in the Long-Term Development Programme of Russian Railways to 2025. Elements may be adjusted.

KEY OBJECTIVES FOR 2019



FPC's Key Objectives for 2019:

- stabilise the rail transport's share of the passenger services market
- provide quality transport services to participants and guests of the Winter Universiade in Krasnoyarsk
- implement initiatives outlined in the Development Strategy of JSC FPC to 2030
- implement measures to reduce the rolling stock shortage
- maintain the focus on service digitisation and introduce new services such as an automated refund procedure and reissue of e-tickets, including payment of the difference between the cost of the ticket held and the cost of the new ticket

BUSINESS MODEL¹

State

- Regulation, subsidies, and interest in increased population mobility
- Control of service quality and safety levels to ensure approved standards are met
- Enhanced investment appeal of the transport industry
- Enhanced budgetary efficiency of transport

Key partners

RZD HOLDING

- RUSSIAN RAILWAYS**
Providing locomotive and infrastructure services
- ROSZHELDORSNAB**
Supplying equipment and materials
- COMMUTER COMPANIES**
Ticket sales, multimodal transport services

MARKET

- JSC RAILWAYCAR BUILDING WORKS TVER TVZ**
Carriage supplier
- FINANCE MARKET**
- LABOUR MARKET**
- MATERIALS AND EQUIPMENT MARKET**
- TECHNOLOGY MARKET**
- TECHNICAL AND MAINTENANCE SERVICES MARKET**
Resource suppliers

JSC FPC

Lines of business

- Regulated domestic long-distance passenger services
- Deregulated domestic long-distance passenger services
- International long-distance passenger services
- Regulated luggage, cargo and mail in the long-distance
- Other lines of business

Key resources

 **59,000** employees
staff (average headcount)

 **>300** contractors
technical services and maintenance

 **18,000** carriages
carriage fleet

 **46.0** RUB billion
borrowings (as at 31 December 2018)

Equipment and materials

 **23** depots | **32** carriage sites | **10** railway agencies
1 vehicle transport centre | **1** central carriage site

Expenses breakdown, RUB billion



- Passenger services:
 - infrastructure payments (70.1 RUB billion)
 - locomotive lease (45.0 RUB billion)
- Other activities

Investment expenses

- Acquisition of rolling stock
- Upgrades of rolling stock
- Depot upgrades and safety
- IT programme
- Other

43.9
RUB billion

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Product range

Transport services



Branded trains: deluxe, first-class sleeping, second-class sleeping, third-class open sleeping, motorised carriages, seating carriages



International services: deluxe, RIC, seating carriages



Standard trains: deluxe, first-class sleeping, second-class sleeping, third-class open sleeping, motorised carriages, seating carriages

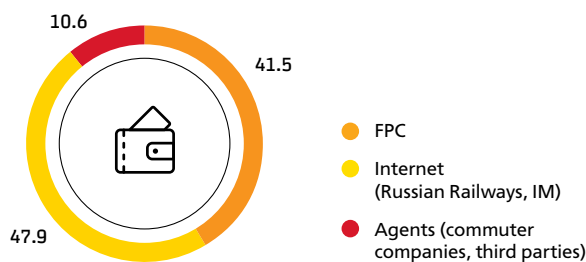


Tourist trains

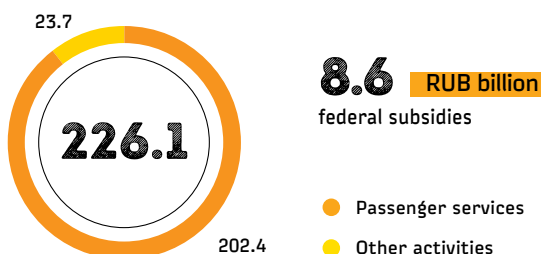
Other

- **Baggage, unaccompanied baggage, and mail transport services**
- **Repair and maintenance of clients' rolling stock**
- **Value-added services on trains**
- **Other services**

Sales channels, %



Revenue breakdown, RUB billion



Promotion

- Recognisable RZD brand
- RZD Bonus Loyalty Programme
- Marketing promotions
- Internet presence
- Advertising campaigns

Key values

For the passengers



Safe, affordable and comfortable travel



Good travel experience



Saving time

For the state



Ensuring transport mobility of the population with the effectiveness of budget expenditures

For corporate clients and other consumers



High quality work at a reasonable price in a reasonable time

Customers

- Passengers
- Corporate clients
- Other consumers
- Government departments

Net profit



6.1

RUB billion

ASSETS

ASSET MAP

1 Northwest Branch

 **223,300** sq m

 **6,800** sq m

 **2,100** units

 **0.7** RUB billion

6 Volga Branch

 **249,400** sq m

 **90** sq m

 **1,600** units

 **0.5** RUB billion

7 Kuybyshev Branch

 **119,000** sq m

 **5,700** sq m

 **1,200** units

 **0.3** RUB billion

2 Moscow Branch

 **426,500** sq m

 **6,200** sq m

 **2,500** units

 **2.4** RUB billion

3 Gorky Branch

 **103,900** sq m

 **1,600** sq m

 **1,500** units

 **0.2** RUB billion

4 Northern Branch

 **110,000** sq m

 **13,600** sq m

 **1,200** units

 **0.1** RUB billion

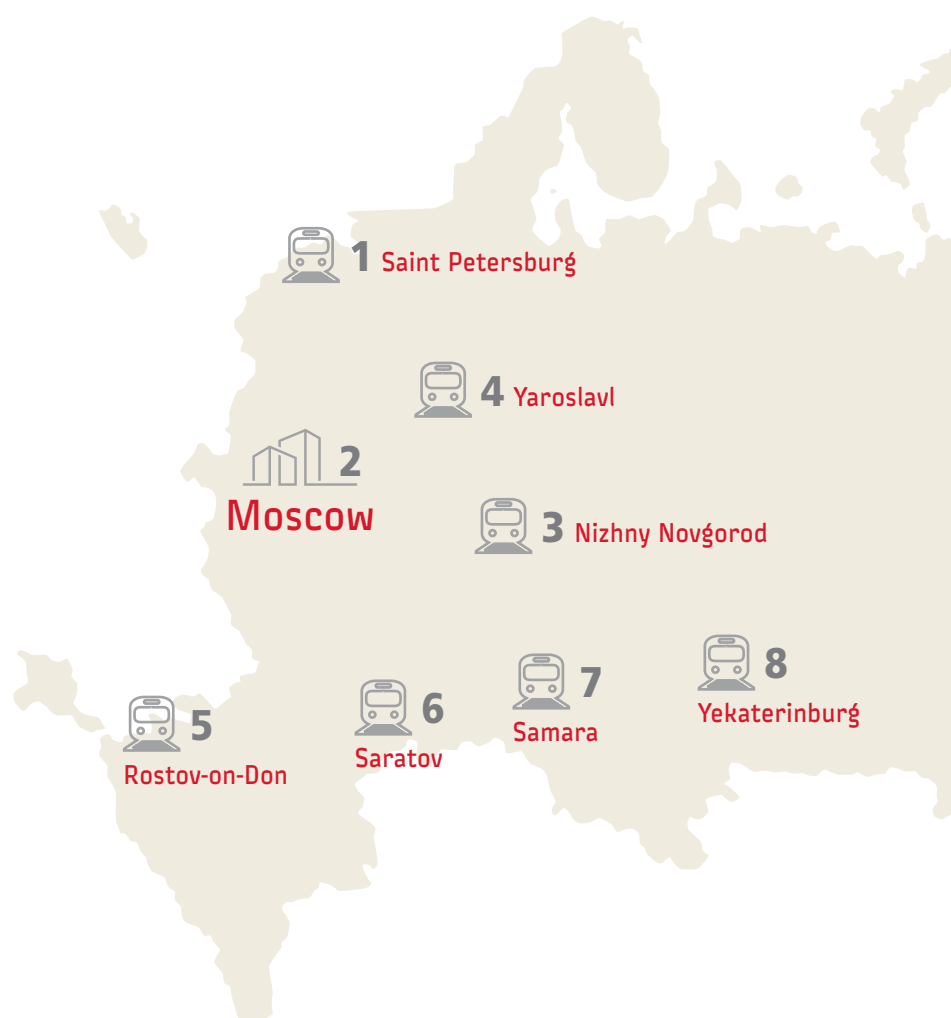
5 North Caucasus Branch

 **214,500** sq m

 **14,400** sq m

 **2,000** units

 **0.9** RUB billion



FPC BRANCH LOCATIONS:

1. Northwest Branch – Saint Petersburg
2. Moscow Branch – Moscow
3. Gorky Branch – Nizhny Novgorod
4. Northern Branch – Yaroslavl
5. North Caucasus Branch – Rostov-on-Don
6. Volga Branch – Saratov

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Real estate



Land



Carriage fleet



Other property

- 7. Kuybyshev Branch – Samara
- 8. Ural Branch – Yekaterinburg
- 9. West Siberian Branch – Novosibirsk

- 10. Yenisey Branch – Krasnoyarsk
- 11. East Siberian Branch – Irkutsk
- 12. Zabaikalie Branch – Chita
- 13. Far East Branch – Khabarovsk

ASSET STRUCTURE AND CHANGES IN THE ASSET STRUCTURE

ASSET STRUCTURE AS AT 31 DECEMBER 2018, RUB BILLION

| ASSETS | BOOK VALUE | |
|------------------------|---------------------------|---------------------------|
| | AS AT 31 DECEMBER 2017 | AS AT 31 DECEMBER 2018 |
| Carriages | 177.9 | 209.3 |
| Real estate | 28.3 | 27.8 |
| Other movable property | 6.8 | 6.4 |
| Intangible assets | 0.7 | 0.7 |
| Land | 0.2 | 0.2 |
| Total | 213.8 | 244.4 |

Passenger rolling stock is FPC's key asset, making up 86% of total assets. As at the end of 2018, the Company's inventory carriage fleet totalled approximately 18,000 carriages.

CHANGES IN THE CARRIAGE FLEET STRUCTURE, CARRIAGES

| CARRIAGE TYPE | DESCRIPTION | FLEET AS AT 31 DECEMBER 2017 | ACQUIRED | RETIRED | FLEET AS AT 31 DECEMBER 2018 |
|----------------------|--|------------------------------------|------------|--------------|------------------------------------|
| Deluxe | Compartment carriages, each compartment featuring a shower room, a washbasin, and a toilet | 117 | – | 1 | 116 |
| First-class sleeping | Compartment carriages with double berth compartments | 848 | 4 | 206 | 646 |
| RIC | Compartment carriages, European standard size | 367 | – | 28 | 339 |
| MIXED | Compartment carriages with deluxe and first-class sleeping compartments | 13 | – | – | 13 |
| K | Compartment carriages with four-berth compartments | 9,111 | 78 | 776 | 8,413 |
| O | Third-class open sleeping carriages | 7,096 | 637 | 1,027 | 6,706 |
| MO | Interregional carriages | 698 | – | 44 | 654 |
| B | Baggage carriages | 234 | – | 12 | 222 |
| R | Dining carriages | 853 | 5 | 54 | 804 |
| Other | Power cars and ancillary vehicles | 49 | – | 3 | 46 |
| Total | | 19,386 | 724 | 2,151 | 17,959 |

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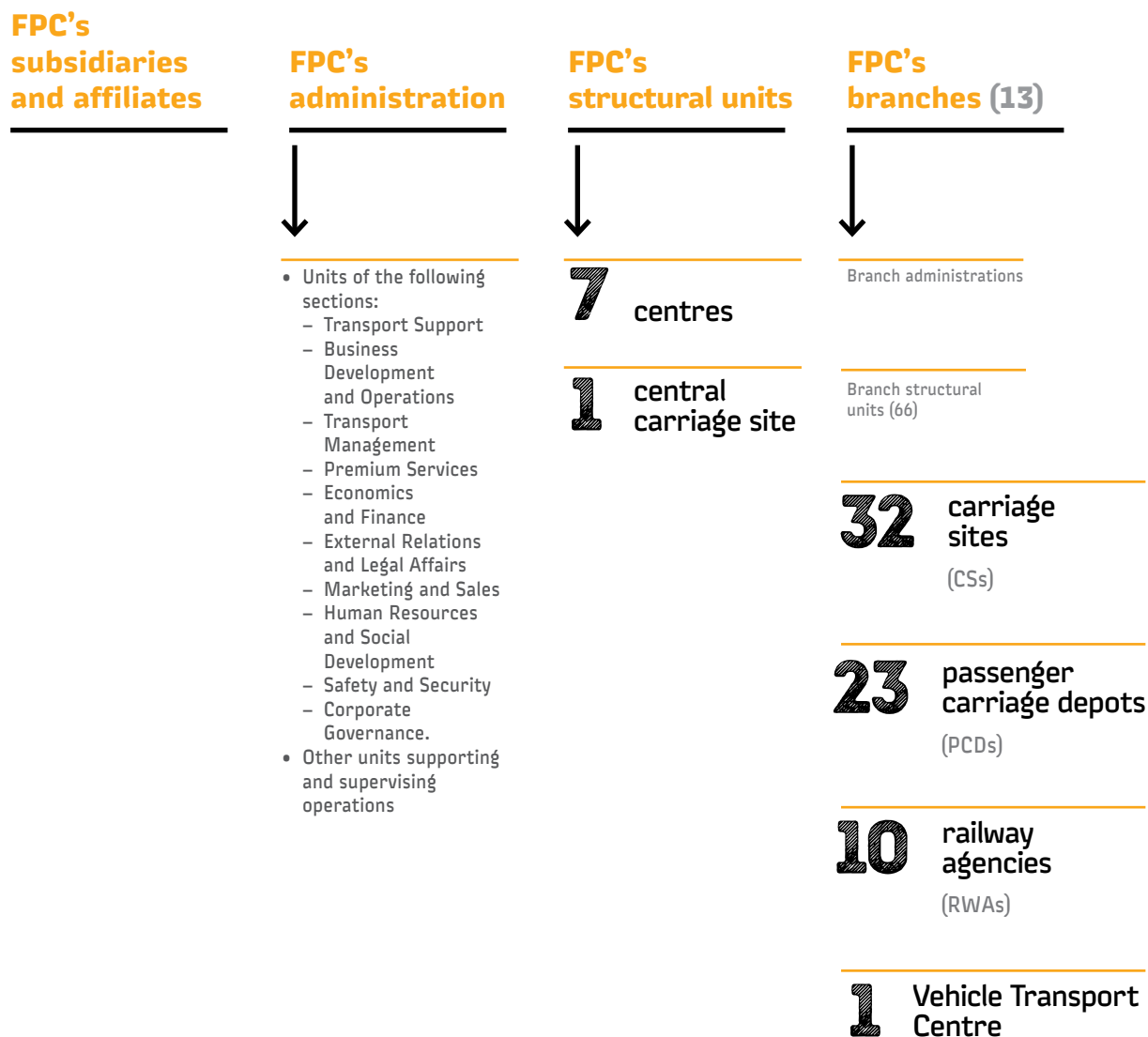
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ORGANISATIONAL STRUCTURE

FPC's organisational structure includes administration, 13 regional branches, three subsidiaries, one central carriage site, and seven centres. The branches comprise 23 passenger carriage depots, 32 carriage sites, ten railway agencies, and the Vehicle Transport Centre.

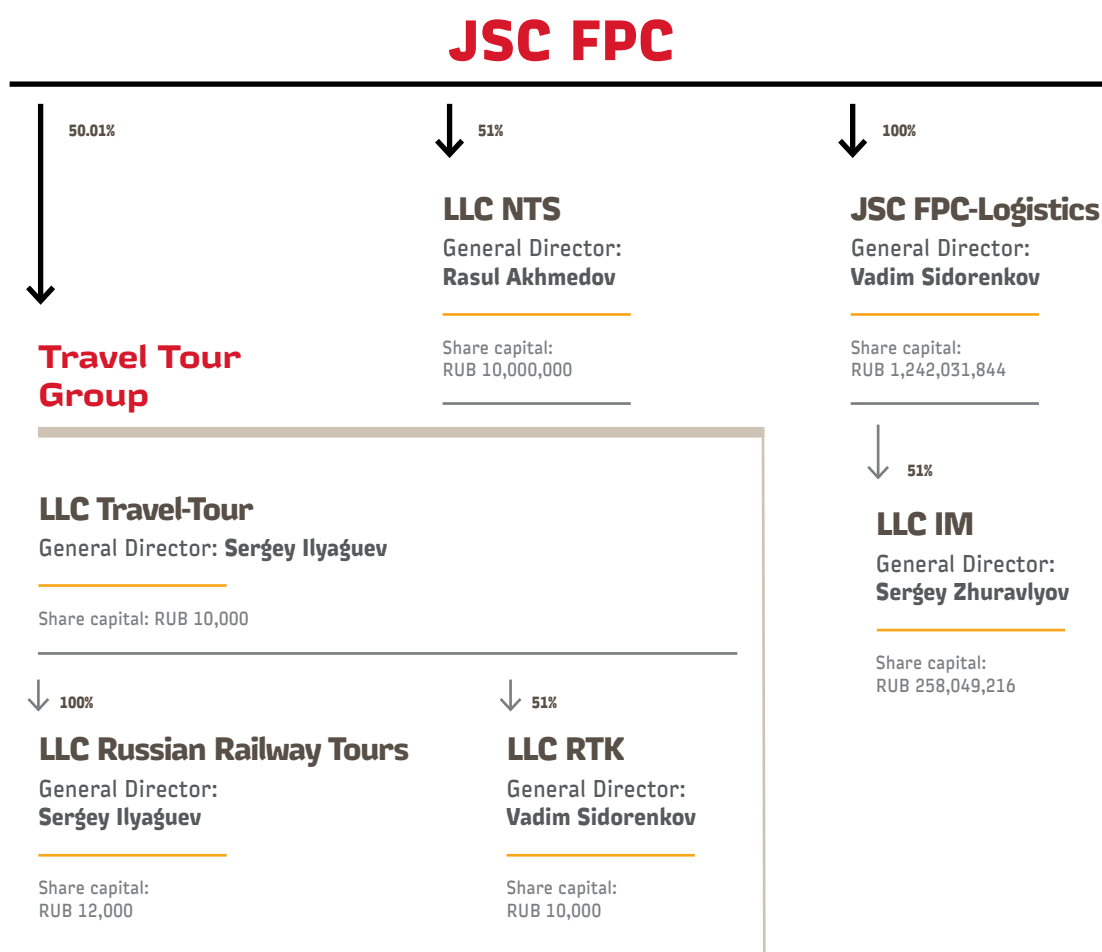
FPC'S ORGANISATIONAL STRUCTURE (AS AT 31 DECEMBER 2018)



SUBSIDIARIES

The following subsidiaries and affiliates are covered by FPC's corporate governance system: LLC NTS, LLC Travel-Tour, LLC Russian Railway Tours, LLC RTK, JSC FPC-Logistics, and LLC IM.

FPC'S SUB-HOLDING STRUCTURE



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LLC NTS

LLC NTS's key areas of activity:

- delivering drinks, food, and non-food products to FPC's trains for sale to passengers via train attendants and independent operators on board
- small- and large-scale wholesale trade in beverages and food products from warehouses leased by LLC NTS to any company selling such goods in Russia
- operating dining carriages
- complimentary catering services for passengers.

In 2018, sales volumes across almost all channels were up 36.3% year-on-year. Lower sales in the Other Buyers channel were due to a significant increase in prices for procured goods. Since 2H 2018, LLC NTS has been operating dining carriages and providing complimentary catering services for passengers.

LLC NTS

| INDICATORS | 2017 | 2018 | CHANGE 2018/2017 | |
|-------------------------|------|------|------------------|------|
| | | | RUB MILLION | % |
| Net profit, RUB million | 76.3 | 66.2 | -10.1 | 86.8 |

SALES DYNAMICS BY TRADE CHANNEL, RUB MILLION

| INDICATORS | 2017 | 2018 | CHANGE 2018/2017 | |
|---|--------------|--------------|------------------|--------------|
| | | | RUB MILLION | % |
| Sales of merchandise to passengers (via train attendants) | 891 | 970 | +79 | 108.8 |
| Independent operators | 39 | 54 | +15 | 138.4 |
| Other buyers | 228 | 110 | -118 | 48.2 |
| Catering | 0 | 444 | +444 | - |
| Total | 1,158 | 1,578 | +420 | 136.3 |

Travel Tour Group

FPC bought into the Travel Tour Group's business to:

- develop rail tourism by building up new tourist-oriented rail routes
- increase the volume of rail services provided to organised passenger groups
- develop the middle-class rail travel segment
- meet foreign and domestic demand for visiting Russia's cultural and historical centres.

LLC Travel-Tour

LLC Travel-Tour provides legal services to its subsidiary LLC Russian Railway Tours and conducts virtually no other kinds of business. Financial and business operations of LLC Russian Railway Tours are LLC Travel-Tour's key source of profit.

LLC Russian Railway Tours

LLC Russian Railway Tours' key activities include:

- organising own rail tours
- organising rail services, chartered VIP rail services, and tourist travel services for RZD Holding employees
- servicing tourist groups organised by travel agencies as well as corporate customers in rented trailing carriages or special trains.

The Company serviced over 260,000 passengers in 2018, up 6.2% year-on-year. In absolute terms, the year-on-year increase was 15,000 passengers.

LLC RUSSIAN RAILWAY TOURS

| INDICATORS | 2017 | 2018 | CHANGE 2018/2017 | |
|-------------------------|------|------|------------------|-------|
| | | | RUB MILLION | % |
| Net profit, RUB million | 42 | 44 | +2 | 104.8 |

PASSENGERS SERVICED BY LLC RUSSIAN RAILWAY TOURS, BY SEGMENT

| SEGMENT | 2017 | 2018 | CHANGE 2018/2017 | |
|------------------------|----------------|----------------|------------------|--------------|
| | | | PASSENGERS | % |
| Tourism | 185,183 | 196,304 | +11,151 | 106 |
| Comprehensive services | 11,880 | 12,367 | +487 | 104.1 |
| Rail services | 48,326 | 51,823 | +3,497 | 107.2 |
| Total | 245,389 | 260,494 | +15,105 | 106.2 |

LLC RTK

LLC RTK ceased commercial operations as from 1 July 2017.

JSC FPC-Logistics

JSC FPC-Logistics was established to improve the competitiveness of unaccompanied baggage transport services within FPC Group, achieve profitability in the segment, and regain FPC's leading position in the unaccompanied baggage transport market.

Core activities of JSC FPC-Logistics:

- providing carload services using baggage carriages
- leasing baggage carriages.

In 2018, carloads increased by 27.4% year-on-year, despite the fact that three carriages were out of service due to overhauls.

JSC FPC-LOGISTICS

| INDICATORS | 2017 | 2018 | CHANGE 2018/2017 | |
|-------------------------|------|------|------------------|-------|
| | | | RUB MILLION | % |
| Net profit, RUB million | 49 | 53 | 4 | 108.2 |

JSC FPC-LOGISTICS' OPERATING RESULTS

| INDICATORS | 2017 | 2018 | CHANGE 2018/2017 | |
|------------------------------|-------|-------|------------------|-------|
| | | | CARRIAGES | % |
| Number of carloads shipped | 1,291 | 1,645 | 354 | 127.4 |
| Operating fleet ¹ | 127 | 124 | -3 | 97.6 |

¹ Including operated and leased carriages.

LLC IM

LLC IM (a subsidiary of JSC FPC-Logistics) acts as the operator for the Innovative Mobility multimodal platform providing a single interface to offer passengers tools for planning, booking, and purchasing tickets for trips involving various modes of transport, as well as related value-added services. The multimodal platform integrates all modes of transport into a single network offering passengers a door-to-door travel experience.

In 2018, the company's net profit grew 23-fold year-on-year driven by FPC's efforts to expand its presence in the agency services market, with e-ticket sales increasing five-fold.

LLC IM

| INDICATORS | 2017 | 2018 | CHANGE 2018/2017 | |
|-------------------------|------|------|------------------|-------|
| | | | RUB MILLION | % |
| Net profit, RUB million | 5 | 118 | 113 | 2,360 |

PRODUCTION PERFORMANCE OF LLC IM

| INDICATORS | 2017 | 2018 | CHANGE 2018/2017 | |
|--------------------------|-------|--------|------------------|-----|
| | | | '000 TICKETS | % |
| Number of e-tickets sold | 3,063 | 16,050 | 12,987 | 524 |





3

PERFORMANCE OVERVIEW



91.6

billion pkm

passenger turnover in 2018

226.1

RUB billion

operating revenues

222.2

RUB billion

operating expenses

PERFORMANCE OVERVIEW

MESSAGE FROM THE GENERAL DIRECTOR

Dear shareholders, partners, and colleagues,

FPC has always measured its performance by the quality, speed, and affordability of passenger services. We are moving forward at a confident pace while maintaining the best traditions of the Russian rail passenger industry.

In 2018, we continued our ambitious efforts to upgrade our carriage fleet and optimise our route network while achieving a significant improvement in customer service. For our service running between Moscow and Nizhny Novgorod, frequent travellers may now use Business Passes. We also launched the FPC Market service and introduced an option for pet owners to have their pets travel unaccompanied while we continued our cultural and educational projects, the Traveller's Library and the Knowledge Carriage.

As of July 2018, we accept requests to have teenagers (aged 10 to 16) travel unaccompanied on the higher-speed train No. 747/748 between Moscow and Saint Petersburg.

During the year, FPC continued to develop its Poputchik (Fellow Passenger) multimedia portal service offered on the Company's branded trains. The portal's standard services include an interactive map of the journey's route with details of tourist attractions, train-related information, the on-board store and restaurant, on-board feedback feature, news and games, the Luchshe Poezdom (Better by Train) magazine, and educational films produced by the Russian Geographical Society.

FPC is proud to have been part of major sports events held in our country – in 2018 we provided safe and efficient rail passenger services to the 2018 FIFA World Cup football fans and volunteers. During the days of the event, additional 734 train journeys were made, carrying over 300,000 passengers. Our employees made every effort to prepare themselves and the Company for the major sports event. Over 2,300 FPC train attendants received special training which included the basics of football culture.

Improvements are being made to the e-ticketing system. Almost one half of our customers are now purchasing train tickets through our new, successfully implemented online services, with 64 million e-tickets sold in 2018. The share of e tickets in the total amount of seats sold across the railway network was at 52%. Berths in special, wheelchair-accessible compartments may also be booked online.

FPC is making every effort to develop RZD Holding's RZD Bonus Loyalty Programme. By year-end 2018, the programme's member count was at 4 million. By earning points, members can travel effectively free of charge every sixth journey. Generous points are also credited to members who use our partner banks' services. Our partners include several major Russian banks such as Sberbank, ALFA-BANK, ROSBANK, Bank Otkritie Financial Corporation, and also Raiffeisenbank. Plans have been made to expand upon member privileges and the partner network in the near future.

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Key trends in the rail passenger market include advances in ICT technology and a shift from focusing on customer groups to focusing on each individual customer. We maintain a diverse range of customer feedback channels, from official FPC pages on social media to the General Director's virtual reception office. By keeping an open line of communication with our customers and processing all inbound queries swiftly and efficiently, we reached a remarkable achievement: the amount of negative feedback declined substantially in 2018. It therefore goes without saying that we will continue our efforts in this regard.

FPC is facing new challenges, and by overcoming them, we will further improve the quality and affordability of the service we provide to our passengers. I am confident that 2019 will be a year of dynamic growth as we adopt the latest technology, innovative approaches, and advanced management practices.

Petr Ivanov



MARKET OVERVIEW¹

In 2018, FPC's domestic passenger traffic grew by 6.9 million, or 7.7%.

MACROECONOMIC ENVIRONMENT

KEY ECONOMIC GROWTH INDICATORS (AS A PERCENTAGE 2017), %

| INDICATORS | 2018 |
|--|-------|
| GDP | 102.3 |
| Consumer Price Index | 102.9 |
| Investment in fixed assets | 104.3 |
| Real household disposable income | 100.3 |
| Real wages | 106.8 |
| Unemployment (as at the end of December) | 4.8 |
| Retail sales | 102.6 |
| Sales of paid retail services | 102.5 |

Source: Federal State Statistics Service (Rosstat)

In 2018, the consumer price index decreased to 2.9% (vs a 3.7% inflation rate in the previous year), while GDP grew by 2.3%.

Investment in fixed assets showed an increase (+4.3% year-on-year). Investments by large- and medium-size businesses in commerce, social facilities, and transport (except for pipeline) were also growing, with companies still relying mostly on own financial resources to finance their investments.

Real wages grew by 6.8% driven by improvements in nominal wages. Real household disposable income increased by 0.3%.

Improvements in the labour market contributed to higher wages as unemployment declined from 5.1% in December 2017 to 4.8% in December 2018.

Russian transport market

In 2018, the Russian transport market saw a trend for stronger competition and shrinking areas dominated by rail as the major mode of transport.

Airlines are penetrating the segment of routes under 1,000 km by streamlining fleet operation, cutting costs, and reducing journey times.

At the same time, intercity bus services expanded on routes under 700 km, which are largely not covered by regular trains.

The rail industry is under a mounting pressure from rival modes. To mitigate potential negative effects and stay competitive, the industry assigns trains to routes under 500 km and between 500 km and 1,000 km while upgrading its rolling stock, and accelerating trains.

In 2018, the decline in the share of rail in the total long-distance passenger traffic on domestic routes was slower than in the previous years – down 0.3 p.p. year-on-year (a 2.7 p.p. decrease year-on-year in 2017). FPC's share also decreased, to 36.7% (39.8% in 2016).

The downward trend was caused by an accelerated absolute growth in domestic air traffic facilitated by aggressive pricing policies of airlines, fleet renewals, increased numbers of available seats and flights, and increasingly shorter flight distances.

FPC accounted for 94.1% of long-distance passengers on domestic routes operated by Russian rail carriers in 2018 (–0.3 p.p. year-on-year).

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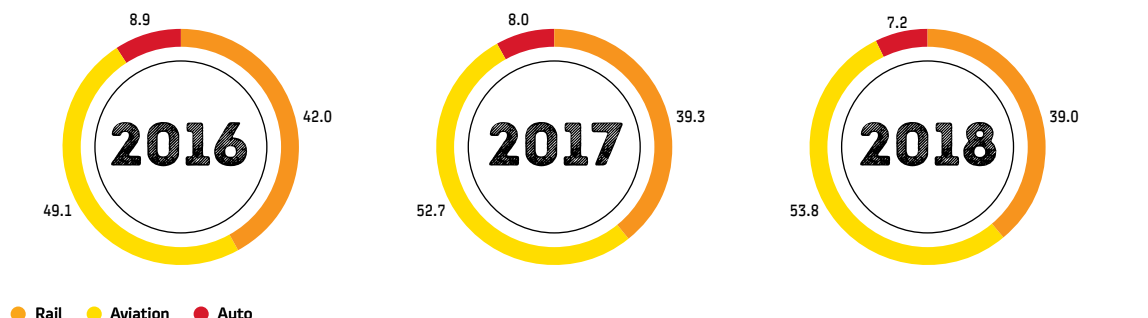
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¹ This section is based on data of the Federal State Statistics Service (Rosstat, www.gks.ru).

PASSENGER KM TRAVELLED ON DOMESTIC LONG-DISTANCE ROUTES, %



| | 2016 | 2017 | 2018 |
|---|-------|-------|-------|
| FPC | 39.8% | 37.2% | 36.7% |
| Directorate for Higher-Speed Services, a branch of Russian Railways | 1.5% | 1.5% | 1.6% |
| TransClassService | 0.5% | 0.5% | 0.5% |
| Other | 0.2% | 0.1% | 0.2% |

Sources: Statistical Reporting Form TsO-33 for rail transport, Federal Agency for Air Transport (Rosaviatsiya) (<http://www.favt.ru>) for air transport, expert estimates based on Rosstat's data (www.gks.ru) for road transport

In 2018, the number of passengers carried by FPC on domestic routes increased (107.7% of the 2017 level – 100.6% in the regulated segment and 122.6% in the deregulated one).

FPC's passenger km travelled on domestic routes were at 106.0% of the 2017 level, including 99.0% in the regulated segment and 120.4% in the deregulated segment. In 2018, the average distance travelled by FPC's trains on domestic routes was 98.4% of the level seen in 2017.

To address the negative trends and retain its competitive edge in the passenger services market, FPC works to improve customer experience while focusing on its Dynamic Pricing Programme, RZD Bonus Loyalty Programme (including for corporate customers), and launching marketing promotions for both the regulated and deregulated segments.

According to the Federal Agency for Air Transport (Rosaviatsiya), the total number of air passenger km grew by 10.6% to 286.9 billion passenger km. The year-on-year increase in passenger km was 11.1% for international destinations and 10.0% for domestic services.

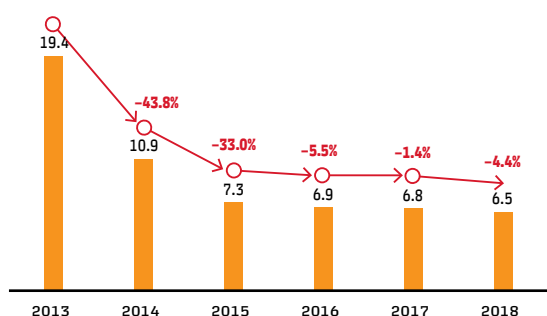
Seeking to capture the opportunities offered by the rail transport's competitive advantages in the market for interregional services between large urban agglomerations, FPC has pursued projects for assigning trains to routes under 500 km and between 500 km and 1,000 km. Long-distance services (on routes over 1,000 km) can be stimulated by considerably reducing fares.

International transport market

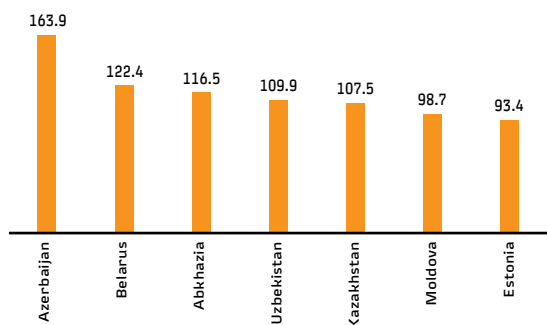
International long-distance passenger services

In 2018, FPC operated 15 international routes, providing direct and transit passenger services to and from 11 European and Asian countries, including Germany, France, Monaco, Poland, Austria, the Czech Republic, Italy, Finland, China, Mongolia, and North Korea. FPC also provided rail services on routes between Russia and 11 CIS and Baltic states, including Ukraine, Moldova, Belarus, Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, Azerbaijan, Latvia, Lithuania, and Estonia.

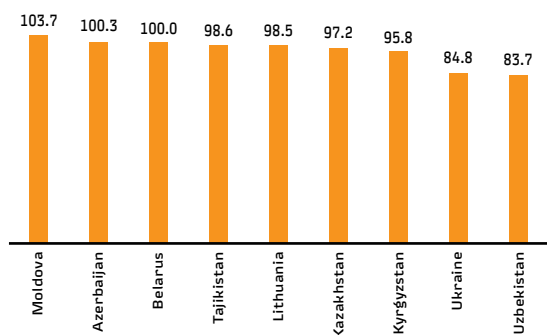
INTERNATIONAL PASSENGER TRAFFIC, MILLION PASSENGERS



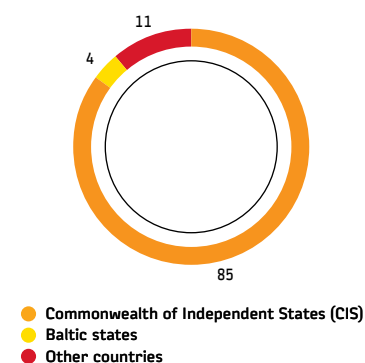
PASSENGER TRAFFIC BETWEEN RUSSIA AND THE CIS AND BALTIC STATES ON TRAINS MADE UP BY FPC, %



PASSENGER TRAFFIC BETWEEN RUSSIA AND THE CIS AND BALTIC STATES ON TRAINS MADE UP BY FOREIGN RAILWAYS, %



INTERNATIONAL PASSENGER SERVICES IN 2018, %



The CIS and Baltic states contribute the bulk of passenger traffic on international routes. Therefore, the declines in passenger traffic for key traffic-generating destinations affected the total passenger traffic on international routes in 2018.

The key destinations generating high passenger traffic in the CIS and Baltic states are: Belarus – 32% of the total number of passengers carried, Ukraine – 25%, and Kazakhstan – 17%. Passenger traffic between Russia and Ukraine has fallen by 18% year-on-year due to a complicated geopolitical situation and lack of FPC's trains on the relevant routes.

The largest year-on-year decrease in passenger traffic was on routes to and from Austria – down 54%, Lithuania – down 27%, the Czech Republic and France – down 23%, and North Korea – down 21%.

The highest passenger traffic growth was on routes to and from Mongolia – up 37%, Kazakhstan – up 19%, and Italy – up 14%.

The average volume of passenger traffic amounted to 95% of the 2017 level, including 95% for the CIS and Baltic states and 99% for other countries.

The passenger traffic between Russia and the CIS and Baltic states on trains made up by foreign railways was down 5.7% in 2018. With a 3.7% growth, Moldova was the only country that showed an increase in passenger traffic to and from Russia.

To mitigate the downward trend in international passenger traffic, marketing campaigns and discount schemes are used to promote international passenger services under bi- and multilateral agreements.

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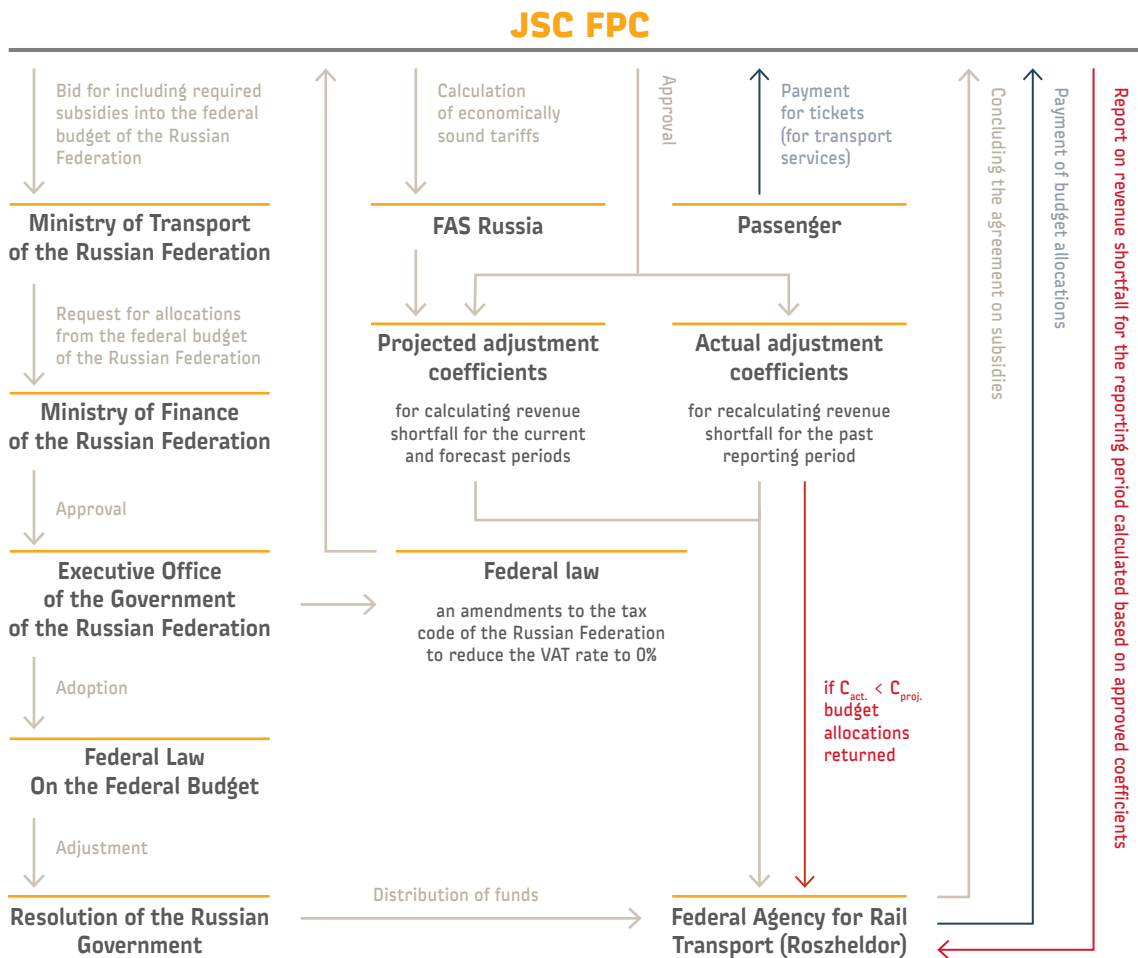
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MARKETING POLICY

As part of efforts to improve passenger travel comfort, we maintain a continued focus on adjusting passenger train timetables to offer more convenient arrival/departure times, maximise train travelling speeds considering the Russian Railways' infrastructure, develop and execute marketing strategies, and carefully elaborate our pricing approaches.

PRICING POLICIES

SUPPORT FROM THE GOVERNMENT



The Company's top priorities in executing its pricing policy in 2018:

- no tariff indexation in 2018 either in the regulated or in the deregulated segments
- agile and flexible pricing driven by changes in effective consumer demand and competitor moves
- development of an effective schedule of fares for passenger services considering competition from other modes of transport and rail carriers.

Regulated segment

The Tariff Guidelines approved by Decree No. 156-t/1 of the Federal Tariff Service (FTS of Russia) dated 27 July 2010 sets fares, fees, and charges for works (services) related to transport of passengers, baggage and unaccompanied baggage by public rail transport on domestic routes using passenger carriages. The fares are indexed annually and depend on the train category and travelling distance.

In 2016, the functions of the disbanded Federal Tariff Service (FTS of Russia) were assigned to the Federal Antimonopoly Service (FAS Russia) pursuant to subparagraphs 1 and 2 of Executive Order of the Russian President No. 373 On Certain Issues of Government Management and Control in Antimonopoly and Tariff Regulation, dated 21 July 2015.

Index values for fares, fees, and charges for works (services) and the differentiated index values for calendar periods within a certain year are announced by relevant decrees of FAS Russia (earlier they had been set by the FTS of Russia).

Since 2003, tariff differentiation is allowed by applicable laws. Coefficients set out in the Flexible Tariff Regulation Schedule are applied to the basic fares to mitigate seasonal demand fluctuations.

Starting from 2015, FPC may adjust tariffs for third-class open sleeping carriages within the set price limits, which enabled various marketing promotions in the segment.

A zero VAT rate for long-distance public rail passenger services was set as from 2017 pursuant to Federal Law No. 401-FZ On Amendments to Parts One and Two of the Tax Code of the Russian Federation and Certain Legislative Acts of the Russian Federation, dated 30 November 2016.

Fares for third-class open sleeping carriages and fourth-class seating carriages were kept at the 2017 levels in 2018 (Decree of FAS Russia No. 1835/16 dated 23 December 2016 as amended by Decree of FAS Russia No. 1487/17 dated 10 November 2017).

We continued to run marketing campaigns to generate demand for tickets in third-class open sleeping carriages and fourth-class seating carriages. Flexible ticketing depending on the location of berths made passenger services more affordable for different passenger categories without exceeding the price limits set in Decree of FAS Russia No. 1487/17 dated 10 November 2017.

Deregulated segment

FPC may set the prices of fares for first-class and second-class sleeping carriages at its own discretion in accordance with item 5 of the List of Services¹ of Natural Rail Monopolies with Regulated Fares, Fees and Charges.

FPC may also set the prices of fares for domestic public rail passenger services on higher-speed trains at its own discretion. This right is set out in Decree No. 431-t/1 of the FTS of Russia On Changing State Regulation of Natural Monopolies in the Context of Domestic Public Rail Passenger Services, as well as Bed Linen Provision Service, dated 14 December 2010.

As a result, in the deregulated segment, FPC provides passenger services in second- and first-class sleeping carriages, deluxe carriages, and in all carriages of higher-speed trains. The deregulated segment also covers tourist and commercial services. In this segment, FPC may set the prices of passenger fares at its own discretion.

Key pricing mechanisms in the deregulated system include the dynamic pricing system, and a range of marketing promotions and ticketing initiatives.

In 2018, fares in the deregulated segment remained flat as compared to 2017.

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¹ The List was approved by Resolution of the Russian Government No. 643 On Government Regulation of, and Control Over, Fares, Fees and Charges for Services of Natural Rail Monopolies, dated 5 August 2009.

DYNAMIC PRICING SYSTEM

The dynamic pricing system is a multifactor pricing tool that combines most approaches previously used as marketing promotion tools: pricing depending on seat/berth category (upper or lower berth), day of the week, booking window², etc. Unlike static marketing promotions which offer the rates set in advance for an extended period of time, the dynamic pricing system implies flexible ticketing reflecting internal dynamics and various external trends as at the sale date.

The system covers the entire commercial segment of FPC's domestic services, in particular, the deregulated segment of trains outside socially necessary train services.

The system helps identify the balance between the demand for, and cost of, services, ultimately driving the demand for rail services.

In 2018, approximately 72% of tickets covered by dynamic pricing were sold at prices below or comparable to basic fares (fares that would have been applied without dynamic pricing).

To reinforce its positions in the passenger services market, FPC has been running various marketing promotions to stimulate consumer demand in both the deregulated and regulated segments, and boost the Company's revenue.

MARKETING PROMOTIONS AND THEIR RESULTS

An attractive price offer has always been a powerful tool to win more passengers for railway services.

The Company's Marketing Policy puts a special focus on retaining existing and acquiring new customers. We developed and successfully implemented a set of marketing initiatives aimed to boost passenger traffic. We estimated that in 2018 the flexible pricing policy and marketing initiatives increased the flow of passengers to FPC's deregulated segment by approximately 7.8%.

In 2018, 15 global marketing initiatives were delivered in the deregulated segment. In addition to the discounts offered for some destinations and seat categories (upper berths), we also offered special fares for certain passenger categories:

- Travel First Class: special fares for first-class sleeping carriages (approximately 122 trains).
- A 50% discount for upper berths in second-class sleeping carriages during the February and March holidays.
- A 50% discount for travelling in second-class sleeping carriages for children aged from 10 to 17 during the spring and autumn holidays and before summer school holidays.
- Free travel for Great Patriotic War (WWII) veterans, including disabled veterans, between 1 May and 31 May.
- Hero City: special fares for second-class sleeping carriages and carriages with seats in higher-speed trains (a separate list of trains departing between 7 May and 12 May).
- A 60% discount for upper berths in second-class sleeping carriages in certain trains departing from the Black Sea coast between 27 May and 14 June.

- A 30% discount for second-class sleeping carriages during the 2018 FIFA World Cup (a separate list of trains).
- Indian Summer: special fares (RUB 1 = 1 km) for trains to the Black Sea coast departing between 1 October and 21 December, when booked 90 to 30 days before departure.
- The Day of Older Persons: on 29–30 September and 1 October, passengers aged over 60 were entitled to a 50% discount for second-class sleeping carriages in trains departing between 1 October and 31 October.
- New Year Night: a 50% discount for upper berths in second-class sleeping carriages in trains departing on 31 December 2018 (a separate list of trains).
- A 2%–10% discount, valid throughout the year, for second-class sleeping carriages not equipped with environmentally friendly toilet facilities and air conditioning units.

In the regulated segment, we delivered 11 global marketing initiatives grouped by the following periods:

- A 40% discount for side upper berths and upper berths at the end of third-class open sleeping carriages of trains departing between 10 January and 27 April (excluding the February and March holidays).

**In addition,
in 2018
we delivered**

>2,000

one-time

marketing initiatives

A total of

7.1

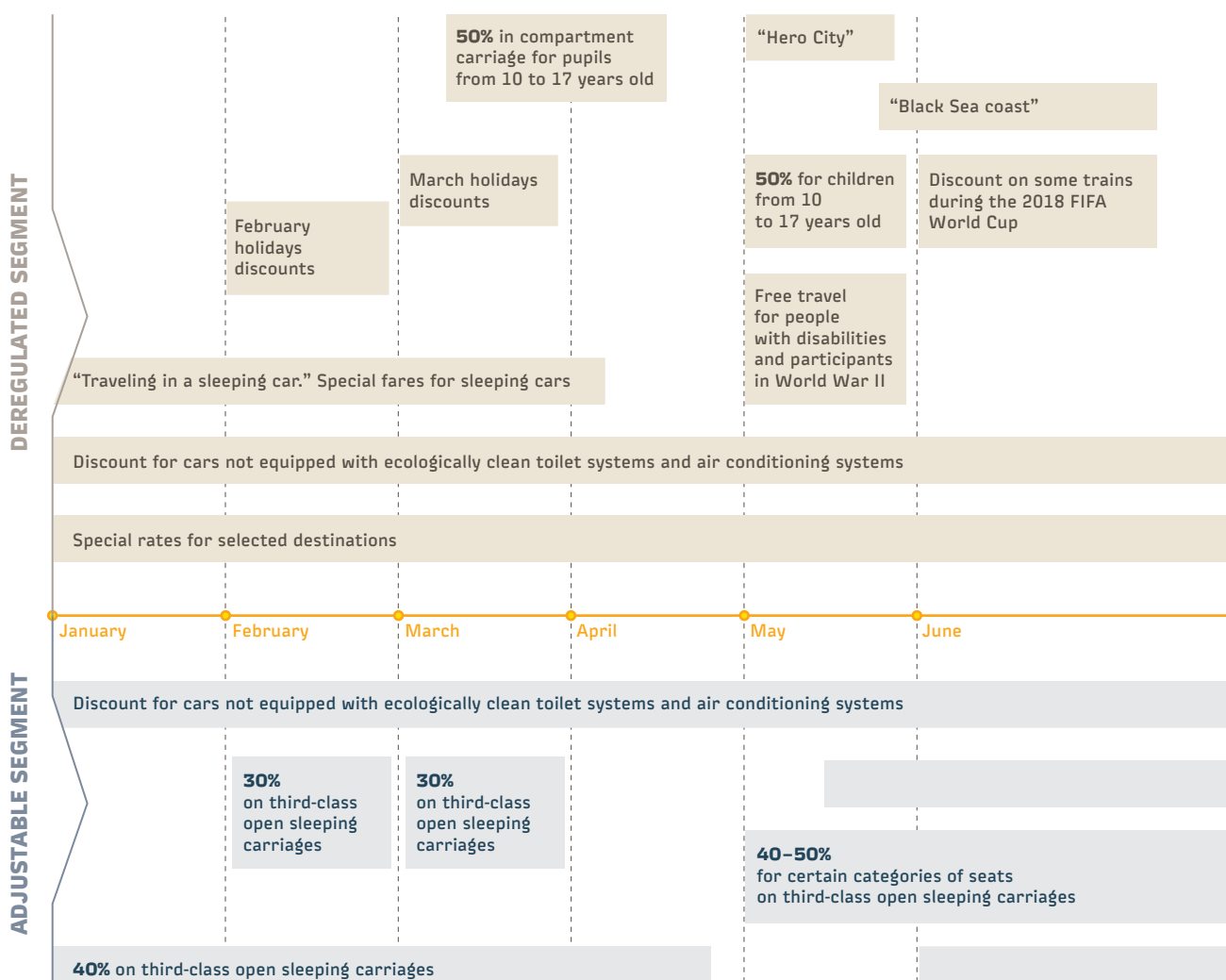
million passengers

benefited from our
special offers

² In this case, a booking window is the starting date of advance train ticket sales.

