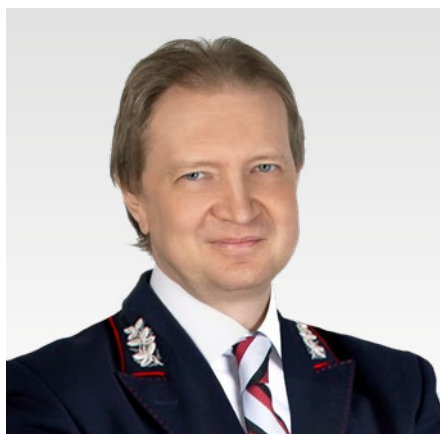


Analysis of financial results



« Despite the pandemic's major impact and related restrictions, the Company implemented its investment programme to the maximum to support Russia's economy in 2020. This was driven by our strong efforts to increase the internal efficiency, as well as corporate governance improvements and the successful use of new financial instruments (including perpetual bonds).

In these circumstances, we managed to deliver a positive financial result, with losses in line with our expectations and the Group-wide KPI targets achieved in full. »

Vadim Mikhailov

First Deputy CEO of Russian Railways

In 2020, Russian Railways acted promptly to address the unfavourable situation that emerged in a challenging macroeconomic environment amid the spread of COVID-19 and related restrictions, with timely decision-making supporting its response.

A major decline in economic activity amid the pandemic-related restrictions translated into substantially lower demand for railway transportation. Freight handling and turnover (including empty runs of own railcars) were 2.7% and 2.5% lower, respectively, than in 2019.

In passenger services, performance was mainly affected by the critical epidemiological situation. Passenger turnover shrank by 41.4% to 78.1 bn pkm as the Company transported 872 million people (down 27.2% y-o-y).

During these challenging times, Russian Railways provided strong support to ensure business continuity for its subsidiaries, customers, and partners. We also paid all the necessary federal, regional and local taxes, levies and insurance fees.

Income from transportation reduced by 1.6% y-o-y, but was up 1.1% compared to the plan. Freight operations showed a 0.5% decline (up 1.2% vs the plan), with the revenue rate growth at 2.1% amid changes in the freight transportation structure. Passenger operations deteriorated by 15.8%. Sales profit decreased by 29.4% y-o-y to RUB 117.3 bn, but was up RUB 25.0 bn, or 27.0%, compared to the plan. Profit from other operations amounted to RUB 17.9 bn.

Dividends from subsidiaries and affiliates stood at a record RUB 39.7 bn, while sales of their shares amounted to RUB 46.2 bn and yielded a financial result of RUB 0.7 bn.



Outstanding debt at the end of 2020 amounted to RUB 1,513.8 bn. In 2020, Russian Railways raised long-term financing in the primary market for a total of RUB 452.9 bn, including RUB 313 bn as a part of the perpetual bond issue supported by the Russian President – an impressive result for a complex financial instrument issued for the first time. Typically, new instruments placed on the local market during a year bring in RUB 20 bn or less.

An adverse macroeconomic environment created by the pandemic-related restrictions did not prevent us from generating a net profit of RUB 0.3 bn thanks to cost optimisation and robust debt portfolio management to beat our own expectations of a RUB 3.3 bn loss. In 2020, Russian Railways' EBITDA was RUB 402.3 bn – just 3.6% lower than in the previous year (up 3.1% vs the plan).

The Company's investment programme reached an all-time high, with capex in excess of RUB 717 bn for the year.

