

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).

Company Profile

Development Strategy

Performance Overview

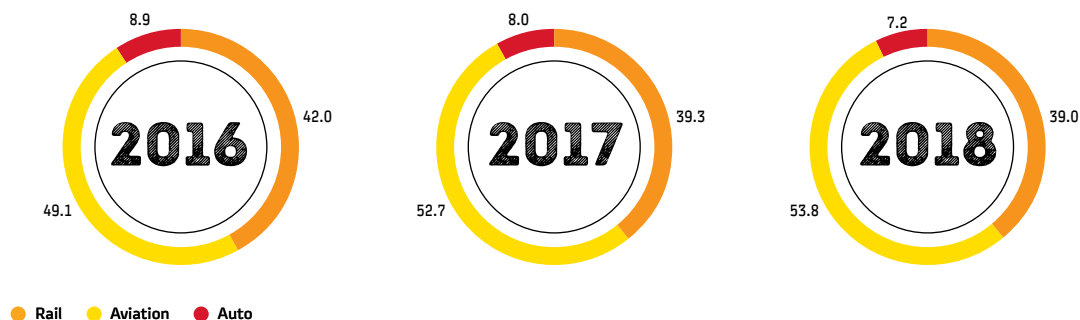
Corporate Governance

Sustainable Development

Appendices

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.

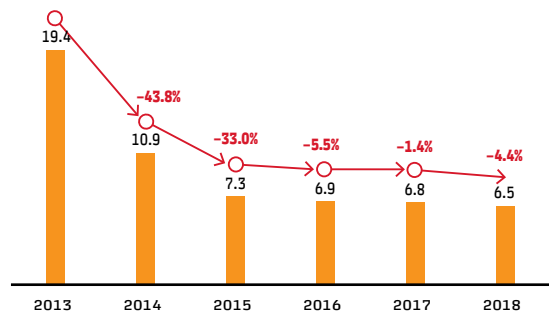
Seeking to capture the opportunities offered by the rail transport's competitive advantages in the market for interregional services between large urban agglomerations, FPC has pursued projects for assigning trains to routes under 500 km and between 500 km and 1,000 km. Long-distance services (on routes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

International transport market

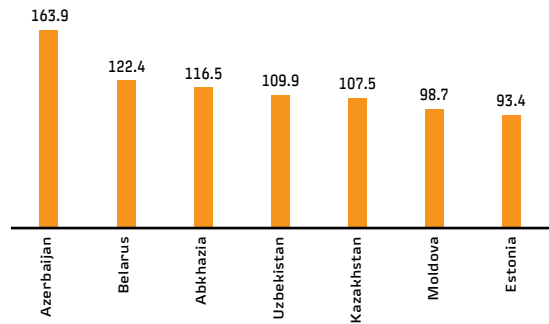
International long-distance passenger services

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.

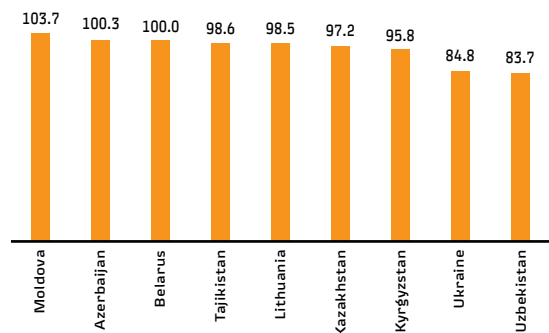
INTERNATIONAL PASSENGER TRAFFIC, MILLION PASSENGERS



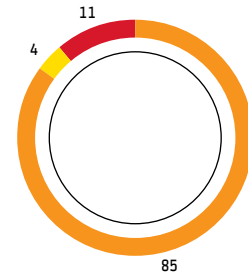
PASSENGER TRAFFIC BETWEEN RUSSIA AND THE CIS AND BALTIC STATES ON TRAINS MADE UP BY FPC, %



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



INTERNATIONAL PASSENGER SERVICES IN 2018, %



- Commonwealth of Independent States (CIS)
- Baltic states
- Other countries

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.

Company Profile

Development Strategy

Performance Overview

Corporate Governance

Sustainable Development

Appendices