- A 30% discount for upper berths and lower berths at the end of third-class open sleeping carriages during the February and March holidays.
- A 50% discount for children aged from 10 to 17 during summer holidays (between 1 June and 31 August, excluding trains numbered 701 to 788).
- Indian Summer: for certain trains (over 60 trains) departing between 1 October and 21 December we offered a 40% discount for upper and lower side berths when booked 30 or more days before departure.
- A 40% discount for upper berths at the end of third-class open sleeping carriages and upper side berths between 1 October and 21 December.
- New Year Night: a 50% discount for upper berths in third-class carriages departing on 31 December 2018 (some trains).

SPECIAL RATES FOR MARKETING IN 2018



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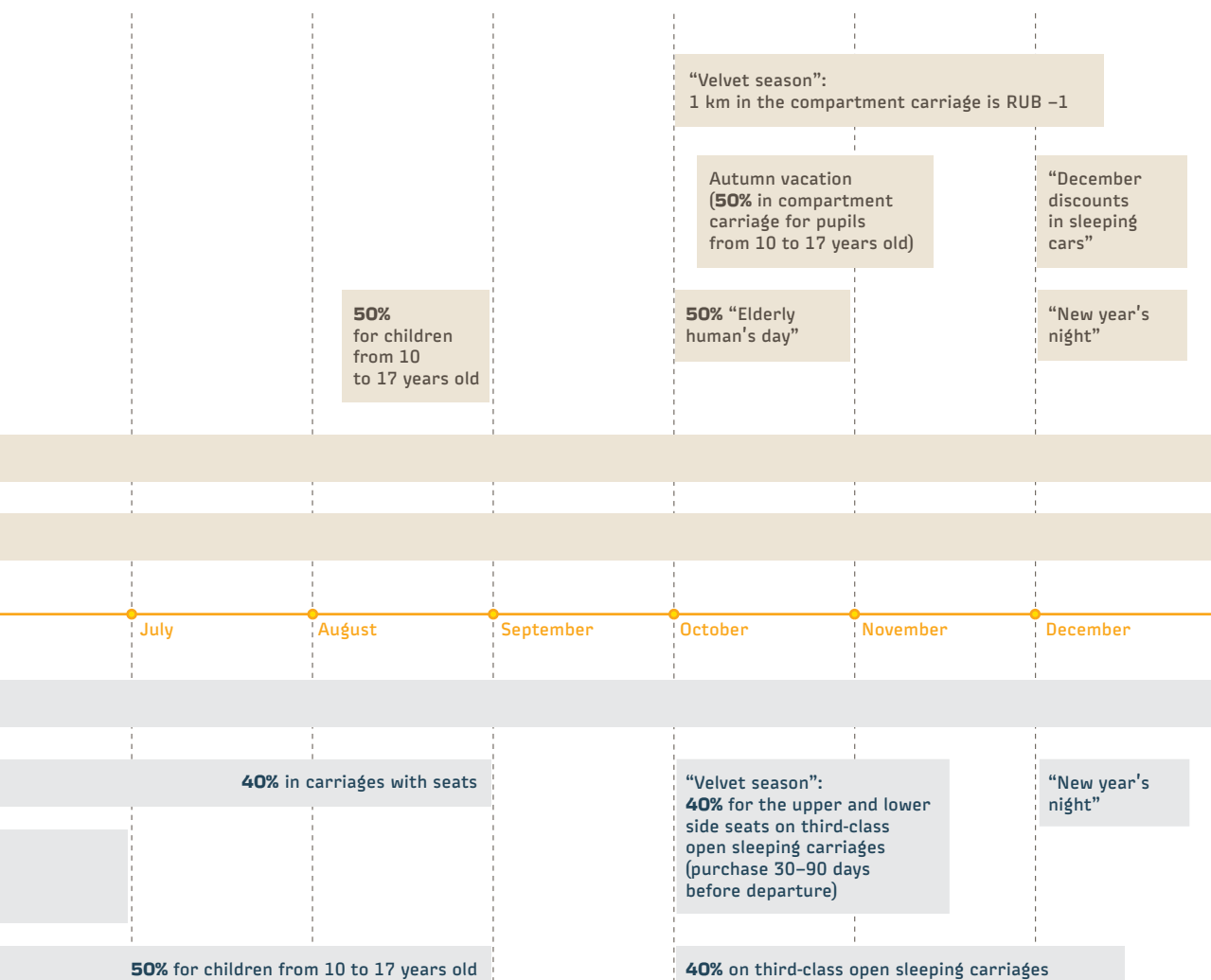
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- A 2%–5% discount, valid throughout the year, for carriages not equipped with environmentally friendly toilet facilities and air conditioning units.

Over nine million passengers were estimated to have benefited from special offers in the regulated segment.



International services

We made over 23 offers for international services in 2018 with discounts ranging from 5% to 70%. These discounts specifically applied to early

booking, families, groups (including small groups), children (50% discounts), round trips, senior passengers, etc.

SPECIAL FARES, DISCOUNTS AND MARKETING PROMOTIONS FOR INTERNATIONAL SERVICES IN 2018

| SPECIAL FARES/DISCOUNTS FOR TICKETS TO WEST EUROPEAN COUNTRIES | DISCOUNTS FOR TICKETS TO POLAND | DISCOUNTS FOR TICKETS TO FINLAND | DISCOUNTS/LOWER FARES FOR TICKETS TO ASIAN COUNTRIES (CHINA, NORTH KOREA, MONGOLIA) |
|--|---|---|--|
| Family (compartment booked by two passengers) | Children under 12 | Children under 12 | Children aged from 4 to 12 |
| Adult Senior and Junior (for passengers aged over 60 and between 12 and 26) | Group of six or more adults | Group of six or more adults | Round trip |
| Senior Single and Junior Single (whole compartment booked by a passenger aged over 60 or between 12 and 26) | Children's Group (double discount for children travelling in a group) | Plan Early! (from 1 January to 8 December, and from 9 December to 20 January) | Lower fares for trains running between Russia and Mongolia |
| Family (compartment booked by two passengers) | Booking 60–45 days before departure | | Lower fares for trains running through Russia and North Korea, and FPC's third-class open sleeping carriages |
| Voyage (small groups from two to five people) | 1st and 2nd classes | | |
| Festive (seven days before or after birthday) | | | |
| Wedding (newly wedded couples, valid for one month) | | | |

● Discounts

● Special/lower fares

Special fares, discounts and promotions
are valid throughout the year

SYSTEM OF DISCOUNTS IN THE INTERNATIONAL SERVICES IN 2018

Discounts for individual passengers within the two-way cooperation in the message with the countries-participants MGMT for 2018

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| Depending on the terms of sale 10 to 58% | In dependence from location seats (reserved seat) Railway of Moldova – 70%, Belarusian Railways – 10% | At the same time the redemption of the whole compartment 25% (coupe, sleeping carriage) | At the same time registration of travel cards documents «there» and back» (coupe, sleeping carriage) in the «back» direction 20% |
| 15–20% between Russia and Belarus 15–20% between Russia and Moldova 10–15% between Russia and Estonia 10–25% between Russia and Lithuania 10–15% between Russia and Latvia 25–45% between Russia and Uzbekistan 46–58% between Russia and Tajikistan 15–55% between Russia and Kyrgyzstan, Kazakhstan | Between Russia and Moldova Between Russia and Belarus | Between Russia and Latvia | Between Russia and Belarus |

In 2018

Discounts and marketing promotions in the message with countries participating in the interstate passenger tariff (ISPT) preserved at the level of 2017

In a message with Kyrgyzstan **increased the size of discounts**

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CUSTOMER LOYALTY PROGRAMME

The RZD Bonus Loyalty Programme was launched in 2012, driven by a simple model: passengers are offered the opportunity to purchase railway tickets with points earned through travelling. Six largest banks have become the Loyalty Programme partners: ALFA-BANK, ROSBANK, Bank Otkritie Financial Corporation, Raiffeisenbank, Loyalty Programs Centre (Spasibo from Sberbank), and Gazprombank. We also established partnership with MIR Russian national payment system. Partnerships enable customers to earn points faster through daily shopping and get a faster access to the privileges offered by RZD Bonus Programme. Every sixth trip on average may be paid for with points, which is much faster than with airline loyalty programmes.

Partnerships with banks earn FPC an extra monthly revenue of RUB 5–6 million, keeping the loyalty programme viable.

RZD Bonus Loyalty Programme's performance in 2018

1. New customers attracted to the RZD Bonus Loyalty Programme

The number of customers who take advantage of the RZD Bonus Loyalty Programme has reached 4 million in 2018. This is the largest increase since the programme started. Over 1 million new customers joined the programme in 2018, as compared to the annual average of 500,000–600,000 in the previous years. The average ticket of our customer loyalty programme member is consistently higher than the network average – by 17% in 2018. Over 1 million tickets were purchased with points since the Programme started.

Five charitable foundations joined our customer loyalty programme as partners in 2018: Life Line, Con-nection, Doctor Liza's Fair Care foundation, the Podari Zhizn (Gift of Life) foundation, and World Vita foundation. The programme members have donated over 2.5 million points to the foundations.

Partnerships with charities boost the programme's profile and allow its members and corporate customers to spend their points even if they have no immediate need to travel. So, the points are not wasted but transferred to the foundations' beneficiaries.

2. Marketing initiatives were launched to promote RZD Bonus Programme and encourage its members to earn points faster and enjoy other tangible benefits from participation.

A total of over ten promotions were run together with the partners, with prizes including travel discounts, movie tickets, 2018 FIFA World Cup tickets, bonus points, and even Samsung tablets. FPC has not borne any costs related to the prize fund. The wide-scale promotions with nationwide advertising support were carried out by ALFA-BANK and ROSBANK.

All the expenses related to the promotions are borne by the programme's partners, which makes RZD Bonus Programme even more beneficial for the Company.

3. We have boosted the programme's profile both within the business community and among the target audiences of potential customers through participation in major federal-level events:

- Business Success Awards, January to September 2018
- Gorkyfest and PILOT festivals
- Udmurtia Guest Card project
- New Wave contest in Sochi, September 2018.

As a partner, RZD Bonus Programme contributed cards and points to the prize fund for winners and participants of the events. As a result of these event-based promotions, more new, high-profile members joined the programme, including Nikita and Stepan Mikhalkovs, Konstantin Khabensky, Mikhail Porechenkov, Tina Kandelaki, the Head and members of the Government of the Udmurt Republic, and many others. Going forward, these prominent cultural and public figures may become ambassadors of RZD Bonus Programme brand to help build loyalty and trust among other programme members.

An upgrade of the programme's website and software is planned for 2019.

There are also plans to expand the partner base by attracting more tourism and leisure players and engaging new major hotel chains.

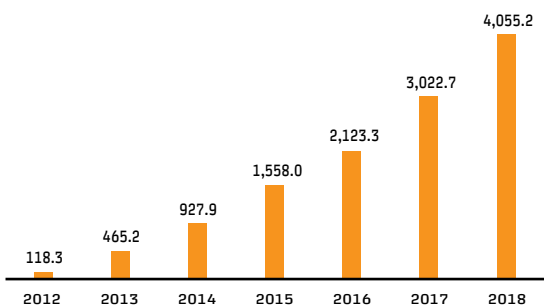
Our 2019 ambition is to bring the number of the programme members to 5 million.

>4

million customers

participated
in the RZD Bonus Loyalty
Programme in 2018

CUSTOMER LOYALTY PROGRAMME MEMBERS



MARKETING POLICY PLANS

A new product, Business Pass, was launched on 1 July 2018 together with the Directorate for Higher-Speed Services, a branch of Russian Railways, for Strizh higher-speed trains travelling between Moscow and Nizhny Novgorod. The Business Pass concept offers a new type of prepaid fares used in electronic travel cards. The pass will have a limited number of trips and a validity date.

The product offer is planned to be extended to other routes in 2019.

Pursuant to Federal Law No. 73-FZ On Amendments to Article 83 of the Federal Law on the Railway Transport Charter of the Russian Federation, dated 18 April 2018, carriers are allowed to sell non-refundable tickets in the deregulated segment of rail passenger services (first-class, second-class, deluxe) as of 1 January 2019. Relevant amendments have been made to the passenger transport rules¹.

These novelties provide passengers with an option to book non-refundable long-distance fares (tickets) if such option is enabled by the carrier.

A regulatory framework enabling sales of non-refundable tickets was thus established in 2018.

In view of the above, FPC will develop a list of trains in 2019, for which a non-refundable ticket option will be available.

The 2019 objectives of the Company's Marketing Policy include further roll-out of marketing campaigns and special fares to make passenger services more affordable and enhance transport mobility

of the population. These efforts are an important milestone in the delivery of the Marketing Strategy of JSC FPC to 2030, developed in 2018. The Strategy sets long-term marketing targets to support the Company's further growth, including development of the product offering, marketing and sales digitalisation, and a shift in the communication paradigm to personalised customer experience driven by the customer's preferences and budget.

Apart from that, the Company has set 2030 marketing targets for specific strategic areas including product portfolio, pricing, sales, promotion, the loyalty programme, and the marketing digitalisation.

96

work tickets

were sold in 2018

OPERATIONS IN THE TRANSPORT MARKET

SELECTED PROJECTS: NEW TRANSPORT PRODUCTS



Daytime
trains

~15

million

passengers carried
+23% year-to-year

¹ Resolution of the Russian Government No. 111 On Approval of Rules on Rail Transport Services for Passengers, Cargo, Baggage, and Unaccompanied Baggage for Personal, Family, Household and Other Needs Not Related to Conducting Business, dated 2 March 2005; Decree of the Russian Ministry of Transport No. 473 On Approval of Passenger, Baggage, and Unaccompanied Baggage Rail Transport Rules, dated 19 December 2013.

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Car transport service

5.5

'000 vehicles

carried
+5% year-to-year

Ticket booking

90

days

before the journey



Double-decker trains

~4.6

million

passengers carried
+37% year-to-year

On 1 July 2018, the Company started selling Business Passes for Strizh trains on the Moscow–Nizhny Novgorod route



Higher-speed trains

9.4

million

passengers carried
+53% year-to-year

RZD Bonus Loyalty Programme

>4

million members

in 2018



Moscow–Berlin Talgo train

31

'000 passengers

carried
+16% year-to-year

59

'000 passengers

since the start of operation on 17 December 2016



Multimodal transport services (6 routes)

71

'000 passengers

carried
+3% year-to-year

~270

'000 passengers

since the start of operation in December 2014

Daytime trains

The Company continues to further enhance its new offering of daytime trains, which run only during the day and mostly comprise carriages with seats. They offer comfort and speed on routes such as Moscow–Voronezh, Moscow–Yaroslavl, Moscow–Bryansk, Moscow–Smolensk, Moscow–Saint Petersburg, Moscow–Nizhny Novgorod, Saint Petersburg–Pskov, and others.

Ticket pricing is attractive and comparable with bus fares.

The new trains are all equipped with toilet facilities and air conditioners. Passengers can enjoy a meal in a dining carriage or buffet carriage during their journey.

To improve passenger experience and increase rail passenger traffic, on 1 April 2018, the Company launched a new, standard composition daytime Lastochka train No. 818/817 on the Krasnodar–Kislovodsk route.

New locomotive-hauled daytime trains were also put on the following routes: Moscow–Murom (No. 48/47, from 20 September 2018), Syktyvkar–Usinsk (No. 54/53, from 24 September 2018), and Moscow–Vologda (No. 108/107, from 5 October 2018).

After discussing the issue to reach a consensus during 2018, on 30 October the Company made a decision to launch carriages on the Moscow–Kostroma route that will be connected to and disconnected at Yaroslavl Glavny Train Station from train No. 108/107 travelling from Moscow to Vologda.

The new timetable includes 59 daytime train pairs across 34 routes.

ROUTES OF FPC'S DAYTIME PASSENGER TRAINS



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PASSENGER TRAFFIC ON DAYTIME TRAINS SINCE THE START OF OPERATION, **MILLION PASSENGERS**

SUMMARY OF TRAIN SERVICES

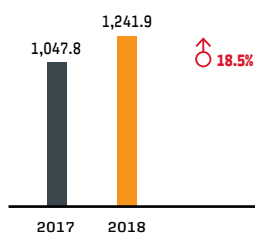
59

train pairs

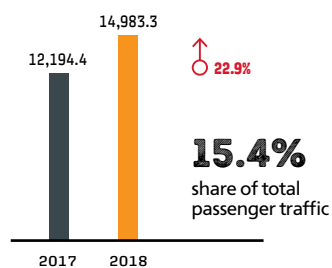
34

routes

NUMBER OF PASSENGERS CARRIED IN DECEMBER, '000 PEOPLE



NUMBER OF PASSENGERS CARRIED IN JANUARY-DECEMBER, '000 PEOPLE



A total of
14.98
million passengers

were carried in 2018

Double-decker trains

Double-decker carriages is a new type of carriages for FPC.

Their benefits include:

- convenient timetable and the shortest travel time possible for most of the travellers
- lower fares for second- and first-class sleeping carriages due to increased carriage capacity
- environmental friendliness (the carriages use advanced technology, equipment, and materials).

In line with the Comprehensive Long-Term Programme to Introduce Double-Decker Passenger Carriages on Russian Railways' Network, approved in December 2016, the Company plans phased expansion

of the routes covered by long-distance double-decker train services to ensure competitiveness of rail passenger services and improve cost efficiency.

The second¹ stage of the programme, scheduled for 2019–2020, will launch double-decker train services on the following routes: Moscow–Petrozavodsk, Saint Petersburg–Murmansk, Saint Petersburg–Moscow, and Moscow–Penza.

ROUTES OF FPC'S DOUBLE-DECKER TRAINS



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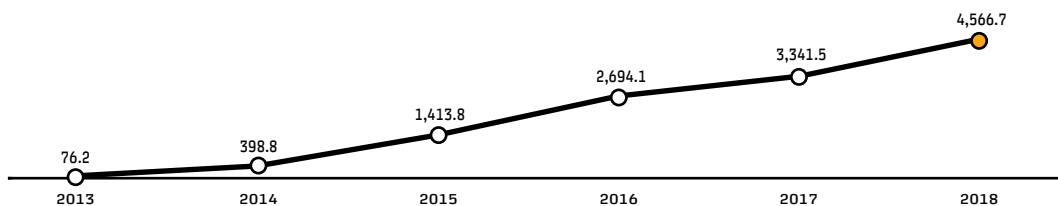
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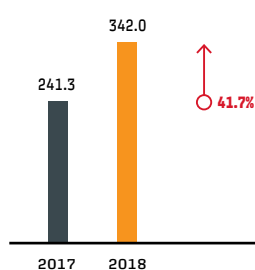
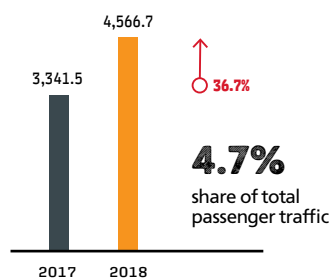
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PASSENGER TRAFFIC ON DOUBLE-DECKER TRAINS SINCE THE START OF OPERATION, **MILLION PASSENGERS**

SUMMARY OF TRAIN SERVICES

12²**train pairs**

(362 carriages)

9**routes**NUMBER OF PASSENGERS CARRIED IN DECEMBER, **'000 PEOPLE**NUMBER OF PASSENGERS CARRIED IN JANUARY–DECEMBER, **'000 PEOPLE****A total of****4.57****million passengers**

were carried in 2018

¹ During the first stage of the programme (2017–2018), double-decker train services were launched on four routes: Moscow–Kislovodsk, Saint Petersburg–Moscow, Moscow–Izhevsk, and Adler–Rostov.

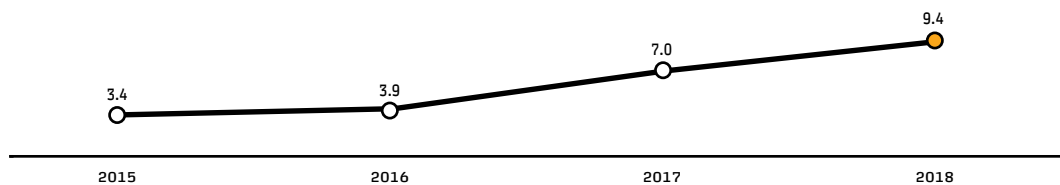
² Including train No. 23/24 Moscow–Saint Petersburg.

Higher-speed trains

ROUTES OF FPC'S HIGHER-SPEED TRAINS



PASSENGER TRAFFIC ON HIGHER-SPEED TRAINS SINCE THE START OF OPERATION, MILLION PASSENGERS



SUMMARY OF TRAIN SERVICES

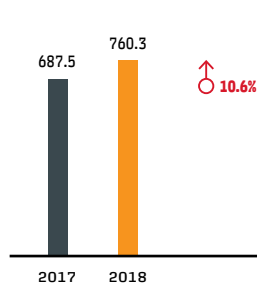
29¹

train pairs

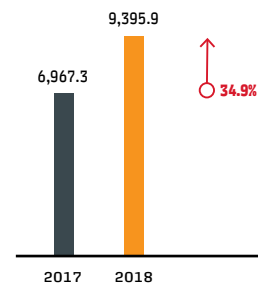
11

routes

NUMBER OF PASSENGERS CARRIED IN DECEMBER, '000 PEOPLE



NUMBER OF PASSENGERS CARRIED IN JANUARY-DECEMBER, '000 PEOPLE



¹ Including train No. 735/836 Moscow-Kovrov, which operates as a higher-speed train when travelling from Kovrov to Moscow.



EXPANDING PRESENCE IN THE INTERNATIONAL TRANSPORT MARKET

Network optimisation: faster services and expanded coverage

Traffic and acceleration

In the long-distance train timetable for 2018/2019 effective from 9 December 2018, the overall traffic of FPC's passenger trains was increased by six train pairs (versus 2017) to 465 pairs of passenger trains (459 train pairs in 2017/2018).

A number of initiatives were implemented to accelerate FPC's passenger trains in the 2018/2019 timetable. The aggregate reduction in travel time (factoring in reduced speeds for certain trains) was 134 hours, compared to 115 hours in the 2017/2018 timetable. For 68 trains, travel time was reduced by 30 minutes or more, for a total of 102 hours.

112 multi-group train pairs were included in the timetable to increase operating performance and efficient use of rolling stock (three pairs more than in the 2017/2018 timetable).

To improve passenger experience and increase rail passenger traffic, the 2018/2019 timetable includes new long-distance train pairs made up by FPC.

New daytime trains

Locomotive traction, passenger carriages (seven pairs):

- No. 45/46 Moscow–Tambov
- No. 47/48 Moscow–Murom
- No. 53/54 Syktyvkar–Usinsk
- No. 69/70 Moscow–Lipetsk
- No. 107/108 Vologda–Moscow
- No. 121/122 Moscow–Bryansk
- No. 131/132 Moscow–Novozybkov/Lgov.

Lastochka (motorised carriages) (two pairs):

- No. 729/730 Moscow–Smolensk
- No. 821/822 Krasnodar–Imeretinsky Resort.

New night trains:

- No. 111/112 Krasnoyarsk–Severobaykalsk
- No. 113/114 Novosibirsk–Abakan
- No. 123/124 Kirov–Saint Petersburg
- No. 125/126 Samara–Kazan
- No. 137/138 Novokuznetsk–Tyumen
- No. 185/186 Moscow–Saint Petersburg
- No. 255 Saint Petersburg–Moscow
- No. 263/264 Moscow–Stary Oskol
- No. 273/274 Moscow–Kazan
- No. 290 Moscow–Saint Petersburg
- No. 351/352 Ufa–Priobye
- No. 363/364 Tomsk–Novosibirsk–Karağanda.

New product range

Products within FPC's current product range are a combination of technical data related to the train composition and services offered on board.

Our current offering comprises over 90 combinations of train categories (passenger, express, higher-speed, branded), carriage types (deluxe, first-class sleeping, second-class sleeping, third-class open sleeping, with seats), and on-train services (catering, travel kit, press, etc.).

To help passengers better understand our product offering, FPC's Strategy provides for transitioning to a new product range with a more clear value proposition.

The fundamentally new classification will include four service classes across four transport products:

- four train types (daytime express trains, night trains, conventional trains, and tourist trains)
- four service classes (business, comfort, economy, and economy budget).

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CUSTOMER SERVICE

CUSTOMER SERVICE LEVELS

Customers' rising expectations and the growing need for trains to be safe, on schedule, faster, and comfortable (factors now reaching over 80% on the passenger's value board), have driven the demand for shorter journey trains, "hotel trains" (overnight trains), multimodal services, passenger-friendly carriages offering a wide range of high-quality on-board entertainment.

This makes passenger opinion studies and assessment of their satisfaction levels ever more important.

The Company changed its customer interaction focus in 2017 by launching the opros.fpc.ru online survey website as a new direct feedback channel. Passengers can now provide feedback on their experience and grade customer services while still on board. Monitoring customer experience through opros.fpc.ru helps FPC collect relevant data in real time and promptly respond to passenger suggestions and complaints.

The use of this improved feedback technology resulted in an 8x increase in the number of respondents in 2018 year-on-year to 164,500 passengers.

The Company-to-passenger communication channel was established in 2018, with passengers receiving personalised messages thanking them for travelling on FPC's trains and asking to give feedback and assess their experience.

The overall service level score was 4.22 points on the 1 to 5 scale in 2018, up 0.22 points year-on-year. In addition to the overall customer service quality, passengers give grades to its components such as online booking, using a ticket office, technical condition of carriages, removable mattresses, carriage cleanliness, attendants' performance, prepaid meals, dining carriage services, travel kits, on-board merchandise, etc.

Monitoring effort and passenger feedback are used to identify customer service gaps, develop initiatives to enhance the customer experience and expand the range of services provided, and introduce innovative customer services on trains and at ticket offices.



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MONITORING CUSTOMER SERVICE LEVELS ON FPC'S TRAINS IN 2018

Overall service level score¹

Overall score



4.22
points

Number of respondents



164,464
respondents

Method used



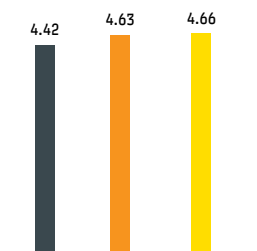
online survey at
opros.fpc.ru

Period

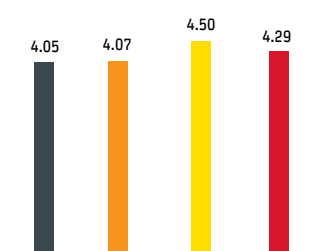


January–December

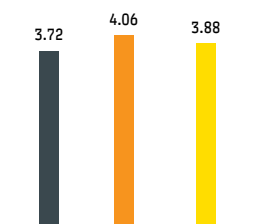
Customer service component scores



● Ticket office
● Online
● Mobile app



● Technical condition
● Carriage cleanliness
● Attendants' performance
● Bed linen



● Prepaid meals
● On-board merchandise
● Dining carriage services

¹ On the 1 to 5 scale, where 1 stands for "very poor" and 5 for "excellent".

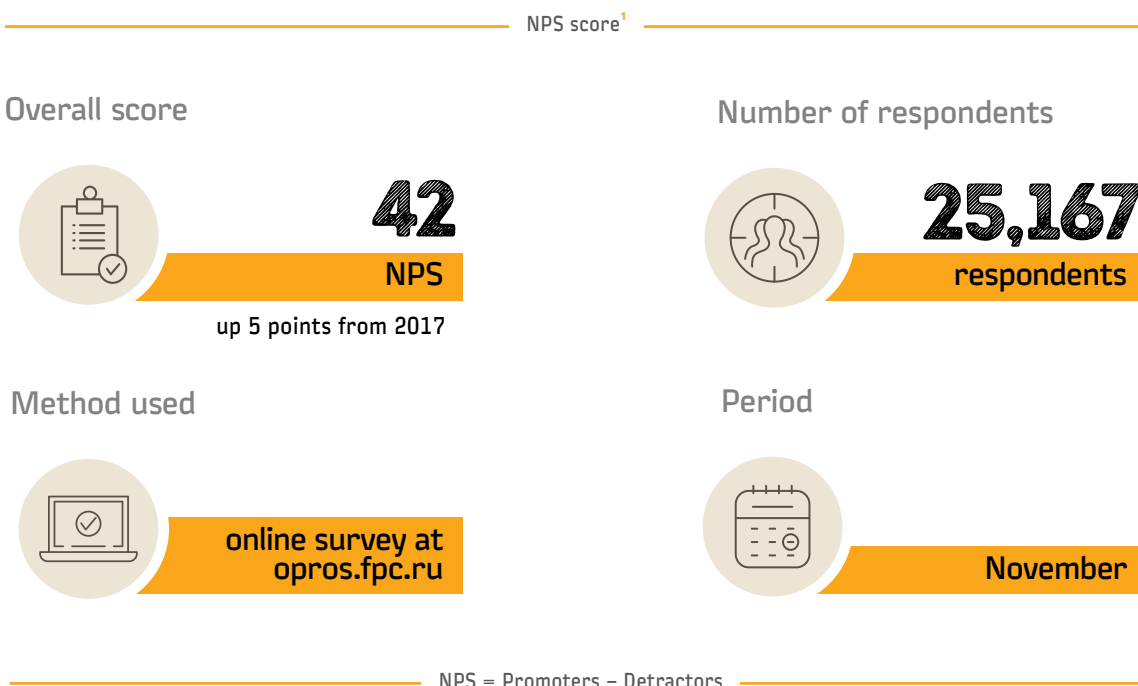
The Company also monitored the Net Promoter Score (up 5 points) using the NPS methodology to assess customers' willingness to travel with FPC again and to recommend it to others. The NPS score was registered at 42 points in 2018 (based on 25,100 responses). At the same time, the NPS score varies for different customer segments.

The survey results helped identify competitive focus areas through enhancing the customer service by improving the performance of relevant business units (KPIs).

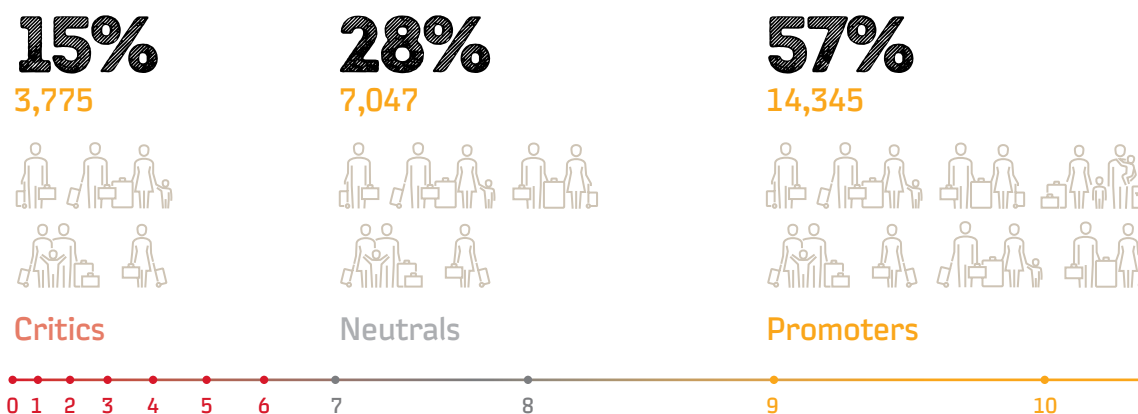
We will continue to monitor the Net Promoter Score in order to track changes and assess initiatives implemented to improve customer service levels.

FPC's key customer loyalty enhancement initiatives include replacing rolling stock, improving on-board services, including customer service standards, and introducing new service concepts. In addition, as part of its strategic initiative, FPC intends to launch a new Introduction and Development of New Product Offering project, which includes adopting a new product line.

FPC'S PASSENGER NET PROMOTER SCORE IN 2018



NPS = Promoters – Detractors



¹ NPS (Net Promoter Score) is used for assessment of the customer's loyalty to a product/service or a company (willingness to recommend).

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SERVICE CLASSES

The Company made significant progress in standardising its service classes and segmentation of its carriage fleet to meet the key passenger needs such as air conditioning and toilets on board. When booking tickets passengers can easily see online infographics clearly featuring on-board services and the availability of air conditioning and/or on-board toilets. The same information is presented and printed out on paper tickets purchased offline. The passenger, therefore, has full and reliable information on services to be provided during travel.

DOMESTIC PASSENGER SERVICES

| | | | | | |
|---|---|---|--------------------------------|---|--------------------|
|  | Air conditioning in the compartment |  | Shower room in the compartment |  | Press ⁴ |
|  | Bio toilet in the compartment |  | Meals |  | Bed linen |
|  | Washbasin |  | Travel kit ³ |  | Pets allowed |
|  | Poputchik (Fellow Passenger) multimedia portal ² |  | TV |  | Lap blanket |



































































² On board, passengers can access a multimedia content and services portal as well as free Wi-Fi depending on bandwidth use and network coverage.

³ Travel kits are not provided on trains No. 5/6 Moscow–Saint Petersburg and No. 23/24 Moscow–Kazan.

⁴ No press is offered on trains No. 617/618 Saint Petersburg–Vologda, No. 5/6 and No. 25/26 Moscow–Saint Petersburg, No. 23/24 Moscow–Kazan.

























































SERVICES BY CARRIAGE TYPE




















































| CARRIAGE TYPE | SERVICE CLASS | SERVICES |
|---|---|---|
| Deluxe (VIP) | | |
| Deluxe Double berth compartments. The compartment can only be booked as a whole, accommodating 1 to 2 adult passengers with the option to include 1 child up to 5 years of age and 1 child up to 10 years of age, regardless of the number of adults travelling | 1A (4 compartments and a bar) 1M (5 compartments) 1M (6 compartments) |           |
| First-class sleeping or RIC carriages (double berth compartments) | | |
| | 1B (not more than 1 passenger) 13 |         |
| | 1T |        |
| | 1Y |     |
| | 1Л |     |
| First-class sleeping Double berth compartments | 1Д (tourist) |    |
| | Strizh train | |
| | 13 |           |
| | 1E (all berths must be booked by 1 or 2 passengers) |          |
| | 1T |          |

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| CARRIAGE TYPE | SERVICE CLASS | SERVICES |
|---|---|---|
| K (second-class sleeping) Four-berth compartments | 2З |         |
| | 2Т |        |
| | 2Б |         |
| | 2К |     |
| | 2У |     |
| | 2Н |     |
| | 2Л |     |
| | 2Д (tourist) |    |
| П (third-class open sleeping) Open sleeping carriage | 3З |   |
| | 3Т |   |
| | 3Д |    |
| | 3У |    |
| | 3Л |   |
| | 3П (for organised groups of children, based on second-class sleeping) |   |

| CARRIAGE TYPE | SERVICE CLASS | SERVICES |
|---|--|--|
| Carriages with seats (C) | | |
| Improved seat arrangement | 1P |       |
| | 1P (Strizh train) |      |
| | 1P (double-decker trains) |        |
| | 1B (with single occupancy; all seats must be booked) |         |
| Based on a sleeping carriage with four-berth compartments | 3P |       |
| | 2P |     |
| | 2C |   |
| | 2Ж |    |
| Standard arrangement | 2B |    |
| | 2E |   |
| | 3Ж |    |
| | 3C |   |

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| CARRIAGE TYPE | SERVICE CLASS | SERVICES |
|--|---------------------------|---|
| Motorised carriages | | |
| Improved seat arrangement | 1C |   |
| | 2C |   |
| | 2Ж |    |
| | 2B |    |
| Standard arrangement | 2E |   |
| | 2M |   |
| | 3Ж |    |
| | 3C |   |
| 0 (fourth-class seating carriage) Open seating carriage | 30 |    |
| | 3B (with no seat numbers) |   |

CUSTOMER SERVICE INNOVATIONS

FPC e-ticket service enhancements

A number of innovations were made in 2018 to the e-ticketing system – one of the Company's top business priorities:

- as of 11 January, carriage documents for small pets and/or baggage can be booked on the Russian Railways website – either during the ticket purchasing process or added to a booking later on
- as of February, passengers can receive refund notifications through a customer's personal account on the Russian Railways website, specifying the money transfer date and the receiving card number
- passengers travelling to/from the Kaliningrad Region from/to other Russian regions via Lithuania can now book e-tickets through the mobile app
- procedures for staff in abnormal situations during boarding e-ticket holders were updated.

The initiatives brought the share of e-ticket sales to 52% of all tickets sold.

Booking carriage documents for baggage and pets on the Russian Railways website

Starting from 2018, through their personal account on the Russian Railways website, during the ticket purchasing process passengers can book carriage documents for hand luggage for an extra fee, oversized luggage (baby carriages, bicycles, kayaks, hunting rifles, poles, etc.) on special terms, small pets, baggage in a dedicated compartment, or cars or motorbikes on car transporters. The online baggage and pet transport booking service was used by 102,000 passengers in 2018.

Transporting pets in a dedicated compartment

Starting from July 2018, passengers have been able to transport small pets in baggage compartments as unaccompanied baggage. The service is available on 237 FPC's trains. Since the launch of the service, 905 pets have been transported.

Transporting unaccompanied children

Starting from 1 July 2018, Nevsky Express has provided a new transport service for unaccompanied children from ages 10 to 16 in dedicated seats and attended to by the train crew. The service includes meeting the child at the station, waiting in the premium lounge, escorting to the train, care throughout the journey, and passing on to parents or legal guardians at the destination station.

In 2019, we expect to expand the routes covered by this service.

FPC Market online store

FPC Market, an online store selling merchandise to passengers, was made available on all FPC's passenger trains in October 2018. We are continuing to expand the product mix and add various categories that can be ordered and delivered on board.

At present, passengers have made over 2,220 orders at the online store.

Sending correspondence and parcels by train

For passengers' convenience, FPC and its partners have launched a service for transporting small parcels by passenger trains.

Parcels are accepted for transport by service centres available throughout Russia at railway stations.

Wider use of the service allowed FPC to transport over 70,000 parcels by passenger trains in 2018.

Children's travel kits

From 19 March to 28 February 2019, for passengers in deluxe carriages on branded trains, FPC organised the Children's Amenity Kit and Trains are Better with Kids! marketing campaigns. Young passengers travelling in the carriages covered by the promotion received travel kits for ages either under five or from five to ten. During the promotion period, FPC delivered kits to approximately 847,000 children.

On-board call buttons

For a better customer experience, FPC's trains have call buttons which contact special wristwatches worn by attendants on board.

In 2018, warning devices were installed on 83 branded trains, six international trains, and six regular trains (214 trains in total, comprising 2,790 passenger carriages).

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On-board infotainment services

For the 2018 FIFA World Cup, the Poputchik (Fellow Passenger) multimedia portal was launched on FPC's trains.

The portal provides passengers with on-board access to regular internet services (information and entertainment) regardless of whether 3G/4G mobile networks are available.

The Poputchik multimedia portal is dedicated software installed on a server placed in the administrative carriage. The software provides access to information and multimedia content (press, books, music streaming, films, games, etc.) hosted directly on the train's server. Poputchik can also be used for accessing the internet (within the coverage areas of mobile operators).

The Poputchik service was initially launched in the run-up to the 2018 FIFA World Cup. During the days of the event, the portal was accessed by 97,696 passengers carried, and 16,835 passengers used it to access the internet.

As at the end of 2018, Poputchik was available on board 64 FPC's branded trains.



ENHANCING MEAL QUALITY

In 2018, FPC implemented a number of scheduled initiatives to enhance the quality of meals served on passenger trains:

- Extra meals throughout the journey were made available to passengers on trains which include dining carriages – they can be booked at a ticket office or online during the ticket purchasing process.
- Since August, passengers have been able to order extra meals directly on board with the help of a carriage attendant. And finally, passengers travelling in carriages with seats were also given the opportunity to order extra meals.
- In Q2 2018, we significantly improved the quality and increased the portions of meals prepared from the Unified List of Meals offered to passengers in premium carriages on FPC's trains, which resulted in a noticeable decrease in the number of passenger complaints. Professional taste testers of ready meals were engaged for the first time to assess the bids and the bidders' level of professional competence in assuring catering product quality.
- In July, during the 2018 FIFA World Cup in Russia, passengers who booked tickets for Strizh (Moscow–Nizhny Novgorod) trains were able to choose kosher or halal meal options for the first time, prepared in line with all religious rules and standards. In 2018, 852 kosher meals and 750 halal meals were sold on Strizh trains.
- Since 1 May 2018, to strengthen control over meal operators, new dining carriage lease contracts require mandatory interviews with dining carriage staff before granting them access to the catering services for passengers. Crews are interviewed to assess their knowledge of the applicable Russian laws, regulations of relevant Russian ministries, and FPC's regulations outlining the procedures for customer service on rail transport and catering services. A procedure was approved for maintaining a database of dining carriage staff within the unified, integrated automated HR system to enhance the control over employee professional skills.
- During the summer holiday period of 2018, 251,000 children travelling in organised groups were provided with hot meals.
- During the 2018 FIFA World Cup in Russia, a special menu was designed for trains transporting football fans.

Extra meal service sales project

Statistics of extra meal sales when booking tickets:

- in FY2018, 343,000 meals were sold to 163,000 passengers
- FPC's share amounted to RUB 30.2 million.

Extra meal sales by carriage attendants

(between 15 August and 21 December 2018)

94

'000 meals

26.7

RUB million

8

RUB million

Extra meal service sales

67.7

RUB million

online

32.3

RUB million

at ticket offices

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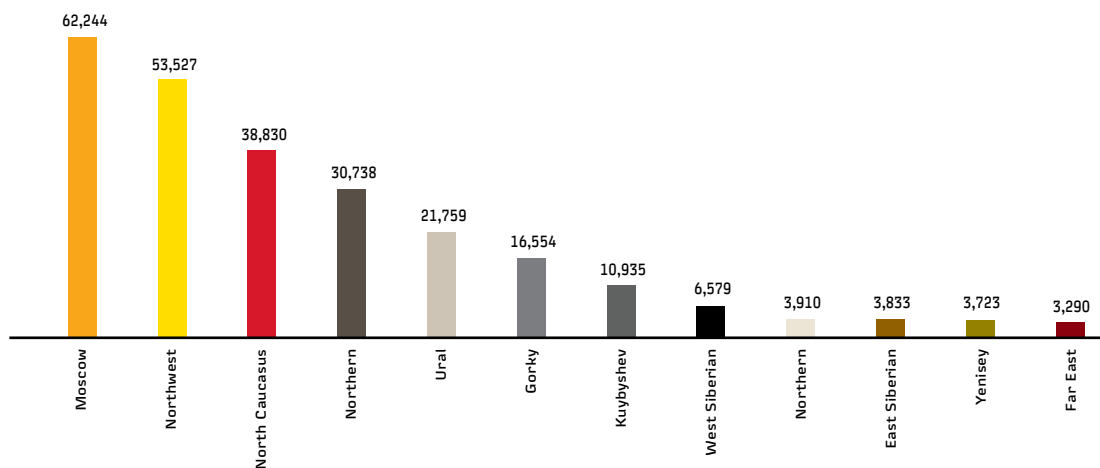
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CHILDREN PROVIDED WITH HOT MEALS DURING THE 2018 SUMMER HOLIDAYS, BY FPC BRANCH



ROLLING STOCK

CURRENT CONDITION OF THE PASSENGER CARRIAGE FLEET

FPC's rolling stock varies by carriage type, age, and service equipment (about 74% are equipped with air conditioners, and approximately 60% with environmentally friendly toilets).

The average carriage age is a key metric showing the technical condition of a carriage fleet (as at 31 December 2018, the average



CHANGES IN CARRIAGE FLEET STRUCTURE, CARRIAGES

| CARRIAGE TYPE | DESCRIPTION | FLEET AS AT 31 DECEMBER 2017 | ACQUIRED | RETIRED |
|----------------------|--|---------------------------------|------------|--------------|
| Deluxe | Compartment carriages, each compartment featuring a shower room, a washbasin, and a toilet | 117 | – | 1 |
| First-class sleeping | Compartment carriages with double berth compartments | 848 | 4 | 206 |
| RIC | Compartment carriages, European standard size | 367 | – | 28 |
| MIXED | Compartment carriages with deluxe and first-class sleeping compartments | 13 | – | – |
| K | Compartment carriages with four-berth compartments | 9,111 | 78 | 776 |
| O | Third-class open sleeping carriages | 7,096 | 637 | 1,027 |
| MO | Interregional carriages | 698 | – | 44 |
| B | Baggage carriages | 234 | – | 12 |
| R | Dining carriages | 853 | 5 | 54 |
| Other | Power cars and ancillary vehicles | 49 | – | 3 |
| Total | | 19,386 | 724 | 2,151 |

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17,959

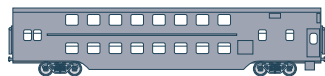
cars

age of FPC's carriages was 17.7 years). In recent years, the average age of our carriages has been decreasing through massive retirement of carriages reaching the end of their life.

total passenger carriage fleet as on 31 December 2018



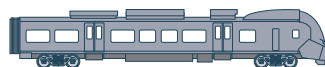
| | FLEET AS AT 31 DECEMBER 2018 | AVERAGE AGE OF CARRIAGES AS AT 31 DECEMBER 2017, YEARS | AVERAGE AGE OF CARRIAGES AS AT 31 DECEMBER 2018, YEARS | AVERAGE WEAR, % |
|--|---------------------------------|---|---|--------------------|
| | 116 | 10.4 | 11.2 | 39.7 |
| | 646 | 19.1 | 17.0 | 56.4 |
| | 339 | 16.6 | 15.9 | 45.7 |
| | 13 | 5.0 | 6.0 | 15.6 |
| | 8,413 | 19.5 | 19.3 | 67.9 |
| | 6,706 | 18.4 | 15.1 | 45.6 |
| | 654 | 14.8 | 14.6 | 51.0 |
| | 222 | 20.1 | 20.4 | 74.4 |
| | 804 | 27.0 | 27.0 | 73.5 |
| | 46 | 22.0 | 22.1 | 64.1 |
| | 17,959 | 19.1 | 17.7 | 58.6 |

CARRIAGE TYPE¹
Double-decker compartment carriage with berths
Model 61-4465

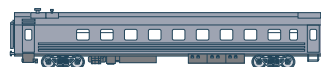
- 64 passengers
- 160 km/h
- Environmentally friendly toilet facility
- Air conditioner
- Water cooler
- Audio and video system


Compartment carriage for train sets
Model 61-4462

- 36 (18) passengers
- 160 km/h
- Environmentally friendly toilet facility
- Air conditioner
- Water cooler
- Audio and video system


Lastochka higher-speed electric train
Desiro RUS

- 443 passengers
- 160 km/h
- Environmentally friendly toilet facility
- Air conditioner (an individual unit in each cab and passenger compartment)
- Retractable steps for easy boarding from and alighting to low platforms (200 mm)
- Passive safety system for passengers
- Floor-mounted racks for large hand luggage


Open sleeping carriage
Model 61-4447

- 54 passengers
- 160 km/h
- Environmentally friendly toilet facility
- Air conditioner
- Fire-extinguishing system connected to the on-board water supply system


RIC type sleeping carriage for use on international routes
Model 61-4476

- 32 passengers
- 160–200 km/h
- Environmentally friendly toilet facility, including a shower
- Climate control (heating, ventilation, and cooling)
- Water supply system
- Reading lights
- Power sockets to charge mobile phones or laptops
- Public address system with a volume control


Double-decker carriage with berths
Model 61-4492

- 60 berths per first-class carriage
- 104 berths per second-class carriage
- 160 km/h
- Environmentally friendly toilet facility
- Air conditioning and purification system
- Passenger information display
- Audio and video system
- Fire alarm system
- Train security and communication monitoring control system

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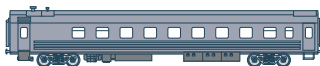
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¹ Design service life: 28 years.



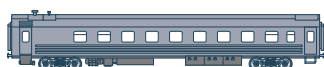
Passenger carriage with seats
Model 61-4458

- 60 passengers
- 160 km/h
- Environmentally friendly toilet facility
- Air conditioner
- Water cooler
- Audio and video system
- Attendant call buttons



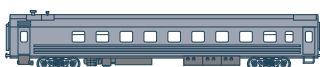
Compartment carriage with a compartment for special needs passengers
Model 61-4186

- 26 passengers
- 140 km/h
- Air conditioner
- A special compartment for a special needs passenger and an accompanying person
- A lift for boarding and disembarking wheelchair users
- Wheelchair accessible, extra-wide vestibule, aisle and toilet facility



Open sleeping carriage
Model 61-4194

- 54 passengers
- 140 km/h
- Environmentally friendly toilet facility
- Air conditioner



Second-class sleeping carriage
Model 61-4179

- 36 (18) passengers
- 140 km/h
- Environmentally friendly toilet facility
- Air conditioner



Deluxe carriage
Model 61-4449

- 8–12 passengers
- 140 km/h
- Environmentally friendly toilet facility
- Air conditioner with individual temperature control in each compartment
- A shower room in the compartment
- A safe in the compartment
- Audio and video systems
- A compartment access control system



Strizh higher-speed train
Talgo

- 443 passengers
- 160 km/h
- 7 trains by Patentes Talgo S.L.
- 20 carriages per train, including
 - 1 buffet carriage
 - 1 dining carriage
 - 2 railway service carriages with a diesel generator
- Environmentally friendly toilet facility (motorised carriages)
- Air conditioner (an individual unit in each cab and passenger compartment)
- Retractable steps for easy boarding from and alighting to low platforms (200 mm)
- Passive safety system for passengers
- Floor-mounted racks for large hand luggage

STRIZH HIGHER-SPEED TRAIN (TALGO)

For use on international routes:

- 3 train sets with 1,520/1,435 mm variable-gauge wheelsets
- 216 passenger seats
- 2 first-class carriages with seats
- 9 first- and second-class sleeping carriages
- 2 VIP sleeping carriages with a toilet and a shower in each compartment
- 3 first-class sleeping carriages, each with a compartment for special needs passengers
- Commissioned in 2016

For use on domestic routes

- 4 train sets with fixed-gauge wheelsets
- 414 passenger seats
- 11 first- and second-class carriages with seats
- 5 VIP sleeping carriages with a toilet and a shower in each compartment
- Commissioned in June 2015 (Moscow–Nizhny Novgorod route)

MODERN ROLLING STOCK



To meet the demands of increasing passenger traffic, decrease travel times, and reduce ticket prices, FPC purchases carriages with advanced technical features and improved interior design. All new rolling stock is equipped with environmentally friendly toilet facilities (bio toilets) and air conditioning units.