Russian Railways' key financial and economic results under RAS, RUB bn

Item	2019	2020		Change vs plan		Change y-o-y	
		Plan	Actual	+/-	%	+/-	%
Total income	1,848.1	1,776.5	1,813.1	36.6	102.1	-35.0	98.1
Income from transportation, infrastructure, and locomotive traction services	1,641.9	1,597.8	1,615.3	17.5	101.1	-26.6	98.4
Freight transportation	1,503.4	1,478.1	1,495.3	17.2	101.2	-8.1	99.5
Infrastructure services	110.6	95.3	96.5	1.2	101.2	-14.1	87.3
Freight	4.0	4.8	5.0	0.2	105.2	1.0	125.8
Long-haul	72.4	55.0	55.5	0.5	100.9	-16.9	76.6
Suburban	34.2	35.5	36.0	0.4	101.2	1.8	105.3
Passenger transportation	27.9	24.4	23.5	-0.9	96.4	-4.4	84.2
Long-haul	21.7	13.1	12.2	-0.9	93.4	-9.5	56.4
Suburban	6.2	11.3	11.3	0.0	99.9	5.1	181.7
Income from other operations	206.2	178.7	197.8	19.1	110.7	-8.5	95.9

Item	2019	2020		Change vs plan		Change y-o-y	
		Plan	Actual	+/-	%	+/-	%
Total expenses	1,681.8	1,684.2	1,695.8	11.6	100.7	13.9	100.8
Expenses in transportation, infrastructure and locomotive traction services	1,498.5	1,519.2	1,515.9	-3.3	99.8	17.5	101.2
Freight transportation	1,350.1	1,366.2	1,364.7	-1.5	99.9	14.6	101.1
Infrastructure services	122.3	125.5	123.5	-2.0	98.4	1.1	100.9
Freight	3.6	4.3	4.6	0.2	105.2	0.9	125.8
Long-haul	76.8	69.4	68.6	-0.8	98.9	-8.2	89.3
Suburban	41.9	51.8	50.3	-1.5	97.2	8.4	120.1
Passenger transportation	26.0	27.5	27.7	0.2	100.8	1.7	106.7
Long-haul	15.6	16.2	16.6	0.3	102.1	0.9	106.0
Suburban	10.4	11.3	11.2	-0.1	98.8	0.8	107.8
Expenses in other operations	183.4	164.9	179.8	14.9	109.0	-3.5	98.1
Total sales revenue	166.3	92.3	117.3	25.0	127.0	-49.0	70.6
Profit from transportation, infrastructure, and locomotive traction services	143.4	78.6	99.4	20.8	126.5	-44.0	69.3
Profit from other operations	22.9	13.8	17.9	4.2	130.3	-4.9	78.5
Result from other income and expenses ¹ , including:	-68.0	-88.3	-112.9	-24.6	127.9	-44.9	166.0
Social expenses	-22.5	-23.8	-24.0	-0.2	100.7	-1.4	106.4
Borrowing costs	-73.2	-79.8	-78.4	1.3	98.3	-5.2	107.2
Change in provisions and contingent liabilities	-11.3	11.4	-6.5	-17.9	-57.2	4.8	57.7
Profit before tax	98.2	4.0	4.4	0.3	108.2	-93.9	4.4
Corporate income tax and similar obligations	-44.8	-7.3	-4.1	3.3	55.7	40.7	9.1
Net profit	53.5	-3.3	0.3	3.6	-8.6	-53.2	0.5
EBITDA	417.2	390.4	402.3	12.0	103.1	-14.8	96.4

¹ This item is explained on page 90.

Analysis of income and expenses

Income from transportation

Changes in income from transportation

Item	2019	2020		Change vs plan		Change 2020/2019	
		target	actual	+/-	%	+/-	%
Income from transportation	1,641.9	1,597.8	1,615.3	17.5	1.1	-26.6	-1.6
Freight transportation	1,503.4	1,478.1	1,495.3	17.2	1.2	-8.1	-0.5
Passenger transportation	27.9	24.4	23.5	-0.9	-3.6	-4.4	-15.8
Long-haul	21.7	13.1	12.2	-0.9	-6.6	-9.5	-43.6
Suburban	6.2	11.3	11.3	0.0	-0.1	5.1	81.7
Infrastructure services	110.6	95.3	96.5	1.2	1.2	-14.1	-12.7
Freight	4.0	4.8	5.0	0.2	5.2	1.0	25.8
Long-haul passenger	72.4	55.0	55.5	0.5	0.9	-16.9	-23.4
Suburban passenger	34.2	35.5	36.0	0.4	1.2	1.8	5.3

In 2020, income from transportation totalled RUB 1,615.3 bn, down RUB 26.6 bn y-o-y (up 1.1% vs the plan).

