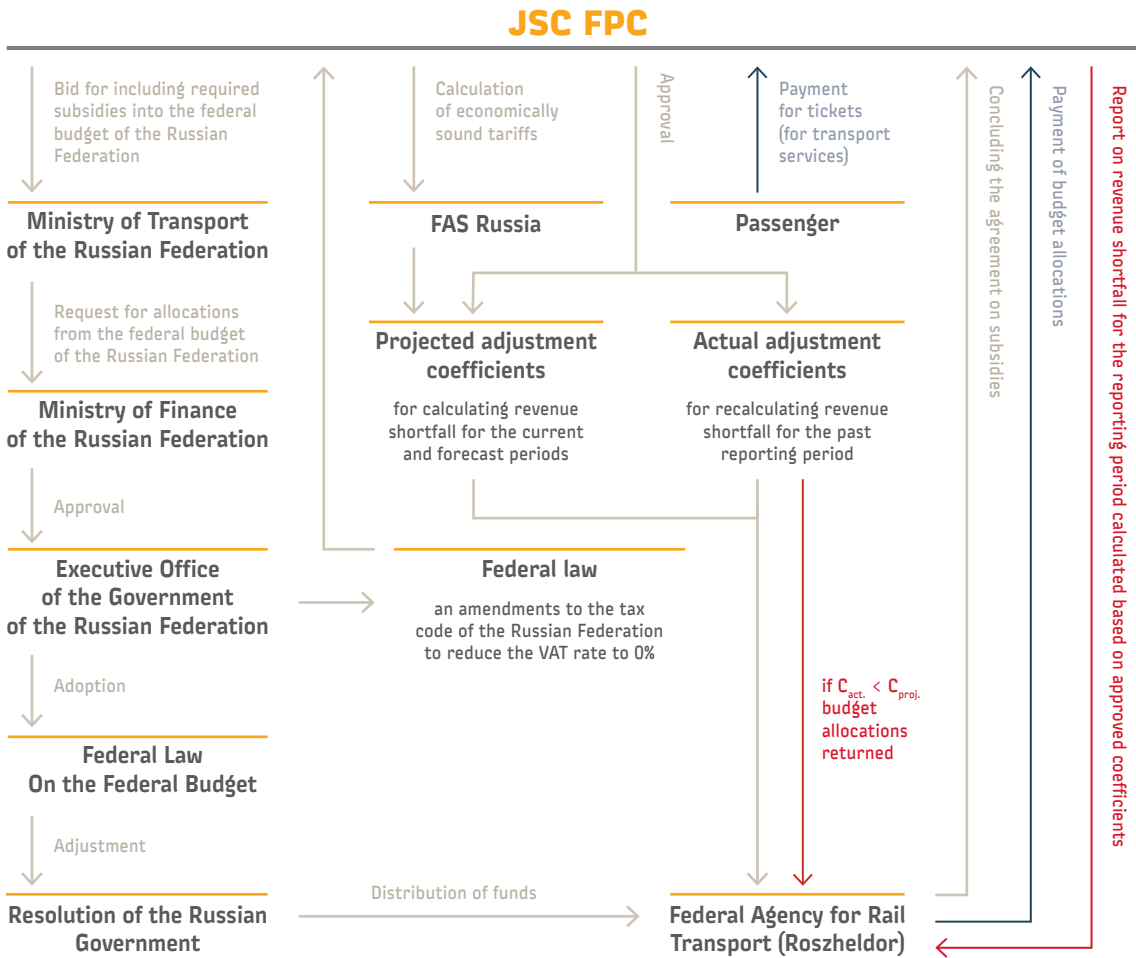


MARKETING POLICY

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.

Company Profile

Development Strategy

Performance Overview

Corporate Governance

Sustainable Development

Appendices

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.