Double-decker carriages

The Company's inventory fleet comprises 362 double-decker carriages.

The fundamental advantage of a double-decker carriage is its increased passenger capacity allowing to carry more passengers on busy routes, especially to southern resorts.

Double-decker carriages are as comfortable and equipped as modern conventional carriages, and even surpass them in many other respects. Depending on the class, double-decker carriages have double berth or four-berth compartments.

Air conditioning and heating units in each carriage help constantly maintain a comfortable microclimate. Environmentally friendly toilet

facilities with three cabins allow passengers to use toilets at stops and in resort areas. Slackless couplings and pressure-proof gangways helped reduce noise and vibration in carriages and increase the safety of passengers when moving from carriage to carriage.

The demands of disabled persons have also been considered: one of the carriages in each train (administrative carriage) is equipped with special lifts for boarding wheelchair users from low platforms and has a special compartment and toilet.

In 2015, the Company additionally purchased 15 double-decker carriages with seats: ten with standard and five with improved interior.

A double-decker carriage with seats was designed in Russia using the latest technology, equipment, and materials, as well as advanced passenger carriage building expertise and know-how of TVZ. One of the key features of the new rolling stock is the change of the side wall shape and curved glass windows used for the first time in the history of Russian carriage building.

The carriage is equipped with new modern rigid slackless couplings and gangways which ensure safe and convenient move from carriage to carriage, protection of passengers and staff in gangways from noise, precipitation, dust, sudden temperature and pressure drops. For visually impaired passengers, all signage in carriages is duplicated in Braille.

Double-decker carriages with seats are operated on the Moscow-Voronezh route.



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RIC carriages

From 2012 to 2015, the Company purchased 200 RIC carriages to replace rolling stock on international routes.

The RIC sleeping carriage, model 61-4476 (WLABmz), is intended for international passenger services in the UIC countries (1,435 mm gauge), the European part of the Russian Federation, the CIS, and Baltic countries (1,520 mm gauge).

The carriage complies with mandatory standards of the Russian Federation (GOST, NB ZhT) and the European Community (TSI, EN, UIC) in terms of conception, as well as exterior and interior design.

Operation between railway networks with different track gauges is carried out by replacing bogies at gauge-changers using existing infrastructure facilities (gauge changing station at Brest).

The maximum operating speed is 200 km/h on 1,435 mm gauge tracks and 160 km/h on 1,520 mm gauge tracks.

Each WLABmz carriage has eight passenger compartments (each with four berths), one service compartment, one carriage attendant compartment, a standard toilet, and a toilet with shower. Entrance doors are located at the end of the carriage on the side of the service compartment. HÜBNER GmbH semi-sealed gangways are installed at both end sides allowing passengers and service staff to move between carriages.

Auxiliary elements (folding ramp, retractable steps, handrails) provide convenient and safe entry into the carriage from platforms with a height of 550 mm or 760 mm for 1,435 mm gauge, and also from platforms with a height of 200 mm or 1,100 mm for 1,520 mm gauge.

Sliding doors separate carriage interior at both ends from vestibules. A similar door is installed between the sleeping compartments area and toilets.

The compartments have four berths that can be used as four conventional seats with headrests during the daytime and a folding table under the window with an integrated sink with hot and cold water, as well as a waste bin. The space under the lower berths can be used for storing luggage.

Each sleeping compartment has two power sockets to charge phones or laptops, a shelf for storing small items, bedside reading lights, hooks for clothes, a temperature control device of the climate system and an information system. The compartments are equipped with hinged doors.

Toilets are equipped with environmentally friendly closed loop vacuum facilities, as well as a washbasin with cold and hot water supply, a mirror, and an automatic soap dispenser. One of the toilets is equipped with a shower.

The Company obtained permits for operating new RIC carriages in 16 European countries.





Talgo trains

The Company has purchased 140 Talgo carriages since 2015.

The maximum speed of the trains in service is 200 km/h.

Due to their original design and technology solutions, passenger carriages by Patentes Talgo S.L. have several specific technical features, which significantly increase the average speed of the rolling stock on the existing track infrastructure, including:

- natural (passive) tilting system
- no wheelsets – trucks with independently rotating wheels
- radial positioning of trucks in curves;
- variable-gauge system
- independent power supply
- articulated flexible connection (coupling).



The natural tilting system allows to increase the speed of the train on curved tracks, while reducing the negative impact of unbalanced lateral force on passenger comfort.

The system for radial positioning of trucks in curves allows to increase the service life of running gear while reducing rail wear.

The use of air suspension in conjunction with the natural tilting system and the system for radial positioning of trucks in curves provides soft riding and, thereby, significantly improves the passenger comfort.

To continuously diagnose the most safety-critical systems, the train is equipped with an automatic monitoring system allowing to monitor the brake system parameters (including antiskid device), and the operation of the climate system, electrical equipment, safety systems, fire alarm, fire extinguishing system, etc.

Currently, Talgo trains run on the Moscow–Nizhny Novgorod and Moscow–Berlin routes.

The Moscow–Berlin train does not need bogie exchange to operate on the European track gauge, which allows to reduce travel time significantly.

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UPGRADING THE ROLLING STOCK

FPC is constantly working to improve passenger carriage design with a particular focus on the comfort and functionality of a passenger seat. In 2018, an upgraded third-class open sleeping carriage concept was developed together with Vaгонremmash. The main feature of the concept is the ability to provide each traveller with a comfortable level of privacy using partitions and personal screens.

The upgraded carriage has more comfortable seats with headrests, individual lights, power sockets, and USB ports. Upholstery is made of materials that meet fire safety regulations, resistant to abrasion and other fabrics dyeing. The passengers of the upper berths now have an extra table.

The next-generation third-class open sleeping carriage provides for a modular replacement of damaged interior elements, which will help in reducing repair time and costs. The Vaгонremmash concept is under consideration as one of the internal layout options for both building new carriages and overhauls with service life extension (KVR) of existing rolling stock.

Another version of the third-class open sleeping carriage is planned to be produced at TVZ. The interior, designed by TVZ, differs markedly from the one offered by Vaгонremmash, but both represent a step forward in the development of third-class open sleeping carriages.

In accordance with the approved technical specifications, TVZ is developing the model range for the Carriage-2019 project.

A specific feature of Carriage-2019 is the adoption of semi-automated passenger service technologies with a single service compartment for two carriages and without redundant vestibules, which allows to create additional areas providing passenger comfort during travels (shower, multifunctional service area with vending machines, purifier for distribution of drinking water, and other equipment).


In addition to a single-vestibule body and two-coupled carriages, the design features of the new model range carriages also include:

- pressure-proof gangways
- full LED lighting
- power sockets (220 V) and USB ports at each berth; sensor taps
- hand driers and baby changing tables in toilets
- convertible tables and individual safes for each passenger in compartment carriages
- automated sliding interior doors
- refreshed interior design.

Key features of Carriage-2019


The delivery of new models is planned as part of a long-term contract starting from 2019. Requirements for the carriage design consider the most advanced functions popular with passengers.

Passenger




- Modern ergonomic design
- Individual temperature control
- Pressure-proof gangways
- Hand driers
- Sensor taps
- Baby changing table
- USB ports
- Safes
- Shower

Carriage-2019



Technical



- Two-coupled carriages



From 2020, the Company plans to introduce the following features to the Carriage-2019 model range:

- bolsterless bogies with air suspension of the carriage body
- individual temperature control at each compartment
- central power supply with a two-wire high-voltage line.

The next development area is the double-decker Carriage-2020.

Key features of Carriage-2020

The following features are planned for Carriage-2020:

- two-coupled carriages
- increased double-decker height improving the passenger comfort on the upper berth of the second deck by increasing the distance between the berth and the ceiling
- updated interior and modern design
- bogies with air suspension system (improved smoothness and passenger comfort)
- a next-generation system for detecting potential failures (mechanical parameters monitoring, real-time data transmission to the situation centre, intervals for the first maintenance increased to 10,000 km)
- semi-automated passenger service technologies with a single service compartment for two carriages (improving labour productivity of the train crew).

Features to provide additional comfort for passengers in the carriage:

- a modern design, developed using foreign experience, high-quality finishing materials
- an improved soundproofing and vibration insulation
- Wi-Fi
- intercoms for communication with train attendant
- a full-fledged self-service area with vending machines and a purifier
- convertible tables and personal safes in compartments
- automated sliding interior doors
- individual temperature control at each compartment
- a shower in each carriage.

Planned production time of the prototype – 2020.

Carriage-2020 >

Passenger



- Service area with vending machines
- Increased free space at the upper berth of the second deck compartments

Technical



- Modular carriage design (fast replacement of damaged interior parts during scheduled repairs)



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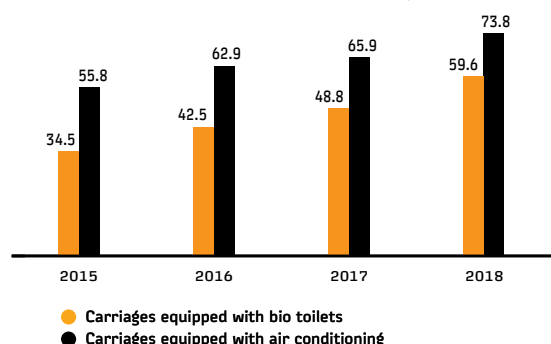
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UPGRADING THE CARRIAGES

In addition to the purchase of new rolling stock, FPC focuses on upgrading and improving the equipment of carriages built earlier.

PERCENTAGE OF THE CARRIAGES EQUIPPED WITH BIO TOILETS AND AIR CONDITIONING, %



Sandwich frames have almost completely replaced wooden window frames in passenger carriages.

The carriages are being equipped with environmentally friendly toilet facilities.

In 2018, the percentage of carriages equipped with air conditioning units increased by 7.9%, and the number of carriages with environmentally friendly toilet facilities increased by 10.8% of the assigned fleet.

In 2018, the Company provided 1,696 carriages with power sockets for device charging bringing the share of such carriages in the fleet to 50%.

Berths and seats upholstery replacement was carried out in 447 carriages.

ADOPTION OF INNOVATIVE SOLUTIONS AND TECHNOLOGIES

When developing a new rolling stock based on passenger feedback, the Company and the manufacturer create rolling stock that meets all requirements of Russian citizens as well as current trends in railway engineering.

Following the analysis of passenger feedback on travelling by FPC's long-distance trains, conducted in 2016 via opros.fpc.ru website, the carriages built in 2018 were fitted with additional equipment:

- ramps for boarding (disembarking) passengers with children or with a trolley case
- destination signs and information panels for displaying information about the train and carriage numbers, and route
- show-cases for souvenirs and food
- folding ladders for climbing to berths No. 2 and 36 in third-class open sleeping carriages
- a toilet with shower for passengers
- individual (local) lights at each table in dining carriages.

From a technology perspective, new carriages are equipped with train control and monitoring system (TCMS), with an upgraded geolocation function for each carriage to provide mileage and speed recording, and displaying the carriage location on the map in real time.

FPC completed the project on launching a high-speed data line on its branded trains. A total number of equipped carriages is 3,724. The data line is used to provide passengers with access to the Poputchik (Fellow Passenger) multimedia portal, as well as for technical purposes – the operation of the system for monitoring and diagnosing carriage equipment, the video surveillance system, and the passenger boarding control system.

The Company also plans to use the data line for providing voice communication for the train crew and for implementing software to replace the current equipment used in the passenger train security and communication monitoring control system.

GOVERNMENT RELATIONS

In 2018, FPC continued its collaboration with federal and regional authorities to improve the quality and competitiveness of rail passenger services and to drive passenger traffic growth.

- In the first half of 2018, the Company, working closely with the Ministry of Transport of the Russian Federation, the Ministry of Foreign Affairs of the Russian Federation, the Transport Directorate of the 2018 FIFA World Cup Russia (Transport Directorate) worked on the regulatory and organisational support for holding the 2018 FIFA World Cup Russia.

The Company agreed a schedule of 734 additional trains with the Transport Directorate to provide free transport for the World Cup fans, and following the work carried out by the Ministry of Foreign Affairs and the Ministry of Transport with the participation of FPC, on 29 May 2018, an agreement between the Government of the Russian Federation and the Government of Belarus on certain issues related to the entry of foreign citizens and stateless persons to international sports competitions was signed. During the World Cup, the agreement provides for visa-free entry into the Russian Federation and the Republic of Belarus for the holders of spectator identity cards (fan passports or FAN IDs) or information about them provided they have an authentic ID.



- In 2018, following the interaction between FPC and the Federal Antimonopoly Service of the Russian Federation (FAS Russia), the FAS Russia approved the Company's proposals on price indexation of long-distance tariffs for third-class open sleeping and fourth-class seating carriages at the level of 3.9% from 1 January 2019 (Decree of FAS Russia No. 1443/18 dated 21 September 2018).
- To provide a legal framework for rail passenger transportation, Federal Law No. 73-FZ On Amendments to Article 83 of the Federal Law on the Railway Transport Charter of the Russian Federation dated 18 April 2018 (on non-refundable tickets), and the following by-laws developed in its pursuance were adopted: Decree of the Russian Ministry of Transport No. 334 dated 18 September 2018 On Amendments to Passenger, Baggage, and Unaccompanied Baggage Rail Transport Rules approved by Decree of the Russian Ministry of Transport No. 473 dated 19 December 2013, and Resolution of the Russian Government No. 1678 On Amendments to Rules on Rail Transport Services for Passengers, Cargo, Baggage, and Unaccompanied Baggage for Personal, Family, Household and Other Needs not Related to Conducting Business dated 26 December 2018. The above regulations created the basis for the introduction of non-refundable tickets for railway transport from 1 January 2019.
- At the regional level, the Company liaised with Russian regional authorities to improve the quality of services provided by assigning new trains, changing their schedule, developing railway tourism, and replacing the rolling stock.

In 2018, Petr Ivanov, FPC's General Director, held a number of working meetings with the government officials of the Voronezh, Ulyanovsk, Astrakhan, Tambov, and Novosibirsk Regions, the Republics of Bashkortostan, North Ossetia–Alania, Udmurtia, and the Perm Territory.

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RISK MANAGEMENT, INTERNAL CONTROL, AND INTERNAL AUDIT

During the year, FPC continued to develop and formalise its risk management, internal control, and internal audit as recommended by the Bank of Russia's Corporate Governance Code.

Currently, all FPC's units are involved in the risk management process within their scope of responsibility.

The key actors driving the risk management process in the Company are its Board of Directors, the Audit and Risk Committee, and the General Director.

The Company has stand-alone Risk Management and Internal Audit units.

ALLOCATION OF ROLES IN RISK MANAGEMENT AND INTERNAL AUDIT

| DESCRIPTION | RISK MANAGEMENT | INTERNAL AUDIT |
|-----------------------------|---|--|
| Responsible structural unit | Risk Management Unit | Internal Audit Unit |
| Reporting | Reporting to FPC's Deputy General Director responsible for the risk management system | Functional reporting to the Board of Directors (the Audit and Risk Committee of FPC's Board of Directors) and administrative reporting to the General Director |
| The unit's key objectives | <ul style="list-style-type: none"> Establish a risk management process at FPC Coordinating and improving risk management procedures, enhancing internal controls Performing day-to-day monitoring of the risk management process at FPC and its subsidiaries, as prescribed Monitoring and supervising the risk management process at FPC | Assessing internal control and risk management systems, as well as corporate governance practice for reliability and performance |

RISK MANAGEMENT SYSTEM



FPC's risk management process is governed by the Company's Risk Management Policy as approved by its Board of Directors.

FPC is governed by the following fundamental risk management principles:

- holistic approach to risk management
- continuity of the risk management process
- involvement of all employees in risk management as part of their duties
- the risk management framework covers all FPC's activities
- the risk management process is based on uniform principles and approaches
- division of roles among the risk management actors
- making management decisions with due regard to risks
- balanced criteria for making decisions on risk handling – striking the right balance between potential losses and opportunities, as well as between risk management costs and potential damages if the risk occurs.

FPC's risk management framework aims to address the following tasks:

- identification, analysis, assessment, selection, preparation, and implementation of risk mitigation plans considering the cost vs benefit balance
- integration of the risk management process into FPC's management and operational processes and regulation of interactions between the risk management process participants
- ensuring integrity, reliability, and effectiveness of risk management at FPC
- development and maintenance of a uniform, methodology-based approach to risk management across FPC

- allocation of risk management responsibilities among FPC's personnel and inclusion of these in corporate regulations
- development of FPC employees' skills to ensure successful performance of risk management roles and responsibilities
- allocation of required and sufficient resources to support risk management
- creation and maintenance of effective communication channels to support engaging internal and external stakeholders in risk management
- development of risk management reporting mechanisms, ensuring the completeness, reliability, and timeliness of reporting
- continuous improvement of the risk management infrastructure and process.

Central decision-making bodies for risk management at FPC are its Board of Directors and the General Director. The Company has the Audit and Risk Committee and the Risk Management Committee to prepare recommendations for management decision making.

The Risk Management Unit coordinates and improves risk management processes and enhances internal controls.

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The Company took the following steps to improve its risk management framework in 2018:

- as recommended by the Audit and Risk Committee, the Board of Directors meeting reviewed the set-up of the risk management system and approved the new version of the Risk Management Policy
- a risk management framework was built in FPC's branches, and the Company continued to roll out the framework across its subsidiaries.

JSC FPC's Key Risk Map was reviewed by the Board of Directors and referred back for further development

Plans for 2019 include further improvements to risk management at FPC and aligning it with a project to improve and further develop the integrated risk management framework at the parent company – Russian Railways.

Key risk factors

Key risks factors associated with FPC's operations are:

- lower GDP growth
- higher CPI growth
- significant fluctuations in inventory and fuel and energy prices
- increased competition (adjustments to pricing policy and dumping by FPC's competitors, expansion of air transport infrastructure)
- lower or no price indexation
- changes in the economic and political environment in Russia

- deteriorating social and demographic situation in urban and rural areas
- lower household purchasing power and real disposable income
- FX rate fluctuations
- increased governmental support for air transport.

Risk mitigation approaches

FPC uses six risk mitigation approaches:

- Risk avoidance – changing strategic, tactical, or operational goals.
- Risk acceptance (conscious risk retention) – risk monitoring without any active treatment of such risks, where the risks are at an acceptable level or where risk treatment is impossible or makes no economic sense.

This approach is also used where all risk mitigation methods available are economically unviable compared to the potential damage of the risk occurrence.

- Removing the risk source – addressing the source of risk through actions that mitigate its adverse effects.
- Mitigating the possibility (likelihood) of risk occurrence (reducing the likelihood of risk occurrence) – actions to reduce the likelihood of risk occurring.
- Mitigating risk consequences (reducing the severity of risk consequences) – loss minimisation through appropriate actions.
- Risk sharing with another party (parties) – reducing the risk likelihood and/or impacts through risk transfer or any other partial risk reallocation. Conventional risk sharing methods are as follows: insurance, liability sharing, outsourcing, and hedging.

FPC's risk management structure

Our risk management structure involves 13 key actors with a mandate to manage risks.

RISK MANAGEMENT STRUCTURE OF FPC JSC

| | |
|---|---|
| FPC's Board of Directors | <ul style="list-style-type: none"> • Approves internal regulations on fundamental risk management principles • Determines the principles of, and approaches to, setting up risk management and internal control systems at FPC • Establishes acceptable risk levels (risk appetite) |
| FPC's Audit Commission | <ul style="list-style-type: none"> • Controls financial and business activities of FPC • Provides an independent assessment of the information on FPC's financial position and performs other roles in accordance with the Regulations on JSC FPC's Audit Commission |
| The Audit and Risk Committee of FPC's Board of Directors | <ul style="list-style-type: none"> • A consultative and advisory body of the Board of Directors established to monitor the risk management and internal control system for reliability and effectiveness and perform other roles in accordance with the Regulations on the Audit and Risk Committee of JSC FPC's Board of Directors |
| The Strategic Planning Committee of FPC's Board of Directors | <ul style="list-style-type: none"> • Reviews the Company's financial model and valuation model for its business and business segments • Considers matters related to business process redesign in the Company and its controlled entities |
| The Human Resources, Remuneration, and Corporate Governance Committee of FPC's Board of Directors | <ul style="list-style-type: none"> • A consultative and advisory body of the Board of Directors established to monitor reliability and effectiveness of the corporate governance system, review the effectiveness of the corporate governance practice and make proposals for its improvement, and perform other roles in accordance with the Regulations on the Human Resources, Remuneration, and Corporate Governance Committee of JSC FPC's Board of Directors |
| FPC's General Director | <ul style="list-style-type: none"> • Ensures the efficiency, reliability, and effectiveness of the risk management system, the implementation of resolutions on risk management and internal control systems passed by FPC's Board of Directors, and performs other roles • Approves key risks comprising the risk map |
| FPC's committees | <ul style="list-style-type: none"> • FPC's Risk Management Committee Coordinates the overall management process for identified corporate risks and performs other roles in accordance with the Regulations on the Risk Management Committee • FPC's Anti-Corruption Committee Coordinates the overall risk management process in anti-corruption efforts at FPC |
| FPC's Financial Risk Management Commission | <ul style="list-style-type: none"> • Helps standardise FPC's principles and practices for obtaining financial services, ensures compliance with Russian laws on securities and financial markets, and performs other roles in accordance with the Regulations on the Financial Risk Management Commission |
| FPC's Deputy General Director responsible for the risk management system | <ul style="list-style-type: none"> • Designs FPC's risk management system • Coordinates efforts related to maintaining FPC's risk management system and improving its performance |
| FPC's Risk Management Team | <ul style="list-style-type: none"> • Coordinates the overall risk management processes • Develops risk management guidelines and performs other roles in accordance with the Regulations on the Risk Management Team |
| FPC's Control and Audit Centre | <ul style="list-style-type: none"> • Conducts inspections and audits of FPC's operating, financial, and business activities |
| Internal Audit Unit | <ul style="list-style-type: none"> • Monitors and assesses the status, reliability, and performance of internal control and risk management systems |
| FPC's structural units (risk owners) | <ul style="list-style-type: none"> • Manage risks within their scope of responsibility and authority |

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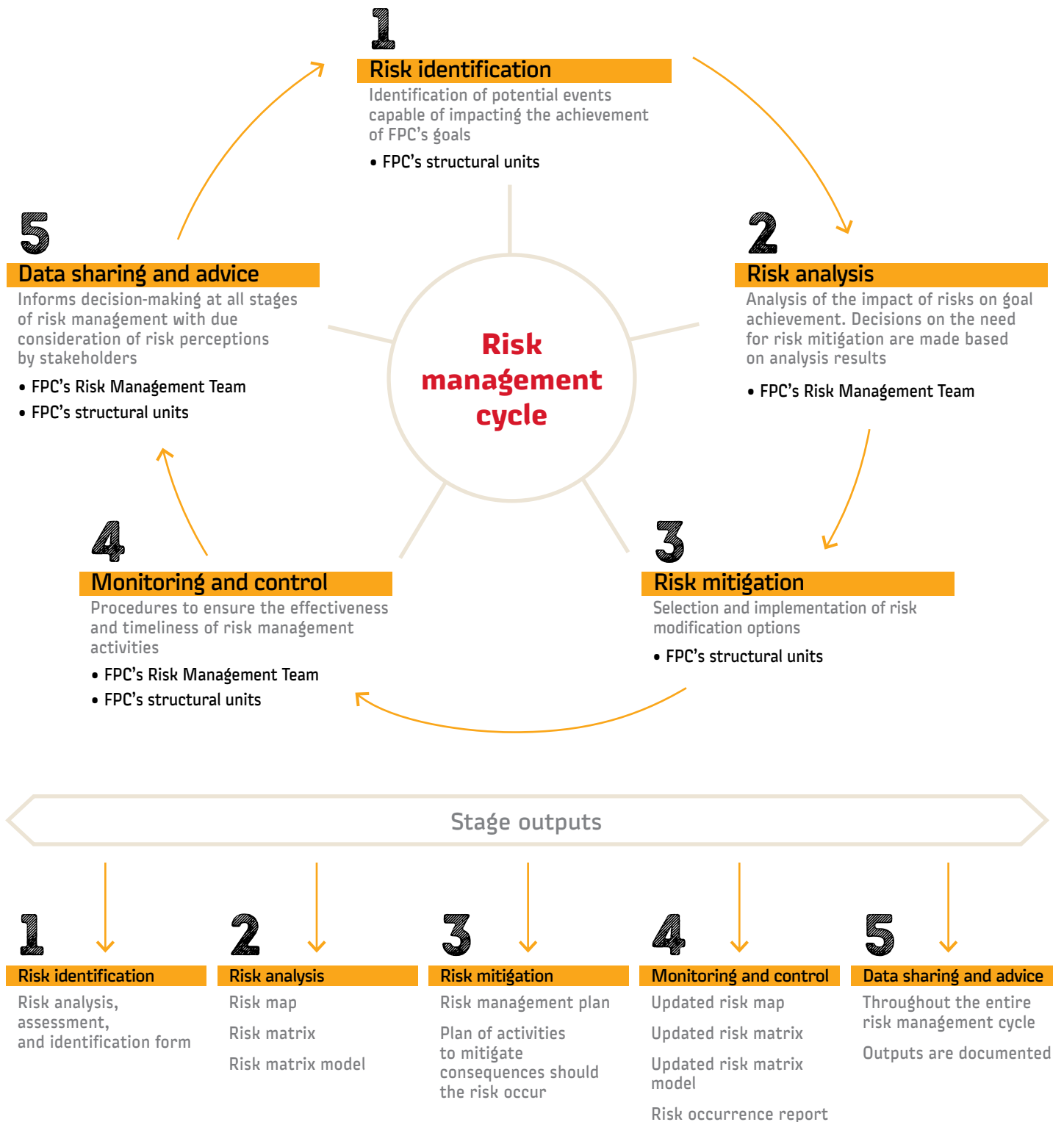
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RISK MANAGEMENT CYCLE

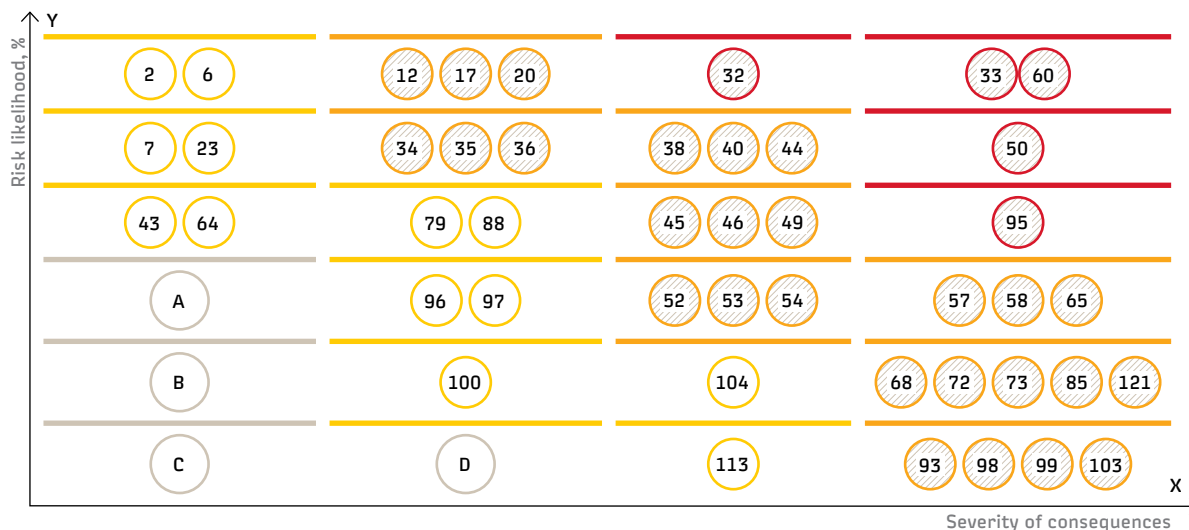


RISK MATRIX MODEL

In 2018, a total of 121 risks were identified by FPC:

- 5 intolerable risks
- 27 undesirable risks
- 13 tolerable risks
- 76 negligible risks
- 32 intolerable and undesirable risks are characterised by high severity of consequences and/or likelihood and the highest impact on FPC's target state; these are identified as the Company's key risks.

FPC's risk map is based on the risk level as shown in the risk matrix, which has severity of consequences in the x direction and risk likelihood in the y direction.



Risk levels:

- Intolerable – 5
- Undesirable – 27
- Tolerable – 13
- Negligible – 76
- Key risks

Internal control system

FPC's internal control is based on the Company's Internal Control Policy as approved by its Board of Directors (Minutes No. 9 dated 23 December 2015) and other corporate regulations.

The primary objectives of FPC's internal control system:

- assuring the efficiency and performance of financial and business operations
- safeguarding the assets and ensuring the cost-effective use of resources
- risk identification and management
- ensuring the reliability and completeness of accounting (financial) statements and other types of reporting
- ensuring compliance with laws and regulations of the Russian Federation as well as FPC's corporate regulations.

The set-up and operation of FPC's internal control system are based on the following components:

- control environment
- risk assessment
- internal control procedures
- information and communication
- monitoring.

The following requirements apply to FPC's internal control system and are essential for its effective operation:

- integration
- comprehensiveness
- continuity
- timely information sharing
- accountability
- focus on risks
- delineation of responsibilities
- agility.

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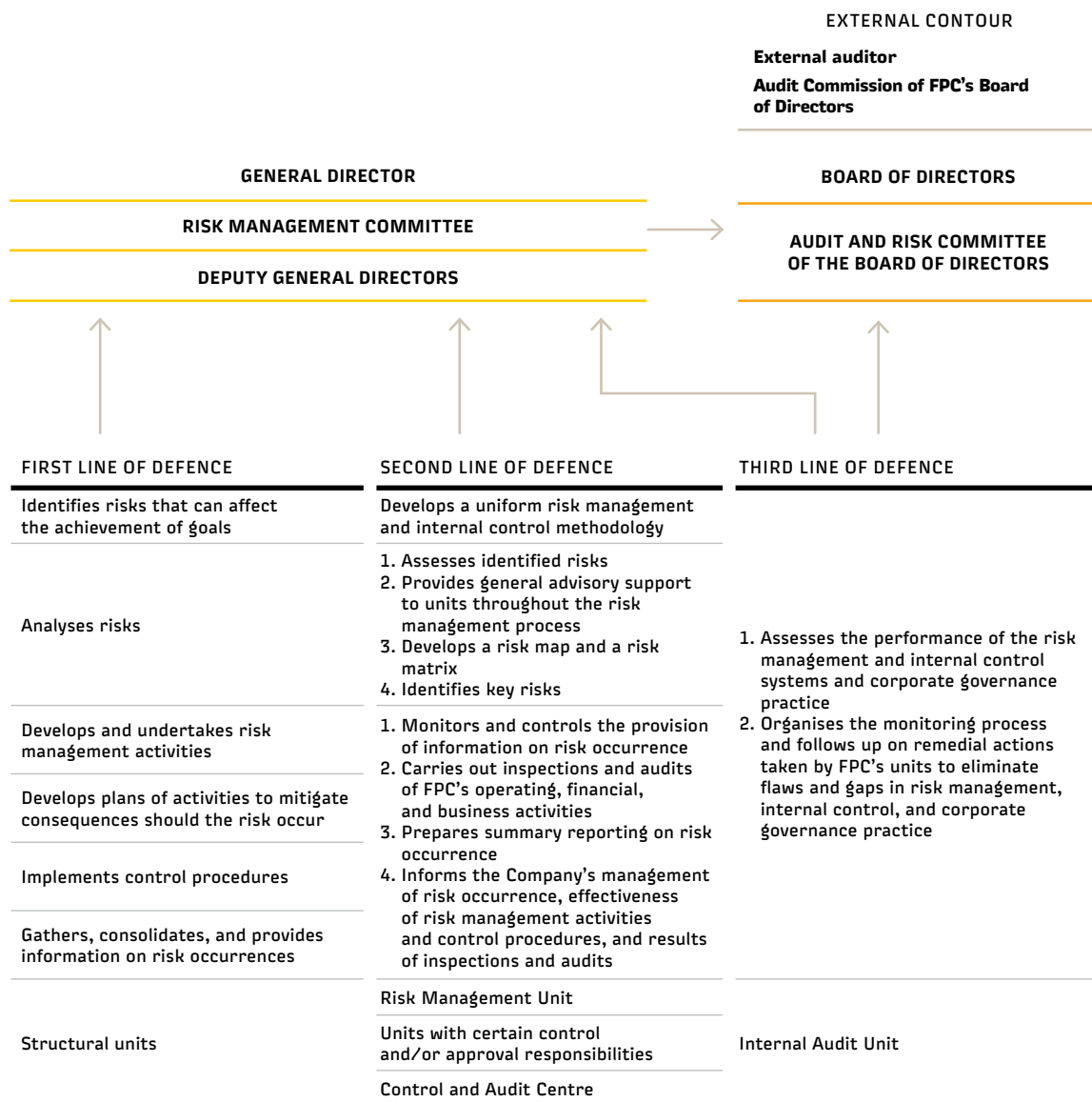
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THREE LINES OF DEFENCE MODEL

In its operations, FPC uses an approach driven by the three lines of defence model based on roles and responsibilities sharing. Each of the three lines increases the probability of FPC successfully achieving its goals.



The results of the analysis of the impact of GDP and CPI on the achievement of KPI of the Company are presented in the annexes on p. 192–225

KEY RISKS AND THE COMPANY'S STRATEGY

FPC's operations comply with the regulations adopted by the Russian Government and Russian Railways, as well as with the Transport Strategy of the Russian Federation to 2030 and the Railway Transport Development Strategy to 2030. Seeking to follow the strategies, the Company devised the Development Strategy of JSC FPC to 2030, which is aligned with the Long-Term Development Programme of Russian Railways to 2025.

To implement the Development Strategy of JSC FPC to 2030, the Company has developed a list of operational KPIs for the period through 2025:

- passenger km travelled
- EBITDA
- net profit.

Major factors that affect FPC's KPI performance and are beyond the Company's control:

- changes in GDP (has significant impact on passenger traffic)
- changes in CPI (impacts revenue rates and unit costs).

Given the volatility of the major factors, sensitivity analysis helps select the most effective risk management tools for the risks affecting FPC's KPI performance.

The Development Strategy of JSC FPC to 2030 includes a set of strategic projects aiming to meet the set targets.

FPC implements the strategic projects regardless of the economic development scenario; only the scale of the projects and resources requirements may differ.

Should FPC's key risks occur, they can affect the achievement of the Company's strategic development goals.

FPC takes appropriate measures to keep down or reduce the levels of key risks, and mitigate their consequences should they occur.



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RELIABILITY AND EFFECTIVENESS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

In 2018, the Internal Audit Unit assessed the reliability and effectiveness of the risk management and internal control systems.

Results of the assessment showed that FPC's risk management and internal control systems are on the whole reliable and effective:

- the elements of the systems are structured in accordance with the principles of, and approaches to, setting up such systems approved by the Company's Board of Directors, as well as with the COSO Framework and GOST ISO 31000
- the Company notes positive changes in its holistic understanding of the risk management process, including goals, processes, risks, and control procedures

- certain issues found within the key risk management process have not had any significant impact on the Company's performance.

SENSITIVITY OF KPIS TO CHANGES IN GDP: ANALYSIS RESULTS

| KPI | TARGET | INCREASE IN GDP GROWTH RATE BY 1.5% ¹ | DECREASE IN GDP GROWTH RATE BY 1.5% ¹ |
|--|--------|---|---|
| Passenger km travelled (for 2025), passenger km | 106.8 | 117.4 (+9.9% vs the target) | 97.2 (-9.0% vs the target) |
| EBITDA (total for 2019–2025), RUB billion | 277.0 | 285.9 (+3.2% vs the target) | 268.6 (-3.0% vs the target) |
| Net profit (total for 2019–2025), RUB billion | 73.2 | 77.5 (+5.9% vs the target) | 69.1 (-5.5% vs the target) |

SENSITIVITY OF KPIS TO CHANGES IN CPI: ANALYSIS RESULTS

| KPI | TARGET | INCREASE IN CPI GROWTH RATE BY 1.5% ¹ | DECREASE IN CPI GROWTH RATE BY 1.5% ¹ |
|--|--------|---|---|
| Passenger km travelled (for 2025), passenger km | 106.8 | 97.8 (-8.5% vs the target) | 116.7 (+9.2% vs the target) |
| EBITDA (total for 2019–2025), RUB billion | 277.0 | 264.5 (-4.5% vs the target) | 289.7 (+4.6% vs the target) |
| Net profit (total for 2019–2025), RUB billion | 73.2 | 62.9 (-14.2% vs the target) | 83.6 (+25.9% vs the target) |

¹ Vs the figures used for assumptions underlying the strategy for 2019–2021

SAFETY AND SECURITY

MEASURES TO IMPROVE TRAFFIC SAFETY

Train operation safety

Operation safety of FPC's passenger trains is a top priority for the Company.

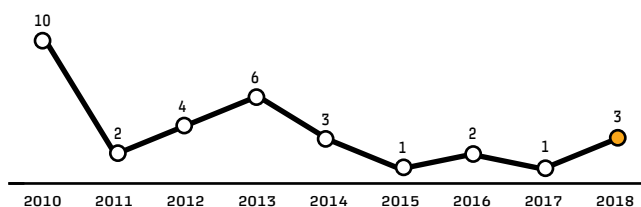
Over the years since the Company was established, no traffic incidents (derailments or accidents) have happened through FPC's fault. The Company achieved a 7x decrease in the number of incidents resulting from violation of traffic or railway safety rules from 2010 to 2018.

Consistent efforts to reduce the number of incidents resulting from violation of traffic or railway safety rules are an integral part of the Transport Strategy for Guaranteed Security and Reliability of Train Services in the Russian Federation to 2030.

The Company maintains traffic safety through:

- implementation of the Action Plan to Improve Traffic Safety Measures and to Achieve Accident Reduction Targets at JSC FPC
- on-schedule delivery under the Action Plan to Ensure Functional Traffic Safety on the Infrastructure of Russian Railways
- technical audits and inspections conducted in FPC's branches and their structural units to ensure traffic safety, monitor elimination of identified gaps, and develop corrective actions
- technical audits of repair and maintenance processes in structural units of FPC's branches.

FIRES AT FPC'S PROTECTED FACILITIES



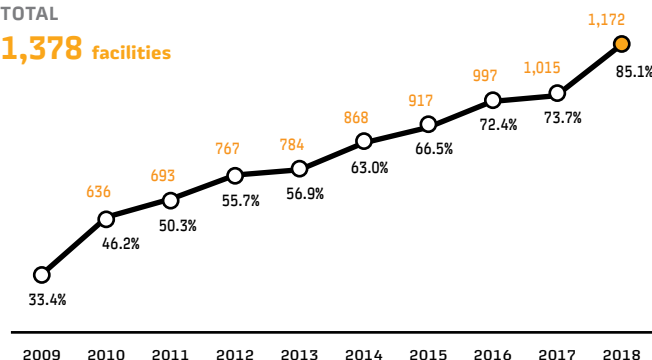
Fire safety

Three fire incidents were reported in 2018 (vs one incident in 2017), two of them on passenger trains due to failure of electrical equipment and one inside a facility.

EQUIPMENT OF DEPOT SHOPS AND OTHER FIXED FACILITIES OF JSC FPC WITH FIRE SAFETY SYSTEMS

TOTAL

1,378 facilities



○ The number of objects equipped with fire automation systems, and the ratio to the required number of objects of protection

Over RUB 156.9 million were allocated to implement a fire safety programme in 2018, including:

- servicing fire safety systems at 821 facilities (over RUB 45 million)
- fire prevention measures for FPC's rolling stock and facilities by FGP VO ZDT of Russia (over RUB 48.2 million)
- measures to meet fire safety regulatory requirements, including fireproofing facilities, testing escape ladders, roof railings, and fire valves and hydrants on external and internal fire mains, and servicing fire extinguishers (RUB 20.32 million)
- new fire safety equipment, including first-response fire-fighting equipment, personal protective equipment, and training materials (over RUB 43.4 million).

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Passenger trains now have extra fire-fighting equipment to improve their fire safety: Strazhnik-3 fire extinguishing aerosol generators.

FPC's Investment Programme for 2018 also provided for construction and installation at 157 FPC's facilities, which brought the total number of facilities equipped with automatic fire-fighting systems to 1,172 (85.1% of the total number of facilities requiring protection).

Industrial safety

In 2018, FPC implemented a Centralised Industrial Safety Programme, investing RUB 23.736 million in 469 activities at hazardous facilities, including expert assessments of industrial safety, and inspections and certifications of machinery.

By improving operations and ensuring compliance with federal laws, the Company reduced the number of hazardous facilities in 2018 from 212 to 198, cutting the number of machinery items at hazardous facilities from 490 to 467.

As part of the Programme, FPC replaced equipment at hazardous facilities that reached the end of its standard service life in 2018 for RUB 214.620 million.

In line with Federal Law No. 225-FZ On Compulsory Insurance of Civil Liability of the Owner of a Hazardous Facility for Inflicting Damage as a Result of an Accident at the Hazardous Facility dated 27 July 2010, all FPC's hazardous operating facilities are insured.

Transport safety and security

FPC's arrangements for transport safety and security are governed by Federal Law No. 16-FZ On Transport Safety dated 9 February 2007.

Seeking to protect passengers from unlawful interference¹ on long-distance trains, on 1 May 2018, FPC started to engage certified providers of transport security services.

During the 2018 FIFA World Cup in Russia, transport security officers were accompanying all additional passenger train runs made to serve football fans. International passenger trains put together in other countries and travelling in Russia were escorted by transport security officers, which helped significantly decrease the number of technical failures in carriages, on-board equipment, electrical equipment, and fire-fighting systems, as well as reduce violations of rules of passenger services, baggage and unaccompanied baggage transport.

Additional safety and security measures during the 2018 FIFA World Cup Russia

In 2018, police officers, transport security officers, and private security guards ensured security on 80% of FPC's long-distance trains (vs 62% in 2017). The Company strongly focused on providing security for children travelling in organised groups.

FPC signed contracts with security providers in the World Cup host cities to increase the number of security lodges to manage external and internal access at the guarded facilities.

Also, the Company maintained full functionality of security and transport safety systems.

No instances of unlawful interference or offences at the facilities or rolling stock involved in servicing football fans and visitors to the international sporting event held in Russia were registered during the period of the event.

¹ Unlawful interference is an unlawful action (omission), including a terror attack, such as to jeopardise the safety of the transport system, resulting in damage to life and health of individuals, financial damage or posing a threat of such consequences; unlawful and illegal actions, etc.

CORPORATE, FINANCIAL, AND INFORMATION SECURITY

FPC's financial security initiatives brought the amount of unjustified losses recovered as a result of inspections in 2018 to over RUB 116.1 million and prevented losses for over RUB 3,150.1 million.

Financial security priorities:

- inspections of the Company's contractors to monitor compliance with contractual obligations
- reviews of inventory records (delivery and storage)
- prevention of financial damage to FPC when providing passenger rail services and baggage transport services
- collection of receivables
- measures to enhance the Company's competitiveness on the market for carriage repairs and servicing, and train attendant services.

The Company's information security is ensured in accordance with the requirements of the Information Security Concept approved by FPC's General Director.

OCCUPATIONAL HEALTH AND SAFETY

A total of RUB 572.5 million was invested in measures to improve working conditions and occupational health and safety in 2018, including RUB 18.5 million in the Safe Working Environment 2018 investment programme.

A total of RUB 239.1 million was spent on removing staff from hazardous working areas and installing new equipment to prevent injuries.

Supported by financing from the Social Insurance Fund, the Company was able to carry out preventive health and safety measures for a total of RUB 20.8 million.

Measures to create a safe working environment enabled FPC to obtain a discount of up to 40% (for a total of RUB 13.5 million) from the Social Insurance Fund on the insurance rate for compulsory insurance covering workplace accidents and occupational diseases.

572.5

RUB million

invested in measures to improve working conditions and occupational health and safety

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KEY OPERATING HIGHLIGHTS

The year 2018 was more favourable for FPC than 2017.

OPERATING PERFORMANCE

In 2018, FPC met the demand for passenger services by carrying over 102 million passengers (up 7.2% year-on-year), including 60.3 million in the regulated segment and 41.7 million in the deregulated segment.

By the end of the year, passenger km travelled totalled 91.6 billion, up 5.3% year-on-year, mainly driven by FPC's trains: passenger km travelled totalled 87.7 billion, including 33.6 billion in the deregulated segment and 54.1 billion in the regulated segment.

With the passenger km travelled (up 6% year-on-year) growing faster than the carriage km (up 2.8% year-on-year), we improved our carriage capacity utilisation rates to 71.1% (up 3.1% year-on-year).

HIGHLIGHTS

| INDICATOR | 2016 | 2017 | 2018 | CHANGE 2018/2017, % |
|--|-------------|-------------|--------------|------------------------|
| Passenger km travelled, billion | 89.5 | 87.0 | 91.6 | 105.3 |
| On FPC's trains | 85.1 | 82.8 | 87.7 | 106.0 |
| Deregulated segment | 26.0 | 28.1 | 33.6 | 119.5 |
| Domestic traffic | 24.3 | 26.5 | 31.9 | 120.4 |
| Interstate traffic | 1.7 | 1.7 | 1.8 | 106.4 |
| Regulated segment | 59.1 | 54.6 | 54.1 | 99.0 |
| On trains of the CIS and Baltic states | 4.4 | 4.2 | 3.8 | 91.8 |
| Passengers carried, million | 93.8 | 95.1 | 102.0 | 107.2 |
| Deregulated segment | 31.1 | 35.2 | 41.7 | 118.4 |
| Regulated segment | 62.7 | 59.9 | 60.3 | 100.6 |

FINANCIAL RESULTS

In 2018, operating revenues amounted to RUB 226.1 billion, up 4.6% year-on-year.

Operating expenses increased to RUB 222.2 billion, or by 5.8% year-on-year.

Subsidies from the federal budget amounted to RUB 8.6 billion (RUB 7.8 billion in 2017).

EBITDA for 2018 was RUB 26.8 billion, down RUB 0.2 billion year-on-year.

FY2018 net profit was RUB 6.1 billion (RUB 7.9 billion in 2017).

The Company's non-current liabilities increased from RUB 24 billion to RUB 43 billion, or by 79.6%, driven by an increase in long-term loans and borrowings by RUB 18.2 billion.

Current liabilities rose to RUB 37.8 billion, or by RUB 5.2 billion year-on-year, driven, in particular, by an increase in short-term borrowings by RUB 4.9 billion.

CHANGES IN NET ASSETS, RUB BILLION

| INDICATOR | 2016 | 2017 | 2018 | CHANGE 2018/2017, % |
|------------|-------|-------|-------|---------------------|
| Net assets | 186.1 | 194.0 | 201.5 | 103.9 |

FINANCIAL RESULTS, RUB BILLION

| INDICATOR | 2016 | 2017 | 2018 | CHANGE 2018/2017 | |
|--|--------------|--------------|--------------|-------------------|--------------|
| | | | | +/- | % |
| Operating revenues | 201.2 | 216.2 | 226.1 | 9.9 | 104.6 |
| Passenger services | 180.1 | 193.7 | 202.4 | 8.7 | 104.5 |
| Other sales | 21.1 | 22.5 | 23.7 | 1.2 | 105.4 |
| Operating expenses | 207.1 | 210.0 | 222.2 | 12.2 | 105.8 |
| Passenger services | 191.8 | 194.4 | 206.1 | 11.7 | 106.0 |
| Other sales | 15.3 | 15.6 | 16.1 | 0.5 | 103.5 |
| Operating result | -5.9 | 6.2 | 3.9 | -2.3 | 63.3 |
| Passenger services | -11.7 | -0.7 | -3.7 | -3.0 | 505.6 |
| Other sales | 5.8 | 7.0 | 7.6 | 0.7 | 109.7 |
| Other revenue | 23.0 | 14.0 | 15.6 | 1.5 | 111.0 |
| Subsidies from the federal budget | 18.9 | 7.8 | 8.6 | 0.9 | 111.2 |
| Other expenses | 8.7 | 9.3 | 10.7 | 1.4 | 115.2 |
| Other revenue and expenses | 14.3 | 4.7 | 4.8 | 0.1 | 102.8 |
| Profit (loss) before tax | 8.5 | 10.9 | 8.8 | -2.2 | 80.3 |
| EBITDA, including subsidies | 24.3 | 27.0 | 26.8 | -0.2 | 99.3 |
| EBITDA margin, including subsidies | 11.0% | 12.1% | 11.4% | -0.7 p.p. | 94.7 |
| Income tax and other similar liabilities | 3.2 | 3.0 | 2.7 | -0.3 | 89.1 |
| Net profit/loss | 5.3 | 7.9 | 6.1 | -1.8 | 76.9 |
| Net profit margin | 2.63% | 3.66% | 2.69% | -0.97 p.p. | 73.5 |

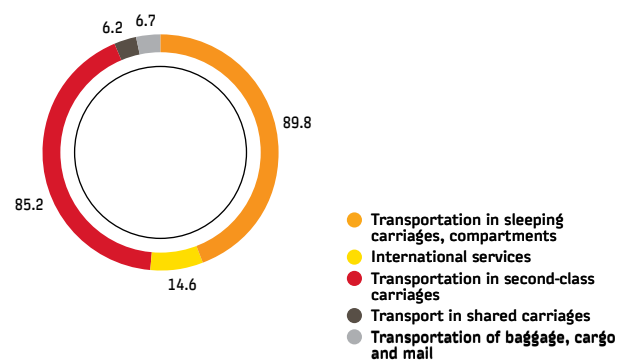
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Revenue

REVENUE FROM PASSENGER SERVICES, %



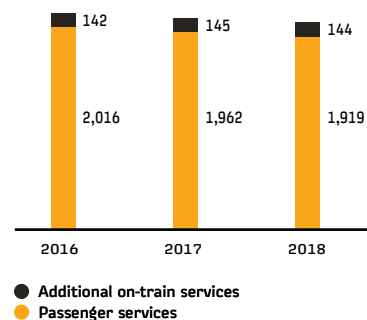
Revenue from passenger services

In 2018, the Company had a much higher overall passenger traffic flow, up 5.3% year-on-year, which was the key driver behind the increased revenue from passenger services, also supported by no tariff indexation.