Income from freight transportation

In 2020, income from freight transportation totalled RUB 1,495.3 bn, down RUB 8.1 bn y-o-y (up 1.2% vs the plan). The change from the previous year is attributable to the following:

- a 2.5% decline in freight turnover (negative effect on income: RUB 38.2 bn);
- a 3.5% indexation of freight tariffs (positive effect on income: RUB 49.3 bn)
- adverse trends in the freight transportation structure carried over from 2020 (negative effect on income: RUB 8.5 bn);
- tariff incentives within price limits that were set in 2020 but did not exist in 2019 (negative effect on income: RUB 10.7 bn, mainly attributable to coal exports and revised base tariffs following an order of the Federal Antimonopoly Service on shipping producer gases to certain destinations).

At the end of 2020, the revenue rate was RUB 4.64 per 10 tkm, representing an increase of 2.1% compared to the previous year.

Income from long-haul passenger transportation

In 2020, income from long-haul passenger transportation totalled RUB 12.2 bn, down RUB 9.5 bn, or 43.6%, y-o-y as the number of long-haul passengers transported by Sapsan, Allegro, and Lastochka trains shrank by 28.6% due to pandemic-related restrictions.

Income from suburban passenger transportation

In 2020, income from transportation services provided by Russian Railways within the Moscow Central Circle amounted to RUB 11.3 bn, up RUB 5.1 bn, or 81.7%, due to the transition to a four-minute interval service from 21 November 2019 and a corresponding increase in transportation operations.

Income from infrastructure services

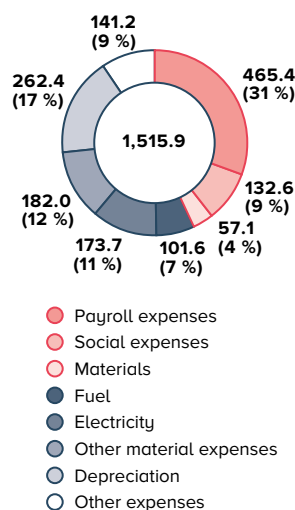
In 2020, income from infrastructure services for freight and passenger operations totalled RUB 96.5 bn, down RUB 14.1 bn, or 12.7%, y-o-y. Freight brought in RUB 5.0 bn, up RUB 1.0 bn, or 25.8%, on a larger volume of infrastructure services, while passenger transportation showed a decrease of RUB 15.1 bn, or 14.2%.

Transportation expenses

Changes in transportation expenses, RUB bn

Item	2019	2020		Change vs plan		Change 2020/2019	
		target	actual	+/-	%	+/-	%
Transportation expenses	1,498.5	1,519.2	1,515.9	-3.3	-0.2	+17.5	+1.2
Payroll expenses	453.5	470.6	465.4	-5.2	-1.1	+11.9	+2.6
Social expenses	129.2	134.6	132.6	-2.0	-1.5	+3.3	+2.6
Material expenses	544.4	507.5	514.3	+6.8	+1.3	-30.1	-5.5
Materials	52.8	52.3	57.1	+4.8	+9.1	+4.3	+8.1
Fuel	113.1	104.6	101.6	-3.0	-2.9	-11.5	-10.2
including for train traction	99.2	91.9	89.7	-2.2	-2.4	-9.5	-9.6
Electricity	175.6	170.9	173.7	+2.8	+1.6	-1.9	-1.1
including for train traction	156.7	152.4	155.0	+2.6	+1.7	-1.7	-1.1
Other material expenses	203.0	179.7	182.0	+2.3	+1.3	-21.0	-10.3
Depreciation	240.1	262.7	262.4	-0.2	-0.1	+22.4	+9.3
Other expenses	131.2	143.9	141.2	-2.7	-1.8	+10.0	+7.6

Breakdown of transportation expenses in 2020, RUB bn



Cost optimisation

Russian Railways has been working to streamline its business via a Programme to Improve Operational Efficiency and Optimise Costs¹, as well as by other means.

