

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

The Company's top priorities in executing its pricing policy in 2019:

- 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 the competition from other modes of transport.

REGULATED TRANSPORTATION SEGMENT

The Tariff Guidelines approved by Decree No. 156-t/1 of the Federal Tariff Service (FTS of Russia) dated 27 July 2010 set the fares, fees, and charges for works (services) related to transportation 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.

Index values for the fares, fees, and charges for works (services) and the differentiated index values for calendar periods within a particular year are announced by relevant decrees of FAS Russia.

Since 2003, tariff differentiation is allowed by applicable laws. The 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 under 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 revised upwards by 3.9% as from 1 January 2019 (Decree of FAS Russia No. 1343/18 dated 21 September 2018).

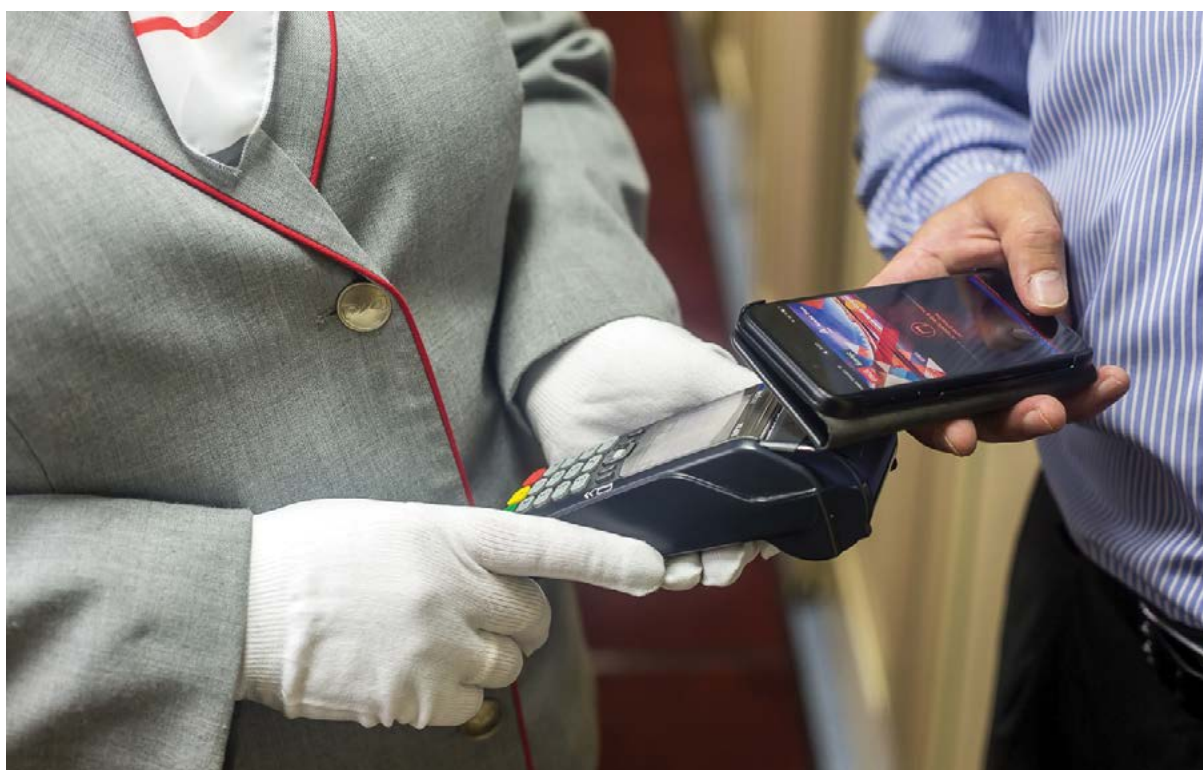
We continued to run marketing campaigns to generate demand for tickets in third-class open sleeping carriages and fourth-class seating carriages. Flexible ticketing depending on the location of berths has made passenger services more affordable for different passenger categories without exceeding the price limits set in Decree of FAS Russia No. 1343/18 dated 21 September 2018.

DEREGULATED TRANSPORTATION SEGMENT

FPC may set the prices of fares for first-class and second-class sleeping carriages at its discretion following 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 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.

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.



As a result, in the deregulated segment, FPC provides passenger services in the 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 discretion.

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 date², etc. Unlike static marketing promotions which offer the rates set in advance for an extended period, 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 pricing system helps identify the balance between the demand for, and cost of, services, ultimately driving the demand for rail services.

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

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

In 2019, approximately 75% 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 increase in traffic volumes.