Revenue from domestic services in first-class and second-class sleeping carriages was RUB 89.8 billion, up 10.8% year-on-year, driven by a strong 19.5% growth in passenger traffic from the implementation of marketing initiatives.

Revenue from international services totalled RUB 14.6 billion, up 3.6% year-on-year. Despite an 8.2% decline in passenger traffic on trains of the CIS and Baltic states, revenue numbers were supported by the appreciation of the Swiss franc by approximately 8% year-on-year.

AVERAGE REVENUE PER PASSENGER (INCLUDING VAT), RUB



A 0.3% decrease in revenue year-on-year was driven by a slight 1% decline in passenger traffic.

Revenue from baggage, unaccompanied baggage, and mail transport went down 4.6% year-on-year to RUB 6.7 billion due to a 14.9% decrease in freight km.

CHANGES IN OPERATING REVENUES, RUB BILLION

| INDICATOR | 2016 | 2017 | 2018 | CHANGE 2018/2017, % |
|--|--------------|--------------|--------------|---------------------|
| Passenger services | 180.1 | 193.7 | 202.4 | 104.5 |
| Deregulated segment | 85.6 | 95.1 | 104.3 | 109.7 |
| First-class and second-class sleeping carriages | 70.2 | 81.0 | 89.8 | 110.8 |
| International services | 15.4 | 14.1 | 14.6 | 103.6 |
| Regulated segment | 94.5 | 98.6 | 98.1 | 99.4 |
| Passenger services | 87.7 | 91.6 | 91.4 | 99.7 |
| including: third-class open sleeping carriages | 82.5 | 85.6 | 85.2 | 99.5 |
| fourth-class seating carriages | 5.2 | 6.0 | 6.2 | 102.8 |
| Baggage, unaccompanied baggage, and mail transport | 6.8 | 7.0 | 6.7 | 95.4 |

Revenue from other activities

Other FPC activities include:

- repairs of non-owned rolling stock
- additional on-train services
- lease of the rolling stock and property assets
- other services.

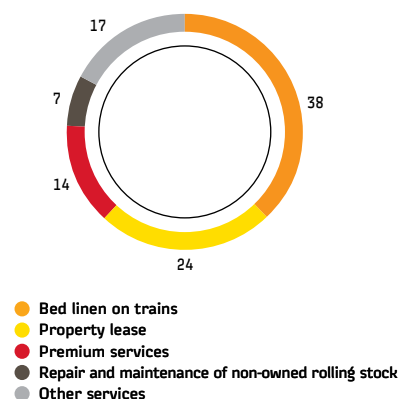
CHANGES IN REVENUE FROM OTHER ACTIVITIES, RUB BILLION

| INDICATOR | 2016 | 2017 | 2018 | CHANGE 2018/2017 | |
|--------------------------------------|-------------|-------------|-------------|------------------|--------------|
| | | | | + / - | % |
| Revenue from other activities | 21.1 | 22.5 | 23.7 | 1.22 | 105.4 |
| Repairs of non-owned rolling stock | 2.1 | 1.9 | 1.7 | -0.15 | 92.0 |
| Additional on-train services | 11.3 | 11.7 | 12.4 | 0.72 | 106.1 |
| Bed linen on trains | 8.2 | 8.4 | 9.1 | 0.63 | 107.5 |
| Premium services | 3.1 | 3.3 | 3.4 | 0.09 | 102.6 |
| Property lease | 4.2 | 5.4 | 5.6 | 0.25 | 104.7 |
| Other services | 3.5 | 3.5 | 3.9 | 0.4 | 111.4 |

In 2018, revenue from other activities totalled RUB 23.7 billion, up 5.4% year-on-year.

The growth was driven by more additional on-train services (up 6.1%) coming from the higher passenger traffic, as well as by increased lease of the rolling stock (up 6.6%) coming from the higher rolling stock lease demand from the Transport Directorate of the 2018 FIFA World Cup Russia as part of the World Cup 2018.

REVENUE FROM OTHER ACTIVITIES, %



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Expenses

Passenger service expenses

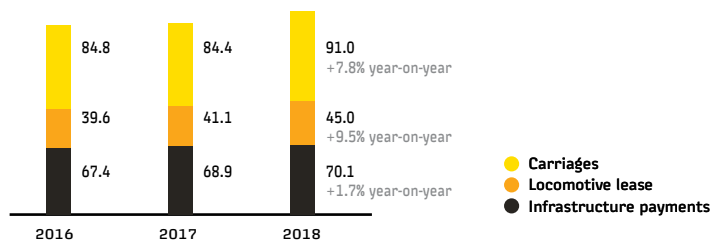
In 2018, passenger service expenses amounted to RUB 206.1 billion, up 6% year-on-year.

By the end of the year, the cost of passenger services totalled RUB 22.5 per 10 passenger km, up 0.7% year-on-year.

PASSENGER SERVICE EXPENSES, RUB BILLION

| INDICATOR | 2016 | 2017 | 2018 | CHANGE 2018/2017, % |
|-------------------------|--------------|--------------|--------------|---------------------|
| Total | 191.8 | 194.4 | 206.1 | 106.0 |
| Payroll costs | 29.9 | 30.4 | 32.6 | 107.4 |
| Social contributions | 8.1 | 8.4 | 8.9 | 106.2 |
| Material costs | 25.7 | 24.9 | 24.5 | 98.1 |
| including: | | | | |
| materials | 5.5 | 5.5 | 6.2 | 113.0 |
| fuel | 0.6 | 0.6 | 0.7 | 114.3 |
| electricity | 0.4 | 0.4 | 0.4 | 109.9 |
| other material costs | 19.2 | 18.5 | 17.1 | 92.9 |
| Other expenses | 115.7 | 118.2 | 126.5 | 107.0 |
| Infrastructure payments | 67.4 | 68.9 | 70.1 | 101.7 |
| Locomotive lease | 39.6 | 41.1 | 45.0 | 109.4 |
| Depreciation | 12.5 | 12.6 | 13.6 | 108.3 |

PASSENGER SERVICE EXPENSES, RUB BILLION



Expenses on other activities

In 2018, expenses on other activities totalled RUB 16.1 billion, up 3.5% year-on-year.

In 2018, growing expenses on other activities were driven by the increase in additional on-train services and lease of the rolling stock under the contract with the Transport Directorate of the 2018 FIFA World Cup Russia as part of the World Cup 2018.

CHANGES IN EXPENSES ON OTHER ACTIVITIES, RUB BILLION

| INDICATOR | 2016 | 2017 | 2018 | CHANGE 2018/2017 | |
|--|-------------|-------------|-------------|------------------|--------------|
| | | | | + / - | % |
| Expenses on other activities, total | 15.3 | 15.6 | 16.1 | 0.55 | 103.5 |
| Repairs of non-owned rolling stock | 1.5 | 1.4 | 1.3 | -0.13 | 91.2 |
| Additional on-train services | 9.0 | 8.7 | 9.3 | 0.53 | 106.1 |
| Bed linen on trains | 6.4 | 6.4 | 6.8 | 0.43 | 106.8 |
| Premium services | 2.5 | 2.3 | 2.4 | 0.1 | 104.3 |
| Property lease | 2.0 | 2.4 | 2.7 | 0.39 | 104.7 |
| Other services | 2.8 | 3.1 | 2.8 | -0.25 | 91.9 |

Overhauls

In 2018, actual expenses on overhauls of fixed assets were RUB 4.8 billion, or 92.7% of the 2017 level, including:

- RUB 4.6 billion on overhauls of passenger carriages (92.1% of the 2017 level)
- RUB 0.2 billion on overhauls of buildings and structures performed by third parties – only for facilities in need of an urgent overhaul (up 6.8% year-on-year).

FIXED ASSETS OVERHAUL COSTS, RUB BILLION

| INDICATOR | 2016 | 2017 | 2018 | CHANGE 2018/2017, % |
|--|------------|------------|------------|---------------------|
| Overhauls of fixed assets, total: | 5.7 | 5.2 | 4.8 | 92.7 |
| Carriages | 5.5 | 5.0 | 4.6 | 92.1 |
| Buildings and structures | 0.2 | 0.2 | 0.2 | 106.8 |

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Cost optimisation programme

The Company developed an Operational Efficiency and Cost Optimisation Programme for 2018–2020 to enhance FPC's performance. In 2018, the Programme had the budget of RUB 3,844.9 million.

The Programme aims to:

- assess and optimise current expenses
- improve management of maintenance and repair of equipment, buildings, and structures
- improve working capital management
- improve fixed asset management
- improve procurement and supply chain management
- streamline the remuneration and motivation system
- optimise headcount.
- other activities.

In 2018, labour productivity was up 8.5% year-on-year due to a 6% growth in traffic and headcount optimisation. The average headcount in transport services totalled 53,896 FTEs, down 2.3% year-on-year (1,293 FTEs).

HEADCOUNT AND LABOUR PRODUCTIVITY

| INDICATOR | 2016 | 2017 | 2018 | CHANGE 2018/2017, % |
|--|--------|--------|--------|---------------------|
| FPC headcount, FTEs | 63,109 | 60,724 | 58,975 | 97.1 |
| Including in transport services | 58,071 | 55,189 | 53,896 | 97.7 |
| Labour productivity, '000 passenger km/FTE | 1,465 | 1,500 | 1,628 | 108.5 |

Other income and expenses

In 2018, the financial result from other income and expenses amounted to RUB 4.8 billion.

OTHER INCOME AND EXPENSES, RUB BILLION

| INDICATOR | 2016 | 2017 | 2018 | CHANGE 2018/2017, % |
|--|-------------|-------------|-------------|---------------------|
| Other income | 23.0 | 14.0 | 15.6 | 111.0 |
| Interest receivable | 0.9 | 1.3 | 0.8 | 60.4 |
| Proceeds from the disposal of fixed and other assets | 0.2 | 0.3 | 0.8 | 240.9 |
| Subsidies from the federal budget | 18.9 | 7.8 | 8.6 | 111.2 |
| Other | 3.0 | 4.7 | 5.4 | 115.0 |
| Other expenses | 8.7 | 9.3 | 10.7 | 115.2 |
| Interest payable | 2.0 | 2.3 | 2.8 | 120.4 |
| Expenses on the disposal of fixed and other assets | 0.2 | 0.2 | 0.4 | 173.8 |
| Cash management services | 1.9 | 1.9 | 1.8 | 95.4 |
| Other | 4.6 | 4.8 | 5.7 | 118.0 |

Key revenues received as part of other FPC's income were government subsidies allocated as a compensation for the revenue shortfall caused by the government regulation of long-distance tariffs for third-class open sleeping and fourth-class seating carriages. In 2018, RUB 8.6 billion in subsidies were received from the federal budget (RUB 7.8 billion in 2017).

Interest expenses on loans were the key item in other expenses, amounting to RUB 2.8 billion in 2018 and to RUB 2.3 billion in 2017.

Debt policy

As at 31 December 2018, FPC's debt amounted to RUB 45.5 billion (excluding a RUB 0.5 billion worth of accrued interest payable in the following quarter), including RUB 5.5 billion of loan liabilities and RUB 40 billion of bond liabilities.

FPC had no debt denominated in a foreign currency.

Earlier loans will be repaid in full by the end of 2021.

To secure financing for the Investment Programme, FPC placed a total of RUB 25 billion in bonds (three issues) on the Moscow Exchange: 6.5-year RUB 10 billion exchange-traded bonds at 7.2%, 5-year

RUB 5 billion bonds at 8.9%, and 10-year RUB 10 billion bonds at 8.4% during the first year to be followed by a floating coupon rate from the second year through maturity based on a 7-year zero coupon yield curve with an interest rate of 0.7% p.a.

In 2018, FPC did not open long-term credit facilities with any credit institutions.

The nearest maturity date is in 2019. The Company will also be repaying bonds for a total of RUB 35 billion from 2022 to 2028.

FPC'S DEBT MATURITIES AS AT 31 DECEMBER 2018, RUB BILLION

| 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|------|------|------|------|------|------|------|------|------|------|
| 6.8 | 1.8 | 1.8 | 10.0 | 5.0 | 10.0 | 0 | 0 | 0 | 10.0 |

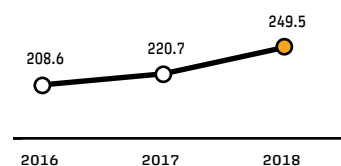
Balance sheet total

In 2018, FPC's balance sheet total increased by RUB 32 billion, or by 13%.

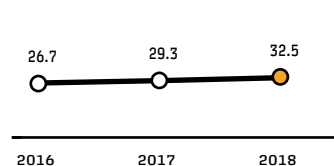
KEY BALANCE SHEET ITEMS, RUB BILLION

| INDICATOR | 2016 | 2017 | 2018 | CHANGE 2018/2017, % |
|-------------------------|--------------|--------------|--------------|---------------------|
| Non-current assets | 208.6 | 220.7 | 249.5 | 113.0 |
| Current assets | 26.7 | 29.3 | 32.5 | 111.0 |
| Assets | 235.3 | 250.0 | 282.0 | 112.8 |
| Equity and reserves | 185.6 | 193.5 | 201.2 | 104.0 |
| Non-current liabilities | 19.4 | 24.0 | 43.0 | 179.6 |
| Current liabilities | 30.2 | 32.5 | 37.8 | 116.1 |
| Liabilities | 235.3 | 250.0 | 282.0 | 112.8 |

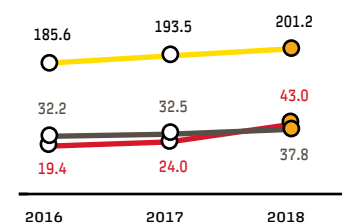
NON-CURRENT ASSETS, RUB BILLION



CURRENT ASSETS, RUB BILLION



LIABILITIES, RUB BILLION



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As at 31 December 2018, FPC's non-current liabilities totalled RUB 43 billion, including loans and borrowings for RUB 38.7 billion.

The size of FPC's share capital as at 31 January 2018 was RUB 171,961,040,539.

FPC placed 171,961,040,539 ordinary registered uncertified shares with the same par value of RUB 1 each.

In 2018, Russian Railways' shareholding in FPC's share capital was 99.999999999%, with JSC KRP-Invest holding 0.000000001%.

JSC FPC's registrar is Company STATUS, which maintains the FPC securities register under contract No. 201-14/FPC-14-216 dated 11 June 2014.

On 23 August 2018, FPC opened an account of the National Settlement Depository, the nominal shareholder of the central depository, in its securities register.

In the reporting year, the Company's net assets increased by 3.9% to RUB 201.5 billion.

NET ASSETS, RUB BILLION

| INDICATOR | 2016 | 2017 | 2018 | CHANGE 2018/2017, % |
|------------|-------|-------|-------|---------------------|
| Net assets | 186.1 | 194.0 | 201.5 | 103.9 |

Inventories

As at 31 December 2018, FPC's inventories amounted to RUB 3.78 billion, including RUB 0.15 billion worth of fuel, whereas in 2017, inventories totalled RUB 3.53 billion, including RUB 0.13 billion worth of fuel.

In 2018, the total cost of FPC's inventories increased by RUB 0.25 billion, or by 7%, driven by growth in prices of purchased inventories and the increasing share of spare parts for next-generation passenger carriages.

Payables and receivables

As at 31 December 2018, FPC's receivables totalled RUB 11.27 billion.

Taxes and charges receivable were 71.9%, or RUB 8.1 billion.

As at the end of 2018, trade receivables, except for transport services, made up RUB 0.49 billion, or 4.3% – a reduction by RUB 0.33 billion, or 40.2% year-on-year. The largest share of trade receivables was due for repair and maintenance of the rolling stock, amounting to RUB 0.26 billion, or 53.1%, and for lease of the rolling stock and property assets, amounting to RUB 0.14 billion, or 28.6%.

Trade receivables due for passenger services made up RUB 1.07 billion, or 9.5%, in line with the terms of relevant contracts.

As at 31 December 2018, prepayments totalled RUB 0.48 billion or 4.3%.

RECEIVABLES AS AT 31 DECEMBER, RUB BILLION

| RECEIVABLES | 2016 | 2017 | 2018 |
|---|-------------|--------------|--------------|
| Trade receivables (except for transport services) | 1.21 | 0.82 | 0.49 |
| Trade receivables (for transport services) | 1.10 | 1.15 | 1.07 |
| Prepayments | 0.48 | 0.45 | 0.48 |
| Taxes and charges | 3.53 | 8.53 | 8.10 |
| Other receivables | 0.74 | 1.14 | 1.13 |
| Total | 7.06 | 12.09 | 11.27 |

By late December 2018, payables had increased by 1.5% year-on-year to RUB 24.8 billion. The largest share of payables was attributed to trade payables totalling RUB 9.96 billion, or 40.2%, and prepayments for transport services totalling RUB 8.7 billion, or 35.1%.

PAYABLES AS AT 31 DECEMBER, RUB BILLION

| INDICATOR | 2016 | 2017 | 2018 |
|-------------------------------------|--------------|--------------|--------------|
| Trade payables | 9.22 | 10.22 | 9.96 |
| Payroll liabilities | 1.42 | 1.45 | 1.48 |
| Taxes and charges, social insurance | 1.77 | 1.65 | 1.87 |
| Prepayments for other activities | 0.16 | 0.64 | 0.29 |
| Prepayments for transport services | 7.48 | 7.82 | 8.70 |
| Other payables | 2.04 | 2.64 | 2.50 |
| Total | 22.09 | 24.43 | 24.80 |

As payables are above the receivables, the Company can use payables as an additional source of financing. Receivables to payables ratio was 0.45.

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Cash flows¹

As at 1 January 2018, FPC's balance of cash including short-term deposits totalled RUB 13.3 billion, including RUB 2.2 billion in the current account.

Cash flows from operating activities

In 2018, the cash flow from operating activities totalled RUB 267.1 billion, including RUB 8.6 billion from the federal budget. Most cash (77%) was received from passenger services totalling RUB 205 billion less transit charges.

Operating expenses amounted to RUB 263.8 billion, including expenses for infrastructure services and locomotive lease totalling RUB 135.2 billion, or 51.3%.

Positive cash flow from operating activities was RUB 3.3 billion.

CASH FLOWS FROM OPERATING ACTIVITIES, RUB BILLION

| INDICATOR | 2016 | 2017 | 2018 |
|---------------|-------|-------|-------|
| Net cash flow | 17.0 | 4.1 | 3.3 |
| Cash received | 262.8 | 254.2 | 267.1 |
| Cash used | 245.8 | 250.0 | 263.8 |

Cash flows from investing activities

Expenses for investment activities totalled RUB 62.1 billion.

In the reporting period, RUB 42 billion (96% of investment) were allocated for passenger rolling stock replacement and upgrades, including:

- RUB 30.9 billion for acquisition of new passenger carriages
- RUB 11.1 billion for upgrades of passenger rolling stock.

Negative cash flow from investing activities amounted to RUB 60.6 billion.

CASH FLOWS FROM INVESTING ACTIVITIES, RUB BILLION

| INDICATOR | 2016 | 2017 | 2018 |
|---------------|-------|-------|-------|
| Cash flow | -20.2 | -27.5 | -60.6 |
| Cash received | 1.2 | 1.7 | 1.6 |
| Cash used | 21.4 | 29.2 | 62.1 |

Cash flows from financing activities

In 2018, cash received from financing activities was RUB 55.2 billion (of which 45.3% was attributed to borrowings).

Net cash flows from financing activities totalled RUB 50.5 billion.

Cash used in the amount of RUB 4.7 billion resulted from:

- interest payments on loans and borrowings – RUB 2.4 billion
- repayment of loans and borrowings – RUB 2.3 billion.

CASH FLOWS FROM FINANCING ACTIVITIES, RUB BILLION

| INDICATOR | 2016 | 2017 | 2018 |
|---------------|------|------|------|
| Net cash flow | 7.6 | 21.3 | 50.5 |
| Cash received | 25.2 | 43.9 | 55.2 |
| Cash used | 17.6 | 22.6 | 4.7 |

¹ In accordance with the management accounting data.

2018 results

FPC's negative cash flow for the year totalled RUB 6.8 billion.

As at 31 December 2018, FPC's balance of cash including short-term deposits was RUB 6.5 billion, including RUB 2.4 billion in the current account.

Financial review

| INDICATOR | 2016 | 2017 | 2018 |
|---|------|------|------|
| Liquidity | | | |
| Absolute liquidity ratio | 0.51 | 0.41 | 0.45 |
| Current liquidity ratio | 0.88 | 0.90 | 0.86 |
| Leverage ratio | 0.79 | 0.77 | 0.71 |
| Margins, % | | | |
| Sales margin (including subsidies) | 5.94 | 6.25 | 5.35 |
| Return on equity (ROE) | 2.85 | 4.09 | 3.02 |
| Return on assets, including subsidies (ROA) | 2.25 | 3.16 | 2.16 |
| Liabilities | | | |
| Liabilities in the balance sheet total | 0.21 | 0.23 | 0.29 |
| Financial leverage (interest-bearing borrowings/equity) | 0.27 | 0.29 | 0.40 |
| Total debt/EBITDA | 0.81 | 0.85 | 1.72 |
| Total debt/revenue (including subsidies) | 0.09 | 0.11 | 0.20 |

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INVESTMENT MANAGEMENT

INVESTMENT RANKING

As an integral component of the Development Strategy, the Company's Investment Policy establishes investment priorities, structure, criteria, areas, and sources.

The Company's investment projects are ranked into five categories:

- long-term projects
- replacement of retired fixed assets generating financial impact
- cost-effective projects
- replacement of retired fixed assets generating technological impact
- technology and social projects.

Each project is ranked from 0 to 100. The higher the score, the higher priority is given to the project within the investment programme.

INVESTMENT PROGRAMME STRUCTURE BY PROJECT CATEGORY

| PROGRAMME | SHARE IN THE OVERALL INVESTMENT PROGRAMME, % | SCORE |
|---|---|-----------|
| Long-term projects Renovation of the Orekhovo-Zuyevo PCD, carriage-washing, as well as blasting and painting facilities Acquisition of RIC carriages | 2 | 63 to 100 |
| Replacement of retired fixed assets with a direct financial impact Rolling stock replacement and upgrades for branded trains | 42 | 46 to 100 |
| Projects with a direct financial impact Acquisition of double-decker carriages and development of e-ticket sales | 31 | 26 to 80 |
| Replacement of retired fixed assets with a technological impact Upgrading rolling stock and re-equipping depot facilities | 23 | 18 to 45 |
| Technology and social projects | 2 | 0 to 25 |
| Total | 100 | |

INVESTMENT STRUCTURE

In the reporting period, RUB 42 billion (95.7% of investment) were allocated for passenger rolling stock replacement and upgrades, including:

- RUB 30.9 billion for acquisition of new passenger carriages including:
 - 659 carriages for branded rolling stock replacement and upgrades
 - 65 double-decker carriages
- RUB 11.1 billion for passenger rolling stock upgrades.

The remaining capex totalling RUB 1.9 billion, or 4.3%, was used to support depot upgrades, IT projects, and other initiatives.

The new rolling stock was purchased to upgrade the fleet and replace retired carriages.

The Company's carriage procurement programme prioritises rolling stock acquisition to upgrade its branded trains. To achieve this goal, the Company purchased 659 carriages (worth RUB 25.3 billion) in 2018, including 637 third-class open sleeping carriages, thus upgrading this type of carriages on over 30 trains.

For profitable, high-demand passenger destinations, the Company also purchased 65 double-decker carriages (worth RUB 5.6 billion) to introduce trains on the following routes: Adler–Rostov, Kislovodsk–Moscow, and Moscow–Izhevsk.

As part of its 2018 investment programme, the Company financed a RUB 11.1 billion Passenger Rolling Stock Upgrade project. A large portion of the funds (RUB 9.2 billion, or 82.9%) was used to perform overhauls with service life extension (KVRs) and upgrades for 584 carriages.

The investment programme also provided for depot upgrade projects and IT projects.

RUB 0.9 billion were invested in depot upgrades.

Investments in depots were primarily used to:

- upgrade existing production facilities (RUB 0.6 billion)
- purchase equipment to ensure uninterrupted depot operations (RUB 0.2 billion).

In 2018, FPC spent RUB 0.2 billion on IT projects (development of software and hardware using cloud solutions to expand the use of electronic carriage documents and e-tickets; supply of software and hardware, network equipment, etc.).

Investments in other projects totalled RUB 0.8 billion (acquisition of equipment for transport safety and security, Train Master's Mobile Workstation software and hardware, etc.).

Sources of financing for the investment programme:

- equity (depreciation): RUB 22.2 billion
- borrowings: RUB 21.7 billion.

The key reason for the year-on-year increase in capex was the larger number of passenger carriages purchased in 2018, at 724 carriages compared with 425 in 2017 – a year-on-year increase of 299 passenger carriages, or RUB 13.1 billion. Moreover, the Company allocated RUB 4.5 billion more for the upgrades of passenger rolling stock in 2018 vs 2017.

43.9

RUB billion

investment programme in 2018

0.9

RUB billion

invested in depot upgrades in 2018

INVESTMENT PROGRAMME STRUCTURE, RUB BILLION

| INDICATOR | 2016 | 2017 | 2018 | CHANGE 2018/2017 |
|---------------------------|-------------|-------------|-------------|------------------|
| Rolling stock acquisition | 14.7 | 17.8 | 30.9 | 13.1 |
| Rolling stock upgrades | 3.2 | 6.6 | 11.1 | 4.5 |
| Depot upgrades | 0.8 | 0.9 | 0.9 | – |
| IT projects | 0.3 | 0.4 | 0.5 | –0.1 |
| Other projects | 0.4 | 0.2 | 0.5 | 0.3 |
| Total | 19.4 | 25.9 | 43.9 | 18 |

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PRIORITY INVESTMENT AREAS

Customer-focused investment

FPC spent RUB 41.7 billion in 2018 to improve its customer experience through a number of initiatives:

- 724 new, highly efficient passenger carriages were purchased, with improved performance and passenger comfort, totalling RUB 30.9 billion and aimed at reducing transit times and enhancing both transport safety and passenger experience
- RUB 10.6 billion were spent on passenger carriage KVRs (584 carriages).

In addition, RUB 0.5 billion were spent on the implementation of information technology innovations.

Upgrades

To maintain its existing carriage repair and maintenance facilities, FPC invested RUB 1.1 billion in rehabilitation and upgrades of its fixed assets in 2018.

MID-TERM INVESTMENT

The long-term agreement with Joint Stock Company Railwaycar Building Works Tver TVZ for rolling stock development, design, manufacturing, testing, and certification in 2019–2025 provides for the supply of 3,731 carriages for a total of RUB 237 billion.

The rolling stock acquisition programme is based on investment efficiency. FPC's priority is to continue upgrading its profitable rolling stock, making sure the profit is enough to pay the investment off during the rolling stock service life.

The type of rolling stock for each destination is selected based on economic factors such as profitability and return on investment, as well as technical limitations such as utilising particular carriages on certain routes.

Double-decker carriages have twice the capacity of single-decker carriages and are therefore more cost-effective. Double-decker carriages are especially popular on routes with limited infrastructure as each double-decker carriage can replace two single-decker carriages, enabling a twofold reduction of passenger trains. In addition, FPC's double-decker rolling stock can meet all passenger service comfort requirements.

At the same time, the operation of double-decker carriages requires retrofitted originating and turnaround stations, in particular, inspection pits and high-voltage charging points.

Unlike double-deckers, single-decker carriages can be operated throughout the whole network of Russian Railways. Single-decker procurement is planned based on the existing carriage type system – first-class sleeping, second-class sleeping, and third-class open sleeping carriages.

Investment in safety

Major investments in transport safety included:

- RUB 0.2 billion to replace retired rolling stock
- RUB 0.2 billion to install new frames, bolsters, and 1,520 mm gauge bogies during scheduled carriage repairs
- RUB 0.1 billion to ensure the compliance of FPC's facilities with fire safety requirements.

0.5

RUB billion

were used in 2018 to enhance passenger safety and improve passenger experience

Modern third-class open sleeping carriages have higher capacity to meet established passenger preferences and maintain lower fares.

Starting from June 2019, FPC plans to acquire only new rolling stock which is now being developed under Carriage 2019 and Carriage 2020 specifications. Their design provides for more capacity and semi-automated customer service on board.

Acquisition of locomotive-hauled passenger carriages with seats is viable for routes of up to 6 hours of travel time and sufficient passenger traffic. The Company determines the most efficient type of rolling stock for each destination, considering investment performance and technical limitations.

The Passenger Rolling Stock Upgrade project for 2019–2021 provides for RUB 30.8 billion of capex, including RUB 30 billion worth of KVRs for 1,450 carriages.

Moreover, in 2019–2021, FPC plans to allocate RUB 6.1 billion for: – depot upgrades (RUB 0.6 billion) – IT projects.

FPC plans to invest a total of RUB 1.5 billion into other projects in 2019–2021.

PROCUREMENT

FPC's procurement activities are governed by the corporate Regulations on Procurement of Goods, Works and Services for the Needs of Joint Stock Company Federal Passenger Company. The document is based on the following Russian laws and regulations:

- Federal Law No. 223-FZ On Procurement of Goods, Works, and Services by Certain Types of Legal Entities dated 18 July 2011
- resolutions by the Russian Government
- other documents adopted pursuant to Federal Law No. 223-FZ.

Savings achieved by procurement in 2018 totalled RUB 2,094.87 million, more than a 6x increase from 2016 (RUB 314 million) and more than a 2x increase from 2017 (RUB 1,032.82 million).

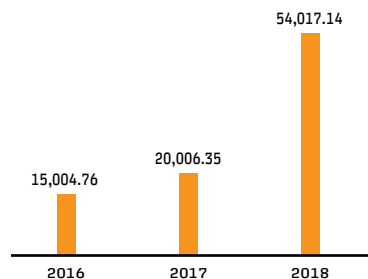
In 2018, FPC's procurement process resulted in 4,561 contracts for a total of RUB 66,477.5 million including VAT, of which:

- 2,130 contracts for a total of RUB 54,017.14 million were entered into through competitive bidding for procurement of goods, works, and services. The total price of contracts for goods, works, and services awarded in 2018 accounted for 81.3% of the total price of the 2018 contracts, more than a 3.6x increase from 2016 and a 2.7x increase from 2017. Bidders submitted a total of 4,173 bids in 2018
- 2,431 contracts for a total of RUB 12,460.36 million, or 18.7% of the total price of the 2018 contracts, were entered into with a single-source supplier (contractor, service provider).

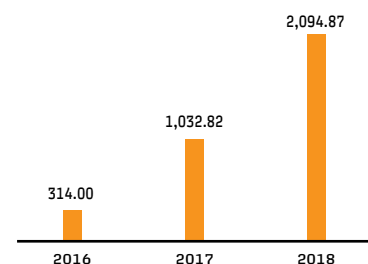
Seeking to comply with the regulatory requirements for procurement of goods, works, and services from small and medium-sized enterprises (SMEs), FPC signed 1,882 contracts with such businesses (over 40% of the Company's 2018 contracts). The total price of the contracts was RUB 19,445.57 million.

In 2018, FPC signed 1,022 contracts through competitive bidding open to SMEs only. The total price of the contracts was RUB 6,333.38 million, almost a 2x increase from 2017.

THE AMOUNT OF CONTRACTS ON A COMPETITIVE BASIS, RUB MILLION



THE ECONOMY OF FUNDS BY RESULTS PROCUREMENT ACTIVITIES, RUB MILLION

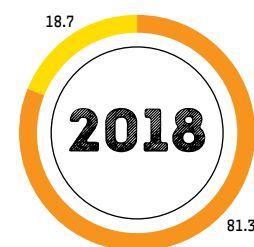


CONTRACTS, CONCLUDED IN 2018, %



- On competitive basis
- With a single-source supplier

THE TOTAL AMOUNT OF CONTRACTS FOR 2018, %



- On competitive basis
- With a single-source supplier

The economy of funds

2,094.87

RUB million

according to the results
of the procurement activities

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INTERNATIONAL ACTIVITIES

In 2018, FPC provided direct and transit passenger services to 22 European and Asian countries, including Germany, France, Poland, Austria, the Czech Republic, Monaco, Italy, Finland, China, Mongolia, North Korea, Latvia, Lithuania, Estonia, Ukraine, Moldova, Belarus, Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Azerbaijan.

In the reporting period, the Company saw a 4.9% decrease in passenger traffic on international routes year-on-year to 6.5 million passengers. At the same time, the direct passenger traffic between Russia and EU countries and between Russia and Central and East Asia grew by a total of 2.1%.

The increase in traffic on the above routes was driven by the Company's balanced marketing policy, efficient passenger service, and a stronger customer focus. This was also supported by a more extensive cooperation with other national operators within international industry associations (OSJD¹, UIC², CRT³, and CIT⁴).

In 2018, FPC's international activities followed corporate development plans and focused on strengthening its leading position in passenger service and improving its cost efficiency.

INTERNATIONAL COOPERATION IN EQUIPMENT AND TECHNOLOGY

In 2018, international cooperation in equipment and technology focused on the improvement of traffic safety, rolling stock servicing, and online sales.

In September 2018, Vienna hosted an annual international passenger train safety conference where European rolling stock experts discussed potential ways of improving traffic safety and passenger experience, in particular, technical condition of the rolling stock, updating the International Coach Regulations (RIC), and further cooperation prospects.

Participants of the conference noted the practical value of these discussions leading to a decrease in the number of registered faults for FPC's rolling stock travelling in Europe.

In 2018, organisational, technical, and technology initiatives were implemented to launch e-ticket sales for trains travelling to Mongolia and the Czech Republic. Since September 2018, passengers have been able to book tickets for trains travelling to Russia on the Mongolian Railways website, and tickets for trains going to the Czech Republic on Belarusian Railway, PKP Intercity, and České dráhy, a.s. websites. Furthermore, the operators working on routes to Europe signed an online ticketing cooperation agreement which can help expand online booking to cover all international trains crossing the Czech Republic, Poland, and Belarus.

Aiming to extend online ticketing cooperation with Asia Pacific countries in 2018 and as part of UIC initiatives, FPC continued the research on integrating booking systems, launched by FPC and supported by most members of the UIC Asia-Pacific Regional Assembly. The research focuses on finding a uniform solution for national rail passenger carriers to improve interoperability of online booking systems used in Asia Pacific countries.

In 2018, in line with the research plan, the Company developed a questionnaire and surveyed stakeholder companies in Asia Pacific countries to collect input data for assessment of the digital capability and the existing opportunities to standardise online ticket booking systems on international routes between member states of the UIC Asia-Pacific Regional Assembly.

¹ OSJD – International Organisation for Cooperation of Railways.

² UIC – International Union of Railways.

³ CRT – the Council for Rail Transport of the Commonwealth Member States.

⁴ CIT – International Rail Transport Committee.

IMPROVEMENT OF THE PRICING POLICY AND OPTIMISATION OF INTERNATIONAL RAIL SERVICES

In 2018, FPC continued its extensive cooperation with international partners in EU countries, railway authorities and carriers from the CIS states, Latvia, Lithuania, and Estonia to enhance the competitiveness of international rail passenger services and acquire new customers.

Therefore, the Company continued to pursue the pricing strategy introduced in 2017 and approved by international partners. Depending on the destination and the booking date the discounts ranged from 10% to 58%.

In improving the efficiency of international passenger services, the Company follows a flexible tariff policy and continues its cost-cutting efforts, including through optimisation of international train timetables.

In particular, FPC optimised the route of train No. 20/19 Moscow–Beijing travelling once every two weeks as a separate destination and once every two weeks as a group of direct Moscow–Beijing carriages of train No. 2/1 Moscow–Vladivostok.

The above initiatives helped improve train operation, optimise the use of rolling stock, and, consequently, cut the costs of Russia–China railway services.

COOPERATION WITHIN INTERNATIONAL ORGANISATIONS

In 2017, in the context of intense competition from other transport modes, growing costs of infrastructure services, and the resulting declines in traffic, FPC suggested and has since vigorously promoted creating a competitive environment in the international market for rail passenger services, with the national government support for railway carriers. This project is based on the ideas outlined in Resolution No. 264 on international rail passenger service adopted by the Inland Transport Committee of the UN Economic Commission for Europe.

In 2017–2018, as part of OSJD initiatives, FPC launched the development of an international multilateral roadmap of joint actions to create a new competitive rail passenger service environment, which was supported by the Council of Ministers of the OSJD countries. The OSJD countries have been engaged in extensive discussions of the draft document and have been making their proposals.

The importance and relevance of this work was also noted at the third International Passenger Forum in Sochi held under the aegis of the Council for Rail Transport of the Commonwealth Member States. International industry speakers shared their observations and promising projects aimed at enhancing rail passenger services and boosting their competitiveness, including through introducing breakthrough solutions in passenger train control during state border crossing.

In 2018, to provide a legal framework for enhancing state border control under the aegis of the Inland Transport Committee of the UN Economic Commission for Europe, member states continued reviewing the draft convention on the facilitation of border crossing procedures for passengers, baggage, and unaccompanied baggage carried in international traffic by rail, which provides for the state border control option on a moving train for conventional rolling stock. FPC was the biggest contributor to the document drafting process.

In 2018, FPC achieved significant progress in resolving disagreements and aligning the draft with member states of the Inland Transport Committee of the UN Economic Commission for Europe.

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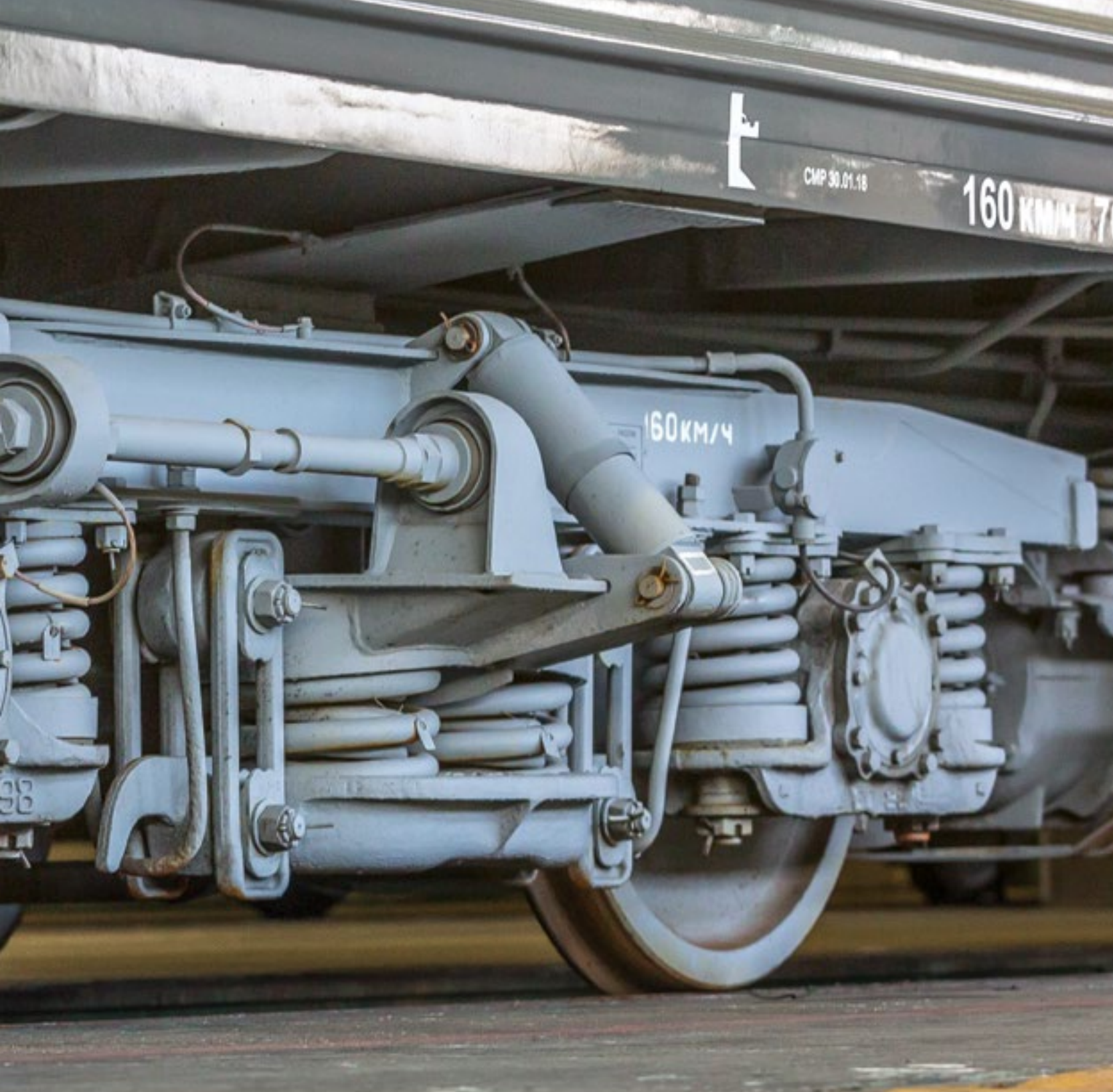
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4

CORPORATE GOVERNANCE



9

members

of Board
of Directors

25

meetings

of the Board
of Directors in 2018

133

matters

were considered by the Board
of Directors in 2018

CORPORATE GOVERNANCE

OVERVIEW OF THE CORPORATE GOVERNANCE MODEL AND PRACTICE

CORPORATE GOVERNANCE PRINCIPLES

Protecting shareholder interests and rights

The Regulations on Preparing and Holding the General Shareholders Meeting of JSC FPC provide for the corporate governance rights of shareholders¹.

Protection of the interests and rights of FPC's shareholders is ensured through a reliable method for recording their rights to shares – the share register is maintained by an independent entity, Company STATUS.

As part of the preparation for the General Shareholders Meeting, shareholders are provided with supplementary information in addition to the mandatory information required by law.

Equal treatment of all shareholders

Shareholders have equal and fair rights to share FPC's profits by receiving dividends. The Regulations on JSC FPC's Dividend Policy establish a mechanism for determining the amount of dividends and their payment¹.

All shareholders are provided with materials required for the General Shareholders Meetings and have equal access to all required information at the offices of the Company.

Timely disclosure of information

FPC ensures timely disclosure of information on its website and in the news feed of SKRIN information agency, which is authorised to disclose information about securities and other financial instruments.

Mutual trust and respect for all stakeholders

Relationships between FPC's shareholders, members of the Board of Directors, and management are based on integrity, trust, mutual respect for legitimate interests, and all parties performing their obligations in good faith.

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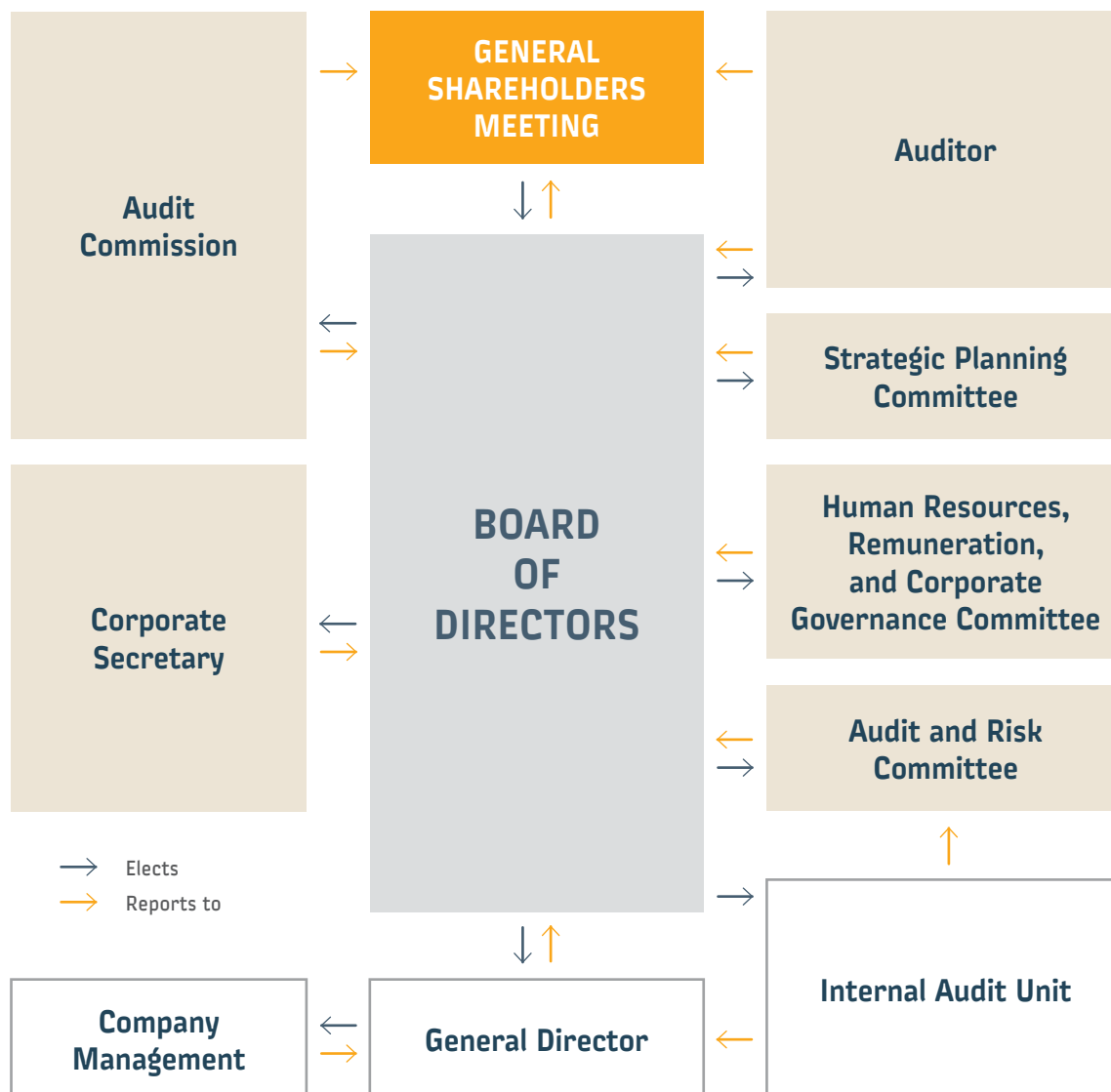
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¹ The Regulations are available on the FPC website at:
https://fpc.ru/static/public/ru?STRUCTURE_ID=155.

THE COMPANY'S CORPORATE GOVERNANCE MODEL²



² Takes into account the new version of JSC FPC's Articles of Association approved by the General Shareholders Meeting on 29 June 2018.

FPC's corporate governance model is built in line with Russian statutory requirements and is a multi-tier system of relationships between participants in the corporate governance process.

The Company's supreme governing body is the General Shareholders Meeting, with the Board of Directors occupying a central place in the corporate governance system, and the management of the Company's day-to-day operations delegated to the General Director.

The General Director is accountable to the General Shareholders Meeting and the Board of Directors. The Board of Directors, in its turn, reports to FPC's General Shareholders Meeting.

The jurisdiction of all governing bodies is clearly defined and formalised in the Articles of Association.

The Company has adopted the Regulations on Preparing and Holding the General Shareholders Meeting of JSC FPC.

Matters reserved to the General Shareholders Meeting include:

- amendments and addenda to JSC FPC's Articles of Association and approval of a new version of the document
- reorganisation of the Company
- liquidation of the Company, appointment of a liquidation committee, and approval of interim and final liquidation balance sheets
- determination of the number, par value, and type (class) of additional authorised shares and rights carried by these shares
- decisions on placement of bonds convertible into shares, and other issue-grade securities convertible into shares
- election of the Board of Directors and early termination of directors' mandates
- approval of annual accounting (financial) statements
- distribution of the Company's profit (including payout (declaration) of dividends, except for the payout (declaration) of dividends following the first quarter, the first six months, and the first nine months of the reporting year) and loss following the end of the reporting year
- payout (declaration) of dividends following the first quarter, the first six months, and the first nine months of the reporting year
- approval of interested-party transactions or making decisions for their subsequent approval if the number of disinterested members of the Company's Board of Directors is less than half of the elected directors
- approval of major transactions or making decisions for their subsequent approval in cases stipulated by Article 79 of the Federal Law On Joint Stock Companies
- approval of internal documents governing the activities of FPC's bodies

- resolutions to pay remuneration and/or reimbursement to members of the Board of Directors
- resolution to file an application to the Bank of Russia asking for exemption from obligation to disclose or provide information pursuant to the Russian laws on securities.

The Board of Directors occupies a key position in FPC's corporate governance system. Its activities are governed by the Regulations on the Board of Directors of JSC FPC approved by the General Shareholders Meeting.