In 2020, the Company's initiatives to improve operational efficiency and optimise costs produced an effect of RUB 42.7 bn, including RUB 38.8 bn in transportation and RUB 3.9 bn in other operations. This offset much of the price pressure on our expenses. We also managed to reduce costs by RUB 90 bn compared to the initial plan approved by the Board of Directors.

Cost optimisation produced an effect of

RUB 42.7 bn

¹ Drafted following a meeting held by Prime Minister Dmitry Medvedev on 2 December 2016 (Minutes No. DM-P9-71pr), this Programme seeks to help fulfil the Russian President's Decree No. 204 On National Goals and Strategic Objectives of the Russian Federation through 2024 dated 7 May 2018.

The overall effect was a result of initiatives in the following categories:

1. Higher asset management efficiency

RUB 13.5 bn

The key effects were from:

- optimisation of the traction rolling stock through its better utilisation in freight, shunting, and service operations
- lower infrastructural restrictions, better track maintenance and repair practices
- higher efficiency of property, plant and equipment maintenance and repair management
- streamlined fixed assets with those inactive put on care and maintenance, non-core asset optimisation

2. Introduction of cutting-edge technologies and innovations

RUB 0.8 bn

Our key objectives, initiatives and performance targets in innovation are based on the Company’s strategic development goals. Cutting-edge technologies and innovations are introduced under the Comprehensive Innovative Development Programme of the Russian Railways Group and the Digital Transformation Strategy of Russian Railways as approved by its Board of Directors.

3. Assessment and optimisation of operating expenses

RUB 6.8 bn

The key effect in this category was from the Energy Savings and Energy Efficiency Programme and our lean production initiatives, which seek to streamline every process by reducing or eliminating losses of all kinds while also minimising costs.

4. Improvements in labour productivity

RUB 9.8 bn

The key effects in this category were from new and improved equipment, digitalisation, workflow changes, organisational measures, unmanned technologies in train service management, better workflows in infrastructure management, multi-skilling, expanded roles, and flexible working arrangements.

5. Other initiatives

RUB 11.8 bn

The key effects in this category were from regional property tax preferences and initiatives to streamline the procurement and supply chain management system.

Income from other operations

In 2020, the Company's income from other operations decreased by 4.1% y-o-y to RUB 197.8 bn, while profit reduced by 21.5% to RUB 17.9 bn on lower demand and due to pandemic-related restrictions. The negative impact from the latter was partially offset by a wider range of services and their promotion.

Other income and expenses

In 2020, the financial result from other income and expenses was a negative RUB 112.9 bn compared to a negative RUB 68.0 bn in the previous year. While interest expenses and expenses under the Company's Collective Bargaining Agreement were the biggest, it was negative exchange differences of RUB 37.1 bn caused by a weaker rouble that ultimately led to the deterioration vs 2019, when the local currency appreciated to bring about RUB 14.6 bn in positive exchange differences.

Adjusted for these differences, the total effect vs the previous year was a positive RUB 6.8 bn thanks to an RUB 11 bn, or 1.4 times, increase in dividends from subsidiaries and affiliates.

Government support of Russian Railways in 2020

In 2020, Russian Railways received RUB 129.96 bn from the government budget and the National Wealth Fund, including RUB 84.18 bn from the federal budget (of which RUB 35.6 bn was allocated from the budget of Moscow via inter-budget transfers), RUB 45.0 bn from the National Wealth Fund, and RUB 0.79 bn from regional budgets and extra-budgetary funds.

Taxes and insurance fees

The total amount of taxes and insurance fees accrued in RAS accounting statements for 2020 stood at RUB 294.8 bn, or 91.0% of the previous year's figure, including:

- RUB 18.6 bn (54.1%) owed to the federal budget;
- RUB 119.1 bn (88.1%) owed to regional and local budgets;
- RUB 157.1 bn (107.7%) owed to extra-budgetary funds.