

Disclaimer: This opinion is no longer valid since March 14th 2022, given that the company is subject to sanctions as a result of the situation in Ukraine.

Second-Party Opinion

JSC Russian Railways Social Finance Framework



Evaluation Summary

Sustainalytics is of the opinion that the Joint Stock Company (JSC) Russian Railways Social Finance Framework is credible and impactful and aligns with the four core components of the Social Bond Principles 2020. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Affordable Transport Infrastructure and Transport Accessibility, Health and Healthcare, Education and Other Social Projects – are aligned with those recognized by the Social Bond Principles that seek to achieve positive socio-economic outcomes for target populations. Sustainalytics considers that the eligible categories will lead to positive social impacts and advance the UN Sustainable Development Goals, specifically Goals 1, 3, 4, 9 and 11.



PROJECT EVALUATION / SELECTION Joint Stock Company Russian Railways' Corporate Finance Department will be responsible for the project evaluation and selection process and will work in collaboration with several internal departments to ensure compliance with the Framework. As part of this process, eligible projects will be tracked and recorded for the purposes of allocation. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS Joint Stock Company Russian Railways will track investments in selected projects using a social financing register. An amount equal to the net proceeds will be used to finance and refinance eligible social projects. Pending full allocation, unallocated proceeds will be invested in accordance with the Company's cash management policies. This is in line with market practice.



REPORTING Joint Stock Company Russian Railways intends to provide allocation and impact reporting on its website on an annual basis, until full allocation. Allocation reporting will be executed at the category level and will include example case studies and details of Eligible Social Projects, while impact reporting will draw on several qualitative impact metrics. Sustainalytics views Joint Stock Company Russian Railways' allocation and impact reporting as aligned with market practice.

Evaluation date	November 13, 2020
Issuer Location	Moscow, Russia

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NO LONGER VALID

Introduction

Joint Stock Company Russian Railways (“Russian Railways”, “RZD” or the “Company”) is a fully state-owned railways company. Russian Railways is one of the largest transportation companies in the world, with railway infrastructure spanning 85,500 kilometres – the third longest rail network in the world. Russian Railways provides a full range of services in areas including freight transportation; passenger transportation; container shipping, logistics, engineering services and research and development activities, amongst others.

Russian Railways has developed the JSC Russian Railways Social Finance Framework (the “Framework”) under which it intends to issue social bonds and loans (collectively referred to as “social financing instruments”) and use the proceeds to finance and/or refinance, in whole or in part, existing or future projects that support its sustainable development plan and ongoing initiatives (“Eligible Social Projects”).

The Framework defines eligibility criteria in four areas:

1. Affordable Transport Infrastructure and Transport Accessibility;
 - a. Urban commuter train
 - b. Development of station infrastructure and increasing accessibility for people with limited mobility
 - c. Construction and/or reconstruction of railway lines for passenger transportation
2. Health and Healthcare
 - a. Provision of medical services to population
3. Education
 - a. Provision of educational services to population
4. Other Social Projects
 - a. Protecting people from coronavirus infection
 - b. Elimination of consequences of natural disasters

Russian Railways engaged Sustainalytics to review the JSC Russian Railways Social Finance Framework, dated November 2020, and provide a Second-Party Opinion on the Framework’s social credentials and its alignment with the Social Bond Principles 2020 (SBP)¹ and Green Loan Principles 2020 (GLP)². This Framework has been published in a separate document.³

Scope of work and limitations of Sustainalytics Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁴ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Social Bond Principles 2020, as administered by ICMA and the Green Loan Principles 2020, as administered by LMA, APLMA and LSTA⁵;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.6 which is informed by market practice and Sustainalytics expertise as an ESG research provider.