You can **familiarize yourself with the Regulation on the procedure for preparing and holding the General Meeting of Shareholders** on the website of FPK JSC – fpc.ru in the “To Shareholders and Investors” section in the “Charter and Internal Documents” tab



You can **familiarize yourself with the Regulation on the Board of Directors** on the website of FPK JSC – fpc.ru in the “To Shareholders and Investors” section in the “Charter and Internal Documents” tab

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The duties of the Board of Directors are to:

- determine FPC's priorities: develop and approve the Company's development strategy and long-term development programme, as well as amendments and addenda to them; review reports on their implementation
- approve FPC's budget and investment programme and amendments to them; review the General Director's report on the Company's performance in the reporting period, including budget and investment programme performance; implement resolutions passed by the General Shareholders Meeting and the Board of Directors
- elect members of the Audit Commission and approve early termination of their powers
- approve the Company's Auditor and determine the relevant fee
- approve annual reports
- convene annual and extraordinary General Shareholders Meetings; approve the agenda for General Shareholders Meetings; determine the date of drawing up the list of persons entitled to participate in the General Shareholders Meeting, and address other issues relating to its preparation and holding
- approve the activity plan of the internal audit function and relevant annual performance reports; appoint and remove the head of the internal audit business function
- determine FPC's policy on remuneration due to, and/or reimbursement (compensation) of costs incurred by, members of the Board of Directors
- analyse the results of performance assessment of the Board of Directors and its members and committees, as well as of the Company's sole executive body
- determine the key performance indicators (KPIs) for FPC and its sole executive body and review KPI performance reports; approve a list of the Company's key managers and compile a list of their corporate KPIs
- determine the principles of, and approaches to, risk management and internal control organisation at FPC
- establish acceptable risk levels (risk appetite, preferred risks).

Election of the General Director and the Corporate Secretary, and appointment of members to the Board of Directors' Committees are also reserved for the Board of Directors.

Three Committees of the Board of Directors have been set up to preview the most important matters referred to the Board of Directors:

- Strategic Planning Committee
- Audit and Risk Committee
- Human Resources, Remuneration, and Corporate Governance Committee.

Activities of the Board of Directors' Committees are governed by relevant regulations. Committees submit a report on their activities to the Board of Directors on an annual basis¹.

The Corporate Secretary ensures effective ongoing interaction with shareholders, coordinates the Company's efforts to protect shareholder rights and interests, and supports the activities of the Board of Directors. The Corporate Secretary reports to the Board of Directors. The Corporate Secretary's activities are governed by the Regulations on the Corporate Secretary of JSC FPC² approved by the Board of Directors.

FPC has the Audit Commission and appoints its Auditor on an annual basis to provide shareholders with reliable and complete information on its financial and business activities.

The Company has its internal audit function – the Internal Audit Unit. The Regulations on JSC FPC's Internal Audit Organisation, Regulations on JSC FPC's Internal Audit Unit and the unit's activity plan are subject for approval by the Board of Directors. The Internal Audit Unit reports to the Board of Directors.



You can **familiarize yourself with the competencies of the Board of Directors** on the website of FPK JSC – fpc.ru in the “To Shareholders and Investors” section in the “Charter and Internal Documents” tab

¹ Regulations on the Board of Directors' Committees are available on the FPC website at http://fpc.ru/static/public/ru?STRUCTURE_ID=155.

² Regulations on the Corporate Secretary of JSC FPC are available on the FPC website at http://fpc.ru/static/public/ru?STRUCTURE_ID=155.

SHARE CAPITAL

FPC's share capital comprises 171,961,040,539 ordinary registered shares with a par value of RUB 1 each.

As at 31 December 2018, FPC's share capital was RUB 171,961,040,539.

A nominee account was opened on 23 August 2018 in the register of FPC's registered shares maintained by National Settlement Depository. The number of FPC shares owned by National Settlement Depository is 0.

No shares are owned by the Company and its controlled entities.

FPC has no information on shareholdings exceeding 5% except for those already disclosed by the Company.

FPC's shareholders do not have any preferred shares or shares with different par value.

No shareholder agreements have been signed by FPC's shareholders.

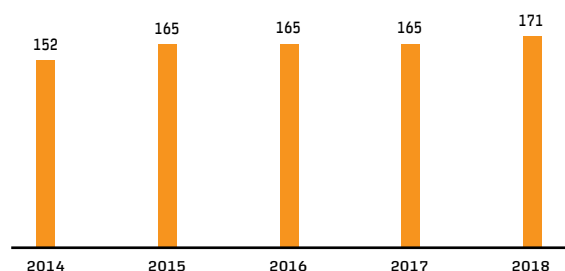
VOTING SHARES BY TYPE (CLASS) OF SHARES

| TYPE (CLASS) OF SECURITIES | REGISTERED ORDINARY SHARES |
|----------------------------|----------------------------|
| Form of issuance | Uncertified |
| Number of shares issued | 171,961,040,539 |
| State registration details | 1-01-55465-E |
| Par value per share | RUB 1 |

ENTITIES INCLUDED IN FPC'S SHARE REGISTER

| SECURITY HOLDER | NUMBER OF VOTING SHARES | PERCENTAGE OF VOTING SHARES, % |
|------------------|-------------------------|--------------------------------|
| Russian Railways | 171,961,040,538 | 99.999999999 |
| KRP-Invest | 1 | 0.000000001 |
| Total | 171,961,040,539 | 100 |

CHANGES IN THE COMPANY'S SHARE, RUB BILLION



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DIVIDEND POLICY

Under the Regulations on JSC FPC's Dividend Policy, if depreciation and external funding sources are insufficient to finance the Investment Programme, the Company may draw additional funds from the net profit that was to be distributed as dividends to Russian Railways.

No dividends were paid out in 2018.

Resolution on the amount of dividends for 2018 will be made by the annual General Shareholders Meeting in 2019.

CALCULATING THE AMOUNT OF DIVIDENDS

On 17 December 2012, FPC's Board of Directors approved the Regulations on JSC FPC's Dividend Policy¹.

In accordance with the Regulations, the amount of a full year dividend is a sum total of a fixed dividend (**DIV1**) and a residual dividend (**DIV2**).

DIV1 = net profit for the reporting year × (fixed dividend payable (no less than 25%)) + fixed dividend adjustment coefficient reflecting the variance between FPC's actual net profit and the target value (CT).

Where the variance between the actual and target net profit is no greater than 15%, CT is equal to 0.

Where the variance between the actual and target net profit is greater than 15% but less than 50%, CT is equal to 5%.

Where the variance between the actual and target net profit is greater than 50%, CT is equal to 10%.

DIV2 = net profit for the reporting year – the amount of mandatory contributions deducted from the net profit (reserve fund and charities) – DIV1 – the portion of FPC's profit used to finance its Investment Programme (Investment Programme – depreciation – borrowings).

The resolution to pay out (declare) dividends is passed by the General Shareholders Meeting. The amount of dividends cannot be higher than the amount of dividends recommended by the Company's Board of Directors.

General Shareholders Meetings held in 2010–2013 resolved not to pay out any dividends.

In 2014, RUB 4.1 billion was allocated to dividends and RUB 4.5 billion was contributed by Russian Railways to FPC's share to finance FPC's Investment Programme.

In 2015, FPC made a net profit of RUB 141.1 million. RUB 70.5 million was paid out as dividends.

In 2016, FPC made a net profit of RUB 5.3 billion. RUB 4.9 billion was paid out as dividends.

For 2017, RUB 1.6 billion was allocated to dividends and RUB 6.5 billion was contributed by Russian Railways to FPC's share to finance FPC's Investment Programme.

¹ The Regulations are available on the FPC website at https://fpc.ru/dbmm/download?vp=79&load=y&col_id=121&id=1823.

SHAREHOLDERS MEETINGS

FPC's supreme governing body is the General Shareholders Meeting.

In 2018, two General Shareholders Meetings were held – one annual General Shareholders Meeting and one extraordinary General Shareholders Meeting

Joint Stock Company Registry Society STATUS served as teller at FPC's General Shareholders Meetings. Voting results were announced at the meetings.

FPC'S GENERAL SHAREHOLDERS MEETINGS IN 2018

| TYPE | DATE | NUMBER OF ITEMS REVIEWED |
|---------------|-------------|--------------------------|
| Annual | 29 June | 13 |
| Extraordinary | 15 February | 2 |

RESOLUTIONS PASSED BY THE ANNUAL GENERAL SHAREHOLDERS MEETING

| DATE | RESOLUTIONS |
|--------------|---|
| 29 June 2018 | Approved FPC's 2017 Annual Report |
| | Approved FPC's annual accounting (financial) statements for 2017 |
| | Resolved to distribute the net profit and pay out dividends |
| | Resolved to pay annual remuneration to the members of the Board of Directors and the Audit Commission |
| | Adopted a resolution on approval of FPC's Auditor |
| | Elected the new Board of Directors and the new Audit Commission |
| | Approved new versions of FPC's Articles of Association and Regulations on Remuneration and Reimbursement for Members of the Board of Directors of JSC FPC |

RESOLUTIONS PASSED BY THE EXTRAORDINARY GENERAL SHAREHOLDERS MEETING

| DATE | RESOLUTIONS |
|------------------|--|
| 15 February 2018 | On the early termination of the mandates of members of FPC's Board of Directors and election of a new Board of Directors |

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BOARD OF DIRECTORS

First elected to the Board of Directors in 2017.

Chairman of the Board of Directors. Chairman of the Strategic Planning Committee of FPC's Board of Directors since March 2017.

Education

Saint Petersburg State Transport University with a degree in Locomotives (Electric Locomotives and Electric Trains).

Experience

From 2004 to 2009, he was Head of the Saint Petersburg–Moskovskoye locomotive depot of the Locomotive Directorate, a structural unit of the Transcom Suburban Service Directorate of the Oktyabrskaya Railway, a branch of Russian Railways.

In June 2009, he was appointed Head of the Northwest Directorate for Higher-Speed Services, a structural unit of the Directorate for Higher-Speed Services, a branch of Russian Railways.

From February 2010 to July 2014, he was CEO of the Directorate for Higher-Speed Services, a branch of Russian Railways.

From July 2014 to May 2017, he headed Moscow Metro.

In May 2017, he was appointed Director for Passenger Transportation at Russian Railways.

In December 2018, he was appointed Deputy CEO – Chairman of the Management Board of Russian Railways.

Also in December 2018, he joined the Management Board of Russian Railways.

Key professional competencies:

- macroeconomic and industry analysis
- government relations
- strategic planning and development
- strategic management.

Positions held in other companies

Member of the Board of Directors at High-Speed Rail Lines, Chairman of the Board of Directors at OY Karelian Trains Ltd., and member of the Management Board at Russian Railways.



Dmitry PEGOV

Non-Executive Director
Chairman of the Board of Directors

Year of birth: 1973

Nationality: Russian Federation

First elected to the Board of Directors in March 2018.

Member of the Strategic Planning Committee of FPC's Board of Directors.

Education

Lomonosov Moscow State University with a degree in Economics, holds an MBA from the Russian Presidential Academy of National Economy and Public Administration.

Experience

From 2012 to 2013, she acted as Director for Strategic Development at HPC Mosenergo.

From 2013 to 2017, she was General Director at VK Consult.

Since 2017, she has been Deputy Head, Acting Head, and Head of the Subsidiaries and Affiliates Management Department at Russian Railways.

Key professional competencies:

- government relations
- corporate governance
- strategic planning and development
- strategic management.

Positions held in other companies

General Director of VESTA.

Member of the Board of Directors at Razvitie TLC, RASCOM, Railway Trading Company, Aeroexpress, Company TransTeleCom, Digital Logistics, Industry Centre for Development and Implementation of Information Systems, GEFCO S.A., CRC 1, RZD Nedvizhimost, and OSK InfoTrans.



Vera EVSEGNEEVA

Non-Executive Director
Deputy Chairwoman of the Board
of Directors

Year of birth: 1980

Nationality: Russian Federation

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First elected to the Board of Directors in 2018.

Member of the Strategic Planning Committee of FPC's Board of Directors, member of the Human Resources, Remuneration, and Corporate Governance Committee of FPC's Board of Directors, and member of the Audit and Risk Committee of FPC's Board of Directors.

Education

Voronezh Agricultural Institute with a degree in Accounting.

Academy of Social Sciences under the Central Committee of the Communist Party of the Soviet Union with a degree in Development of the Communist Party and the Soviet System.

Academy of Law and Public Administration with a degree in Law.

PhD in Economics and Doctor of Political Sciences.

Experience

From 1995 to 2013, he served as an auditor at the Accounts Chamber of the Russian Federation.

From 2013 to 2016, he was a Department Head, Advisor, and Deputy Head of the Presidential Control Directorate of the Russian Federation.

Since 2016, he has been heading the Control and Analytical Service of the CEO – Chairman of the Management Board, Russian Railways.

Key professional competencies:

- government relations
- IT and telecommunications
- corporate governance
- corporate finance and investor relations
- macroeconomic and industry analysis
- taxation
- strategic planning and development
- strategic management
- railway construction and operation
- HR management and corporate social responsibility
- finance and audit
- law

Positions held in other companies

Member of the Board of Directors at Company TransTeleCom, CRC 1, and High-Speed Rail Lines.



Mikhail BESKHMELNITSYN

Non-Executive Director

Year of birth: 1956

Nationality: Russian Federation

First elected to the Board of Directors in 2018.

Member of the Strategic Planning Committee of FPC's Board of Directors and member of the Human Resources, Remuneration, and Corporate Governance Committee of FPC's Board of Directors.

Education

Moscow State University of Railway Engineering (MIIT) with a degree in Finance and Credit.

Holds an Executive MBA from The University of Chicago Booth School of Business.

Experience

From 2010 to 2015, he acted as Head of the Management Accounting and Reporting Department at Russian Railways.

From 2015 to 2016, he was Head of the Department of Management Accounting and Methodology of Long-Term Tariff Policy at Russian Railways.

From 2016 to 2017, he served as Head of the Management Accounting and Reporting Department at Russian Railways.

In 2017, he was appointed Head of the Economics Department at Russian Railways.

Key professional competencies:

- government relations
- IT and telecommunications
- strategic planning and development
- finance and audit

Positions held in other companies

Member of the Board of Directors at South Caucasus Railway, IEDT, TransContainer, and FGC.



Vladimir GAPONKO

Non-Executive Director

Year of birth: 1979

Nationality: Russian Federation

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First elected to the Board of Directors in December 2009 by the founders' meeting.

Education

Novosibirsk Institute of Railway Engineers with a degree in Accounting.

PhD in Economics.

Experience

Started her career in railways in 1981 as an accountant at the West Siberian Railway.

In 2000, she was appointed Chief Accountant at the West Siberian Railway.

From 2002 to 2004, she acted as Deputy Head and Chief Accountant at the Moscow Railway.

In 2004, she was appointed Deputy Head of Economics and Finance at the Moscow Railway.

From 2004 to 2005, she was Head of the Financial Management Department at Russian Railways.

From 2005 to 2017, she acted as Head of the Corporate Finance Department at Russian Railways and a member of the Management Board at Russian Railways.

In 2017, she was appointed Economics and Finance Director at Russian Railways.

In March 2018, she was appointed Deputy CEO – Chairwoman of the Management Board at Russian Railways.

Key professional competencies:

- corporate finance and investor relations
- macroeconomic and industry analysis
- taxation, strategic planning and development
- finance and audit.

Positions held in other companies

Member of the Board of Directors at Company TransTeleCom and member of the Management Board at Russian Railways.



Olga GNEDKOVA

Non-Executive Director

Year of birth: 1960

Nationality: Russian Federation

Elected to the Board of Directors in 2017.

Chairman of the Human Resources, Remuneration, and Corporate Governance Committee of FPC's Board of Directors.

Education

Ryazan Higher Airborne Command School with a degree in Wheel and Track Vehicles Operation Engineering, Institute for Professional Upgrade and Advanced Training Programmes of the Financial Academy under the Government of the Russian Federation with a degree in Banking and Insurance Economy.

Holds an EMBA from the SKOLKOVO Moscow School of Management.

Obtained the IoD Certificate in Company Direction under the IoD's Chartered Director global programme for qualification of directors.

Experience

Since 1993, he held senior positions and was a member of the Management Board at a number of commercial banks.

From 2012 to 2013, he was First Deputy President and a member of the Management Board at Novikombank.

Since 2007, he has been Advertising and Marketing Director at Stroyholding Stolitisa.

Key professional competencies:

- finance and audit
- strategic planning and development
- corporate governance
- strategic management
- HR.

Positions held in other companies

Member of the Supervisory Board at the Corporate and Project Management Institute.



Sergey ZEMLYANSKY

Independent Director

Year of birth: 1968

Nationality: Russian Federation

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Elected to the Board of Directors in March 2016.

Member of the Strategic Planning Committee of JSC FPC's Board of Directors.

Education

Financial Academy under the Government of the Russian Federation with a degree in International Economic Relations, Moscow State Law Academy with a degree in Law.

Experience

From 1998 to 2005, he acted as Vice President and Deputy General Director of Mosgortrans.

From 2005 to 2006, he acted as Deputy Head of the Moscow Transport and Communications Department.

From 2006 to 2013, he acted as General Director of Mosgortrans.

From 2013 to 2015, he was Deputy Chairman of the Moscow Region Government.

From 2015 to 2016, he was Deputy Chairman/Transport Minister of the Moscow Region Government.

In January 2016, he was appointed General Director of FPC.

Key professional competencies:

- macroeconomic and industry analysis
- law
- government relations
- strategic management.

Positions held in other companies

None.



Petr IVANOV

Executive Director

Year of birth: 1970

Nationality: Russian Federation

Elected to the Board of Directors in March 2016.

Education

Leningrad Higher Military School of Railway and Transport Services with a degree in Command and Tactics in Military Transport.

Experience

From 1993 to 2008, he held senior positions at a number of commercial entities in the transport industry.

From 2008 to 2009, he was CEO and a member of the Board of Directors at Globaltrans Group.

From 2009 to 2014, he acted as Chairman of the Presidium of the non-profit partnership Council of Railway Operators Market.

From 2014 to 2015, he headed the Consumer Council on the Activities of Russian Railways, an advisory and deliberative body of the Government Commission for Transport.

From November 2015 to February 2017, he served as Senior Vice President for Corporate Governance and Strategic Development of Russian Railways and was a member of the Management Board.

Since March 2017, he has been Advisor to the CEO – Chairman of the Management Board of Russian Railways on a pro bono basis.

Key professional competencies:

- corporate governance
- strategic planning and development
- finance and audit.

Positions held in other companies

Member of the Board of Trustees of the Russian University of Transport (MIIT).



Sergey MALTSEV

Independent Director

Year of birth: 1963

Nationality: Russian Federation

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Elected to the Board of Directors in June 2016.

Chairwoman of the Audit and Risk Committee of FPC's Board of Directors and member of the Strategic Planning Committee of FPC's Board of Directors.

Education

Graduated from Moscow State Linguistic University, Faculty of English.

Holds MBAs from California State University (Hayward, USA) and the Academy of National Economy under the Government of the Russian Federation.

Obtained the IoD Certificate in Company Direction under the IoD's Chartered Director global programme for qualification of directors.

Experience

Until 2011, she was Director of the Audit Department at PricewaterhouseCoopers International Network.

From 2011 to 2014, she was a partner at Deloitte international network of firms.

Since 2014, she has acted as Deputy Executive Director of the not-profit foundation Forum Analytical Centre.

Key professional competencies:

- finance and audit
- internal audit and internal control
- risk management
- corporate governance
- management and optimisation of major investment projects
- strategic planning and development.

Positions held in other companies

Member of the Council for Financial Accounting and Reporting Standards at the National Organisation for Financial Accounting and Reporting Standards Foundation.



Alla SALTYSKOVA

Independent Director

Year of birth: 1970

Nationality: Russian Federation

BOARD OF DIRECTORS' REPORT

STRUCTURE OF THE BOARD OF DIRECTORS

The Board of Directors is elected by FPC's annual General Shareholders Meeting in accordance with the Company's Articles of Association, and is composed of nine members.

In February 2018, FPC's extraordinary General Shareholders Meeting resolved on early termination of the mandates of all the directors and elected a new Board as follows: Pavel Burtsev, Vladimir Gaponko, Olga Gnedkova, Vera Evseġneeva, Serġey Zemlyansky, Petr Ivanov, Serġey Maltsev, Dmitry Peġov, and Alla Saltykova.

The mandates of the following directors were terminated: Maxim Shneider, Serġey Kust, and Irina Kostenets.

From 5 March to 29 June 2018, Dmitry Peġov acted as Chairman of the Board of Directors, and Vera Evseġneeva acted as Deputy Chairwoman of the Board of Directors.

In June 2018, the following directors were elected to FPC's Board of Directors by the annual General Shareholders Meeting: Mikhail Beskhmel'nitsyn, Vladimir Gaponko, Olga Gnedkova, Vera Evseġneeva, Serġey Zemlyansky, Petr Ivanov, Serġey Maltsev, Dmitry Peġov, and Alla Saltykova.

Pavel Burtsev's mandate was terminated.

In July 2018, Dmitry Peġov was elected Chairman of the Board of Directors, and Vera Evseġneeva was elected Deputy Chairwoman of the Board by a unanimous vote of directors.

Members of the Board of Directors do not hold a stake in FPC's share capital, do not own the Company's ordinary shares, and were not engaged in any transactions to acquire, or dispose of, FPC shares in the reporting year.

No claims were filed in 2018 against members of the Board of Directors in relation to their performance of duties as directors.

FPC did not extend any loans to members of the Board of Directors.



Dmitry PEGOV

No conflicts of interest were identified at the Board level.

Members of the Board of Directors provided timely information to the Board about the circumstances that could potentially lead to a conflict of interest, including information about interests related to any given transaction.

To avoid potential conflicts of interest, members of the Board of Directors are guided by the Regulations on the Board of Directors of JSC FPC and do not vote on transactions in which they have an interest.

COMPOSITION OF FPC'S BOARD OF DIRECTORS IN 2018

| FROM 1 JANUARY TO 15 FEBRUARY | FROM 15 FEBRUARY TO 29 JUNE | FROM 29 JUNE TO 31 DECEMBER |
|-------------------------------|-----------------------------|-----------------------------|
| Dmitry Peġov | Dmitry Peġov | Dmitry Peġov |
| Olga Gnedkova | Olga Gnedkova | Olga Gnedkova |
| Serġey Maltsev | Serġey Maltsev | Serġey Maltsev |
| Petr Ivanov | Petr Ivanov | Petr Ivanov |
| Serġey Zemlyansky | Serġey Zemlyansky | Serġey Zemlyansky |
| Alla Saltykova | Alla Saltykova | Alla Saltykova |
| Maxim Shneider | Vera Evseġneeva | Vera Evseġneeva |
| Serġey Kust | Vladimir Gaponko | Vladimir Gaponko |
| Irina Kostenets | Pavel Burtsev | Mikhail Beskhmel'nitsyn |

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FPC's Board of Directors performs efficiently due to a balanced composition of members in terms of their age and gender: the Board includes three women and six men from different age groups, allowing directors to gain a deep insight into agenda items.

Independent directors play an important role in the Board, and their fresh insight helps improve the quality of management decisions. FPC meets the recommendations of the Corporate Governance Code as to membership of the Board of Directors: the share of executive directors is less than 1/4, and the share of independent directors is 1/3.

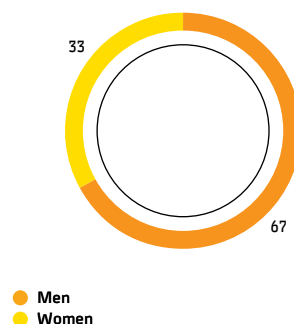
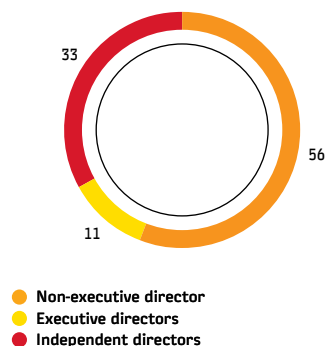
In 2018 the Human Resources, Remuneration, and Corporate Governance Committee assessed nominees to the Board of Directors against the independence criteria. Based on the questionnaires submitted to the Committee, the following directors were considered independent: Sergey Maltsev, Sergey Zemlyansky, and Alla Saltykova.

Director Olga Gnedkova has been a continuous Board member since first elected by the founders' meeting in 2009.

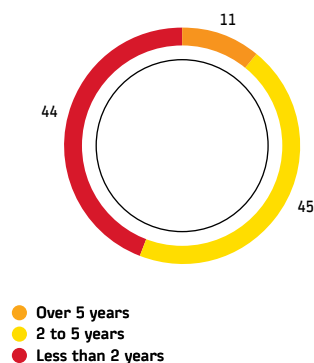
To gain a prompt and efficient insight into FPC's operating, financial, and business activities, new members of the Board of Directors take an induction training course under the Induction Programme for Newly Elected Members of JSC FPC's Board of Directors approved by the Board.

As part of the induction training, FPC organises office meetings with the General Director and key managers, arranges for site visits to the Company's facilities, and provides key documents and presentations about FPC's operations.

STRUCTURE OF THE BOARD OF DIRECTORS (UNCHANGED FOR ALL THREE BOARDS), %



STRUCTURE OF THE BOARD OF DIRECTORS BY LENGTH OF SERVICE, %

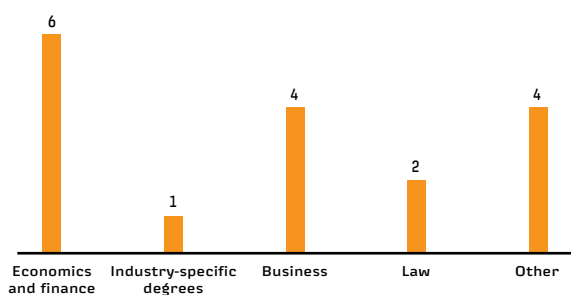


In 2018, 25 meetings of FPC's Board of Directors were held, including 13 meetings in absentia and 12 meetings in person. The Board reviewed 133 matters during 2018.

EDUCATIONAL BACKGROUND, SKILLS, AND EXPERIENCE OF THE BOARD MEMBERS

The Board of Directors has a balanced composition in terms of directors' qualifications, experience, knowledge, and competencies, and has the trust of shareholders.

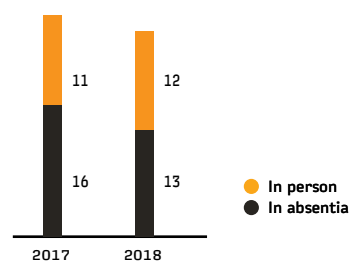
EDUCATIONAL BACKGROUND¹, PEOPLE



MEETINGS OF THE BOARD OF DIRECTORS

A sufficient number of meetings of the Board of Directors are held on a regular basis in line with the approved activity plan.

STATISTICS OF MEETINGS OF THE BOARD OF DIRECTORS OF THE COMPANY



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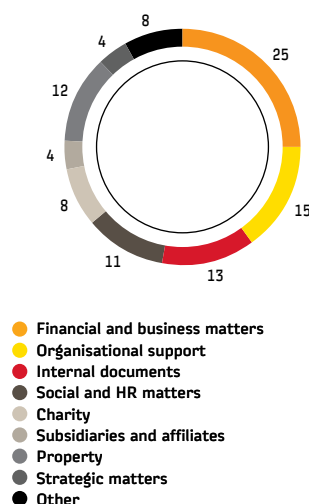
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¹ Directors Petr Ivanov, Sergey Zemlyansky, and Mikhail Beskhamelnitsyn each have two or more higher education degrees. Directors Olga Gniedkova and Mikhail Beskhamelnitsyn have academic degrees.

KEY RESOLUTIONS OF THE BOARD OF DIRECTORS IN 2018

- Approved the Operational Efficiency and Cost Optimisation Programme for 2018–2020.
- Approved the Action Plan to Achieve the Target State of the Corporate Governance System.
- Approved the General Director's report on the results of JSC FPC's Cost Optimisation Programme for 2017, on procurement in 2017, and on the implementation of JSC FPC's IT Programme for 2017.
- Approved quarterly reports by FPC's General Director.
- Reviewed the matters of designing an internal audit system, approved the Regulations on JSC FPC's Internal Audit Organisation, Regulations on JSC FPC's Internal Audit Unit, and the Activity Plan of the Internal Audit Unit.
- Approved JSC FPC's Budget for 2018 and the main parameters of JSC FPC's Budget for 2019–2020.
- Approved JSC FPC's Risk Management Policy.
- Approved the reports of the committees of FPC's Board of Directors for the 2017/2018 corporate year.
- Approved the adjustment to JSC FPC's Investment Programme for 2018.
- Reviewed the matters of designing FPC's risk management system, approved the amendments to JSC FPC's Risk Management Policy.
- Approved the new version of the Regulations on JSC FPC's Treasury Control.
- Approved JSC FPC's Policy on the Provision of Non-Audit Services by the External Auditor.
- Approved the Regulations on JSC FPC's Information Policy.
- Approved candidate Deputy General Directors and Heads of FPC's Branches; approved changes to FPC's organisational structure.

STATISTICS OF THE MATTERS REVIEWED BY THE BOARD OF DIRECTORS IN 2018, %



ATTENDANCE AT MEETINGS BY MEMBERS OF THE BOARD OF DIRECTORS IN 2018

| NAME | IN-PERSON BOARD MEETING ² | IN-ABSENTIA BOARD MEETING | % |
|-------------------------|--------------------------------------|---------------------------|-----|
| Mikhail Beskhamelnitsyn | 5 (1)/6 | 7/7 | 100 |
| Pavel Burtsev | 4/5 | 3/3 | 88 |
| Vladimir Gaponko | 7(4)/11 | 10/10 | 100 |
| Olga Gnedkova | 7(3)/12 | 9/13 | 76 |
| Vera Evseġneeva | 9(1)/11 | 9/10 | 91 |
| Serġey Zemlyansky | 9(3)/12 | 12/13 | 96 |
| Petr Ivanov | 10(2)/12 | 13/13 | 100 |
| Irina Kostenets | 0(1)/1 | 3/3 | 100 |
| Serġey Kust | 0(0)/1 | 2/3 | 50 |
| Serġey Maltsev | 5(6)/12 | 12/13 | 92 |
| Dmitry Peġov | 11/12 | 13/13 | 96 |
| Alla Saltykova | 9(2)/12 | 12/13 | 92 |
| Maxim Shneider | 0(1)/1 | 3/3 | 100 |

² The format "A(B)/C" or "A/C" in the table means that the concerned director personally attended A of C meetings, and participated in B meetings by submitting a written opinion (from his/her election to the mandate termination).

REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

The principles regarding motivation for members of FPC's Board of Directors, as well as payment of compensation/reimbursement of expenses to members of the Board of Directors are set out in the Regulations on Remuneration and Reimbursement for Members of JSC FPC's Board of Directors approved by FPC's annual General Shareholders Meeting in June 2018.

The Regulations include transparent mechanisms to determine directors' remuneration in line with the recommendations of the Corporate Governance Code. The remuneration paid for the past corporate year is the only form of monetary remuneration payable to members of the Board of Directors. FPC does not apply any form of short-term motivation or additional financial incentive for its directors.

Remuneration of members of the Board of Directors is differentiated depending on the scope of directors' responsibilities and considering additional time spent on discharging the functions of the Chairman of the Board of Directors, the Deputy Chairman of the Board of Directors, a committee member, and a committee Chairman or Deputy Chairman.

To calculate fixed remuneration for serving on the Board of Directors, FPC uses a formula based on the fixed part of remuneration adjusted for the factor of directors' attendance at meetings and a factor of a director's contribution to the performance of the Board of Directors as its Chairman or Deputy Chairman.

Additional remuneration is provided for serving on a committee of the Board of Directors, which is calculated based on the fixed part of remuneration adjusted for the factor of directors' attendance at committee meetings and an additional factor of discharging the functions of the Chairman, the Deputy Chairman, or a member of a committee of the Board of Directors.

If a member of the Board of Directors is also a member of several committees, additional remuneration is calculated and paid for each committee.

Remuneration for serving on the Board of Directors is only paid if a director attends at least 50% of meetings (from his/her election to the mandate termination).

Additional remuneration is only paid if a director attends (personally or by submitting a written opinion) at least 50% of in-person committee meetings (from his/her election to the mandate termination).

Members of FPC's Board of Directors are reimbursed for expenses incurred when attending the Board meetings (committee meetings) in the amount of actual and documented expenses, in particular:

- expenses incurred when travelling to the venue of the Board meetings (committee meetings) and back (including passenger insurance and service fee) by plane in business class, or by train in a first-class sleeping carriage
- expenses incurred when travelling from the airport or the railway station to the hotel and back
- expenses incurred when staying at a hotel in a single room
- other expenses incurred when attending the Board meetings (committee meetings).

Non-executive and independent directors are not eligible for pension contributions, insurance programmes, investment programmes, or other benefits and privileges.

The remuneration paid to members of the Board of Directors in 2018 totalled RUB 40,099,510¹.

PAYMENTS TO MEMBERS OF THE BOARD OF DIRECTORS FOR THE PERFORMANCE OF ADDITIONAL FUNCTIONS

| FUNCTION | PAYMENT |
|---|--|
| Chairman of the Board of Directors | 50% of the fixed part of remuneration |
| Deputy Chairman of the Board of Directors | 25% of the fixed part of remuneration |
| Committee Chairman | 25% of the fixed part of remuneration |
| Deputy Chairman of a committee | 25% of the fixed part of remuneration for the meetings where the director acted as Chairman of a committee of the Board of Directors |
| Committee member | 15% of the fixed part of remuneration |

¹ This amount does not include personal income tax, or payments related to Petr Ivanov's discharging the functions of FPC's General Director.

REPORT OF THE AUDIT AND RISK COMMITTEE



The Audit and Risk Committee is a consultative and advisory body of the Board of Directors, whose resolutions are of an advisory nature. The Committee's main goal – to assist the Board of Directors' efficient operation in controlling FPC's financial and business activities – is achieved through addressing the following tasks.

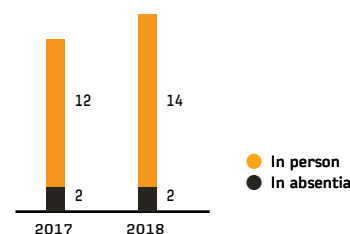
Alla SALTYSKOVA

The Committee's goals and objectives

| | | |
|---|--|---|
| ACCOUNTING (FINANCIAL) STATEMENTS | | Monitor the completeness, accuracy, and integrity of FPC's accounting (financial) statements; review the material aspects of FPC's accounting policy; participate in reviewing material matters and judgements relating to FPC's accounting (financial) statements Approve the draft budget, Investment Programme, and relevant performance reports |
| RISK MANAGEMENT AND INTERNAL CONTROL | | Monitor the risk management and internal control system for reliability and effectiveness Review the effectiveness of risk management and internal control procedures; prepare proposals for their improvement Review and assess the implementation of the risk management and internal control policy |
| INTERNAL AND EXTERNAL AUDIT | | Ensure independent and unbiased approach of the internal audit function, and review its effectiveness; review the Company's internal audit policy and internal audit plan Assess candidates for the Company's auditor and make proposals on the auditor's remuneration Oversee external audits and assess audit quality and auditors' reports |
| COMBATING MALPRACTICE BY FPC'S EMPLOYEES OR THIRD PARTIES | | Monitor the performance of the system of alerting on potential fraud being committed by FPC's employees or third parties Oversee special investigations of potential fraud, misuse of insider or confidential information Monitor the implementation of measures taken by the Company in response to reports of suspected fraud or other violations |

Statistics on the Committee meetings

In 2018, the Audit and Risk Committee held 16 meetings: 14 meetings in person and two meetings in absentia, and discussed 113 agenda items.



Key items discussed by the Committee

Reviewed the auditor's independence and the schedule of the provision of services and submission of information for 2018 by the auditor to FPC, as well as a draft regulation on the provision of non-audit services by the auditor

Reviewed the Regulations on JSC FPC's Internal Audit Unit and the new version of the Regulations on JSC FPC's Internal Audit Organisation

Reviewed issues relating to risk management, risk management policy, and risk identification and assessment

Reviewed a report on eliminating identified violations for 2017 prepared by FPC's Audit Commission, as well as a report on the implementation of the external auditor's recommendations

Reviewed issues relating to the audit of RAS accounting statements for 2017 and IFRS consolidated financial statements, a report on the review of FPC's interim IFRS consolidated financial statements for 6M, significant risks, IFRS accounting policy issues, and the auditor's recommendations

Reviewed progress on FPC's anti-corruption and corruption prevention efforts

Reviewed reports on the operation of FPC's Control and Audit Centre and quarterly internal audit reports

On a quarterly basis, reviewed reports on the Company's financial and business activities prepared by FPC's General Director

The Committee's plans for 1H 2019

1. Review the General Director's report on FPC's financial and business performance in 2018 and Q1 2019, and the draft annual report.
2. Review FPC's RAS accounting (financial) statements and IFRS consolidated financial statements for 2018 and audit reports on them.
3. Provide an opinion on whether and how FPC's net profit for 2018 can be distributed.
4. Review a report on Internal Audit Unit's activities and plan for 2019.
5. Review performance reports on FPC's risk management system, internal control, and combating malpractice by the Company's employees or third parties, as well as plans for 2019.
6. Review FPC's Key Risk Map and proposals on FPC's risk appetite for the key risks.

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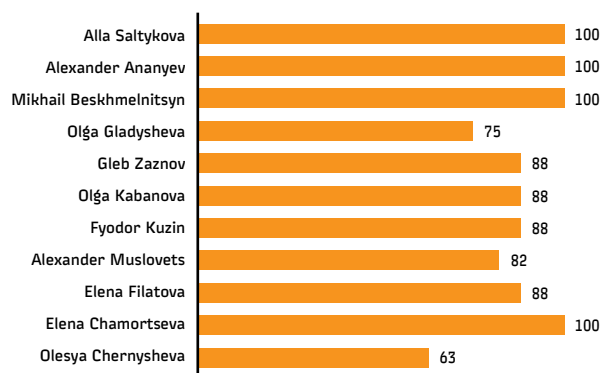
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CHANGES IN THE COMMITTEE'S MEMBERSHIP IN 2018¹

| JANUARY–FEBRUARY | MARCH–JUNE | JULY–DECEMBER |
|--|---|---|
| Alla Saltykova, Chairwoman of the Committee, Deputy Executive Director of the Forum Analytical Centre, Independent Director | Alla Saltykova, Chairwoman of the Committee, Deputy Executive Director of the Forum Analytical Centre, Independent Director | Alla Saltykova, Chairwoman of the Audit and Risk Committee of FPC's Board of Directors, Independent Director of FPC |
| Alexander Ananyev, Deputy Head of the Department of Economics, Russian Railways | Alexander Ananyev, Deputy Head of the Department of Economics, Russian Railways | Alexander Ananyev, Deputy Head of the Department of Economics, Russian Railways |
| Gleb Zaznov, Head of the Risk Management Development and Outsourcing Centre, a structural unit of Russian Railways | Mikhail Beskhmel'nitsyn, Head of the Control and Analytical Service of the CEO – Chairman of the Management Board, Russian Railways; Deputy Chairman of the Committee | Mikhail Beskhmel'nitsyn, Head of the Control and Analytical Service of the CEO – Chairman of the Management Board, Russian Railways; Deputy Chairman of the Committee |
| Fyodor Kuzin, Head of the Subsidiary Relations Unit at the Subsidiaries and Affiliates Management Department, Russian Railways | Gleb Zaznov, Head of the Risk Management Development and Outsourcing Centre, a structural unit of Russian Railways | Ol'ga Gladysheva, Head of the Centre for Risk Management Coordination and Internal Control System Development, Russian Railways |
| Alexander Muslovets, Deputy General Director, FPC | Fyodor Kuzin, Head of the Subsidiary Relations Unit at the Subsidiaries and Affiliates Management Department, Russian Railways | Ol'ga Kabanova, First Deputy Head of the Main Control Department of the City of Moscow |
| Elena Filatova, Advisor to the Economics and Finance Director, Russian Railways | Alexander Muslovets, Deputy General Director, FPC | Fyodor Kuzin, Head of Unit at the Subsidiaries and Affiliates Management Department, Russian Railways |
| Elena Chamortseva, Deputy Head of Zheldorkontrol Internal Control Centre, a structural unit of Russian Railways | Elena Filatova, Advisor to the Economics and Finance Director, Russian Railways | Alexander Muslovets, Deputy General Director, FPC |
| Olesya Chernysheva, Head of the Accounting Department, Russian Railways | Elena Chamortseva, Deputy Head of Zheldorkontrol Internal Control Centre, a structural unit of Russian Railways | Elena Filatova, Advisor to Deputy CEO – Chairwoman of the Management Board, Russian Railways |
| | Olesya Chernysheva, Head of the Accounting Department, Russian Railways | Olesya Chernysheva, Head of the Accounting Department, Russian Railways |

STATISTICS ON INDIVIDUAL ATTENDANCE OF THE COMMITTEE MEETINGS IN 2018, %



In 2018, remuneration paid to the members of the Audit and Risk Committee of FPC's Board of Directors totalled RUB 5,830,710.²

¹ Positions as at the date of election to the Committee.

² This amount does not include personal income tax or payments made to members of the Committee who are employed by FPC. No remuneration for serving on the Committee was allocated or paid to Ol'ga Kabanova due to restrictions on remuneration for public servants.

REPORT OF THE HUMAN RESOURCES, REMUNERATION, AND CORPORATE GOVERNANCE COMMITTEE



The Human Resources, Remuneration, and Corporate Governance Committee of FPC's Board of Directors is a consultative and advisory body of the Board of Directors, whose resolutions are of an advisory nature. The Committee's main goal – to assist the Board of Directors' efficient operation in developing corporate governance, efficient HR planning, and effective and transparent remuneration practice at FPC – is achieved through addressing the following tasks.

Sergey ZEMLYANSKY

The Committee's goals and objectives

EFFECTIVE AND TRANSPARENT REMUNERATION PRACTICE



Develop and regularly review the Company's policy on remuneration of members of the Board of Directors, executive bodies, and other key managers; make recommendations on the levels of remuneration and reimbursement for members of the Boards of Directors and Audit Commissions of FPC and its subsidiaries and affiliates; define material terms of contracts with FPC's executive officers
Authorise FPC's General Director to serve on governing bodies or hold other paid positions in other companies
Oversee the disclosure of information on remuneration levels, policy and practice, and on shareholdings in the Company by members of the Board of Directors and members of collective executive bodies in the Annual Report and on the FPC website

HR PLANNING



Develop an induction programme for newly elected members of the Company's Board of Directors and oversee its implementation; develop a training and development programme for members of the Board of Directors and oversee its implementation
Analyse the current and anticipated needs of the Company regarding the professional qualifications of members of its executive bodies and other key managers, and ensure succession planning for these positions
Discuss, review, and make recommendations to the Company's Board of Directors as to appointments of the Company's representatives to supreme governing bodies of its subsidiaries and affiliates, and nominate candidates to the boards of directors and audit commissions of the Company's subsidiaries and affiliates
Approve candidates to positions of the Company's executive officers and to certain positions in the Company's administration as determined by FPC's Board of Directors

DEVELOPMENT AND IMPROVEMENT OF THE CORPORATE GOVERNANCE PRACTICE



Monitor compliance with the Company's information policy
Monitor reliability and effectiveness of the corporate governance system; review the effectiveness of the corporate governance practice and make proposals for its improvement
Monitor procedures which ensure FPC's compliance with Russian laws on corporate governance
Define the conflict of interest management policy and review and assess its implementation

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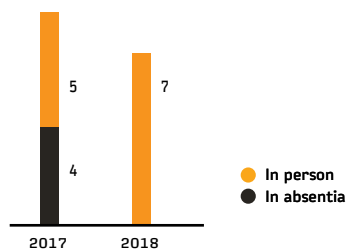
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Statistics on the Committee meetings

In 2018, the Human Resources, Remuneration, and Corporate Governance Committee held seven meetings, all of them in person, and discussed 48 agenda items.



Key items discussed by the Committee

- Approved candidates to the positions of heads of FPC's branches
- Approved the Plan to Achieve the Target State of the Corporate Governance System and the Regulations on JSC FPC's Information Policy
- Approved amendments to the terms of the employment contract with FPC's General Director
- Approved candidates to the governing bodies of FPC's subsidiaries and affiliates

Reviewed proposed changes to the organisational structure of the Company's administration

Reviewed quarterly reports by FPC's General Director on the Company's social and HR policy and the implementation of resolutions of FPC's Board of Directors

Provided recommendations on the incentives for FPC's General Director

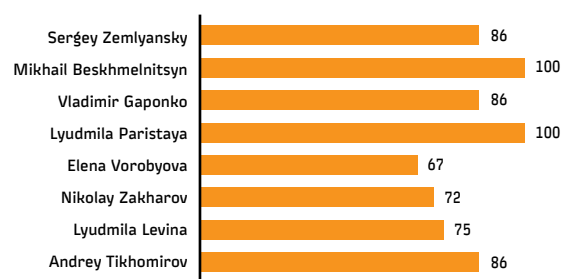
The Committee's plans for 1H 2019

1. Review the General Director's report on FPC's performance in 2018 and Q1 2019.
2. Draft proposals on FPC's customer focus and passenger satisfaction KPIs.
3. Determine the levels of remuneration for members of FPC's Audit Commission and Board of Directors.
4. Review the report on the Committee's performance in the 2018/2019 corporate year.
5. Identify actions needed to prepare for the annual General Shareholders Meeting, including assessment of nominees to FPC's Board of Directors appointed by shareholders.

CHANGES IN THE COMMITTEE'S MEMBERSHIP IN 2018

| JANUARY–FEBRUARY | MARCH–JUNE | JULY–DECEMBER |
|--|--|--|
| Sergey Zemlyansky , Independent Director, FPC; Chairman of the Committee | Sergey Zemlyansky , Independent Director, FPC; Chairman of the Committee | Sergey Zemlyansky , Independent Director, FPC; Chairman of the Committee |
| Lyudmila Paristaya , Deputy General Director, FPC; Deputy Chairwoman of the Committee | Vladimir Gaponko , Head of the Economics Department, Russian Railways; Deputy Chairman of the Committee | Mikhail Beskhmel'nitsyn , Head of the Control and Analytical Service of the CEO – Chairman of the Management Board, Russian Railways; Deputy Chairman of the Committee |
| Andrey Vyatkin , Advisor to the General Director of VEB-leasing | Nikolay Zakharov , First Deputy Head of the Personnel Management Department, Russian Railways | Elena Vorobyova , Deputy Head of the Subsidiaries and Affiliates Management Department, Russian Railways |
| Nikolay Zakharov , First Deputy Head of the Personnel Management Department, Russian Railways | Lyudmila Levina , Head of Unit at the Subsidiaries and Affiliates Management Department, Russian Railways | Vladimir Gaponko , Head of the Economics Department, Russian Railways |
| Lyudmila Levina , Head of Unit at the Subsidiaries and Affiliates Management Department, Russian Railways | Lyudmila Paristaya , Deputy General Director, FPC | Nikolay Zakharov , First Deputy Head of the Personnel Management Department, Russian Railways |
| Andrey Tikhomirov , First Deputy Head of the Employment, Remuneration, and Motivation Department, Russian Railways | Andrey Tikhomirov , First Deputy Head of the Employment, Remuneration, and Motivation Department, Russian Railways | Lyudmila Paristaya , Deputy General Director, FPC |
| | | Andrey Tikhomirov , First Deputy Head of the Employment, Remuneration, and Motivation Department, Russian Railways |

STATISTICS ON INDIVIDUAL ATTENDANCE OF THE COMMITTEE MEETINGS IN 2018, %



In 2018, remuneration paid to members of the Human Resources, Remuneration, and Corporate Governance Committee of FPC's Board of Directors totalled RUB 2,510,530¹.

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¹ This amount does not include personal income tax or payments made to members of the Committee who are employed by FPC.

REPORT OF THE STRATEGIC PLANNING COMMITTEE



The Strategic Planning Committee is a consultative and advisory body of the Board of Directors, set up to enable the Board of Directors to improve the Company's long-term performance, whose resolutions are of an advisory nature.

Dmitry PEGOV

The Committee's goals and objectives



Determine strategic goals of FPC's activities; participate in the development of the Company's Strategy, and monitor its implementation; make recommendations to the Board of Directors on adjustments to the Company's existing Strategy



Determine the Company's business priorities



Preview, and make recommendations to the Board of Directors on:

- the Company's dividend policy
- the Company's investment policy, including the establishment of key principles for the development of the investment policy
- the Company's membership in other entities (including direct or indirect acquisition and disposal of interests in the share capitals of such entities and imposing a charge on shares or interests)
- approval of, and adjustments to, the Company's annual budget and investment programme, and approval of the relevant performance report
- determining the amount of dividend on shares
- approval of the Company's material transactions



Assess the Company's long-term performance



Assess voluntary and mandatory offers for the Company's securities



Review the Company's financial model and a model for valuation of its business and business segments



Consider reorganisation or liquidation of the Company and its controlled entities



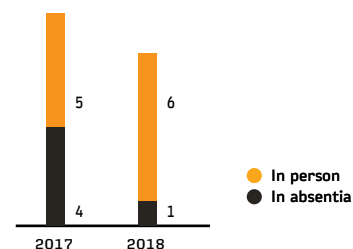
Consider changes to the organisational structure of the Company and its controlled entities



Consider reorganisation of business processes in the Company and its controlled entities

Statistics on the Committee meetings

In 2018, the Strategic Planning Committee held seven meetings: six meetings in person and one meeting in absentia, and discussed 28 agenda items.



Key items discussed by the Committee

Reviewed FPC's Annual Report for 2017 and proposals on the payout (declaration) of the full year dividend for 2017

Reviewed the adjustment to JSC FPC's Investment Programme

Reviewed a report on the implementation of the Stabilisation and Development Plan for JSC FPC-Logistics

Approved JSC FPC's Budget for 2019–2021 and Investment Programme for 2019–2021

Reviewed activities of FPC's subsidiaries and their development prospects

The Committee's plans for 1H 2019

1. Assess the performance of the dynamic pricing system.
2. Review the results of the programme to improve operational efficiency and investment performance in 2018.
3. Review FPC's draft Annual Report for 2018.
4. Consider payment of the full year dividend for 2018.

