

# Securities

## Bonds

### Global capital markets

In 2020, Russian Railways reaffirmed its leadership in the sustainable finance market as March saw it successfully offer another issue of 6-year 0.84% CHF-denominated green Eurobonds worth 250 m. The placement featured the lowest-ever coupon among the Company's Eurobonds in various currencies. It also marked an all-time record among CHF-denominated Eurobond issues of Russian and CIS issuers. The deal's green label helped secure strong investor demand, and its success is all the more remarkable given an increased volatility in international capital markets caused by the spread of the coronavirus.

In November 2020, as part of its ongoing efforts to optimise the currency breakdown of its debt portfolio, the Company performed an early redemption of EUR-denominated Eurobonds maturing in 2021. As a result of the tender offer, the Company purchased EUR 250 m worth of bonds.

December 2020 saw Russian Railways reaffirm its status as an innovator in the capital markets. After defining the deal parameters, the Company closed the book for Russia's debut issue of social bonds. The 7.25-year securities worth RUB 25 bn were priced at 6.598%, a record-low yield for RUB-denominated 5+ years Eurobonds. This is the longest-dated public offering of RUB-denominated Eurobonds in the history of Russian issuers. The Company will use the proceeds in social projects to improve transport accessibility, healthcare and education.

A real breakthrough for Russian corporates, the deal broke the record in terms of maturity, size and pricing. The issue was prepared in accordance with the International Capital Markets Association's Social Bond Principles, and certified for compliance by Sustainalytics, a leading independent ESG expert and rating agency.

On top of that, Russian Railways continued to diversify its financing sources. In 2020, it received loans from international development institutions to finance development projects and reduce the negative impact of the coronavirus pandemic.

Over the year, an equivalent of ca. RUB 100 bn was raised using global instruments.

**For the materials on green and social bonds see the Company's website**

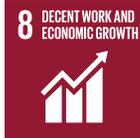
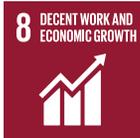
### Russian Railways is the leader in responsible financing in Russia

**We are the only company representing Russia in the international green bond market, and also the largest ESG borrower in the domestic market. Russian Railways places green and social bonds in accordance with Russian and international principles of sustainable financing and uses the proceeds to finance environmental and social projects pursuant to the published sustainability project financing and social finance frameworks.**

## Projects financed by social bonds

Russian Railways will use the proceeds from social financing instruments, including social bonds, to fund projects in line with its Social Finance Framework and the UN Sustainable Development Goals.

## Compliance of projects financed by social bonds with UN SDGs

| Key projects   | UN Sustainable Development Goals (UN SDGs)  | Target group of population  |
|--|---|---|
| <b>Affordable transport infrastructure and transport accessibility</b>   |   |   |
| <p>Urban Commuter Train</p> <p>Development of railway station infrastructure and accessibility for people with limited mobility</p> <p>Construction and reconstruction of railway lines for passenger transportation</p> |       | <p>Passengers with reduced mobility</p> <p>People living far from the city centre</p> <p>Urban population</p>                             |
| <b>Healthcare</b>  |   |   |
| <p>Healthcare services, including construction, reconstruction and maintenance of healthcare facilities</p>  |    | <p>Underserved, owing to the lack of quality access to healthcare in Russian regions</p> <p>Russian population as a whole</p>             |
| <b>Education</b>   |   |   |
| <p>Educational services, including construction, reconstruction and maintenance of educational facilities</p>  |     | <p>Underserved, owing to the lack of quality access to education in Russian regions</p> <p>Children and young people</p>                  |
| <b>Other social projects</b>   |   |   |
| <p>Protecting people from COVID-19</p> <p>Key projects</p>   |       | <p>Russian population as a whole</p> <p>Infected people</p> <p>People affected by natural disasters</p> <p>Target group of population</p> |



## About the project to purchase Lastochka electric trains

The Lastochka is an electric high-speed passenger train based on the Siemens Desiro platform. It is used for both suburban and long-haul transportation. The purchase of these trains qualifies as a Clean Transportation Project in line with the Green Bond Principles.

As proven by the Company’s indicative measurements of the environmental impact from Lastochka trains, rail passenger transport boasts a significant advantage over motor vehicles. In 2020, CO<sub>2</sub> emissions from Lastochka trains were 7.8 times lower than those from motor vehicles used to transport the same number of passengers.

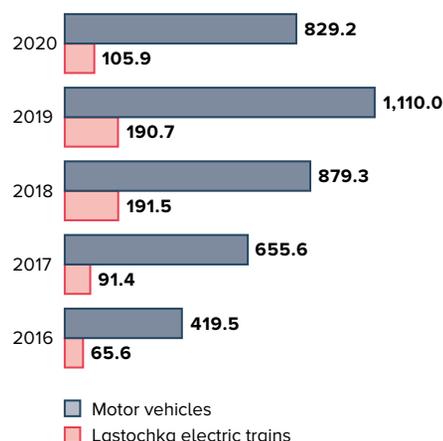
Total spending on Lastochka trains:

- 2017 – RUB 15 bn;
- 2018 – RUB 18.7 bn;
- 2019 – RUB 21.4 bn;
- 2020 – RUB 20.4 bn.