¹ The Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

² The Green Loan Principles are administered by the Loan Market Association and are available at https://www.lma.eu.com/application/files/1815/8866/8537/Green_Loan_Principles_V03.pdf

³ The JSC Russian Railways Social Finance Framework is available on Joint Stock Company Russian Railways’ website at: <https://eng.rzd.ru/en/9653>

⁴ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

⁵ In addition to the Loan Markets Association, the GLP is also administered by the Asia Pacific Loan Market Association and the Loan Syndications & Trading Association.

As part of this engagement, Sustainalytics held conversations with various members of Russian Railways management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Russian Railways representatives have confirmed (1) they understand it is the sole responsibility of Russian Railways to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Russian Railways.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Russian Railways has made available to Sustainalytics for the purpose of this SPO.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the JSC Russian Railways Social Finance Framework

Sustainalytics is of the opinion that the JSC Russian Railways Social Finance Framework is credible and impactful, and aligns with the four core components of the SBP and GLP. Sustainalytics highlights the following elements of the JSC Russian Railways Social Bond Framework:

- Use of Proceeds:
 - The eligible categories – Affordable Transport Infrastructure and Transport Accessibility, Health and Healthcare, Education and Other Social Projects – are aligned with those recognized by the SBP and GLP, specifically Affordable Basic Infrastructure and Access to Essential Services.
 - RZD will use proceeds from its social financing instruments to finance and/or refinance projects related to the Company's ongoing social initiatives, namely in the areas of transportation accessibility, healthcare, education and disaster relief.
 - Within the 'Affordable Transport Infrastructure and Transport Accessibility' category, RZD intends to finance projects in the following areas: (i) urban commuter train; (ii) the development of station infrastructure and increasing accessibility for people with limited mobility and (iii) the construction, reconstruction of railway lines for passenger transportation.⁶
 - The 'Urban Commuter Train' project has been deployed in 12 Russian cities to date,⁷ with the purpose of increasing transport accessibility for underserved individuals residing in remote areas, often far from city centers. RZD intends to use proceeds issued under its Framework to expand this project to 14 more prospective Russian cities.⁸ As part of this undertaking, RZD will invest in electric trains that are available to

⁶ RZD has confirmed financing under the Framework will be limited to electric trains.

⁷ Moscow, Krasnoyarsk, Ufa, Rostov-on-Don, Tambov, Voronezh, Volgograd, Kaliningrad, Kazan, Tyumen, Vladivostok and Nizhny Novgorod.

⁸ St. Petersburg, Yaroslavl, Kirov, Belgorod, Penza, Krasnodar, Saratov, Samara, Ulyanovsk, Yekaterinburg, Chelyabinsk, Novosibirsk, Kemerovo and Chita.

the general public as well as transportation infrastructure such as automated fare collection systems and extensions of tariffs to suburban trains with the goal of providing free transfers to public transport. In addition to the project discussed above, RZD intends to finance and/or refinance the construction and reconstruction of new and/or existing lines or passenger transportation, with the goal of reducing travel time for passengers and attracting increased passenger traffic to decrease usage of alternative modes of transportation. Sustainalytics views these projects to be socially impactful, while also highlighting the positive environmental impact as RZD intends to only invest in electric fleet.