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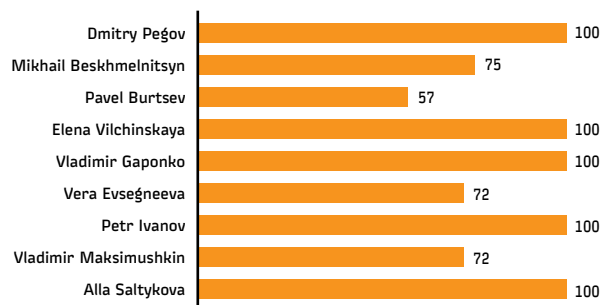
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CHANGES IN THE COMMITTEE'S MEMBERSHIP IN 2018

| JANUARY–FEBRUARY | MARCH–JUNE | JULY–DECEMBER |
|--|---|--|
| Dmitry Pečov, Passenger Transportation Director, Russian Railways; Chairman of the Committee | Dmitry Pečov, Passenger Transportation Director, Russian Railways; Chairman of the Committee | Dmitry Pečov, Deputy CEO – Chairman of the Management Board, Russian Railways; Chairman of the Committee |
| Sergey Kust, member of FPC's Board of Directors; Deputy Chairman of the Committee | Pavel Burtsev, Head of the Passenger Services Management Department, Russian Railways | Mikhail Beskhmel'nitsyn, Head of the Control and Analytical Service of the CEO – Chairman of the Management Board, Russian Railways |
| Vladimir Maksimushkin, First Deputy Head of the Economic Environment and Strategic Development Department, Russian Railways | Elena Vilchinskaya, Advisor to the Head of Moscow Metro on Legal Matters | Pavel Burtsev, Head of the Passenger Services Management Department, Russian Railways |
| Aleksey Mastyaev, Advisor of the Department for the State Regulation of Tariffs, Infrastructure Reforms, and Energy Efficiency of the Russian Ministry of Economic Development | Vladimir Gaponko, Head of the Economics Department, Russian Railways | Elena Vilchinskaya, Head of Unit at the Central Directorate for Multiple Unit Trains, a branch of Russian Railways |
| Alexander Muslovets, Deputy General Director, FPC | Vera Evseġneeva, Head of the Subsidiaries and Affiliates Management Department, Russian Railways; Deputy Chairwoman of the Committee | Vladimir Gaponko, Head of the Economics Department, Russian Railways |
| Alla Saltykova, Independent Director, FPC | Petr Ivanov, General Director, FPC | Vera Evseġneeva, Head of the Subsidiaries and Affiliates Management Department, Russian Railways |
| Maxim Shneider, member of FPC's Board of Directors | Vladimir Maksimushkin, First Deputy Head of the Economic Environment and Strategic Development Department, Russian Railways | Petr Ivanov, General Director, FPC |
| | Alla Saltykova, Independent Director, FPC | Vladimir Maksimushkin, First Deputy Head of the Economic Environment and Strategic Development Department, Russian Railways |
| | | Alla Saltykova, Independent Director, FPC |

STATISTICS ON INDIVIDUAL ATTENDANCE OF THE COMMITTEE MEETINGS IN 2018, %



In 2018, remuneration paid to members of the Strategic Planning Committee of FPC's Board of Directors totalled RUB 1,803,330¹.

¹ This amount does not include personal income tax or payments made to members of the Committee who are employed by FPC.

GENERAL DIRECTOR



Petr IVANOV

The management of FPC's day-to-day operations is delegated to the General Director as the sole executive body. The General Director acts as Chairman of the Company's Science and Technology Board, and also Chairman of the Board of the Heads of the Company's Branches.

The General Director is accountable to FPC's shareholders and the Board of Directors and submits quarterly reports to the Board on the Company's performance (budget and contract work performance, HR and credit policy, social programmes, insurance coverage, implementation of the Board's resolutions).

The Board of Directors resolves on the election of the Company's General Director, termination of his/her powers, and approves the terms of his/her employment contract, including remuneration and termination.

The General Director is responsible for timely and quality budgeting and budget performance at the Company, preparing budget performance reports, and organising activities at the Company's branches.

On 25 January 2016, Petr Ivanov was elected FPC's General Director for a three-year term by resolution of the Board of Directors.

The General Director does not hold a stake in FPC's share capital and does not own the Company's ordinary shares.

During the reporting year, the General Director was not engaged in any transactions to acquire, or dispose of, FPC shares.

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DEPUTY GENERAL DIRECTORS

In line with the main lines of business, FPC's governance structure comprises nine Deputy General Directors, the Corporate Secretary, and a number of business units reporting directly to the General Director.

To ensure the balance of the top-level governance processes and to set up a single centre of responsibility for the organisation and provision of transport services and a single centre of responsibility for the development of financial and business operations, marketing operations, business and product portfolio, the following positions were included in FPC's structure:

- First Deputy General Director for Operations, whom four Deputy General Directors report to: Deputy General Director for Transport Support, Deputy General Director for Business Development and Operations, Deputy General Director for Transport Management, and Deputy General Director for Maintenance Services

- First Deputy General Director for Business Development and Economics, whom three Deputy General Directors report to: Deputy General Director for Economics and Finance, Deputy General Director for External Relations and Legal Affairs, and Deputy General Director for Marketing and Sales

Education

Graduated from the Moscow State University of Railway Engineering (MIIT) with a degree in Automated Systems and Information Technologies.

Graduated from the Russian Presidential Academy of National Economy and Public Administration with a degree in Public and Municipal Administration.

PhD in Economics.

Experience

From 2003 to 2005, he was Deputy Head of the Economic Forecasting and Strategic Development Department at Russian Railways.

From 2005 to 2006, he was First Deputy Head of the Economic Forecasting and Strategic Development Department at Russian Railways.

From 2006 to 2010, he was Head of the Corporate Structure and Reform Department at Russian Railways.

From 2010 to 2012, he was Head of the Economic Environment and Strategic Development Department at Russian Railways.

From 2012 to 2015, he was Advisor to the President of Russian Railways.

From 2015 to 2018, he was Deputy General Director for Strategy and Development of Freight One.

Since September 2018, he has held the post of First Deputy General Director of FPC.



Valery VEREMEEV

First Deputy General Director for Business Development and Economics

Year of birth: 1976

Education

Graduated from the Moscow State University of Railway Engineering (MIIT) with a degree in Railway Operation and Logistics.

Graduated from the Moscow State University of Railway Engineering with a Mini MBA IIM.

Graduated from the Moscow State University of Railway Engineering with a degree in Corporate Management.

Experience

Started his career in railways in 2001.

From 2010 to 2012, he served as Deputy Head of the Transport Management Department and Head of the Situation Centre at FPC.

From 2012 to 2014, he served as Head of the Transport Management Department at FPC.

From 2014 to 2016, he acted as Head of the Passenger Transport and Logistics Centre at FPC.

From 2016 to 2018, he was Deputy General Director and Head of the Transport Management Department.

Since July 2018, he has held the post of First Deputy General Director of FPC.



Alexey ZHIGUNOV

First Deputy General Director,
Head of the Operations Section

Year of birth: 1979

Education

Graduated from the Moscow Institute of Railway Engineers with a degree in Railway Operation and Logistics.

Experience

Started his career in railways in 1993.

From 2009 to 2010, he worked as Head of the Moscow–Passazhirskaia Station of the Moscow Railway Station Work Organisation Centre of the Oktyabrskaya Directorate of Traffic Management at the Central Directorate of Traffic Management, a branch of Russian Railways.

From 2010 to 2011, he served as Head of the Passenger Transport Management Unit of the Transport Management Department at FPC.

From 2011 to 2012, he worked as Head of the Railway Station Management Unit of the Moscow–Kursk Railway Station Work Organisation Centre of the Moscow Directorate of Traffic Management at the Central Directorate of Traffic Management, a branch of Russian Railways.

From 2012 to 2015, he served as Head of the Innovative Development Unit of the Technical Policy Service at the Central Directorate of Traffic Management, a branch of Russian Railways.

From 2015 to 2018, he served as Head of the Moscow Railway Station Work Organisation Centre of the Oktyabrskaya Directorate of Traffic Management at the Central Directorate of Traffic Management, a branch of Russian Railways.

Since December 2018, he has been Deputy General Director and Head of the Transport Management Department at FPC.



Igor BELOGUZOV

Deputy General Director for Transport
Management, Head of the Transport
Management Department

Year of birth: 1971

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Education

Graduated from Moscow Aviation Institute (State Technical University) with a degree in Economics and Management at Enterprises.

Graduated from the Institute of Business Studies under the Government of the Russian Federation with a degree in Company Management.

Experience

Started her career in 2005.

From 2010 to 2017, she was Marketing Director at the law firm Legal and Tax Advice on the CIS Countries Law VEGAS LEX.

From February to July 2017, she was Advisor to the General Director of FPC.

From July to December 2017, she served as Head of the Customer Experience Centre at FPC.

Since December 2017, she has held the post of Deputy General Director of FPC.



Marina ZHEGULINA

Deputy General Director for Marketing and Sales

Year of birth: 1984

Education

Graduated from Saint Petersburg State Transport University with a degree in Water Supply and Drainage (in 2001) and in Railway Operation and Logistics (in 2006).

Graduated from the Stockholm School of Economics in Saint Petersburg where he completed RZD Holding's Corporate Modular Educational Programme Executive MBA of the Stockholm School of Economics.

Graduated from the Moscow State University of Railway Engineering with an MBA in Railway Operation and Logistics.

Experience

Started his career in railways in 1998.

From 2010 to 2011, he was Head of the Saint Petersburg–Moskovsky carriage site of the Northwest Branch of FPC.

From 2011 to 2013, he was Deputy Head of the Northwest Branch of FPC.

From 2013 to 2015, he was First Deputy Head of the Northwest Branch of FPC.

From 2015 to 2016, he was Head of the Northwest Branch of FPC.

Since 2016, he has held the post of Deputy General Director of FPC.



Stanislav ZOTIN

Deputy General Director for Maintenance Services

Year of birth: 1979

Education

Graduated from Far Eastern State Transport University with a degree in Economics and Management at Railway Transport Enterprises.

Graduated from the Financial Academy under the Government of the Russian Federation with an MBA in Finance.

Obtained an MBA from the University of Navarra (IESE business school).

PhD in Economics.

Experience

Started his career in railways in 1999.

From 2004 to 2005, he headed the Finance Department at the Moscow-Ryazan Division of the Moscow Railway, a branch of Russian Railways.

From 2005 to 2009, he was First Deputy Chief Accountant at the Moscow Railway, a branch of Russian Railways.

From 2009 to 2010, he served as Deputy CEO of the Federal Passenger Directorate, a branch of Russian Railways.

Since 2010, he has held the post of Deputy General Director of FPC.



Alexander MUSLOVETS

Deputy General Director for Economics and Finance

Year of birth: 1977

Education

Graduated from the Moscow Institute of Railway Engineers with a degree in Railway Operation.

PhD in Technical Sciences.

Experience

Started his career in railways in 1979.

From 2003 to 2006, he was Head of the Passenger Service Department at Russian Railways.

From 2007 to 2008, he served as Deputy Head for Passenger Services at the Oktyabrskaya Railway, a branch of Russian Railways.

From 2008 to 2010, he was First Deputy CEO of the Federal Passenger Directorate, a branch of Russian Railways.

Since 2010, he has held the post of Deputy General Director of FPC.



Oleg NIKITIN

Deputy General Director for External Relations and Legal Affairs

Year of birth: 1957

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Education

Graduated from the Moscow Institute of Railway Engineers with a degree in Railway Operation.

Experience

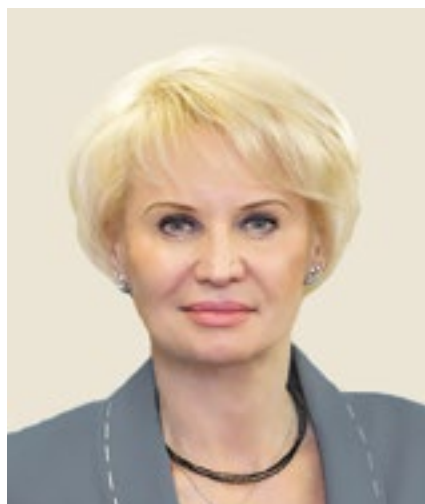
Started her career in railways in 1983.

From 2006 to 2009, she was Deputy Head of the Human Resources and Social Development Department at the Federal Passenger Directorate, a branch of Russian Railways, and Head of the Executive Personnel Office.

From 2009 to 2010, she served as Head of the Agents Network Department at the Federal Passenger Directorate, a branch of Russian Railways.

From 2010 to 2012, she was Head of the Human Resources and Social Development Department at FPC.

Since 2012, she has held the post of Deputy General Director of FPC.



Lyudmila PARISTAYA

Deputy General Director for Human Resources and Social Development

Year of birth: 1960

Education

Graduated from the Moscow Institute of Railway Engineers with a degree in Electrification of Railway Transport.

Experience

Started his career in railways in 1977.

From 2009 to 2011, he was Chief Engineer at the Traction Rolling Stock Repair Directorate of Russian Railways.

From 2011 to 2012, he served as Deputy Head of the Technical Policy Department at FPC and headed the Engineering Office.

From 2012 to 2013, he was Deputy Chief Engineer at FPC.

Since 2013, he has held the post of Deputy General Director of FPC.



Alexander PETRUNIN

Deputy General Director for Business Development and Operations

Year of birth: 1958

Education

Graduated from the Moscow Higher Combined-Arms Command School with a degree in Command and Tactics, Motorised Rifle Troops.

Graduated from the Moscow Presidential Academy of Public and Municipal Administration with a degree in Public and Municipal Administration.

Experience

From 2004 to 2009, he was Assistant Director at Federal Road Agency.

From 2009 to 2010, he served as Head of the Transport Safety Department at the Federal Road Agency.

From 2010 to 2013, he served as Advisor to the Chairman of the Management Board at the State Company Russian Highways.

From 2013 to 2016, he served as Deputy Chairman At-Large of the Management Board at the State Company Russian Highways.

Since 2016, he has held the post of Deputy General Director of FPC.



Boris SUVOROV

Deputy General Director for Safety and Security

Year of birth: 1967

Education

Graduated from the Moscow Institute of Railway Engineers with a degree in Carriage-Building and Rolling Stock.

Experience

Started his career in railways in 1983.

From 2006 to 2009, he served as Deputy Head of the Moscow Regional Directorate for Customer Service at the Federal Passenger Directorate, a branch of Russian Railways.

From 2010 to 2015, he was Head of the Moscow Branch of FPC.

Since 2015, he has held the post of Deputy General Director of FPC.



Konstantin TORUBAROV

Deputy General Director for Transport Support

Year of birth: 1962

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CORPORATE SECRETARY

In June 2018, the annual General Shareholders Meeting approved the new version of JSC FPC's Articles of Association providing for the introduction of the role of the Corporate Secretary.

FPC's Corporate Secretary is elected by a majority of all members of the Board of Directors for an indefinite term. The Board of Directors is entitled to re-elect the Corporate Secretary at any time.

FPC's Corporate Secretary acts as a secretary at the meetings of the Board of Directors, General Shareholders Meetings, and the meetings of the committees of the Board of Directors.

The Corporate Secretary's activities are guided by the Regulations on JSC FPC's Corporate Secretary approved by the Board of Directors in August 2017 (Minutes No. 2).

The tasks of the Corporate Secretary are to:

- provide administrative and information support to the General Shareholders Meeting
- provide administrative and information support to the Board of Directors and its committees
- coordinate collaboration between members of the Board of Directors, shareholders, and FPC's executive bodies to ensure efficient performance of the Board of Directors.

On 12 October 2018, Andrey Stepochkin was elected FPC's Corporate Secretary by resolution of the Board of Directors.

Education

Graduated from Lomonosov Moscow State University with a degree in Law.

Experience

From April 2006, he worked in the Legal Department at Russian Railways as the senior specialist of the execution unit, the contracting and legal unit, and the legal support unit for international transport services.

From December 2014 to September 2015, he served as Head of the Contract Register Unit of the Procurement Organisation Centre at Russian Railways.

From September 2015, he worked as Deputy Head of Legal Service – Head of the Contracting and Legal Unit at Moscow Metro.

Since October 2018, he has served as Corporate Secretary at FPC.



Andrey STEPOCHKIN

Year of birth: 1977

Nationality: Russian Federation

KEY PROVISIONS OF THE POLICY ON REMUNERATION AND REIMBURSEMENT FOR GOVERNING BODIES

The remuneration of the sole executive body and FPC's other key managers directly depends on the achievement of relevant key performance indicators.

Key Performance Indicators of FPC's top managers have been developed in accordance with the Long-Term Development Programme of Russian Railways, its Subsidiaries and Affiliates to 2020, and RZD Holding's 2030 Development Strategy.

By Order of Russian Railways No. 1545r dated 22 June 2015, the following target performance indicators were specified for FPC: revenue, passenger traffic, traffic safety, and labour productivity growth.

The target performance indicators have served as a basis for corporate and functional key performance indicators of FPC's top managers, which underpin their motivation system.

The following tasks were completed when developing the motivation system:

- the impact of top managers' actions on the existing business processes was reviewed
- the KPIs were ranked through vertical cascading
- the weight (share) of corporate and functional key performance indicators was determined, and the same number of KPIs was determined in line with the draft Regulations on the Bonus System for Key Managers.

The key managers' corporate KPIs and their weight were approved by the Human Resources, Remuneration, and Corporate Governance Committee of FPC's Board of Directors.

CONTROL AND AUDIT

EXTERNAL AUDITOR

To audit and verify FPC's 2018 financial statements prepared under the Russian Accounting Standards (RAS) and the International Financial Reporting Standards (IFRS), the General Shareholders Meeting approved LLC Ernst&Young as the Company's Auditor following

a limited bid among pre-qualified participants. The Auditor's fee totalled RUB 17.8 million (including VAT).

AUDIT COMMISSION

The Audit Commission is FPC's permanent internal control body responsible for regular control over financial and business activities of the Company, its branches, officers of governing bodies and administrative units to ensure compliance with the laws of the Russian Federation, the Company's Articles of Association and internal documents.

The Audit Commission acts in the best interests of FPC's shareholders and is accountable to the General Shareholders Meeting.

The Audit Commission is independent of officers of FPC's governing bodies and administrative units.

FPC's Audit Commission is guided by applicable laws of the Russian Federation, JSC FPC's Articles of Association, the Regulations on the Audit Commission, and the Regulations on Remuneration and Reimbursement for Members of JSC FPC's Audit Commission.

The Audit Commission is composed of five members elected by the Board of Directors for a three-year term in accordance with the Articles of Association. Members of the Audit Commission are not allowed to simultaneously serve on FPC's Board of Directors or hold any posts in other governing bodies.

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In June 2018, the annual General Shareholders Meeting of FPC elected members of the Audit Commission as follows:

- Oksana Vinch
- Mark Terekhov
- Virgínia Kulikova
- Elena Chamortseva
- Elena Yudina.

Incentives for members of the Audit Commission are established by the Regulations on Remuneration and Reimbursement for Members of JSC FPC's Audit Commission and imply payment of remuneration for participation in every audit of the Company's financial and business activities as well as additional remuneration (determined by the Board of Directors).

The members of FPC's Audit Commission were paid RUB 184,189.50 for participation in the annual audit.

INTERNAL AUDITOR

FPC's Internal Audit Unit is responsible for internal audit. The key objective of FPC's internal audit is to provide the Board of Directors and the General Director with unbiased and independent information on the financial and business activities, and the reliability and efficiency of risk management system, internal controls, and corporate governance practice to maintain financial stability, improve the efficiency and effectiveness of business processes, boost performance, and achieve FPC's goals.

FPC's internal audit structure is aligned with the International Standards for the Professional Practice of Internal Auditing, the Bank of Russia's Corporate Governance Code, and other Russian regulations.

The Internal Audit Unit is guided by Russian laws, regulations of Russian Railways and FPC, the concepts of professional practice introduced by the Institute of Internal Auditors, and other documents.

In 2018, the resolution to pay additional remuneration to the Audit Commission members was passed by FPC's annual General Shareholders Meeting upon recommendation of the Board of Directors. Annual remuneration paid to a member of the Audit Commission may not exceed an amount equivalent to twenty times the minimum wage at Russian Railways for each completed audit.

Pursuant to a resolution of the annual General Shareholders Meeting, in 2018, members of the Audit Commission were paid additional remuneration totalling RUB 613,965. The aggregate remuneration totalled RUB 798,154.50 in 2018.

To improve the internal audit quality, in 2018, the Company started developing the Programme to Guarantee the Quality and Improve the Performance of FPC's Internal Audit Unit. The approval of these documents is planned to be completed in 2019, as well as the internal assessment of the performance of the Company's Internal Audit Unit.

In 2018, the Internal Audit Unit conducted audits, including an assessment of reliability and efficiency of the risk management and internal control system.

For more details see Section 3.7 Risk Management, Internal Control and Internal Audit.

For more information, see "Risk Management, Internal Control, and Auditing" on p. 91

INTERNAL QUALITATIVE ASSESSMENT OF CORPORATE GOVERNANCE

In 2018, FPC's Internal Audit Unit assessed the compliance of the Company's corporate governance with the recommendations of the Corporate Governance Code and the Federal Agency for State Property Management, as well as the corporate governance principles accepted in Russia. The assessment comprised the following focus areas:

- regulations guiding FPC's corporate governance
- alignment of FPC's organisational and governance structure with the recommendations of the Corporate Governance Code and other corporate governance regulations and guidelines
- distribution and regulation of powers and responsibilities of the risk management and internal control process participants
- compliance with FPC's corporate ethos and standards
- disclosure of information about FPC's operations.

Following the assessment, the Internal Audit Unit prepared recommendations to improve the corporate governance practice, and compiled a list of corporate governance principles which are currently not feasible to implement due to FPC's business specifics. The recommendations prepared by the Internal Audit Unit have been considered in JSC FPC's Action Plan to Achieve the Target State of the Corporate Governance System.

REPORT ON COMPLIANCE WITH THE BANK OF RUSSIA'S CORPORATE GOVERNANCE CODE

To enhance the efficiency of its corporate governance practice, FPC's Board of Directors has approved JSC FPC's Action Plan to Achieve the Target State of the Corporate Governance System determined by Russian Railways. The following initiatives were planned for, and implemented in, 2018:

- The new version of JSC FPC's Articles of Association taking into account the effective changes in the applicable Russian laws was approved, which sets out:
 - the introduction of the role of the Corporate Secretary
 - the redistribution of authorities between the General Shareholders Meeting and the Board of Directors – in particular, the selection of the Company's Auditor, the election of the Audit Commission, and the approval of FPC's annual reports are now reserved for the Board of Directors
 - the expansion of the Board of Directors authority in determining the KPIs of the Company, its General Director and key managers
 - the change in the procedure for approving interested-party transactions.
- The new version of the Regulations on Remuneration and Reimbursement for Members of the Board of Directors was approved to align the principles regarding motivation for members of the Board of Directors with the recommendations of the Bank of Russia's Corporate Governance Code.
- Regulations on JSC FPC's Information Policy were approved.
- Regulations on JSC FPC's Internal Audit Organisation, Regulations on JSC FPC's Internal Audit Unit, and the Activity Plan of the Internal Audit Unit were approved.
- The Human Resources, Remuneration, and Corporate Governance Committee of FPC's Board of Directors assessed the independence of nominees to the Board of Directors.

STATISTICS OF COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE IN 2018¹

| SECTIONS | THE NUMBER OF CORPORATE GOVERNANCE PRINCIPLES RECOMMENDED BY THE CODE | COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES | | | | | |
|-----------------------------------|---|---|-----------|-----------|-----------|-----------|-----------|
| | | FULL | | PARTIAL | | NONE | |
| | | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| Shareholder Rights | 13 | 8 | 8 | 3 | 3 | 2 | 2 |
| Board of Directors | 36 | 15 | 15 | 14 | 14 | 7 | 7 |
| Corporate Secretary | 2 | – | 2 | 2 | – | – | – |
| Compensation System | 10 | 6 | 6 | 1 | 2 | 3 | 2 |
| Risk Management System | 6 | 5 | 6 | 1 | – | – | – |
| Information Disclosure | 7 | 2 | 4 | 4 | 3 | 1 | – |
| Material Corporate Actions | 5 | 2 | 2 | 2 | 2 | 1 | 1 |
| Total | 79 | 38 | 43 | 27 | 24 | 14 | 12 |

Read more about compliance with the provisions of the Corporate Governance Code you can find in the appendix "Report on the Implementation of the Bank of Russia Corporate Governance Code" on p. 200

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¹ In line with Letter of the Bank of Russia dated 17 February 2016 No. IN-06-52/8 On Reporting on Compliance with the Corporate Governance Code by Public Joint Stock Companies.

CORPORATE QUALITY MANAGEMENT SYSTEM

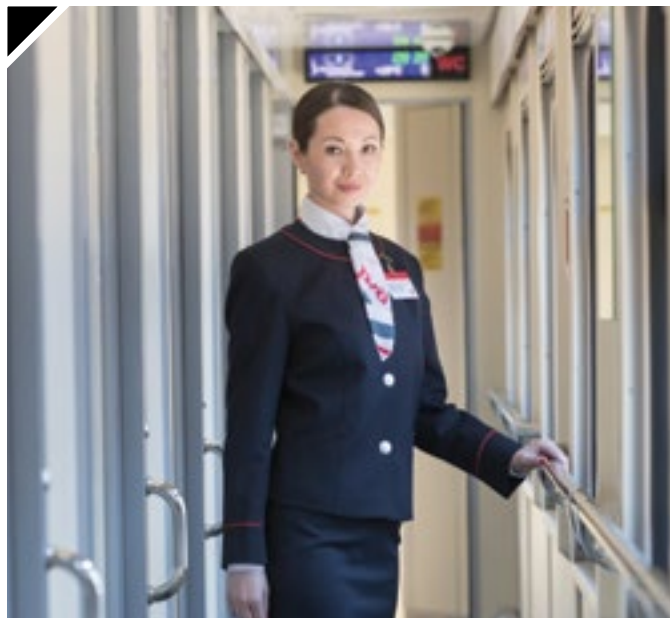
POLICY AND QUALITY TARGETS

FPC's corporate quality management system (FPC's QMS) is built in line with Russian Railways' Quality Management Strategy, the Development Strategy of JSC FPC, and GOST R ISO 9001-2015 Quality Management Systems – Requirements.

Quality management activities in the Company are governed by JSC FPC's Quality Policy.

In managing the quality of its services, FPC strives to:

- meet customer requirements and expectations by continuously improving service quality and ensuring high levels of service, comfort, and safety
- continuously improve the Company's operational efficiency and performance by enhancing its QMS and business processes and introducing new technologies for lean production, rolling stock maintenance, and customer service.



To achieve these goals and ensure sustainable development, FPC's management undertakes to:

1. Follow the Management's Leadership principle, foster collaboration between employees in achieving goals, enhance employees' competence, motivation, and corporate relations culture.
2. Support and develop mutually beneficial long-term relations with suppliers, improve the satisfaction levels among the Company's customers and all its stakeholders.
3. Manage potential corporate risks, prevent recurring and potential inconsistencies, and make decisions based on objective evidence and stakeholder requirements.
4. Keep its QMS compliant with ISO 9001:2015 international standard and stakeholder requirements.
5. Continuously improve its QMS, enhance operational efficiency and performance through process improvement, innovation and cost optimisation.

FPC's management assumes responsibility for taking steps to implement the quality policy and provide relevant resources.

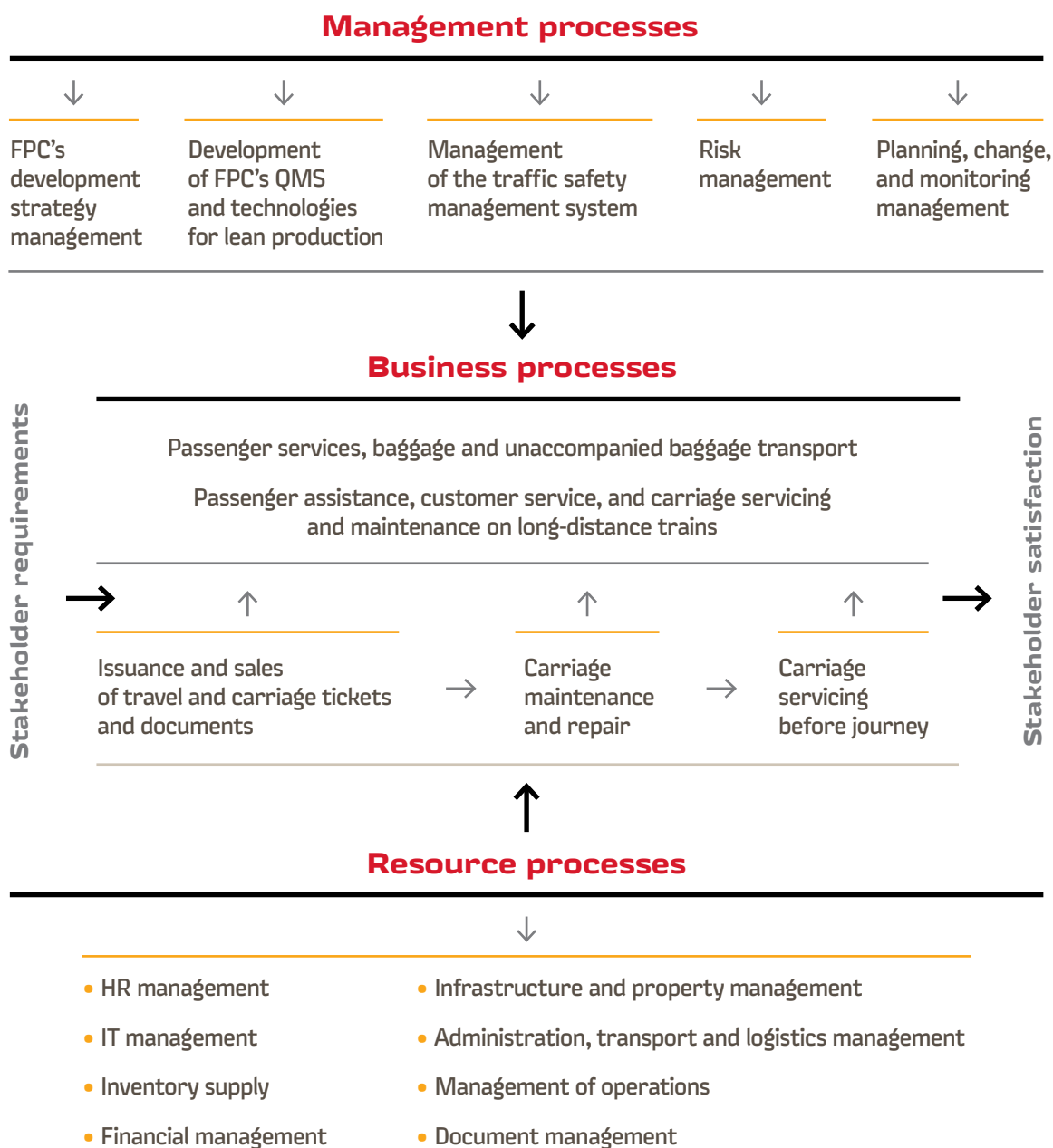
To improve FPC's QMS efficiency, FPC developed its quality targets for 2018 and introduced them in full.

PROCESS APPROACH AND CUSTOMER FOCUS

Building and managing the interrelated processes of the corporate quality management system as a uniform system fosters the Company's operational efficiency and performance in goal achievement.

In 2018, FPC developed and approved a process model of its QMS, which is reflected in the Standard for Corporate Quality Management System – Quality Guide, FPC STO 1.011.1-4.

This model is based on GOST R ISO 9001-2015 Quality Management Systems – Requirements, which promotes more efficient management of the Company's processes while ensuring continuous improvement of service quality and maximum satisfaction of stakeholder requirements and expectations.



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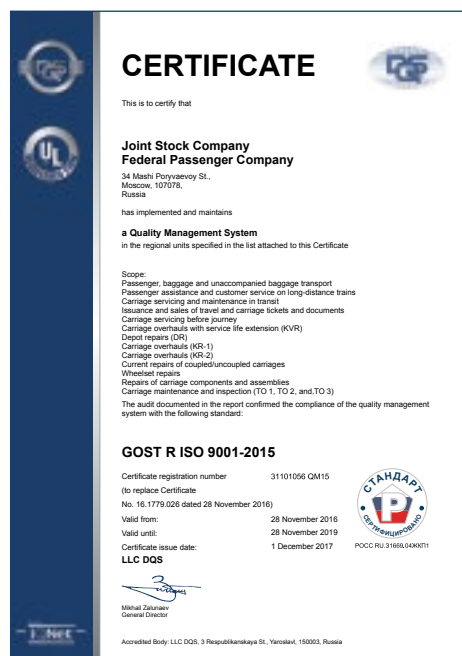
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CERTIFICATION OF FPC'S QMS AND COMPLIANCE WITH ISO 2015-9001 QUALITY MANAGEMENT SYSTEMS – REQUIREMENTS

In 2016, FPC's corporate quality management system was certified for compliance with GOST R ISO 9001-2015 Quality Management Systems – Requirements and received a uniform certificate for its key businesses for the first time within RZD Holding. In 2018, the certificate was confirmed after FPC successfully passed a QMS inspection.

Key advantages of having a certificate of compliance with GOST R ISO 9001-2015 Quality Management Systems – Requirements:

- image of a customer-focused company confirmed by state-level documents
- a confirmation of FPC's compliance with global best practices in quality management by an independent certification body
- increased passenger satisfaction driven by services provided in line with global quality standards
- improved operational efficiency and performance of the corporate governance system
- increased share value
- FPC's higher score in bids (tenders) for the provision of auxiliary services held by Russian Railways and other customers.



LEAN PRODUCTION

Lean production utilises the PDCA cycle (Plan – Do – Check – Act).

FPC is guided by the following principles in developing and improving its lean production technologies:

- customer focus
- focus on process
- production process flexibility
- standardisation
- elimination of waste
- transparency
- error proofing
- excellence.

LEAN PRODUCTION TOOLS USED IN FPC TO ELIMINATE WASTE

JUST IN TIME

5S

TPM (Total Productive Maintenance)

BRAINSTORMING

PARETO CHART

RISK MATRIX

INNOVATION IDEAS

TIME AND MOTION STUDY

VALUE STREAM MAPPING

PROCESS DESCRIPTION, DEFINING INDICATORS

KANBAN

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Tasks to be tackled by the use of lean production tools:

- elimination of process defects and errors
- elimination of process waste
- efficient use of equipment, means of control
- reduction of process times and total cycle time
- elimination of unnecessary transportation
- reduction of excess inventory
- optimisation of warehousing and production floor space.

| LEAN PRODUCTION TOOL | DESCRIPTION | PURPOSE |
|---|---|--|
| Just In Time (JIT) system | <p>Production management concept that is aimed at reducing excess inventory. Under this concept, the right parts and materials are delivered in the right quantity at the right place at the right time.</p> <p>JIT goals:</p> <ul style="list-style-type: none"> • zero defects • zero set-up time (reduced set-up time leads to reduced production cycle and inventory) • zero inventory (inventory, including materials that are being processed, installed or assembled, should be near zero) • zero non-value-added activities • zero lead-time | <p>The Just In Time system boosts production efficiency through eliminating waste, in particular:</p> <ul style="list-style-type: none"> • issuing parts that were first to arrive to the warehouse • accounting for materials and spare parts resulting in orders only for the necessary spare parts • storing no excessive inventory |
| 5S system | <p>A system for efficient workplace organisation. Like other lean production tools, it contributes to the work area manageability and helps save time.</p> <p>It includes the following steps:</p> <ul style="list-style-type: none"> • sort • set in order • shine • standardise • sustain. <p>The 5S system helps reduce the number of errors in documents, create a comfortable working environment, and boost performance</p> | <p>The 5S system is implemented:</p> <ul style="list-style-type: none"> • at workplaces in passenger carriage depots/sites • at spare parts and materials warehouses • at train crews' workplaces • in the offices of FPC's central administration, branches and their structural units |
| TPM (Total Productive Maintenance) | <p>The concept of production equipment management aimed at boosting maintenance efficiency.</p> <p>The focus is on prevention and early detection of equipment faults that may lead to more serious issues</p> | <p>The Total Productive Maintenance method is aimed at:</p> <ul style="list-style-type: none"> • stabilisation and continuous improvement of maintenance and preventive maintenance processes, ensuring Zero Defects operation • consistent elimination of waste causes |
| Brainstorming | <p>A rapid problem solving method based on stimulation of creativity.</p> <p>This method's key advantage is in encouraging creativity, with ideas generated in a comfortable creative environment</p> | <p>Brainstorming is aimed at creating an environment where discussion participants can generate ideas as equals, which helps unlock creative freedom, intuition, imagination, originality, and thinking outside the box</p> |
| Pareto chart | <p>A tool that helps spread the effort to solve problems and identify key root causes of defects</p> | <p>Building a Pareto chart starts with defining a list of defects that impact the process. After that, methods such as brainstorming and 5 Whys are used to identify root causes for problems in each process, and the problems are weighed by severity of consequences. Identification and elimination of 20% of defects deemed the most severe leads to an 80% reduction in reject rates</p> |
| Risk matrix | <p>A tool within FPC's risk management system used to reduce the Company's losses</p> | <p>The risk matrix enables ranking and reflecting risks through identifying their probability and severity</p> |

| LEAN PRODUCTION TOOL | DESCRIPTION | PURPOSE |
|---|--|---|
| Time and motion study | A method for studying working time through observing and measuring the working time, usually throughout one shift (or any part of a shift) | <p>This method helps:</p> <ul style="list-style-type: none"> • study the work process and equipment utilisation in high detail • obtain absolute (in seconds, minutes, hours) and highly accurate data • identify actual working time throughout the study period and obtain data on the sequence of process elements • identify rational approaches to work and relevant methods, causes for waste and suboptimal use of time |
| Value stream mapping | Analysing and visualising the material flow and the relevant information flow throughout the value stream between the supplier of materials to the customer | <p>This tool makes it possible to:</p> <ul style="list-style-type: none"> • visualise the entire value stream • identify causes of waste in the value stream • use the value stream map as a common language for discussing production processes between specialists • make many solutions related to the value stream clear, coherent, and easy to discuss • integrate lean production concepts and methods that help avoid “missing the forest for the trees” • use the value stream mapping tool as a base for a lean production implementation plan • demonstrate relations between the information and material flows |
| Innovation ideas | A powerful tool to boost the Company's efficiency and performance through unlocking the staff's creative potential | <p>Innovation activities help:</p> <ul style="list-style-type: none"> • kickstart and develop FPC employees' technical creativity • provide legal protection for innovations and inventions • boost FPC employees' commitment to their work through financial and non-financial stimulation of technical creativity |
| Process description, defining indicators | A process is a sequence of interdependent and/or interacting activities that use inputs to achieve a planned result. In order to be manageable, a process needs to be described and its indicators need to be defined. The indicators should reflect the performance and efficiency of the process | Process description is a key tool for identifying areas of process improvement |
| Kanban | The most widespread type of the Just in Time system, Kanban ensures a continuous material flow with zero inventory: material is supplied in small batches to the production process where it is needed | Kanban Cards are used in business units to avoid cluttering storage and work areas with spare parts stored in advance |

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CONFLICT OF INTEREST RESOLUTION AND CORRUPTION PREVENTION

At FPC, the procedure for preventing, identifying, and resolving conflicts of interest is formalised in the Company's internal document – the Regulations on the Board of Directors of JSC FPC.

The Board of Directors plays a key role in preventing, identifying, and resolving internal conflicts between members of FPC's Board of Directors.

According to the Regulations on the Board of Directors of JSC FPC approved by the extraordinary General Shareholders Meeting of FPC on 9 February 2016, a member of the Board of Directors shall avoid, or refrain from, any actions that will or can potentially provide conditions for, or lead to, a conflict of interest between the said member of the Board of Directors and the Company.

A member of the Board of Directors must also inform the Company about the facts that may potentially lead, or have already led, to a conflict of interest, including relevant information on related or affiliated organisations, individuals serving in those organisations' governing bodies, members of an executive body, other key managers, and the relevant conflict of interest (including information about interests related to any given transaction).

The Regulations stipulate that directors shall notify the Board of Directors of any conflict of interest they may have in respect of any item on the agenda of the Board meeting prior to the discussion of this agenda item, and refrain from voting on any agenda item in respect of which they have a conflict of interest.

To identify transactions leading to a conflict of interest, FPC regularly requests information from members of the Board of Directors:

- on entities in which they hold 20 or more percent of voting shares (interests or stakes) on their own or with affiliates
- on entities in which they serve on a governing body
- on FPC's performed or proposed transactions known to them, in which they may be recognised as interested parties.

In 2018, no conflict-of-interest situations were identified at the Board level.

PREVENTING AND COUNTERING CORRUPTION

FPC has in place the Anti-Corruption Committee.

The Corporate Security Department is a unit responsible for preventing corruption.

FPC's administration and all branches place anti-corruption information on dedicated information boards featuring:

- the procedure for notifying the employer about attempts to lead employees into corrupt practices
- contact details of anti-corruption officials
- the "safety hotline" number and e-mail for reporting on corruption offences.

FPC also consistently interacts with law enforcement bodies to identify breaches of anti-corruption laws. In 2018, two FPC's employees were held criminally liable for corruption-related crimes (under criminal cases filed in 2017).

FPC also has in place its Commission for Resolving Conflicts of Interest which helped resolve six conflicts of interest in 2018.



5

SUSTAINABLE DEVELOPMENT



61,000

employees

work in the Company

6.6

RUB billion

costs of fulfilling obligations
under the Collective Agreement

67%

staff stability

index

SUSTAINABLE DEVELOPMENT

FPC'S INVOLVEMENT IN THE STATE SOCIAL POLICY

BENEFITS AND GUARANTEES PROVIDED BY FPC TO CITIZENS AND THE STATE

JSC FPC provides transport services for:

- consumers under state-regulated fares – 60.3 million passengers in 2018, or 59% of the regulated rail transport market
- schoolchildren during the academic year – 2.8 million passengers in 2018
- children aged 10 to 17 during the summer holiday season – 2.5 million passengers in 2018
- Great Patriotic War veterans and their travelling companions to events celebrating the Victory in the 1941–1945 war – 1,700 passengers in 2018
- passengers from the Kaliningrad Region to other regions of Russia and back – 0.4 million passengers in 2018)
- under the contract with the Social Insurance Fund of the Russian Federation – 256,200 passengers in 2018
- under the contract with the Pension Fund of the Russian Federation – 5,000 passengers in 2018
- special needs passengers, using over 700 carriages with suitably-equipped compartments operated for 150 destinations.

THE KRASNODAR REGION EMERGENCY

On 24 October 2018, North Caucasus Railways' tracks were flooded in the Tuapse District of the Krasnodar Territory due to heavy rain.

Weather conditions deteriorated rapidly on the night of 24 October, which led to a critical situation and numerous passenger train delays and cancellations. A 200 m section of the rail roadbed was washed out on the Grechesky–Tuapse section. Rail tracks were flooded at Tuapse station and on the Grechesky–Krivenkovskaya section, with a mudslide reported at Vodopadny station. Over 2,000 people ended up in the flooded area.

Passengers on delayed trains were provided bottled water, and hot meals were served at Krasnodar, Tuapse, and Goryachy Klyuch stations. Passengers with children were provided accommodation in lounges at railway stations.

FPC arranged alternative transport services for passengers or offered to reimburse their travel expenses. A bus service was also arranged for passengers stranded on Tuapse and Goryachy Klyuch stations to allow them to continue their journey by train to their destinations.

Russian Railways employees repaired the railway bridge on the Shepsi–Vodopadny section and restored traffic along one of the two tracks on 26 October 2018. That enabled us to run trains on the Adler–Tuapse section and dispatch the trains delayed near Tuapse station back to Sochi, where the passengers could claim airline tickets paid for by FPC to fly to their destinations or stay at hotels and continue their journeys after the rail service was fully restored.

FPC provided 24-hour emergency information to passengers throughout the crisis.

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OUR PEOPLE AND SOCIAL POLICY

FPC sees its people as a key asset and the key driver of its competitive edge.

OUR PEOPLE

FPC manages its human capital in a way which helps achieve its strategic goals while creating positive conditions for employees' personal development. The key priorities of FPC's social and HR policy are recruiting and retaining people, ensuring their continuous development, and providing them with social support.

Staff profile

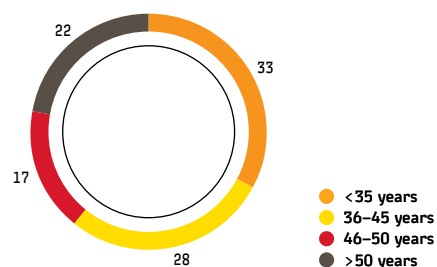
FPC currently employs 60,982 people.

The majority of our employees are front line, directly serving passengers on a daily basis (37,800, or 61.9%).

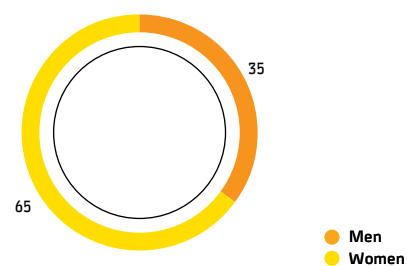
Merging the Volga Branch and the Ural Branch, disbanding the South East Branch and the South Urals Branch, as well as taking organisational measures enabled FPC to decrease its employee headcount by 2.9% year-on-year.

The Company maintains a good balance between its young and more experienced employees. The average age of employees is 40 years. A 33% share of the personnel is represented by young employees aged under 35. At 65%, women constitute the majority of employees.

PERSONNEL BY AGE, %



PERSONNEL BY GENDER, %



PERSONNEL BY OCCUPATION, PEOPLE

| OCCUPATION | AS AT 31 DECEMBER 2017 | AS AT 31 DECEMBER 2018 |
|---|------------------------|------------------------|
| On-train services | 35,212 | 34,214 |
| Ticket sales | 6,897 | 6,593 |
| Maintenance and repair of rolling stock | 12,485 | 12,296 |
| Other | 8,177 | 7,879 |
| Total | 62,771 | 60,982 |

Personnel turnover at FPC increased by 1.1% year-to-year to 9.2% (8.1% in 2017), predominantly resulting from employee retirement and the South East and South Urals branches being disbanded on 1 April 2018. The employee stability index¹ was 67% in 2018 (68% in 2017).

Staff recruitment

FPC's recruitment efforts are focused on two key position segments: general and managers and specialists.

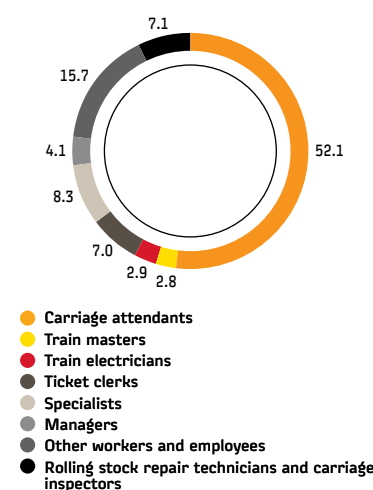
FPC seeks to recruit talented people who will contribute to its ongoing development. General positions such as carriage attendant and ticket clerk are most often recruited externally. When seeking managers and specialists, FPC focuses on internal candidates, with only rare or unique professionals recruited externally to fill the vacancies within this position segment.

Candidates undergo various assessment procedures during the recruitment process: interviews, vocational tests, personal surveys, and skills tests. Candidates are assessed in accordance with the 5C+L corporate competence model:

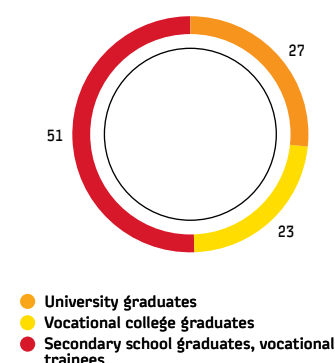
- **Competence** – possessing professional skills, ability to learn and develop, willingness to share experience and knowledge
- **Customer focus** – focus on delivering value to FPC's customers
- **Corporate culture and ownership** – focus on FPC's needs, teamwork, focus on results
- **Quality and safety** – focus on quality and performance. Safety assurance
- **Creativity and drive for innovation** – proposing initiatives and implementing innovations, supporting others' initiatives
- **Leadership** – motivating and engaging other employees, motivating and influencing without administrative pressure.

Over 20,500 employees underwent the corporate competence assessment during the year, with front-line employees accounting for 89% of the total.

PERSONNEL BY POSITION/TRADE, %



PERSONNEL BY EDUCATIONAL BACKGROUND, %



¹ Calculated as a ratio between the number of people employed at FPC for more than five years and the total employee headcount.

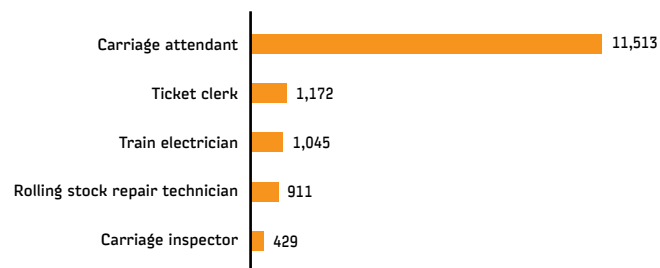
TRAINING SYSTEM PERFORMANCE

| INDICATORS | 2015 | 2016 | 2017 | 2018 |
|--|--------|--------|--------|--------|
| FPC headcount, people | 67,677 | 65,928 | 62,771 | 60,982 |
| Total employees trained, people | 21,787 | 18,853 | 19,287 | 19,008 |
| Share of employees trained at FPC's Corporate Staff Training Centre, % | 41 | 48 | 48 | 62.7 |
| Budget, RUB million | 97.5 | 86.9 | 96.3 | 118.2 |

Personnel training and development

FPC has in place an effective personnel training and development system, through which 19,000 employees, or 31% of FPC's total headcount, underwent training in 2018.

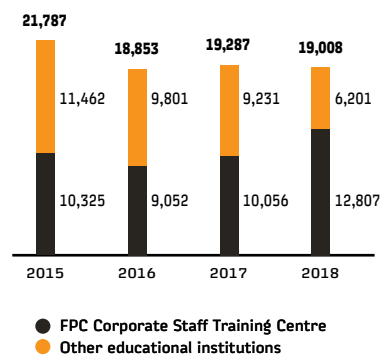
EMPLOYEES TRAINED FOR GENERAL POSITIONS, PEOPLE



Key areas covered by personnel training courses::

- modern technological maintenance and repair processes for passenger carriages
- design specifics, operation, maintenance, and fault diagnostics of systems and assemblies in double-decker carriages
- transport safety and security
- building a culture around safety and traffic safety management in passenger services
- MBA in Managerial Economics

EMPLOYEES TRAINED AT EDUCATIONAL INSTITUTIONS, PEOPLE



More than
2,400
people

were trained as railway and office workers in 2018, while over 16,600 employees completed professional development courses

- induction training using the TWI (Training Within Industry) method
- setting up a corporate risk management system
- modern, customer-focused service methods
- the specifics of providing rail passenger services to people with reduced mobility
- important internal control issues (accounting and taxation).