## Passengers transported by Lastochka electric trains<sup>1</sup>, m people

|                         | 2016            | 2017             | 2018             | 2019             | 2020             |
|-------------------------|-----------------|------------------|------------------|------------------|------------------|
| Suburban transportation | 21,830.2        | 29,741.0         | 41,324.5         | 53,347.9         | 39,604.5         |
| Moscow Central Circle   | 27,163.1        | 110,829.5        | 129,633.0        | 147,538.4        | 115,259.0        |
| <b>TOTAL</b>            | <b>48,993.3</b> | <b>140,570.5</b> | <b>170,957.5</b> | <b>200,886.3</b> | <b>154,863.5</b> |

## Indicative CO<sub>2</sub> emissions from Lastochka electric trains vs motor vehicles,<sup>2</sup> kt CO<sub>2</sub>



## Local capital market

In 2020, the Company successfully placed three primary rouble bond issues in the local market along with secondary bond offerings.

Russian Railways first tapped the local bond market in early March placing a 10-year issue for RUB 15 bn, with the first coupon of 6.44% and all other coupons equal to the 7-year OFZ yield + 0.5%.

April 2020 saw the Company successfully close the book for the two RUB 10 bn and 15 bn 7-year issues priced at 7.55% and 7.35%, respectively.

On 7 May 2020, at a meeting with Russian President Vladimir Putin on the development of the transport industry, Russian Railways got the go-ahead for its perpetual bonds as a new instrument to secure robust local demand for domestic industry products. As part of its registered RUB 370 bn perpetual bond programme, the Company placed seven bond issues worth RUB 313 bn, an outstanding result for the new instrument.

The first offering took place in June 2020. The book saw orders from a wide range of investors, which helped secure a more than two-fold oversubscription. As a result, the Company reduced its coupon guidance several times, from 7% to the final 6.55%, while increasing the deal size from RUB 15 bn to RUB 30 bn. In July 2020, the Company placed the second RUB 20 bn issue of perpetual bonds at 7.3%.

## September 2020 saw Russian Railways successfully close Russia's first-ever issue of perpetual green bonds

certified for compliance with both Russian and international green financing standards. During book-building, the Company received bids from pension funds, insurance and management companies, and banks, which enabled us to reduce our guidance range thrice (the first coupon rate was set at 7.25%, with all other coupons equal to the 5-year OFZ yield + 1.65%) and increase the deal size to RUB 100 bn. This is the largest local bond placement in the Company's history and Russia's landmark green offering by size recognised by Cbonds as the Deal of the Year in the ESG category.

In October 2020, the Company placed a RUB 80 bn issue of perpetual bonds with the first coupon priced at 7.25% and all other coupons equal to the 5-year OFZ yield + 1.65%. In November 2020, Russian Railways offered a RUB 33 bn issue of perpetual bonds with the first coupon priced at 7.25% and all other coupons

equal to the 5-year OFZ yield + 1.65%. December 2020 saw the Company sell two more perpetual bond issues worth RUB 50 bn, with the first coupon rate of 7.25% each.

In 2020, the Company raised a total of RUB 353 bn in the local capital market.

<sup>1</sup> Including the Moscow Central Circle.

<sup>2</sup> Based on the same number of transported passengers.

## Share capital and dividends

### Share capital

Russian Railways has been included in the list of strategically important companies approved by Russian President's Decree No. 1009 dated 4 August 2004.

The Russian Federation is the founder and sole shareholder of Russian Railways. The Government of the Russian Federation exercises shareholder powers on behalf of the Russian Federation.

The Company's charter capital consists of the properties of Russian federal railways. As at 31 December 2020, the Company's charter capital amounted to RUB 2,440,639,343,000.<sup>1</sup> It is comprised of 2,330,639,343 ordinary registered shares with a nominal value of RUB 1,000 each and 110,000,000 preference registered shares with a nominal value of RUB 1,000 each.

### Dividend policy

In 2020, Russian Railways paid dividends on preference shares for 2019 pursuant to Order No. 2509-r of the Government of the Russian Federation dated 30 September 2020. The preference shareholders received RUB 2,667.1 m for 2019, which is 4.99% of the RAS net profit.

#### Distribution guidance for the 2020 net profit

In 2020, Russian Railways earned RUB 0.3 bn in net profit. Pursuant to Clause 42, Section 6 of the Company's Charter, RUB 14.1 m, or 5% of net profit for the reporting period, is to be allocated to reserve capital.