More than
16,600
people

improved their qualifications in 2018

FPC places a special focus on professional training of its employees included in the talent pool for senior positions. In 2018, 44 high-potential employees were trained under programmes for the rail passenger service manager talent pool, and another 18 employees were trained under the Corporate Leadership 2018 programme.

Employee training comprises 80 corporate training programmes, 10 of which were redesigned in 2018. FPC continues to develop the training facilities of its Corporate Staff Training Centre (the Centre).

Projects implemented within the 2018 Investment Programme:

- licensed rooms equipped with interactive whiteboards, short throw projectors, and laptops
- specialised medical equipment procured – simulation mannequins to train first-aid skills (checking for vital signs, cardiopulmonary resuscitation, and first aid treatment for bleeding, different burn types, etc.)
- an electric stand and a model installed to study the electro-pneumatic brake and its key components.

The training facilities and programmes available at the Centre enable:

- elevating the quality of educational programmes and practical skills training
- fostering customer-focused behaviours, ensuring effective customer interaction to deliver the very best customer care
- improving knowledge of corporate service standards.

In 2018, a special programme was held for the attendants of carriages with deluxe compartments to deepen their customer service skills. Preparing a deluxe carriage for boarding and providing services on board is trained on a special training carriage which includes a deluxe compartment.

FPC's psychologists use interactive techniques to ensure the service skills of front-line employees remain sharp. In 2018, FPC conducted over 10,000 on-the-job training courses.

New training materials for practical training in customer service skills are prepared regularly. In 2018, a series of training programmes and materials was developed in the following focus areas:

- Professional image of a carriage attendant
- Business communication
- Emotional intelligence
- Stress management
- Effective sales techniques
- Customer types. Rules for effective interaction.

In pursuing FPC's strategic goals and to further improve its business performance, 2,790 Company managers and specialists completed additional professional training programmes in 2018. Expenses on training, re-training, and upskilling courses throughout the year reached RUB 118.2 million.

A 360-degree assessment was conducted in 2018 to assess key managers' corporate skills, prioritise focus areas for training managers, and develop tailored development plans.



118.2

RUB million

amounted to the costs of training, retraining and advanced training of personnel in 2018

Nearly 3,000

managers and specialists

underwent training in continuing education programs in 2018

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Improving employee educational levels

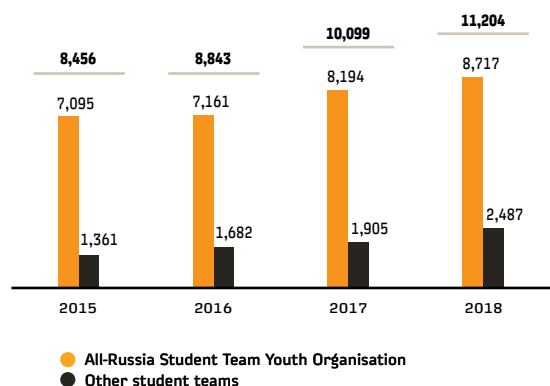
The first group of FPC employees completed a management course at the Institute of Economics and Finance of Russian Transport University (MIIT) in 2018. The group members – 22 employees from the talent pool for train master positions across FPC's branches – received higher education degrees.

A total 40 train crew members are currently being trained through distance learning to receive a Bachelor's degree in Management.

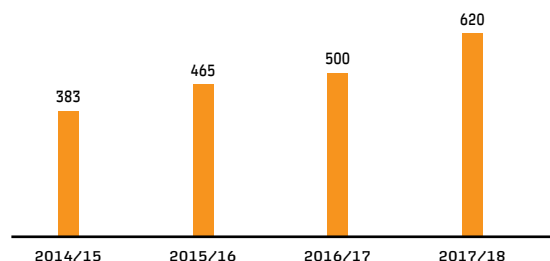
Student train attendant teams

Since 2010, the Company has been engaging university students as train attendants on an annual basis to ensure no staffing shortages occur during the summer holiday period. A total 11,204 students from over 350 non-industry specific educational institutions (in areas which are non-core to FPC) were employed for the 2018 summer season by various structural units within FPC's branches. For four years in a row, FPC has been employing students during the winter holidays.

STUDENTS HIRED DURING THE SUMMER PERIOD, PEOPLE



STUDENTS HIRED DURING THE WINTER PERIOD, PEOPLE



Employee remuneration and motivation system

Aimed at improved performance and increased labour productivity, FPC's enhanced motivation system helps improve the competitiveness of its employees' salaries and wages.

The motivation system provides financial incentives as well as accountability for FPC employees in ensuring traffic safety and improving the quality of carriage maintenance, repairs, customer service, and travel comfort, including the quality of maintenance for next-generation rolling stock and a proficiency in foreign languages.



In 2018, the ratio between the salaries of FPC employees and the salaries of employees at organisations across all industries in the Russian Federation was 1.09 (1.07 in 2017).

SOCIAL POLICY

The Collective Bargaining Agreement

FPC pursues its social policy in accordance with its Collective Bargaining Agreement.

The benefits and guarantees set out in the Collective Bargaining Agreement and corporate regulations of the Company provide additional social security measures beyond the regular social guarantees specified in the Russian Federation's labour law.

FPC's social benefits and guarantees are centred on sustaining, stimulating, and improving employee performance and maintaining social stability among staff.

In 2018, FPC social benefits per employee had a value of RUB 53,400, while the package of benefits for FPC's retired employees was worth RUB 6,200.

The expenses under JSC FPC's Collective Bargaining Agreement amounted to RUB 6.6 billion for the year.

Employee health

JSC FPC's Employee Health Programme provides full recreation and treatment, and is aimed at improving employee work efficiency. Under the programme, 2,839 employees and retirees of FPC received subsidised trips to health centres and resorts in 2018.

The Company is committed to protecting and improving the health of its employees' children, preventing illnesses they may be vulnerable to, and providing activities and proper rest during the summer holidays.

In 2018, the FPC children's health improvement campaign involved 2,231 recreation and health improvement tours for the children of FPC's employees, including:

- 1,509 tours involving 68% of employees' children to Russian Railways' children's health resorts
- 722 tours involving 32% of employees' children to third-party children's health resorts, including those on the Black Sea coast.

Housing policy

FPC has adopted and runs the Mortgage Subsidy Programme for its employees whose housing conditions are in need of improvement.

Under the Collective Bargaining Agreement, monthly subsidies are paid to more than 745 FPC employees to repay the interest accrued on their mortgage loans. In 2018, 33 employees were provided with subsidies following childbirth for mortgage payments towards built or purchased housing. Overall, FPC spent RUB 79 million on its housing policy in 2018.

Parents paid 10% to 20% of the tour price depending on the dates booked for the children's health resort, while large and/or low-income families paid 10% of the price regardless of the dates booked.

10-20%

of the price

(depending on the time of rest) was the amount of the parental fee for a ticket to a children's recreation center

10%

of the price

(for any shift) was the size of the parental fee for large and low-income families

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Competitions

The 2018 First Among the Best corporate competition was won by the Moscow Branch crew of Ivan Paristy High-Speed Passenger Train No. 737–742 on the Bryansk–Moscow route, headed by the train master, Viktor Agunov.

During 2018, 1,927 FPC employees were given various awards for dedication to their work and achievements in the workplace:

- state awards of the Russian Federation – 3 people
- awards of the Ministry of Transport of the Russian Federation – 134 people
- Russian Railways awards – 823 people
- FPC awards – 967 people.

CREW OF PASSENGER TRAIN NO. 737–742 BRYANSK–MOSCOW



V.V. Agunov, train master.

Passenger carriage attendants (right to left):

I.Yu. Bazhenova,
O.A. Bystrova,
Ye.L. Golovko,
K.N. Drobin,
L.P. Dudinskaya,
V.N. Kulaĭina,
Ye.N. Mironova,
T.V. Prudnikova,
I.A. Salova,

and
V.I. Kharaborkin,
the train electrician.

Occupational health

The Company's Health Management initiative maintains the ability of front-line personnel to perform at a high level of professionalism and reliability. As part of this effort, psychological support offices were established at the Gorky, Northern, Kuybyshev, and Volga branches in 2018. These offices were fitted out to treat and diagnose psychological conditions or distress among employees.

Following rehabilitation services, employees note less fatigue after a train trip, higher work ability, and restored motivation to perform their roles. At present, employees from 11 FPC branch units are eligible for the rehabilitation services.

The services are popular at all FPC branches, and drive internal customer focus while boosting FPC's profile as an employer of choice.

Youth policy

Consistent implementation of FPC's corporate youth policy is a key element to human resources development. The Company reorganised its youth councils in 2018 and created a three-tier JSC FPC youth council structure. The new structure enables forming youth councils through online voting by business unit employees aged under 35 years old.

A regulatory framework was developed for FPC youth councils, and youth councils were elected at all of the Company's business units. Additionally, the ninth FPC Youth Assembly was held in 2018, attended by chairs of youth councils at the Company's administration, branches and their structural units, who elected a chairperson for the JSC FPC Youth Council, designed the Council logo, and adopted the JSC FPC Youth Declaration.

Corporate sports

A Spartakiad sports competition was organised by FPC for its employees in 2018 together with the JSC FPC ROSPROFZHEL primary trade union organisation and the Russian Athletic Association Lokomotiv, while the FPC 3×3 Basketball Cup and the JSC FPC ROSPROFZHEL volleyball tournament were held for the first time.

FPC actively participates in the Achieving the Goal! charity run held to celebrate of the Day of the Railway Worker. For three years in a row, FPC has received awards for being the most active team. A record 500 employees participated in the event in 2018.

Apart from RZD Holding's internal events, FPC also actively participates in city and nation-wide events and opens sports clubs for its employees. FPC teams participated in large sporting events such as the Moscow Marathon, Night Run, and the Ironstar Sprint triathlon competition.

Corporate pension system

Corporate pensions are included in FPC employees' social security packages.

Over 21,000 employees have pension plans with *Blagosostoyanie*, a private pension fund.

In the reporting period, 732 employees registered in the corporate pension programme, with the average pension at RUB 8,500.

In its commitment to match funding of private pension plans, FPC pays monthly pension contributions until a corporate pension is assigned, and then additional pension contributions once a corporate pension is granted.

In 2018, the Company invested a total RUB 522 million in private pension plans.

Social guarantees for FPC retirees

FPC provides its retirees with all possible support.

At present, FPC supports over 58,000 non-working retirees.

Special emphasis is placed on railway workers who took part in the Great Patriotic War (WWII), home front workers, and survivors of Nazi concentration camps. In commemoration of Victory Day, over 3,000 veterans received additional financial assistance.

To celebrate the 73rd anniversary of Victory Day, FPC and Veteran Councils organised home visits to veterans who fought in the Great Patriotic War.

Non-working retirees who have worked at FPC for over 20 years receive compensation for dentures and subsequent repairs, high-tech medical services at Russian Railways' healthcare facilities, free transport on suburban and long-distance trains, and resort healthcare services.

Over RUB 297.6 million was allocated to retiree support via the Pochet (Honour) charitable foundation in 2018.

Corporate research

FPC reviews the Company's internal environment on an annual basis in order to facilitate high quality management decision making. Over 1,300 FPC employees participated in corporate social studies in 2018, including:

- a survey on job satisfaction and the social dynamic present in employee teams
- a unified, comprehensive survey of personnel
- a study of the corporate culture at Russian Railways
- monitoring of progress on Russian Railways' Youth targeted programme (2016–2020).

The employee satisfaction index was 65.8 points in 2018, up 1.5 points year-on-year. 65% of employees are determined to maintain long-term employment with FPC, thus showing strong loyalty to the Company.

Improvements have also been observed in other metrics such as employee engagement in achieving corporate objectives (26.6), in the work process (72.9), as well as employee proactivity (63.7). These factors help increase performance and facilitate the Company's overall development.

The Company pays close attention to creating a conducive environment for boosting the performance of customer-facing employees. The Employee Net Promoter Score (eNPS) survey we run among passenger train attendants helps to identify areas for improvement and make timely management decisions.

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FPC's volunteer movement

To promote volunteering among FPC employees, encourage them to increase their social roles, and develop a corporate volunteering culture, FPC organised the Make Good Happen! volunteering competition. In 2018, 320 proactive employees participated in the competition with a total 25 projects.

Winning teams:

Kuybyshev Branch

The Kindness Express: an educational train journey for children from orphanages and social shelters.

Gorky Branch

Real Life Beyond the Screen: promoting an alternative lifestyle to children addicted to the internet and electronic devices.

Yenisey Branch

Link Between Generations: supporting retired railway workers in need.

An interactive project map was created as part of the contest, allowing participants to see the scale of their good deeds and providing networking opportunities with teams from other regions to coordinate further collaboration.



MANAGING ENVIRONMENTAL IMPACT

Protecting the environment and minimising negative environmental impacts from the Company's operations are among FPC's highest priorities.

In its environmental activities, FPC complies with Russian laws, the Environmental Strategy of Russian Railways, and JSC FPC's standard for Environmental Management System, 1.16.001-2016.

FPC involves investment, capex, and operational resources and initiatives in pursuit of its environmental safety goals.

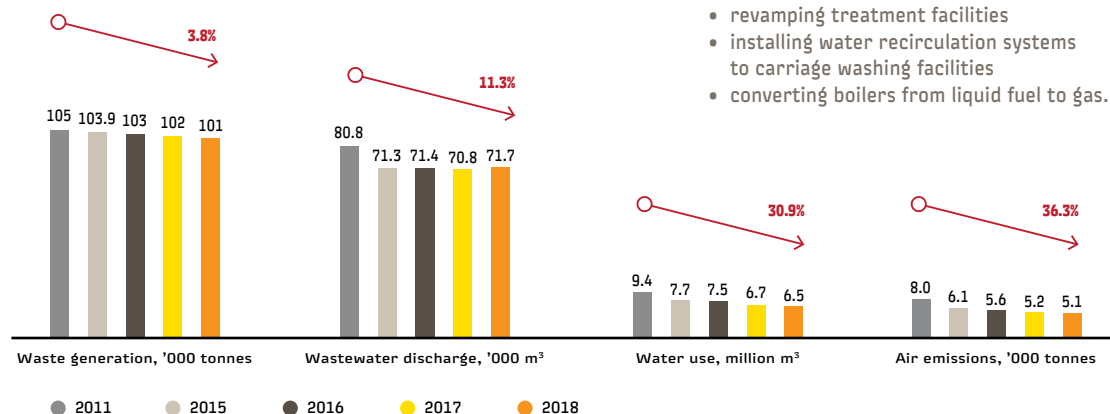
REGULATORY AND ENVIRONMENTAL ASPECTS

Goals:

- minimising negative environmental impacts from the Company's operations
- promoting care for health and the environment.

Significant environmental initiatives:

- equipping carriages with environmentally friendly toilet facilities
- purchasing carriages with a central power supply
- installing high-voltage heating points at turnaround and originating stations
- revamping treatment facilities
- installing water recirculation systems to carriage washing facilities
- converting boilers from liquid fuel to gas.



Overall, since the start of its operations, FPC has consistently achieved annual reductions in its environmental impacts:

- production and consumption waste has decreased from 105,000 tonnes to 101,000 tonnes, including by 900 tonnes in 2018
- total used water discharge has decreased from 5.451 million m³ to 3.397 million m³, including by 0.429 million m³ in 2018 (discharge to ground surface or surface water – from 80,800 m³ to 71,700 m³ of wastewater, 59,000 m³ of which meet regulatory clean-up levels)
- water use by structural units has decreased from 9.4 million m³ to 6.5 million m³, including by 0.3 million m³ in 2018
- air emissions decreased from 8,000 tonnes to 5,100 tonnes, including by 200 tonnes in 2018

The reduction of the negative impact of the Company on the environment was achieved through the optimization of production activities, technological processes in the structural divisions of branches, the introduction of new technologies and monitoring activities on an ongoing basis.

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OPERATING ENVIRONMENTAL EXPENDITURES

To reduce the man-made impact of passenger services, FPC upgraded its rolling stock and facilities across its branches in 2018.

The Company keeps tracks from becoming polluted while maintaining an adequate level of sanitation at rail infrastructure facilities by only acquiring carriages equipped with environmentally friendly toilet facilities, while old carriages have bio toilets installed during overhauls.

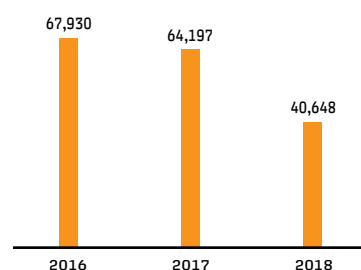
As at the end of 2018, the number of carriages equipped with environmentally friendly toilet facilities totalled 10,565 (about 60% of the total). At the current rate of rolling stock replacement and upgrades, over 90% of carriages will be equipped with bio toilets by 2025.

AIR POLLUTION CONTROL

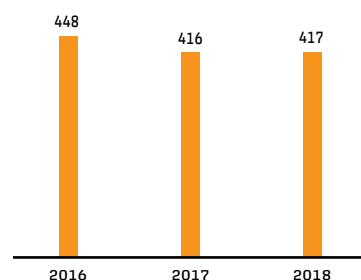
In an effort to reduce air pollution, FPC is installing boilers fired with environmentally friendly fuels and installing high-voltage points for heating its passenger carriages at turnaround and originating stations.

- Purchasing carriages with a central power supply:
 - a total of 1,014 carriages equipped
 - 161 carriages planned for procurement in 2019.
- Installing high-voltage heating points at turnaround and originating stations: RUB 24.56 million
 - installed a high-voltage heating point at service yard No. 1 of Nikolaevka station
 - upgraded the high-voltage heating point at Kaliningrad station
 - set up high-voltage heating columns at Adler station
 - built a high-voltage heating facility at Petrozavodsk station.
- Converted boilers from liquid fuel to gas in 2018: RUB 55.5 million
 - Saint Petersburg–Moskovsky carriage site (CS)
 - Perm passenger carrier depot (PCD).

ENVIRONMENTAL EXPENDITURES,
'000 RUB



GREENHOUSE GAS EMISSIONS,
'000 TONNES OF CO₂



SPECIFIC CO₂ EMISSIONS PER PASSENGER CARRIED

| MODE OF TRANSPORT | TONNES PER PASSENGER | KG PER PASSENGER |
|-------------------|----------------------|------------------|
| Aviation | 0.163 | 163 |
| Rail | 0.004 | 4 |

SUSTAINABLE WATER USE

FPC's annual programmes revamping its water treatment and carriage washing facilities (CWF) reduce the negative impacts of wastewater on the environment and centralised water disposal systems, with initiatives including the installation of water recirculation systems and on-site water treatment facilities.

- Installing water recirculation systems to carriage washing facilities: RUB 183.078 million
 - Saratov PCD CWF
 - Saint Petersburg–Moskovsky CS.
- Revamped CWF treatment facilities: RUB 51.608 million
 - Khabarovsk PCD
 - Severobaikalsk CS .

- Upgraded water and sewage networks: RUB 13.677 million
 - revamped the year-round water gallery at the Chita CS
 - upgraded the cold water supply system at the Kirov PCD
 - revamped the public sewer at the train service shop of the Severobaikalsk CS (FEED)
 - revamped the building sewage system at the Ufa CS technical passenger station (FEED) with connection to the heat and water supply system.

TOTAL USED WATER DISCHARGE, MILLION M³

| INDICATORS | 2017 | 2018 |
|---|--------------|--------------|
| Wastewater meeting regulatory clean-up levels (surface wastewater from operating sites) | 0.0589 | 0.0587 |
| Contaminated wastewater (hand washing in carriages) | 0.012 | 0.012 |
| Sent for treatment (sewage) | 3.755 | 3.326 |
| Total | 3.826 | 3.397 |

DISPOSAL OF PRODUCTION AND CONSUMPTION WASTE

In 2018, production and consumption waste totalling about 100,000 tonnes of various hazard classes was generated across the branches:

- 400 tonnes – disposed of at the Company's own sites (class 5 waste)
- 100,300 tonnes – transferred to other companies under contracts, including:
 - 28,800 tonnes for recycling
 - 1,700 tonnes for neutralisation
 - 69,900 tonnes for disposal at landfills.

TOTAL WASTE MASS BY HAZARD CLASS, TONNE

| HAZARD CLASS | 2017 | 2018 |
|--------------|----------------|----------------|
| Class 1 | 21.4 | 20.9 |
| Class 2 | 212.8 | 103.1 |
| Class 3 | 1,383.3 | 1,123 |
| Class 4 | 63,393.9 | 65,687.6 |
| Class 5 | 36,581.6 | 33,758.4 |
| Total | 101,593 | 100,693 |

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TOTAL WASTE MASS BY DISPOSAL METHOD, TONNE

| DISPOSAL METHOD | 2017 | 2018 |
|--|---------|---------|
| Disposal at the Company's sites (hazard class 5) | 668 | 393 |
| Transferred to contractors: | 100,937 | 100,346 |
| for neutralisation | 1,330 | 1,651 |
| for recycling | 26,325 | 28,775 |
| for landfill | 73,282 | 69,920 |

ENERGY CONSUMPTION

In efforts to save energy and increase energy efficiency in 2018, FPC continued its focused activities reducing operating costs of fuel and energy management while introducing new resource and energy-saving technologies.

FPC reduced its energy consumption and improved its energy efficiency through the following projects:

- procured new, advanced, and energy-efficient rolling stock
- installed energy-saving technologies such as LEDs and smart lighting systems at FPC's depots and sites
- upgraded boiler facilities by installing advanced and more efficient boilers
- equipped FPC's buildings and structures with meters for water consumption and discharge, electricity, and heat energy
- installed high-voltage charging points at passenger train preparation sites across branches
- optimised passenger carriage depots and sites.

FUEL AND ENERGY CONSUMPTION

| TYPE | IN NOMINAL TERMS | | | BY VALUE, RUB MILLION | | |
|-------------------------------------|------------------|-------|---------------------|-----------------------|-------|------------------|
| | 2017 | 2018 | CHANGE 2018/2017, % | 2017 | 2018 | CHANGE 2018/2017 |
| Electricity, million kWh | 129.3 | 129.3 | 100.0 | 645.1 | 644.3 | -0.8 |
| Diesel fuel, '000 tonnes | 2.5 | 2.6 | 102.9 | 92.7 | 107.6 | 14.9 |
| Coal, '000 tonnes | 106.3 | 109.3 | 102.8 | 280.3 | 324.3 | 44.0 |
| Fuel oil, '000 tonnes | 17.3 | 15.0 | 87.1 | 200.1 | 228.0 | 27.9 |
| Natural gas, million m ³ | 23.3 | 23.2 | 99.4 | 133.4 | 132.8 | -0.6 |
| Gasoline, '000 tonnes | 0.89 | 0.85 | 96.6 | 41.0 | 43.5 | 2.5 |
| Briquettes, '000 tonnes | 3.0 | 3.4 | 113.8 | 17.0 | 23.9 | 6.9 |
| Pellets, '000 tonnes | 1.1 | 1.2 | 102.8 | 9.5 | 8.8 | -0.7 |
| Wood, '000 m ³ | 0.76 | 0.31 | 41.0 | 2.8 | 1.9 | -0.9 |

CHARITABLE ACTIVITIES



An important component of FPC's business is engaging in social and charitable activities while supporting projects in culture, education, healthcare, sports, and other social initiatives.

The Company places a particular emphasis on supporting children in need of expensive treatment and medicines, orphans, and children living in orphanages, providing social support to employees and retirees as well as assistance to low-income people, the poor, veterans, and disabled people.

Transporting veterans of the Great Patriotic War (WWII) and their travelling companions to events celebrating the victory in the Great Patriotic War (1941–1945) has become an annual tradition for FPC. The Company provided veterans with free travel in deluxe, first-class and second-class sleeping carriages, or carriages with seats on long-distance trains of all categories from 1 to 31 May 2018.

33.7

RUB million

the total amount of funds approved for charity projects in 2018

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The Company also donated over RUB 8 million to assist employees and retirees in a difficult life situation or in need of financial assistance, costly treatment, or surgery.

Supporting sick children in need of expensive medical treatment is a priority initiative within FPC's charitable activities. To this end, RUB 4 million was donated to various charitable foundations.

Due to the high importance of promoting blood donations, FPC regularly holds Donor's Day. The charitable campaign has become a tradition for FPC employees, and the number of those joining the donor movement is rising each year. In 2018, 41 litres of blood were collected. The blood was used to treat patients at a municipal perinatal centre as well as multi-purpose adult and children's hospitals.

The Company raised over RUB 207,000 in 2018, donated through the Podari Zhizn (Gift of Life) foundation for the treatment of two girls, Nina Morozova and Nargiza Dzhanisova, who were in need of expensive medical treatment.

Another good tradition originated in 2016. Since then, the Achieving the Goal! charity run has been held regularly as part of the celebrations for the Day of the Railway Worker. About 500 employees of the Company and their family members took part in the event held across Russia in 2018. The number of participants is growing every year, showing a desire of employees to lead healthy lifestyles. Funds raised at the sports event were donated to the Life Line charitable foundation for saving seriously ill children.



More than

4

RUB million

donated
by the Company
to help sick children
in need of expensive
treatment



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249.5

RUB million

of non-current assets
as of 31 December 2018

172

RUB million

registered capital
as of 31 December 2018

4.3

RUB million

carriage maintenance costs over
the past 12 months

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MAJOR TRANSACTIONS

In 2018, FPC closed no transactions treated as major transactions under Federal Law No. 208-FZ On Joint Stock Companies dated 26 December 1995.

INTERESTED-PARTY TRANSACTIONS

| NO. | COUNTERPARTY | PARTY (PARTIES) INTERESTED IN THE TRANSACTION | MATERIAL TERMS OF THE INTERESTED-PARTY TRANSACTION | GOVERNING BODY THAT APPROVED THE TRANSACTION |
|-----|--|--|---|--|
| 1 | Russian Athletic Association Lokomotiv | Pavel Burtsev, member of FPC's Board of Directors | Organisation, integrated support, and holding of FPC General Director's 3×3 Basketball Cup. Transaction amount: RUB 4,938,675.93 including VAT (18%) Transaction date: 29 March 2018 | Pending approval |
| 2 | Russian University of Transport (MIIT) | Sergey Maltsev, member of FPC's Board of Directors | Addendum to Agreement No. FPK-14-341 dated 10 October 2014 providing for professional education services for a Bachelor's degree in Management – Technological Innovations Management, to extend the period of services until 28 February 2019 with an increase in the total cost of the Agreement. Amount of the Addendum to the Agreement: RUB 598,546; total transaction amount: RUB 7,678,046, free of VAT Transaction date: 16 July 2018 | Pending approval |

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BALANCE SHEET

AS AT 31 DECEMBER 2018, '000 RUB

| NOTE | INDICATOR | LINE CODE | AS AT 31 DECEMBER 2018 | AS AT 31 DECEMBER 2017 | AS AT 31 DECEMBER 2016 |
|------|---|--------------|---------------------------|---------------------------|---------------------------|
| 1 | 2 | 3 | 4 | 5 | 6 |
| | ASSETS | | | | |
| | I. NON-CURRENT ASSETS | | | | |
| | Intangible assets | 11100 | 735,316 | 822,999 | 981,206 |
| | including: | | | | |
| | intangible assets | 11110 | 684,102 | 669,127 | 891,659 |
| | investments in progress in intangible assets | 11120 | 50,711 | 153,872 | 89,547 |
| | advances issued | 11199 | 503 | | |
| | Results of research and development | 11200 | 8,310 | 2,542 | |
| | including: | | | | |
| | research, development and engineering | 11210 | | | |
| | investments in progress in research, development and engineering | 11220 | 8,310 | 2,542 | |
| | advances issued | 11299 | | | |
| | Intangible exploration assets | 11300 | | | |
| | Tangible exploration assets | 11400 | | | |
| | Property, plant and equipment | 11500 | 247,162,531 | 218,184,360 | 206,102,043 |
| | Including: | | | | |
| | fixed assets | 11510 | 243,693,428 | 213,150,411 | 202,995,340 |
| | including: | | | | |
| | buildings, machinery and equipment, vehicles | 11511 | 239,697,292 | 210,188,864 | 199,757,596 |
| | structures and transmission equipment | 11512 | 3,774,162 | 2,739,968 | 3,011,520 |
| | other fixed assets | 11519 | 221,974 | 221,579 | 226,224 |
| | investments in progress in property, plant and equipment | 11520 | 3,053,462 | 4,537,664 | 2,887,695 |
| | advances issued | 11599 | 415,641 | 496,285 | 219,008 |
| | Income-bearing investments in tangible assets | 11600 | 37,599 | 43,412 | 45,725 |
| | Including: | | | | |
| | income-bearing investments in tangible assets | 11610 | 37,599 | 43,366 | 45,725 |
| | investments in progress in income-bearing investments in tangible assets | 11620 | | 46 | |
| | Financial investments | 11700 | 1,247,137 | 1,317,137 | 1,048,159 |
| | Including: | | | | |
| | contributions to equities (authorised capitals) of other entities | 11710 | 1,247,137 | 1,247,137 | 978,159 |
| | loans issued and bank deposits | 11720 | | 70,000 | 70,000 |
| | other financial investments | 11790 | | | |
| | prepayments | 11799 | | | |

| NOTE | INDICATOR | LINE CODE | AS AT 31 DECEMBER 2018 | AS AT 31 DECEMBER 2017 | AS AT 31 DECEMBER 2016 |
|---------------------------|---|--------------|---------------------------|---------------------------|---------------------------|
| 1 | 2 | 3 | 4 | 5 | 6 |
| | Deferred tax assets | 11800 | | | |
| | Other non-current assets | 11900 | 321,511 | 368,429 | 437,983 |
| | Total for Section I | 11000 | 249,512,404 | 220,738,879 | 208,615,116 |
| II. CURRENT ASSETS | | | | | |
| | Inventories | 12100 | 3,857,294 | 3,583,054 | 3,349,145 |
| | Including: | | | | |
| | supplies, materials, and other similar valuables | 12110 | 3,777,333 | 3,533,865 | 3,298,277 |
| | rears and fatteners | 12120 | | | |
| | work-in-progress costs | 12130 | 21,988 | 7,820 | 12,039 |
| | finished products and goods for resale | 12140 | 8,574 | 7,756 | 11,077 |
| | goods despatched | 12150 | | | |
| | prepaid expenses | 12160 | 49,399 | 33,613 | 27,752 |
| | other inventories and costs | 12190 | | | |
| | Value added tax on acquired valuables | 12200 | 11,579 | 11,856 | 48,985 |
| | Receivables | 12300 | 11,274,992 | 12,090,787 | 7,059,969 |
| | Including: | | | | |
| | receivables due in more than 12 months from the reporting date | 12310 | 30,316 | 30,243 | 145,860 |
| | including: | | | | |
| | trade receivables (excluding transport services) | 12311 | | | |
| | trade receivables for transport services | 12312 | | | |
| | advances issued | 12313 | 26,562 | 26,562 | 39,400 |
| | other receivables | 12319 | 3,754 | 3,681 | 106,460 |
| | receivables due within 12 months from the reporting date | 12320 | 11,244,676 | 12,060,544 | 6,914,109 |
| | including: | | | | |
| | trade receivables (except for transport services) | 12321 | 485,492 | 822,809 | 1,208,335 |
| | trade receivables for transport services | 12322 | 1,068,765 | 1,147,852 | 1,063,002 |
| | advances issued | 12323 | 456,688 | 419,205 | 445,218 |
| | taxes and charges, social insurance and social security | 12324 | 8,105,152 | 8,530,522 | 3,526,225 |
| | other receivables | 12329 | 1,128,579 | 1,140,156 | 671,329 |
| | Financial investments (excluding cash equivalents) | 12400 | 10,600,000 | | 2,000,000 |
| | Including: | | | | |
| | loans issued and bank deposits | 12410 | 10,600,000 | | 2,000,000 |
| | other financial investments | 12490 | | | |
| | Cash and cash equivalents | 12500 | 6,504,346 | 13,286,428 | 13,432,021 |
| | Including: | | | | |
| | cash on hand | 12510 | 68,730 | 72,460 | 78,477 |
| | cash at bank | 12520 | 1,275,783 | 821,137 | 920,686 |
| | cash in foreign currency accounts | 12530 | 123,080 | 83,713 | 394,946 |
| | cash in designated accounts and in transit | 12540 | 490 | 383,814 | 35,190 |
| | cash equivalents | 12550 | 4,150,000 | 11,050,000 | 11,350,000 |
| | other cash and cash in transit | 12590 | 886,263 | 875,304 | 652,722 |
| | Other current assets | 12600 | 231,465 | 300,649 | 764,361 |
| | Total for Section II | 12000 | 32,479,676 | 29,272,774 | 26,654,481 |
| | Total | 16000 | 281,992,080 | 250,011,653 | 235,269,597 |

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| NOTE | INDICATOR | LINE CODE | AS AT 31 DECEMBER 2018 | AS AT 31 DECEMBER 2017 | AS AT 31 DECEMBER 2016 |
|------|--|--------------|---------------------------|---------------------------|---------------------------|
| 1 | 2 | 3 | 4 | 5 | 6 |
| | LIABILITIES | | | | |
| | III. EQUITY AND RESERVES | | | | |
| | Share capital | 13100 | 171,961,041 | 165,461,041 | 165,461,041 |
| | Treasury shares | 13200 | | | |
| | Revaluation of non-current assets | 13400 | 1,904,451 | 333,477 | 335,970 |
| | Additional paid-in capital (excluding revaluation) | 13500 | 12,768,144 | 19,268,144 | 12,768,144 |
| | Including: | | | | |
| | share premium | 13510 | | | |
| | contributions to share capital | 13520 | | 6,500,000 | |
| | other equity | 13590 | 12,768,144 | 12,768,144 | 12,768,144 |
| | Reserve capital | 13600 | 1,012,477 | 616,922 | 352,579 |
| | Including: | | | | |
| | statutory reserves | 13610 | 1,012,477 | 616,922 | 352,579 |
| | reserves under constituent documents | 13620 | | | |
| | Retained earnings (accumulated deficit) | 13700 | 13,544,555 | 7,847,911 | 6,698,669 |
| | Total for Section III | 13000 | 201,190,668 | 193,527,495 | 185,616,403 |
| | IV. NON-CURRENT LIABILITIES | | | | |
| | Loans and borrowings | 14100 | 38,677,054 | 20,515,582 | 16,194,909 |
| | Including: | | | | |
| | loans maturing in more than 12 months from the reporting date | 14110 | 3,677,054 | 5,515,582 | 11,194,909 |
| | borrowings maturing in more than 12 months from the reporting date | 14120 | 35,000,000 | 15,000,000 | 5,000,000 |
| | Deferred tax liabilities | 14200 | 4,370,689 | 3,457,342 | 3,237,564 |
| | Provisions | 14300 | | | |
| | Other liabilities | 14500 | | | |
| | Total for Section IV | 14000 | 43,047,743 | 23,972,924 | 19,432,473 |
| | V. CURRENT LIABILITIES | | | | |
| | Loans and borrowings | 15100 | 7,369,288 | 2,433,778 | 3,526,959 |
| | Including: | | | | |
| | loans maturing within 12 months from the reporting date | 15110 | 1,841,301 | 2,320,431 | 3,506,515 |
| | borrowings maturing within 12 months from the reporting date | 15120 | 5,527,987 | 113,347 | 20,444 |
| | Payables | 15200 | 24,803,783 | 24,429,924 | 22,086,596 |
| | Including: | | | | |
| | trade payables | 15210 | 9,954,128 | 10,221,780 | 9,217,142 |
| | payroll | 15220 | 1,481,839 | 1,454,957 | 1,416,962 |
| | taxes and charges, social insurance and social security | 15230 | 1,873,333 | 1,649,220 | 1,774,786 |
| | advances received (excluding transport services) | 15240 | 288,880 | 643,401 | 162,011 |
| | advances received for transport services | 15250 | 8,703,859 | 7,822,516 | 7,484,268 |
| | Dividends payable | 15260 | | | |
| | other payables | 15290 | 2,501,744 | 2,638,050 | 2,031,427 |
| | Future income | 15300 | 333,701 | 429,018 | 526,346 |
| | Provisions | 15400 | 5,244,673 | 5,214,203 | 4,070,231 |
| | Other current liabilities | 15500 | 2,224 | 4,311 | 10,589 |
| | Total for Section V | 15000 | 37,753,669 | 32,511,234 | 30,220,721 |
| | Total | 17000 | 281,992,080 | 250,011,653 | 235,269,597 |

STATEMENT OF FINANCIAL RESULTS FOR 2018, '000 RUB

| NOTE | INDICATOR | CODE | JANUARY – DECEMBER 2018 | JANUARY – DECEMBER 2017 |
|------|---|-------|-------------------------|-------------------------|
| 1 | 2 | 3 | 4 | 5 |
| | Revenue | 21100 | 226,124,901 | 216,205,785 |
| | Including: | | | |
| | freight services | 21101 | | |
| | long-distance passenger services | 21102 | 202,376,887 | 193,677,808 |
| | commuter services | 21103 | | |
| | infrastructure services | 21104 | | |
| | locomotive services | 21105 | | |
| | rolling stock repairs | 21106 | 1,744,526 | 1,896,332 |
| | construction of infrastructure facilities | 21107 | | |
| | research and development | 21108 | | |
| | social services | 21109 | 164,795 | 163,884 |
| | other types of activities | 21110 | 21,838,693 | 20,467,761 |
| | Cost of sales | 21200 | (200,372,134) | (188,706,772) |
| | Including: | | | |
| | freight services | 21201 | | |
| | long-distance passenger services | 21202 | (185,971,415) | (175,138,256) |
| | commuter services | 21203 | | |
| | infrastructure services | 21204 | | |
| | locomotive services | 21205 | | |
| | rolling stock repairs | 21206 | (995,038) | (1,048,338) |
| | construction of infrastructure facilities | 21207 | | |
| | research and development | 21208 | | |
| | social services | 21209 | (157,272) | (142,048) |
| | other types of activities | 21210 | (13,248,409) | (12,378,130) |
| | Gross profit (loss) | 21000 | 25,752,767 | 27,499,013 |
| | Selling expenses | 22100 | (454) | (1,535) |
| | Administrative expenses | 22200 | (21,807,867) | (21,261,702) |
| | Profit (loss) from sales | 22000 | 3,944,446 | 6,235,776 |
| | Including: | | | |
| | freight services | 22001 | | |
| | long-distance passenger services | 22002 | (3,694,610) | (730,781) |
| | commuter services | 22003 | | |
| | infrastructure services | 22004 | | |
| | locomotive services | 22005 | | |
| | rolling stock repairs | 22006 | 448,111 | 474,140 |
| | construction of infrastructure facilities | 22007 | | |
| | research and development | 22008 | | |
| | social services | 22009 | (20,955) | (12,016) |
| | other types of activities | 22010 | 7,211,900 | 6,504,433 |
| | Income from participation in other entities | 23100 | 66,139 | 52,697 |
| | Interest receivable | 23200 | 760,011 | 1,258,256 |
| | Interest payable | 23300 | (2,760,302) | (2,288,583) |
| | Other income | 23400 | 14,733,763 | 12,704,810 |
| | Other expenses | 23500 | (7,958,397) | (7,018,646) |
| | Profit (loss) before tax | 23000 | 8,785,660 | 10,944,310 |

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| NOTE | INDICATOR | CODE | JANUARY – DECEMBER 2018 | JANUARY – DECEMBER 2017 |
|------|--|-------|-------------------------|-------------------------|
| 1 | 2 | 3 | 4 | 5 |
| | Current income tax | 24100 | (1,748,466) | (2,761,723) |
| | Including: | | | |
| | ongoing tax liabilities (assets) | 24210 | (939,529) | (803,740) |
| | Change in deferred tax liabilities | 24300 | (990,555) | (517,601) |
| | Change in deferred tax assets | 24500 | 55,588 | 297,838 |
| | Other | 24600 | (17,817) | (51,717) |
| | Including: | | | |
| | income tax of previous years | 24610 | (33,759) | (13,935) |
| | single tax on imputed income of previous years | 24620 | | |
| | corporate income tax and net income tax of the Republic of Kazakhstan | 24625 | | |
| | penalties related to taxes and charges, social insurance and social security | 24630 | (5,678) | (37,766) |
| | written off deferred tax liabilities | 24640 | 66,980 | 9,076 |
| | written off deferred tax assets | 24650 | (45,360) | (9,092) |
| | Net profit (loss) | 24000 | 6,084,410 | 7,911,107 |
| | Gain/loss from revaluation of non-current assets, excluded from the net profit (loss) for the period | 25100 | 1,570,974 | |
| | Gain/loss from other operations, excluded from the net profit (loss) for the period | 25200 | (97) | (15) |
| | Total financial result for the period | 25000 | 7,655,287 | 7,911,092 |
| | FOR REFERENCE | | | |
| | Basic earnings (loss) per share | 29000 | | |
| | Diluted earnings (loss) per share | 29100 | | |

DISPOSAL OF NON-CORE ASSETS AND CARRIAGES

In 2018, FPC disposed of 2,151 passenger carriages previously included in the inventory carriage fleet, including: 2,009 retired carriages and 142 carriages sold or transferred to third-party organisations under charitable programmes.

DISPOSAL OF FPC'S NON-CORE ASSETS (REAL ESTATE) IN 2018

| NO. | REAL ESTATE ASSETS, INCLUDING PARTS OF STRUCTURES – FACILITIES, LAND PLOTS (OWNED BY SUBSIDIARIES), AND ROLLING STOCK DISPOSED OF TOGETHER WITH REAL ESTATE ASSETS | ACCOUNTING INVENTORY NO. | BOOK VALUE AS AT TRANSACTION DATE, '000 RUB | |
|--------------|--|--|---|--------------------------|
| | | | ACCORDING TO ACCOUNTING RECORDS | ACCORDING TO TAX RECORDS |
| 1 | 2 | 3 | 4 | 5 |
| 1 | Store with a total area of 127.6 m ² at 35 Vologodskaya St., Cherepovets | 9775/11000000/28 | 1,591.45 | 217.92 |
| 2 | Baggage handling facility building with a total area of 241.8 m ² at 2 Vokzalnaya St., Ussuriysk, Primorye Territory | 010049/9933 | 2,007.02 | 8.16 |
| 3 | Real estate facilities (administration and amenity building with a total area of 2,486.3 m ² and garage-2 with a total area of 153.9 m ²) at 121a Kuznetsky Av., Kemerovo | 0100040/9914/9913 0100280/9914/9913 | 59,472.03 | 3,420.18 |
| 4 | Apartment with a total area of 69.3 m ² at 41 Pervostroiteley Av., Apt. 741, Komsomolsk-on-Amur, Khabarovsk Territory | 9786/11000000/53 | 962.89 | 1,278.20 |
| 5 | Apartment with a total area of 44.4 m ² at 24a Sibiryakov-Gvardeytshev St., Apt. 12 Zavodskoy District, Kemerovo | 5101094/9914/9913 | 1,149.55 | 557.60 |
| 6 | Shop for carriage servicing before journey with an annex building with a total area of 1,543 m ² at Magistralnaya St., Blagoveshchensk, Amur Region | 10022/9928 | 12,821.12 | 2,967.92 |
| 7 | Garage with a total area of 406.1 m ² at Magistralnaya St., Blagoveshchensk, Amur Region | 10100/9928 | 4,379.58 | 3,941.63 |
| 8 | Carriage maintenance building with a total area of 77.7 m ² at 121a Kuznetsky Av., Kemerovo | 0100050/9914/9913 | 598.82 | 207.24 |
| 9 | Workshop with a total area of 953 m ² at 5 Tverskaya Zastava Sq., Bld. 9, Moscow | 10008/9821/9822 | 0.00 | 0.00 |
| 10 | Garage for three personal vehicles with a total area of 66.4 m ² at 52 Portovy Proyezd, Bld. 1, Murmansk, Murmansk Region | 9771/11000000/35 | 1,118.49 | 292.23 |
| 11 | Apartment with a total area of 84.5 m ² located at 6 Khabarovskaya St., Apt. 21, Chita, Trans-Baikal Territory | 500501 | 1,914.61 | 1,581.10 |
| 12 | Apartment with a total area of 31 m ² at 3 Strelochnikov St., Apt. 13, Yekaterinburg, Sverdlovsk Region | 010060/9897 | 1,009.00 | 116.70 |
| Total | | – | 87,024.56 | 14,588.88 |

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| | ACTUAL CASH RECEIVED (NET OF VAT), '000 RUB | FINANCIAL RESULT, '000 RUB | | MAINTENANCE COSTS FOR THE PAST 12 MONTHS, '000 RUB | ACTUAL COST OF SALE VS BOOK VALUE, '000 RUB | REASON FOR DIFFERENCE BETWEEN THE ACTUAL COST OF SALE AND BOOK VALUE |
|------------------|--|-------------------------------|---------------------|--|---|--|
| | | PROFIT/LOSS BEFORE TAX | NET PROFIT/ LOSS | | | |
| 6 | 7 | 8 | 9 | 10 | 11 | |
| 2,308.80 | 682.35 | 271.17 | 76.19 | 717.35 | | Sold at market value |
| 2,920.38 | 893.37 | 314.92 | 44.17 | 913.36 | | Sold at market value |
| 36,576.27 | -29,566.98 | -27,054.35 | 2,512.62 | -22,895.76 | | Sold at market value |
| 2,881.00 | 1,906.96 | 1,588.05 | 21.50 | 1,918.11 | | Sold at market value |
| 1,800.00 | 630.44 | 385.96 | 50.33 | 650.45 | | Sold at market value |
| 8,830.17 | -4,010.95 | -5,179.40 | 1,200.93 | -3,990.95 | | A combined English–Dutch auction was held |
| 1,804.75 | -2,594.84 | -2,594.83 | 213.38 | -2,574.83 | | A combined English–Dutch auction was held. Sold at the minimum selling price |
| 722.09 | 102.97 | 4.06 | 73.69 | 123.27 | | Sold at market value |
| 29,600.00 | 29,600.00 | 23,655.94 | 0.00 | 29,600.00 | | Sold at the market value of Russian Railways |
| 795.00 | -348.49 | -443.99 | 24.88 | -323.49 | | Sold at market value |
| 4,200.00 | 2,111.78 | 1,621.90 | 44.45 | 2,285.39 | | Sold at market value |
| 2,082.00 | 1,048.00 | 659.94 | 43.34 | 1,073.00 | | Sold at market value |
| 94,520.46 | 454.61 | -6,770.63 | 4,305.48 | 7,495.90 | - | |

REPORT ON COMPLIANCE WITH THE BANK OF RUSSIA'S CORPORATE GOVERNANCE CODE

| ITEM | CORPORATE GOVERNANCE PRINCIPLES | CRITERIA FOR ASSESSING COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLE |
|------------|--|--|
| 1.1 | The company shall ensure equal and fair treatment of all shareholders in exercising their corporate governance right. | |
| 1.1.1 | The company ensures the most favourable conditions for its shareholders to participate in the general meeting, develop informed positions on agenda items of the general meeting, coordinate their actions, and voice their opinions on items considered. | <p>1. The company's internal document approved by the general meeting of shareholders governing the procedures for holding general meetings of shareholders is publicly available.</p> <p>2. The company provides accessible means of communication with the company, such as a hotline, e-mail, or online forum, to enable shareholders to express their opinions and send questions on the agenda in preparation for the general meeting. The company performed the above actions in advance of each general meeting held in the reporting period.</p> |
| 1.1.2 | The procedure for giving notice of, and providing relevant materials for, the general meeting enables shareholders to properly prepare for attending the general meeting. | <p>1. The notice of an upcoming general shareholders meeting is posted (published) online at least 30 days prior to the date of the general meeting.</p> <p>2. The notice of an upcoming meeting indicates the location of the meeting and the documents required for admission.</p> <p>3. Shareholders were given access to the information on who proposed the agenda items and nominees to the company's board of directors and the audit commission.</p> |
| 1.1.3 | In preparation for the general meeting and during the general meeting, shareholders were enabled to receive information about, and all materials related to, the meeting, put questions to executive bodies and members of the board of directors, as well as communicate with each other, in an unobstructed and timely manner. | <p>1. In the reporting period, shareholders were given an opportunity to put questions to members of executive bodies and members of the board of directors in advance of, and during the annual general meeting.</p> <p>2. The position of the board of directors (including dissenting opinions entered in the minutes) on each item on the agenda of general meetings held in the reporting period was included in the materials for the general meeting of shareholders.</p> <p>3. The company gave duly authorised shareholders access to the list of persons entitled to participate in the general meeting, as from the date when such list was received by the company, in all instances of general meetings held in the reporting period.</p> |
| 1.1.4 | Shareholders did not encounter unjustified difficulties in exercising their right to request that a general meeting be convened, to nominate candidates to governing bodies, and to make proposals for the agenda of the general meeting. | <p>1. In the reporting period, shareholders had an opportunity to make proposals for the agenda of the annual general meeting for at least 60 days after the end of the respective calendar year.</p> <p>2. In the reporting period, the company did not reject proposals for the agenda or candidates to governing bodies due to misprints or other insignificant flaws in the shareholder's proposal.</p> |
| 1.1.5 | Each shareholder was enabled to freely exercise his/her voting right in the simplest and most convenient way. | <p>1. The internal document (internal policy) contains provisions stipulating that every participant in the general meeting may, before the end of the respective meeting, request a copy of the ballot filled in by them and certified by the counting commission.</p> |
| 1.1.6 | The general meeting procedure established by the company equally enables all persons attending the meeting to voice their opinions and ask questions. | <p>1. During general shareholders meetings held in the reporting period in the form of a meeting (joint presence of shareholders), sufficient time was allocated for reports on, and discussion of the agenda items.</p> <p>2. Candidates to the company's governing and control bodies were available to answer shareholders' questions during the meeting at which their nominations were put to vote.</p> <p>3. When passing resolutions on the preparation and holding of general meetings of shareholders, the board of directors considered the use of telecommunications means to provide shareholders with remote access to general meetings in the reporting period.</p> |

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| COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLE | | EXPLANATIONS OF DEVIATIONS FROM THE CRITERIA FOR ASSESSING COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLE |
|--|-------------------------|---|
| x | Full Partial None | |
| x | Full Partial None | JSC FPC's Articles of Association stipulate that the notice of an upcoming General Shareholders Meeting is posted on the corporate website at www.fpc.ru and is forwarded (or handed), together with voting ballots, to each person included in the list of persons entitled to participate in the General Shareholders Meeting by registered mail or delivery against signature, or via e-mail at the person's e-mail address indicated in the Company's share register, at least 20 calendar days prior to such meeting, and the notice of an upcoming General Shareholders Meeting where the Company's reorganisation is on the agenda, at least 30 calendar days prior to such meeting. |
| x | Full Partial None | |
| x | Full Partial None | |
| x | Full Partial None | The Company's internal documents do not stipulate this requirement. |
| x | Full Partial None | Russian Railways as a shareholder entitled to nominate candidates to the Company's governing bodies conducts all necessary interviews with candidates when preparing respective proposals. |

| ITEM | CORPORATE GOVERNANCE PRINCIPLES | CRITERIA FOR ASSESSING COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLE |
|------------|--|---|
| 1.2 | Shareholders have equal and fair rights to share profits of the company by receiving dividends. | |
| 1.2.1 | The company has developed and introduced a transparent and clear mechanism for determining the dividend amount and paying dividends. | <p>1. The company's dividend policy is developed, approved by the board of directors and disclosed.</p> <p>2. If the company's dividend policy uses the company's reporting figures to determine the dividend amount, then the respective provisions of the dividend policy shall take into account the consolidated financial statements.</p> |
| 1.2.2 | The company does not resolve to pay out dividends if such resolution, while formally remaining in line with statutory restrictions, is not economically feasible and may lead to a false representation of the company's performance. | 1. The company's dividend policy contains clear indications of financial/economic circumstances under which the company shall not pay out dividends. |
| 1.2.3 | The company does not allow the dividend rights of its existing shareholders to be impaired. | 1. In the reporting period, the company did not take any actions that would lead to the impairment of the dividend rights of its existing shareholders. |
| 1.2.4 | The company strives to exclude any ways for its shareholders to receive profit (income) from the company other than dividends and liquidation value. | 1. To exclude any ways for its shareholders to receive profit (income) from the company other than dividends and liquidation value, the company's internal documents provide for controls to timely identify and approve transactions with affiliates (associates) of the company's substantial shareholders (persons entitled to use the votes attached to voting shares) in cases when the law does not formally recognise these transactions as interested-party transactions. |
| 1.3 | Corporate governance system and practices ensure equal treatment for all shareholders owning the same type (class) of shares, including minority and non-resident shareholders, and their equal treatment by the company. | |
| 1.3.1 | The company has created conditions for fair treatment of each shareholder by the governing bodies and the company's controlling entities, including conditions ruling out abuse of minority shareholders by major shareholders. | 1. In the reporting period, the procedures for managing potential conflicts of interest among major shareholders were efficient, and the board of directors paid due attention to conflicts among shareholders, if such conflicts occurred. |
| 1.3.2 | The company does not take actions which lead or may lead to artificial redistribution of corporate control. | 1. Quasi-treasury shares do not exist or did not participate in voting in the reporting period. |
| 1.4 | Shareholders are provided with reliable and effective methods for recording their rights in shares, as well as are enabled to freely dispose of their shares without any hindrance. | |
| 1.4 | Shareholders are provided with reliable and effective methods for recording their rights in shares, as well as are enabled to freely dispose of their shares without any hindrance. | 1. The quality and reliability of the securities register maintained by the company's registrar meet the requirements of the company and its shareholders. |
| 2.1 | The board of directors carries out the strategic management of the company, establishes the basic principles of, and approaches to, setting up a risk management and internal control system in the company, controls the activities of the company's executive bodies, and performs other key functions. | |
| 2.1.1 | The board of directors is responsible for passing resolutions related to appointment and removal of executive bodies, including due to their inadequate performance. The board of directors also ensures that the company's executive bodies act in accordance with the approved growth strategy and along the company's core lines of business. | <p>1. The board of directors has the authority stipulated in the articles of association to appoint and remove members of executive bodies and to set out the terms and conditions of their contracts.</p> <p>2. The board of directors reviewed the report(s) by the sole executive body or members of the collective executive body on the implementation of the company's strategy.</p> |

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x Full
Partial
None

1. The Company's Dividend Policy is developed and approved by the Board of Directors.

2. JSC FPC's Dividend Policy uses the Company's reporting figures to determine the dividend amount, and the respective provisions of the Dividend Policy take into account the RAS financial statements.

x Full
Partial
None

x Full
Partial
None

x Full
Partial
None

Following amendments to legislation on joint stock companies, the new version of JSC FPC's Articles of Association stipulates that the provisions of Article 11 of the Federal Law On Joint Stock Companies do not apply to transactions in which the Company's controlling entity is the interested party.

x Full
Partial
None

x Full
Partial
None

x Full
Partial
None

x Full
Partial
None

1. The board of directors has the authority stipulated in JSC FPC's Articles of Association to appoint and remove members of executive bodies and to set out the terms and conditions of their contracts.

2. The draft version of JSC FPC's Development Strategy until 2030 was approved by FPC's Board of Directors in November 2017 and submitted for review at a meeting of the Board of Directors of Russian Railways and a meeting of the Management Board of Russian Railways.

FPC's Board of Directors did not review the report on the implementation of the Company's strategy in 2018. It is planned that this matter will be reviewed in the second half of 2019.

| ITEM | CORPORATE GOVERNANCE PRINCIPLES | CRITERIA FOR ASSESSING COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLE |
|------------|--|---|
| 2.1.2 | The board of directors defines the main long-term targets of the company's operations, assesses and approves its key performance indicators and key business goals, as well as the strategy and business plans for the company's core lines of business. | 1. In the reporting period, the board of directors reviewed at its meetings matters related to the progress in the implementation of the strategy and its updates, approval of the company's financial and business plan (budget), and consideration of the implementation criteria and performance (including interim criteria and performance) of the company's strategy and business plans. |
| 2.1.3 | The board of directors determines the principles of, and approaches to organising a risk management and internal control system in the company. | 1. The board of directors has determined the principles of, and approaches to organising a risk management and internal control system in the company. 2. The board of directors assessed the company's risk management and internal control system in the reporting period. |
| 2.1.4 | The board of directors defines the company's policy on remuneration due to, and/or reimbursement (compensation) of costs incurred by, members of the board of directors, executive bodies, and other key managers of the company. | 1. The company has developed and put in place the policy on remuneration and/or reimbursement (compensation) of costs of the members of the board of directors, executive bodies, and other key managers, approved by the board of directors. 2. In the reporting period, the board of directors reviewed at its meetings matters related to the said policy (policies). |
| 2.1.5 | The board of directors plays a key role in preventing, identifying and settling internal conflicts between the company's bodies, shareholders and employees. | 1. The board of directors plays a key role in preventing, identifying and settling internal conflicts. 2. The company has set up a system for identification of transactions involving a conflict of interest, and a set of measures to resolve such conflicts. |
| 2.1.6 | The board of directors plays a key role in ensuring the company's transparency, the timeliness and completeness of its information disclosures, and unhindered access to the company's documents for shareholders. | 1. The board of directors has approved the regulations on the information policy. 2. The company has designated the persons responsible for the implementation of the information policy. |
| 2.1.7 | The board of directors controls the company's corporate governance practices and plays a key role in its significant corporate events. | 1. In the reporting period, the board of directors considered the matter of the company's corporate governance practices. |
| 2.2 | The board of directors is accountable to the company's shareholders. | |
| 2.2.1 | Performance of the board of directors is disclosed and made available to the shareholders. | 1. The company's annual report for the reporting period includes the information on individual attendance at board of directors and committee meetings. 2. The annual report contains key results of assessment of the board of directors' performance in the reporting period. |
| 2.2.2 | The chairman of the board of directors is available to communicate with the company's shareholders. | 1. The company has in place a transparent procedure enabling shareholders to forward questions to the chairman of the board of directors and express their respective positions. |
| 2.3 | The board of directors manages the company in an efficient and competent manner and makes fair and independent judgements and decisions in line with the best interests of the company and its shareholders. | |
| 2.3.1 | Only persons with impeccable business and personal reputation, possessing the knowledge and expertise required to make decisions falling within the authority of the board of directors and to essential performing its functions efficiently are elected to the board of directors. | 1. The procedure for assessing the board of directors' performance established in the company includes, inter alia, assessment of professional qualifications of directors. 2. In the reporting period, the board of directors (or its nomination committee) assessed nominees to the board of directors in terms of having the required experience, knowledge, business reputation, absence of a conflict of interest, etc. |

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|--|-------------------------|---|
| x | Full Partial None | Matters related to the implementation, update and approval of the Company's financial and business plan (budget) were reviewed at the meeting of the Board of Directors held in the reporting period. |
| x | Full Partial None | Full compliance with subparagraph 1. FPC's Board of Directors approved JSC FPC's Risk Management Policy (Minutes No. 9 dated 16 November 2018), which sets out, inter alia, the principles of, and approaches to organising a risk management system. The principles of, and approaches to organising an internal control system in the Company are set out in the Internal Control Policy approved by FPC's Board of Directors (Minutes No. 9 dated 23 December 2015). |
| x | Full Partial None | 1. The policy on remuneration of the Company's key managers is approved by order of the General Director. 2. Matters related to the policy on remuneration of the General Director were not reviewed by the Board of Directors in the reporting period. |
| x | Full Partial None | |
| x | Full Partial None | |
| x | Full Partial None | |
| x | Full Partial None | |
| x | Full Partial None | The performance of the Board of Directors was not assessed in the reporting period. |
| x | Full Partial None | |
| x | Full Partial None | FPC's Board of Directors and the Human Resources, Remuneration, and Corporate Governance Committee of FPC's Board of Directors did not assess the nominees to the Board of Directors in the reporting period. Russian Railways as a shareholder entitled to nominate candidates to the Company's governing and control bodies conducts all necessary interviews with candidates when preparing respective proposals. |

| ITEM | CORPORATE GOVERNANCE PRINCIPLES | CRITERIA FOR ASSESSING COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLE |
|------------|---|---|
| 2.3.2 | The company's directors are elected via a transparent procedure enabling shareholders to obtain information on nominees sufficient to judge on their personal and professional qualities. | 1. Whenever the agenda of the general shareholders meeting included election of the board of directors, the company provided to shareholders the biographical details of all nominees to the board of directors, the results of their assessment carried out by the board of directors (or its nomination committee), and the information on whether the nominee meets the independence criteria set forth in Recommendations 102–107 of the Code, as well as the nominees' written consent to be elected to the board of directors. |
| 2.3.3 | The board of directors is balanced, including in terms of qualifications of its members, their experience, knowledge and business qualities, and has the trust of shareholders. | 1. As part of assessment of the board of directors' performance carried out in the reporting period, the board of directors analysed its needs in terms of professional qualifications, experience, and business skills. |
| 2.3.4 | The company has a sufficient number of directors to organise the board of directors' activities in the most efficient way, including ability to set up committees of the board of directors and enable the company's substantial minority shareholders to elect a nominee to the board of directors for whom they vote. | 1. As part of the assessment of the board of directors' performance carried out in the reporting period, the board of directors considered whether the number of directors was in line with the company's needs and with the interests of shareholders. |
| 2.4 | The board of directors includes a sufficient number of independent directors. | |
| 2.4.1 | An independent director is a person of sufficient professionalism, experience and self-reliance to form his/her own opinion, able to make impartial judgements in good faith independent from the company's executive bodies, particular groups of shareholders or other stakeholders. It should be noted that under normal circumstance a nominee (elected director) cannot be considered independent if he/she is related to the company, its substantial shareholder or counterparty, the company's competitor, or the government. | 1. In the reporting period, all independent directors met the independence criteria set out in Recommendations 102–107 of the Code, or were deemed independent by resolution of the board of directors. |
| 2.4.2 | The compliance of nominees to the board of directors with the criteria for independence is assessed, and a regular review of compliance of independent directors with such criteria is performed. Substance shall prevail over form in such assessments. | <p>1. In the reporting period, the board of directors (or the nomination committee of the board of directors) formed its opinion on the independence of each nominee to the board of directors and presented respective opinions to shareholders.</p> <p>2. In the reporting period, the board of directors (or the nomination committee of the board of directors) reviewed at least once the independence of the current members of the board of directors listed by the company in its annual report as independent directors.</p> <p>3. The company has developed procedures defining the actions to be taken by a member of the board of directors if he/she ceases to be independent, including the obligation to timely notify the board of directors thereof.</p> |
| 2.4.3 | Independent directors make up at least one third of the elected directors. | 1. Independent directors make up at least one third of directors. |
| 2.4.4 | Independent directors play a key role in preventing internal conflicts in the company and in the performance by the latter of material corporate actions. | 1. Independent directors (who do not have a conflict of interest) carry out a preliminary assessment of material corporate actions implying a possible conflict of interest, and the results of such assessment are presented to the board of directors. |

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|--|-------------------------|--|
| x | Full Partial None | <p>In the reporting period, the Company provided to shareholders the biographical details of nominees to the Board of Directors as part of the materials for the General Shareholders Meeting.</p> <p>The Human Resources, Remuneration, and Corporate Governance Committee of FPC's Board of Directors assessed independent directors for compliance with the independence criteria.</p> |
| x | Full Partial None | The performance of the Board of Directors was not assessed in the reporting period. |
| x | Full Partial None | It was not assessed whether the number of directors was in line with the Company's needs and with the interests of shareholders. The Company does not have substantial minority shareholders. |
| x | Full Partial None | <p>Based on the questionnaires submitted to the Human Resources, Remuneration, and Corporate Governance Committee of the Board of Directors, Sergey Zemlyansky, Alla Saltykova and Sergey Maltsev meet the independence criteria.</p> <p>The Committee deemed that the relation of Sergey Maltsev, member of the Board of Directors, to the substantial shareholder was formal and did not affect his ability to make independent and impartial judgements in good faith.</p> <p>FPC's Board of Directors did not pass such resolutions in the reporting period.</p> |
| x | Full Partial None | |
| x | Full Partial None | |
| x | Full Partial None | There were no material corporate actions in the reporting period. |

| ITEM | CORPORATE GOVERNANCE PRINCIPLES | CRITERIA FOR ASSESSING COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLE |
|------------|---|--|
| 2.5 | The chairman of the board of directors facilitates the best performance of assigned duties by the board of directors. | |
| 2.5.1 | The board of directors is chaired by an independent director, or a senior independent director is chosen from among the elected independent directors to coordinate the activities of independent directors and enable the interaction with the chairman of the board of directors. | <p>1. The board of directors is chaired by an independent director, or a senior independent director is appointed from among the independent directors.</p> <p>2. The role, rights and duties of the chairman of the board of directors (and, if applicable, of the senior independent director) are duly set out in the company's internal documents.</p> |
| 2.5.2 | The chairman of the board of directors maintains a constructive environment at meetings, enables free discussions of agenda items, and supervises the execution of resolutions passed by the board of directors. | 1. The performance of the chairman of the board of directors was assessed as part of the procedure for assessing the efficiency of the board of directors in the reporting period. |
| 2.5.3 | The chairman of the board of directors takes all steps necessary for the timely provision to directors of information required to pass resolutions on agenda items. | 1. The company's internal documents set out the duty of the chairman of the board of directors to take all steps necessary for the timely provision to directors of materials regarding items on the agenda of the board meeting. |
| 2.6 | Directors act reasonably and in good faith in the best interests of the company and its shareholders, relying on sufficient information, exercising due care and prudence. | |
| 2.6.1 | Directors make decisions based on all information available, without conflict of interest, subject to equal treatment of the company's shareholders, and assuming normal business risks. | <p>1. The company's internal documents provide that a director should notify the board of directors if he/she has a conflict of interest in respect of any item on the agenda of the board meeting or the board's committee meeting, prior to the discussion of the relevant agenda item.</p> <p>2. The company's internal documents stipulate that a director should abstain from voting on any item in connection with which he/she has a conflict of interest.</p> <p>3. The company has in place a procedure enabling the board of directors to get professional advice on matters within its remit at the expense of the company.</p> |
| 2.6.2 | The rights and obligations of directors are clearly defined and set out in the company's internal documents. | 1. The company has adopted and published an internal document clearly defining the rights and duties of directors. |
| 2.6.3 | Directors have sufficient time to perform their duties. | <p>1. Individual attendance at board and committee meetings, as well as time devoted to preparation for attending meetings, was recorded as part of the procedure for assessing the board of directors in the reporting period.</p> <p>2. In accordance with the company's internal documents, directors inform the board of their intentions to joint management bodies of other organisations (except for entities controlled by, or affiliated to, the company), or of the relevant appointment made.</p> |
| 2.6.4 | All directors have equal access to the company's documents and information. Newly elected directors are furnished with sufficient information about the company and performance of the board of directors as soon as possible. | <p>1. In accordance with the company's internal documents, directors are entitled to have access to documents and make queries regarding the company and entities under its control, and the company's executive bodies should provide relevant information and documents.</p> <p>2. The company has in place a formalised induction program for newly elected directors.</p> |
| 2.7 | Meetings of the board of directors, preparation for such meetings and participation of directors ensure efficient performance by the board of directors. | |
| 2.7.1 | Meetings of the board of directors are held as needed, taking into account the scale of operations and goals of the company at a particular time. | 1. The board of directors held at least six meetings in the reporting year. |

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x Full
Partial
None

1. The Chairman of FPC's Board of Directors is not an independent director. The candidate to become Chairman of FPC's Board of Directors is approved by the Board of Directors of Russian Railways. Independent directors do not require additional coordination; a senior independent director is not appointed.

2. The role, rights, and duties of the Chairman of the Board of Directors and the senior independent director are set out in the Regulations on the Board of Directors of JSC FPC.

x Full
Partial
None

The performance of the Board of Directors was not assessed in the reporting period.

x Full
Partial
None

x Full
Partial
None

x Full
Partial
None

x Full
Partial
None

The performance of the Board of Directors was not assessed in the reporting period.
The Company's internal documents do not stipulate the requirement for Directors to provide information about their intentions to joint management bodies of other organisations.
The Regulations on the Board of Directors of JSC FPC stipulate that Directors should provide information to the Board of Directors:

- on entities in which they hold 20 or more percent of voting shares (interests or stakes) on their own or with affiliates
- on entities in which they serve on a governing body
- on FPC's performed or proposed transactions known to them, in which they may be recognised as interested parties.

x Full
Partial
None

x Full
Partial
None

| ITEM | CORPORATE GOVERNANCE PRINCIPLES | CRITERIA FOR ASSESSING COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLE |
|------------|---|---|
| 2.7.2 | The company's internal regulations formalise a procedure for arranging and holding meetings of the board of directors, enabling members of the board of directors to prepare for such meetings in a proper manner. | 1. The company has an approved internal document that describes the procedure for arranging and holding meetings of the board of directors and sets out, in particular, that the notice of the meeting shall be given, as a rule, at least five days prior to such meeting. |
| 2.7.3 | The format of the meeting of the board of directors is determined taking into account the importance of items on the agenda. The most important matters shall be dealt with at meetings of the board of directors held in person. | 1. The company's articles of association or internal document provides for the most important matters (as per the list set out in Recommendation 168 of the Code) to be passed at in-person meetings of the board of directors. |
| 2.7.4 | Resolutions on the most important matters related to the company's operations are passed at a meeting of the board of directors by a qualified majority or by a majority of all elected directors. | 1. The company's articles of association provide for resolutions on the most important matters set out in Recommendation 170 of the Code to be passed at a meeting of the board of directors by a qualified majority of at least three quarters or by a majority of all elected directors. |
| 2.8 | The board of directors sets up committees to preview the most important matters related to the company's operations. | |
| 2.8.1 | To preview matters related to controlling the Company's financial and business activities, it is recommended to set up an audit committee comprised of independent directors. | <p>1. The board of directors has set up an audit committee comprised solely of independent directors.</p> <p>2. The company's internal documents set out the tasks of the audit committee, including those listed in Recommendation 172 of the Code.</p> <p>3. At least one member of the audit committee represented by an independent director has experience and knowledge of preparing, analysing, assessing and auditing accounting (financial) statements.</p> <p>4. Meetings of the audit committee were held at least once a quarter during the reporting period.</p> |
| 2.8.2 | To preview matters related to adopting an efficient and transparent remuneration scheme, a remuneration committee was set up, comprised of independent directors and headed by an independent director who is not the chairman of the board of directors. | <p>1. The board of directors has set up a remuneration committee comprised solely of independent directors.</p> <p>2. The remuneration committee is headed by an independent director who is not the chairman of the board of directors.</p> <p>3. The company's internal documents set out the tasks of the remuneration committee, including those listed in Recommendation 180 of the Code.</p> |
| 2.8.3 | To preview matters related to talent management (succession planning), professional composition and efficiency of the board of directors, a nomination (appointments, human resources) committee was set up, predominantly comprised of independent directors. | <p>1. The board of directors has set up a nomination committee (or its tasks listed in Recommendation 186 of the Code are fulfilled by another committee) predominantly comprised of independent directors.</p> <p>2. The company's internal documents set out the tasks of the nomination committee (or the tasks of the committee with combined functions), including those listed in Recommendation 186 of the Code.</p> |
| 2.8.4 | Taking into account the company's scope of business and level of risks, the company's board of directors made sure that the composition of its committees is fully in line with the company's business goals. Additional committees were either set up or not deemed necessary (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, health, safety and environment committee, etc.). | 1. In the reporting period, the board of directors considered whether the composition of its committees was in line with the board's tasks and the company's business goals. Additional committees were either set up or not deemed necessary. |

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|--|-------------------------|---|
| x | Full Partial None | |
| x | Full Partial None | The Regulations on the Board of Directors of JSC FPC contain a recommendation to the Board of Directors to deal with the most important matters at meetings held in person. The list of such matters is specified in paragraph 7.10 of the Regulations on the Board of Directors of JSC FPC. |
| x | Full Partial None | In accordance with paragraph 18.10 of JSC FPC's Articles of Association, resolutions of the Company's Board of Directors on including the persons nominated by shareholders or the Board of Directors in the list of members of the collegial executive body or the Company's Audit Commission, or on approving the auditor and electing the person acting as the sole executive body of each company created through reorganisation in the form of merger, division or spin-off, as well as in cases stipulated by the Federal Law On Joint Stock Companies are passed by a majority of at least three quarters of the total number of Directors. In accordance with paragraph 18.11 of JSC FPC's Articles of Association, resolutions of the Company's Board of Directors on matters listed in subparagraphs 1, 12, 21, 25, 27, 38, 43-45 and 47 of paragraph 15.1, Article 15 of the Articles of Association, as well as on approving the Company's dividend policy are passed by a majority of Directors. |
| x | Full Partial None | Members of the Board of Directors and employees of Russian Railways and JSC FPC are involved in the activities of the Audit and Risk Committee of FPC's Board of Directors. The Committee is headed by an independent director. |
| x | Full Partial None | Members of the Board of Directors and employees of Russian Railways and JSC FPC are involved in the activities of the Human Resources, Remuneration, and Corporate Governance Committee of FPC's Board of Directors. The Committee is headed by an independent director who is not the Chairman of FPC's Board of Directors. |
| x | Full Partial None | JSC FPC has set up the Human Resources, Remuneration, and Corporate Governance Committee of the Board of Directors. The roles of the Committee are set out in the Regulations on the Human Resources, Remuneration, and Corporate Governance Committee of FPC's Board of Directors and comply with recommendations of the Corporate Governance Code concerning the remuneration committee and the nomination committee. The Committee includes one independent director. |
| x | Full Partial None | |

| ITEM | CORPORATE GOVERNANCE PRINCIPLES | CRITERIA FOR ASSESSING COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLE |
|------------|--|--|
| 2.8.5 | Committees are composed so as to enable comprehensive discussions of matters under preview, taking into account the diversity of opinions. | <p>1. Committees of the board of directors are headed by independent directors.</p> <p>2. The company's internal documents (policies) include provisions stipulating that persons who are not members of the audit committee, the nomination committee and the remuneration committee may attend committee meetings only by invitation of the chairman of the respective committee.</p> |
| 2.8.6 | Committee chairmen inform the board of directors and its chairman on the work of their committees on a regular basis. | 1. During the reporting period, committee chairmen reported to the board of directors on the work of committees on a regular basis. |
| 2.9 | The board of directors ensures performance assessment of the board of directors, its committees and members of the board of directors. | |
| 2.9.1 | The board of directors' performance assessment is aimed at determining the efficiency of the board of directors, its committees and members, consistency of their work with the company's development requirements, as well as bolstering the work of the board of directors and identifying areas for improvement. | <p>1. Self-assessment or external assessment of the board of directors' performance carried out in the reporting period included performance assessment of committees, individual members of the board of directors and the board of directors in general.</p> <p>2. Results of self-assessment or external assessment of the board of directors' performance carried out in the reporting period were reviewed at the in-person meeting of the board.</p> |
| 2.9.2 | Performance of the board of directors, its committees and members shall be assessed regularly at least once a year. An external advisor is engaged at least once in three years to conduct an independent assessment of the board of directors' performance. | 1. The company engaged an external advisor to conduct an independent assessment of the board of directors' performance at least once over the last three reporting periods. |
| 3.1 | The company's corporate secretary ensures efficient ongoing interaction with shareholders, coordinate the company's efforts to protect shareholder rights and interests, and supports the activities of the board of directors. | |
| 3.1.1 | The corporate secretary has the knowledge, experience and qualifications sufficient to perform his/her duties, as well as an impeccable reputation and the trust of shareholders. | <p>1. The company has adopted and published an internal document – regulations on the corporate secretary.</p> <p>2. The biographical data of the corporate secretary are published on the corporate website and in the company's annual report with the same level of detail as for members of the board of directors and the company's executives.</p> |
| 3.1.2 | The corporate secretary is sufficiently independent of the company's executive bodies and have the powers and resources required to perform his/her tasks. | 1. The board of directors approves the appointment, dismissal and additional remuneration of the corporate secretary. |
| 4.1 | Remuneration payable by the company is sufficient to attract, motivate and retain people with competencies and qualifications required by the company. Remuneration payable to directors, executive bodies and other key executive officers of the company is in compliance with the approved remuneration policy of the company. | |
| 4.1.1 | The amount of remuneration paid by the company to directors, executive bodies and other key managers creates sufficient incentives for them to work efficiently while enabling the company to engage and retain competent and qualified specialists. At the same time, the company avoids unnecessarily high remuneration, as well as unjustifiably large gaps between remunerations of the above persons and the company's employees. | 1. The company has in place an internal document (internal documents) – the policy (policies) on remuneration of directors, executive bodies and other key managers, which clearly defines (define) the approaches to remuneration of the above persons. |

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x Full
Partial
None

Two committees of the Board of Directors (the Audit and Risk Committee and the Human Resources, Remuneration, and Corporate Governance Committee) are headed by independent directors. The Strategic Planning Committee is headed by the Chairman of the Company's Board of Directors.

x Full
Partial
None

x Full
Partial
None

The performance of the Board of Directors was not assessed in the reporting period.

x Full
Partial
None

Independent assessment of the board of directors' performance was not conducted in the reporting period.

x Full
Partial
None

x Full
Partial
None

x Full
Partial
None

| ITEM | CORPORATE GOVERNANCE PRINCIPLES | CRITERIA FOR ASSESSING COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLE |
|------------|---|--|
| 4.1.2 | The company's remuneration policy is devised by the remuneration committee and approved by the board of directors. The board of directors, assisted by the remuneration committee, ensures control over the introduction and implementation of the company's remuneration policy, revising and amending it as required. | 1. In reporting period, the remuneration committee considered the remuneration policy (policies) and the practical aspects of its (their) introduction and presented relevant recommendation to the board of directors as required. |
| 4.1.3 | The company's remuneration policy includes transparent mechanisms for determining the amount of remuneration due to directors, executive bodies and other key managers of the company, and regulate all types of expenses, benefits and privileges provided to such persons. | 1. The company's remuneration policy (policies) includes (include) transparent mechanisms for determining the amount of remuneration due to directors, executive bodies and other key managers of the company, and regulates (regulate) all types of expenses, benefits and privileges provided to such persons. |
| 4.1.4 | The company defines a policy on reimbursement (compensation) of costs detailing a list of reimbursable expenses and specifying service levels that directors, executive bodies and other key managers of the company can claim. Such policy can make part of the company's remuneration policy. | 1. The remuneration policy (policies) defines (define) the rules for reimbursement of costs incurred by directors, executive bodies and other key managers of the company. |
| 4.2 | Remuneration system for directors ensures alignment of financial interests of directors with long term financial interests of shareholders. | |
| 4.2.1 | The company pays fixed annual remuneration to directors. The company does not pay remuneration for attending particular meetings of the board of directors or its committees. The company does not apply any form of short-term motivation or additional financial incentive for directors. | 1. Fixed annual remuneration was the only form of monetary remuneration payable to directors for their service on the board of directors during the reporting period. |
| 4.2.2 | Long-term ownership of the company's shares helps align the financial interests of directors with long-term interests of shareholders to the utmost. At the same time, the company does not link the right to dispose of shares to performance targets, and directors do not participate in stock option plans. | 1. If the company's internal document(s) – the remuneration policy (policies) stipulates (stipulate) provision of the company's shares to directors, clear rules for share ownership by directors shall be defined and disclosed, aimed at stimulating long-term ownership of such shares. |
| 4.2.3 | The company does not provide for any extra payments or compensations in the event of early termination of directors' mandates resulting from the change of control or any other reasons. | 1. The company does not provide for any extra payments or compensations in the event of early termination of directors' mandates resulting from the change of control or any other reasons. |

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| | | |
|---|-------------------------|--|
| x | Full Partial None | In 2018, the Human Resources, Remuneration, and Corporate Governance Committee of FPC's Board of Directors did not review matters related to the remuneration of the General Director and key managers of the Company. Information on bonuses paid to the General Director is submitted for review by the Human Resources, Remuneration, and Corporate Governance Committee of FPC's Board of Directors on a quarterly basis. |
| x | Full Partial None | |
| x | Full Partial None | |
| x | Full Partial None | |
| x | Full Partial None | |
| x | Full Partial None | Not applicable. The Regulations on Remuneration and Reimbursement for Members of JSC FPC's Board of Directors do not stipulate provision of the Company's shares to directors. |
| x | Full Partial None | |

| ITEM | CORPORATE GOVERNANCE PRINCIPLES | CRITERIA FOR ASSESSING COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLE |
|------------|--|---|
| 4.3 | The company considers its performance and the personal contribution of each executive to the achievement of such performance, when determining the amount of a fee payable to members of executive bodies and other key managers of the company. | |
| 4.3.1 | Remuneration due to members of executive bodies and other key managers of the company is determined in a manner providing for reasonable and justified ratio of the fixed and variable parts of remuneration, depending on the company's results and the employee's personal contribution. | <p>1. In the reporting period, annual performance results approved by the board of directors were used to determine the amount of the variable part of remuneration due to members of executive bodies and other key managers of the company.</p> <p>2. During the latest assessment of the system of remuneration for members of executive bodies and other key managers of the company, the board of directors (remuneration committee) made sure that the company applies efficient ratio of the fixed and variable parts of remuneration.</p> <p>3. The company has in place a procedure that guarantees return to the company of bonus payments illegally received by members of executive bodies and other key managers of the company.</p> |
| 4.3.2 | The company has in place a long-term incentive program for members of executive bodies and other key managers of the company with the use of the company's shares (options and other derivative instruments where the company's shares are the underlying asset). | <p>1. The company has in place a long-term incentive program for members of executive bodies and other key managers of the company with the use of the company's shares (financial instruments based on the company's shares).</p> <p>2. The long-term incentive program for members of executive bodies and other key managers of the company implies that the right to dispose of the shares and other financial instruments used in this program takes effect at least three years after such shares or other financial instruments are granted. The right to dispose of such shares or other financial instruments is linked to the company's performance targets.</p> |
| 4.3.3 | The compensation (golden parachute) payable by the company in case of early termination of powers of members of executive bodies or key managers at the company's initiative, provided that there have been no actions in bad faith on their part, does not exceed the double amount of the fixed part of their annual remuneration. | 1. In the reporting period, the compensation (golden parachute) payable by the company in case of early termination of the powers of executive bodies or key managers at the company's initiative, provided that there have been no actions in bad faith on their part, did not exceed the double amount of the fixed part of their annual remuneration. |
| 5.1 | The company has in place an effective risk management and internal control system providing reasonable assurance in the achievement of the company's goals. | |
| 5.1.1 | The company's board of directors determined the principles of, and approaches to organising a risk management and internal control system in the company. | 1. Functions of different management bodies and units of the company in the risk management system and internal control are clearly defined in the company's internal documents/relevant policy approved by the board of directors. |
| 5.1.2 | The company's executive bodies ensure establishment and continuous operation of an efficient risk management and internal control system in the company. | 1. The company's executive bodies ensured the distribution of functions and powers related to risk management and internal control between the heads (managers) of units and departments accountable to them. |
| 5.1.3 | The company's risk management and internal control system ensures an objective, fair and clear representation of the current state of the company and its future prospects, the integrity and transparency of the company's reporting, as well as reasonable and acceptable risk exposure. | <p>1. The company has in place an approved anti-corruption policy.</p> <p>2. The company has arranged for accessible means of notifying the board of directors or the board's audit committee about violations of the law, the company's internal procedures and code of ethics.</p> |
| 5.1.4 | The company's board of directors takes necessary measures to make sure that the company's risk management and internal control system is consistent with the principles of, and approaches to its setting up determined by the board of directors, and that the system is functioning efficiently. | 1. In the reporting period, the board of directors or the board's audit committee assessed the efficiency of the company's risk management and internal control system. The information on the key results of this assessment is included in the company's annual report. |

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**COMPLIANCE WITH CORPORATE
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WITH CORPORATE GOVERNANCE PRINCIPLE**

| | | |
|---|-------------------------|--|
| x | Full Partial None | <p>1. Annual targets set out in JSC FPC's budget approved by the Board of Directors were used to determine the amount of the variable part of remuneration due to members of executive bodies and other key managers of the Company.</p> <p>2. The remuneration system for members of executive bodies and other key managers of the Company was not assessed.</p> <p>3. JSC FPC's corporate regulations do not provide for a procedure that guarantees return to the Company of bonus payments illegally received by members of executive bodies and other key managers of the Company.</p> |
| x | Full Partial None | Not applicable. |
| x | Full Partial None | |
| x | Full Partial None | |
| x | Full Partial None | |
| x | Full Partial None | |
| x | Full Partial None | JSC FPC's Internal Audit Unit assessed the efficiency of the company's risk management and internal control system; the results of the assessment were submitted for review by FPC's Board of Directors upon review by the Audit and Risk Committee of FPC's Board of Directors. |

| ITEM | CORPORATE GOVERNANCE PRINCIPLES | CRITERIA FOR ASSESSING COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLE |
|------------|--|---|
| 5.2 | The company performs internal audits for regular independent assessment of the reliability and effectiveness of the risk management and internal control system, as well as corporate governance practices. | |
| 5.2.1 | The company has set up a separate business unit or engaged an independent external organisation to carry out internal audits. The functional and administrative reporting lines of the internal audit unit are delineated. The internal audit unit functionally reports to the board of directors. | 1. To perform internal audits, the company has set up a separate internal audit business unit functionally reporting to the board of directors or the audit committee, or engaged an independent external organisation with the same line of reporting. |
| 5.2.2 | The internal audit unit assesses the performance of the internal control and risk management system, as well as the corporate governance system. The company applies generally accepted standards of internal audit. | 1. In the reporting period, the performance of the internal control and risk management system was assessed as part of the internal audit procedure. 2. The company applies generally accepted approaches to internal audit and risk management. |
| 6.1 | The company and its business are transparent for shareholders, investors and other stakeholders. | |
| 6.1.1 | The company has developed and adopted an information policy ensuring an efficient exchange of information between the company, its shareholders, investors and other stakeholders. | 1. The company's board of directors approved an information policy developed in accordance with the Code's recommendations. 2. The board of directors (or one of its committees) considered matters related to the company's compliance with its information policy at least once in the reporting period. |
| 6.1.2 | The company discloses information on its corporate governance system and practices, including detailed information on compliance with the principles and recommendations of this Code. | 1. The company discloses information on its corporate governance system and general principles of corporate governance applied in the company, including disclosure on its website. 2. The company discloses information on the composition of executive bodies and the board of directors, independence of the board members and their membership in the board's committees (as defined in the Code). 3. If the company has a controlling entity, the company publishes a memorandum of the controlling entity setting out the latter's plans for the company's corporate governance. |
| 6.2 | The company makes timely disclosures of complete, updated and reliable information to allow shareholders and investors to make informed decisions. | |
| 6.2.1 | The company discloses information based on the principles of regularity, consistency and promptness, as well as availability, reliability, completeness and comparability of disclosed data. | 1. The company's information policy defines the approaches to, and criteria of identification of information that can have a material impact on the company's evaluation and the price of its securities, as well as procedures ensuring timely disclosure of such information. 2. If the company's securities are traded on foreign regulated markets, the company ensures concerted and equivalent disclosure of material information in the Russian Federation and in the said markets in the reporting period. 3. If foreign shareholders hold a significant amount of the company's shares, during the reporting year, information was disclosed not only in the Russian language, but also in one of the most widespread foreign languages. |
| 6.2.2 | The company avoids a formalistic approach to information disclosure and discloses critical information about its operations even if such disclosure is not required by law. | 1. In the reporting period, the company disclosed annual and 6M financial statements prepared under the IFRS. The company's annual report for the reporting period contains annual financial statements prepared under the IFRS, along with the auditor's report. 2. The company discloses complete information on its capital structure, as stated in Recommendation 290 of the Code, in its annual report and on the corporate website. |

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x Full
Partial
None

To perform internal audits, the Company has set up a separate internal audit business unit – JSC FPC's Internal Audit Unit. The Internal Audit Unit functionally reports to the Board of Directors.

x Full
Partial
None

JSC FPC's local regulations on risk management and internal control have been developed in compliance with international practices and standards (including COSO's Enterprise Risk Management – Integrated Framework, GOST R ISO 31000-2010, GOST R ISO 31010-2011, etc.).

x Full
Partial
None

x Full
Partial
None

A memorandum is not available.

x Full
Partial
None

Paragraphs 2 and 3 are not applicable: JSC FPC does not have foreign shareholders, the Company's securities are not traded on foreign regulated markets.

x Full
Partial
None

In the reporting period, the company disclosed annual and 6M financial statements prepared under the IFRS.
The Annual Report does not contain annual financial statements prepared under the IFRS, The Company discloses complete information on the capital structure of JSC FPC, as stated in Recommendation 290 of the Code, in its Annual Report and on the corporate website of the company.

| ITEM | CORPORATE GOVERNANCE PRINCIPLES | CRITERIA FOR ASSESSING COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLE |
|------------|---|--|
| 6.2.3 | The annual report, as one of the most important tools of information exchange with shareholders and other stakeholders, contains information enabling assessment of the company's performance in the reporting year. | <p>1. The company's annual report contains information on the key aspects of the company's operations and its financial results.</p> <p>2. The company's annual report contains information on the environmental and social aspects of the company's operations.</p> |
| 6.3 | The company provides information and documents as per the requests of shareholders in compliance with principles of fairness and ease of access. | |
| 6.3.1 | The company provides information and documents as per the requests of shareholders in compliance with principles of fairness and ease of access. | 1. The company's information policy establishes the procedure for providing shareholders with easy access to information, including information on legal entities controlled by the company, as requested by shareholders. |
| 6.3.2 | When providing information to shareholders, the company ensures reasonable balance between the interests of particular shareholders and its own interests consisting in preserving the confidentiality of important commercial information which may materially affect its competitiveness. | <p>1. In the reporting period, the company did not refuse shareholders' requests for information, or such refusals were justified.</p> <p>2. In cases defined by the information policy, shareholders are warned of the confidential nature of the information and undertake to maintain its confidentiality.</p> |
| 7.1 | Actions that significantly impact or may significantly impact the share capital structure or financial condition of the company and, respectively, shareholders position (material corporate actions) are fairly executed providing observance of rights and interests of shareholders and other stakeholders. | |
| 7.1.1 | Material corporate actions include restructuring of the company, acquisition of 30% or more of the company's voting shares (takeover), execution by the company of significant transactions, increase or reduction of the company's authorised capital, listing or de-listing of the company's shares, as well as other actions which may lead to material changes in the rights of shareholders or violation of their interests. The company's articles of association define a list of transactions or other actions classified as material corporate actions pertaining to the competence of the company's board of directors. | <p>1. The company's articles of association define a list of transactions or other actions classified as material corporate actions, and criteria for their identification. Resolutions on material corporate actions are referred to the jurisdiction of the board of directors. When execution of such corporate actions is expressly referred by law to the jurisdiction of the general shareholders meeting, the board of directors presents relevant recommendations to shareholders.</p> <p>2. According to the company's articles of association, material corporate actions include at least: company reorganisation, acquisition of 30% or more of the company's voting shares (in case of takeover), execution by the company of material transactions, increase or reduction of the company's authorised capital, listing or delisting of the company's shares.</p> |
| 7.1.2 | The board of directors plays a key role in making decisions or working out recommendations regarding material corporate actions, relying on the opinions of the company's independent directors. | 1. The company has in place a procedure enabling independent directors to express their opinions on material corporate actions prior to approval thereof. |
| 7.1.3 | When taking material corporate actions affecting the rights and legitimate interests of shareholders, equal terms and conditions are ensured for all shareholders of the company, and, in case of insufficient statutory mechanisms for protecting shareholder rights, additional measures are taken to protect the rights and legitimate interests of the company's shareholders. In doing so, the company is guided by the corporate governance principles set forth in the Code, as well as by formal statutory requirements. | <p>1. Taking into account the specifics of the company's operations, the company's articles of association establish lower minimum criteria for the company's transactions to be deemed material corporate actions than those provided by law.</p> <p>2. All material corporate actions in the reporting period were duly approved before they were taken.</p> |

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x Full
Partial
None

x Full
Partial
None

x Full
Partial
None
Not met

x Full
Partial
None

Partly not applicable.

Since JSC FPC is a non-public joint stock company, its Articles of Association do not contain provisions on the listing and delisting of the Company's shares.
JSC FPC does not have treasury shares.

x Full
Partial
None

JSC FPC's internal documents do not provide for such a procedure.

x Full
Partial
None

| ITEM | CORPORATE GOVERNANCE PRINCIPLES | CRITERIA FOR ASSESSING COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLE |
|------------|--|---|
| 7.2 | The company performs material corporate actions in such a way as to ensure that shareholders timely receive complete information about such actions, allowing them to influence such actions and guaranteeing adequate protection of their rights when performing such actions. | |
| 7.2.1 | Information about material corporate actions is disclosed with explanations of the grounds, circumstances and consequences. | 1. In the reporting period, the company disclosed information about its material corporate actions in due time and in detail, including the grounds for, and timelines of, such actions. |
| 7.2.2 | Rules and procedures related to material corporate actions taken by the company are set out in the company's internal documents. | <p>1. The company's internal documents provide for the procedure for engaging an independent appraiser to determine the value of the property disposed of or acquired pursuant to a major transaction or an interested-party transaction.</p> <p>2. The company's internal documents set out the procedure for engaging an independent appraiser to assess the value of the company's shares at their repurchase or redemption.</p> <p>3. The company's internal documents provide for an expanded list of grounds on which members of the company's board of directors as well as other persons as per the applicable law are deemed to be interested parties to the company's transactions.</p> |

REGISTRAR DETAILS

Protection of the interests and rights of FPC's shareholders is ensured through a reliable method for recording their rights to shares – the share register is maintained by an independent entity, Company STATUS.

On 28 April 2014 (Minutes No. 15), FPC's Board of Directors approved Joint Stock Company Registry Society STATUS as FPC's registrar and approved the terms of the contract therewith.

Full name of the registrar: Joint Stock Company Registry Society STATUS

Abbreviated name of the registrar: Company STATUS

Location: 23 Novokhokhlovskaya St., Bld. 1, Moscow, 109052, Russia

INN 7707179242 / KPP 770901001

Tel.: +7 (495) 974-83-50 (general inquiries)

Email: office@rostatus.ru, info@rostatus.ru

Website: <http://www.rostatus.ru>

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x Full
Partial
None

x Full
Partial
None

JSC FPC's internal documents provide for an expanded list of grounds on which the Company's Directors and other persons as per the applicable law are deemed to be interested parties to the Company's transactions.
JSC FPC's Articles of Association stipulate that the provisions of Article 11 of the Federal Law On Joint Stock Companies do not apply to transactions in which the Company's controlling entity is the interested party.

LIST OF FPC'S BRANCHES AND THEIR STRUCTURAL UNITS CERTIFIED TO GOST R ISO 9001-2015

| BRANCH | STRUCTURAL UNITS | QMS PROCESSES |
|-----------|--|--|
| Moscow | Orekhovo-Zuyevo PCD Nikolayevka PCD Moscow-3 PCD Orel PCD Moscow-Kievskaya PCD Smolensk PCD Moscow-Yaroslavskaya CS Bryansk CS Moscow-Kalanchevskaya CS RWA | Passenger, baggage, and unaccompanied baggage transport Passenger assistance, customer service, and carriage servicing and maintenance on long-distance trains Issuance and sales of travel and carriage tickets and documents Carriage servicing before journey Carriage overhauls with service life extension (KVR) Depot repairs (DR) Stage one and two (KR-1 and KR-2) carriage overhauls Current repairs of coupled/uncoupled carriages Wheelset repairs Repairs of carriage components and assemblies Carriage maintenance and inspection (TO-1, TO-2, and TO-3) |
| Northwest | Saint Petersburg-Moskovsky PCD Saint Petersburg-Moskovsky CS Moscow PCD Kaliningrad PCD Pskov CS Petrozavodsk CS Vehicle Transport Centre RWA | Passenger, baggage, and unaccompanied baggage transport Passenger assistance, customer service, and carriage servicing and maintenance on long-distance trains Issuance and sales of travel and carriage tickets and documents Carriage servicing before journey Depot repairs (DR) Stage one (KR-1) carriage overhauls Current repairs of coupled/uncoupled carriages Wheelset repairs Repairs of carriage components and assemblies Carriage maintenance and inspection (TO-1, TO-2, and TO-3) |

| BRANCH | STRUCTURAL UNITS | QMS PROCESSES |
|--------------------------------|---|--|
| North Caucasus | Mineralnye Vody PCD Novorossiysk PCD Adler CS Rostov CS Makhachkala CS Grozny CS RWA | Passenger, baggage, and unaccompanied baggage transport Passenger assistance, customer service, and carriage servicing and maintenance on long-distance trains Issuance and sales of travel and carriage tickets and documents Carriage servicing before journey Depot repairs (DR) Stage one (KR-1) carriage overhauls Current repairs of coupled/uncoupled carriages Wheelset repairs Repairs of carriage components and assemblies Carriage maintenance and inspection (TO-1, TO-2, and TO-3) |
| West Siberian | Novosibirsk PCD Novosibirsk-Glavny CS Omsk PCD Barnaul CS Tomsk CS Novokuznetsk CS RWA | Passenger, baggage, and unaccompanied baggage transport Passenger assistance, customer service, and carriage servicing and maintenance on long-distance trains Issuance and sales of travel and carriage tickets and documents Carriage servicing before journey Depot repairs (DR) Stage one and two (KR-1 and KR-2) carriage overhauls Current repairs of coupled/uncoupled carriages Wheelset repairs Repairs of carriage components and assemblies Carriage maintenance and inspection (TO-1, TO-2, and TO-3) |
| Ural | Sverdlovsk PCD Yekaterinburg CS Perm CS Tyumen CS Chelyabinsk PCD Orenburg PCD Orsk CS RWA | Passenger, baggage, and unaccompanied baggage transport Passenger assistance, customer service, and carriage servicing and maintenance on long-distance trains Issuance and sales of travel and carriage tickets and documents Carriage servicing before journey Depot repairs (DR) Stage one (KR-1) carriage overhauls Current repairs of coupled/uncoupled carriages Wheelset repairs Repairs of carriage components and assemblies Carriage maintenance and inspection (TO-1, TO-2, and TO-3) |
| Northern | Kotlas PCD Kotlas CS Yaroslavl CS Vologda CS Syktyvkar CS Arkhangelsk CS RWA | |
| Volga | Saratov PCD Saratov-Passazhirsky CS Volgograd CS Voronezh PCD RWA | |
| Gorky | Gorky-Moskovsky PCD Kirov PCD Izhevsk CS Kazan CS RWA | |
| Kuybyshev | Samara PCD Ufa CS Penza CS Ulyanovsk CS RWA | |
| Far East | Vladivostok PCD Khabarovsk CS Tynda CS RWA | |
| Yenisey (Krasnoyarsk PCD) | Krasnoyarsk PCD | |
| East Siberian (Irkutsk PCD) | Irkutsk PCD | |
| Zabaikalie (Chita CS) | Chita CS | |

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DISCLAIMER

This Annual Report of the Joint Stock Company Federal Passenger Company (hereinafter referred to as the Company) based on the results of work for 2018 (hereinafter referred to as the Annual Report) was prepared using information available to the Company at the time of its preparation.

This Annual Report contains information on the results of the Company's activities in 2018 and forecast data, statements regarding the intentions, opinions or current expectations of the Company regarding the results of its activities, financial position, liquidity, growth prospects, strategy, as well as the development of an industry in which Company works. By their nature, such forward-looking statements are characterized by risks and uncertainties, since they relate to events and depend on circumstances that may not occur in the future.

The Company does not give any direct or implied representations or warranties and does not bear any responsibility in case of losses that individuals or legal entities may incur as a result of using the forward-looking statements of this Annual Report, for any reason, directly or indirectly. These individuals should not fully rely on the forward-looking statements contained in this document, as they are not the only possible scenario.

The sum of the parts of the whole is not always equal to the total due to the use of arithmetic rounding.

Except as provided for by the laws of the Russian Federation, the Company does not undertake to revise or confirm expectations and estimates, as well as publish updates and changes to forecast statements presented in the Report in connection with subsequent events or the receipt of new information.

CONTACTS

Full name of the Company:

Joint Stock Company Federal Passenger Company

Abbreviated name of the Company:

JSC FPC

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