Shareholders will be paid dividends for 2020 in accordance with the Russian Government's Order. The Long-Term Development Programme provides for the payment of dividends on preference shares only (RUB 134.5 bn worth of shares with a 2.98% yield), with the remaining net profit to be invested in accordance with the Comprehensive Plan for Upgrading and Expanding Core Infrastructure.

### Net profit distribution in 2015–2019, RUB bn

| Indicator            | 2015  | 2016  | 2017  | 2018  | 2019 |
|----------------------|-------|-------|-------|-------|------|
| Net profit           | 0.3   | 6.5   | 17.5  | 18.4  | 53.5 |
| Reserve capital      | 0.02  | 0.3   | 0.9   | 0.9   | 2.7  |
| Dividends accrued on | 0.3   | 5.1   | 8.8   | 13.4  | 2.7  |
| ordinary shares      | 0.3   | 5.1   | 8.8   | 13.4  | –    |
| preference shares    | 0.005 | 0.005 | 0.005 | 0.007 | 2.7  |

In 2019, RUB 2,672.8 m was allocated to reserve capital.<sup>2</sup> No other allocations were made.

<sup>1</sup> In accordance with Resolution No. 2004 of the Russian Government dated 3 December 2020.

<sup>2</sup> In accordance with Russian Government's Order No. 2509-r dated 30 September 2020.

## Rating agencies and investors

### Russian Railways' credit ratings

Despite a challenging macroeconomic situation and the transportation companies' ratings declining as a result of the pandemic, the Russian Railways' credit ratings assigned in 2020 by international and national rating agencies were maintained at the investment level.

In February 2020, Moody's reaffirmed the rating of Russian Railways at the investment grade of Baa2 with a stable outlook, one notch above Russia's sovereign outlook. In June, the agency changed the outlook to negative to reflect the impact of the pandemic on the transportation industry as a whole, while confirming the Baa2 grade.

In June 2020, amid a worsening epidemiological situation, S&P reaffirmed the Company's final rating at BBB-investment grade with a stable outlook.

In August 2020, Fitch reaffirmed the Russian Railways' credit rating at the

investment grade of BBB with a stable outlook, on a par with the sovereign rating, as well as the standalone credit rating of Russian Railways (excluding country risks) at BBB+, one notch above the basic rating.

In November, amid lingering macroeconomic challenges and uncertainty about the pace of recovery of the Russian and global economies, the Company held additional online meetings with ACRA and S&P analysts, also attended by representatives of the Ministry of Finance of the Russian Federation. Representatives of the Russian Railways' shareholder commented on issues related to the railway development strategy and support measures from the state. The participation of the shareholder's representatives in the dialogue with the rating agencies is of great importance for the Company.

Soon after the three-way dialogue, ACRA reaffirmed the rating of Russian Railways at AAA(RU), the highest level

of the issuer's credit rating, with a stable outlook. In December 2020, Expert RA also reaffirmed the Company's credit rating at the same highest level – ruAAA with a stable outlook. Thus, the Company maintains an additional independent assessment of its high credit quality as a borrower from national rating agencies.

In the reports issued during the year, the agencies recognised the negative impact of the COVID-19 pandemic on the Company's operations and noted the importance of timely and sufficient support from the state, which, among other things, included the approval of a perpetual bond placement. In addition, the agencies noted high levels of liquidity and diverse sources of borrowings.

Historical data on Russian Railways' credit ratings



### Credit ratings of the Russian Federation and Russian Railways as at the end of 2020

| Issuer             | Agency            | Rating  | Outlook  |
|--------------------|-------------------|---------|----------|
| Russian Federation | Standard & Poor's | BBB-    | stable   |
|                    | Moody's           | Baa3    | stable   |
|                    | Fitch             | BBB     | stable   |
| Russian Railways   | Standard & Poor's | BBB-    | stable   |
|                    | Moody's           | Baa2    | negative |
|                    | Fitch             | BBB     | stable   |
|                    | ACRA              | AAA(RU) | stable   |
|                    | RAEX              | ruAAA   | stable   |

With account of the measures taken to curb the spread of COVID-19, Russian Railways continued its dialogue with Russian and foreign financial investors in 2020 through one-on-one telephone calls and through participating in online industry conferences. In November 2020, the Company took part in VTB Capital's 12th Annual Investment Forum "Russia Calling!" held online.

### **Disclosure and reporting policy**

Russian Railways is committed to ensuring full transparency of its operations in line with applicable legal requirements and the interests of investors and other stakeholders. Information is disclosed pursuant to the Regulation on the Information Policy adopted by Russian Railways' Board of Directors.

Russian Railways discloses its accounting and financial statements in line with Russian (RAS) and international (IFRS) standards. As an issuer of securities traded on the Moscow Exchange, it also makes online disclosures in accordance with the Russian securities market laws.

The Company's annual report provides essential details about its operations in line with regulatory requirements and is submitted to the shareholder in preparation for the general meeting. The corporate website offers a wealth of information about the Company, including access to its internal regulations. Some essential information relevant for foreign stakeholders is disclosed in English.