- Under the second project area within this category, RZD will invest in transportation facilities and services to ensure accessibility for persons with disabilities and/or limited mobility. This includes investments in on-site services such as the provision of wheelchairs and assistance with moving luggage, as well as the modification of stations to increase accessibility and the acquisition of specialized cars in electric trains equipped for the passage of disabled passengers. RZD has confirmed to Sustainalytics that the fleet(s) with specialized cars will be electric. Sustainalytics views these projects to be socially impactful and in line with market practice.
- The 'Health and Healthcare' category includes the provision of medical services, including through the construction, reconstruction and maintenance of RZD's healthcare facilities. Within this category, RZD intends to increase the accessibility and quality of healthcare services for the general population through investments in projects such as emergency medical care for passengers and the renovation of equipment and facilities of healthcare institutions. Sustainalytics highlights that proceeds from the bonds issued under the Framework will only be used to finance healthcare activities that the Company carries out through Russia's compulsory medical insurance (CMI) system, which is free by law for Russian citizens.
 - Russian Railways' public health network (RZD-Medicine) currently consists of 134 private healthcare institutions. The Company has informed Sustainalytics that in accordance with the current legislation of the Russian Federation, all of its private healthcare institutions participate in the implementation of federal and territorial programs of compulsory medical insurance (CMI). In accordance with Russian law, through CMI, all citizens have the right to receive free medical care by institutions in Russia, including RZD's private healthcare institutions. Expenses for the provision of free medical care to citizens are subject to reimbursement by the state.⁹ Considering that CMI medical services in the RZD-Medicine network are free and accessible to the general population, Sustainalytics views this investment area to be socially impactful and aligned with market expectations.
- The 'Education' category includes the provision of educational services, including through the construction and maintenance of education facilities. The Company intends to increase the accessibility and quality of educational services for the general population, with a focus on younger generations and supporting those who cannot afford to pay for education. RZD intends to finance educational services through kindergartens, schools, Children's Railways facilities (career guidance centers) and higher and secondary vocational education. Sustainalytics views these activities to be socially impactful, while noting following:
 - RZD has confirmed that educational activities within preschools, schools and boarding schools are free and accessible to all as the educational component is financed by the state on the basis of Russia's federal law.
 - In addition, the Company will subsidize additional costs for non-education activities associated with kindergarten fees and boarding school fees for employees with children, such as additional child-care fees and lodging fees. RZD employees will only pay for 0-20% of the cumulative fees as the rest is compensated by the Company, while non-employees with children enrolled at the same facilities will be required to pay for the additional costs associated with these services. Sustainalytics acknowledges that

⁹ RZD has confirmed that in instances where there may be variations in the amount that the state reimburses, Russian Railways (as the owner of its healthcare institutions), is responsible for covering the remaining amounts.

- the majority of the students attending these institutions are children of RZD employees (75-85%) and that these services are therefore subsidized for the majority of the beneficiaries. While RZD confirms that pricing is competitive and comparable with similar private kindergartens, Sustainalytics notes that fee-based services do not fully align with market practice. Therefore, Sustainalytics encourages the Company to prioritize financing educational institutions that ensure affordability for the general public, inclusive of kindergartens and boarding schools.
- RZD has confirmed that the educational services provided through RZD's Children's Railways facilities are free for all children, regardless of ability to pay.
 - RZD will also invest in the construction, renovation and maintenance of its educational facilities across Russia, including through the purchase of educational, household and technical equipment and the development of physical infrastructure.
- Through the 'Other Social Projects' category, Russian Railways intends to finance activities in two focus areas: i) protecting people from coronavirus infection, and ii) the elimination of consequences of natural disasters. The Company's goal is to protect people's health by reducing the risk of infection and/or mitigation the effects once contracted as well as support those who have been affected by natural disasters.
 - As part of its coronavirus relief efforts, RZD will invest in the purchase of personal protective equipment (PPE) for the purpose of providing free PPE for all RZD employees. The Company has confirmed that PPE will not be sold for commercial purposes. RZD will also use funds to provide testing for Company employees and to disinfect stations and trains. This category also includes investments in the re-equipment of hospitals and coronavirus-related treatment to meet patient needs during the pandemic, which will be made free and accessible to the general public.
 - RZD intends to finance and/or refinance residential buildings and schools in order to help restore urban infrastructure affected by disasters, including flooded areas, as well invest in the reconstruction of engineering infrastructure, including storm-drain systems and bridges. The Company has confirmed that schools will be accessible to all, in line with the commentary provided above, and that the city's municipality (in which the apartments are built) will be responsible for providing housing for those who come from socially unprotected backgrounds. Sustainalytics encourages the Company to ensure that there are appropriate thresholds in place to ensure that housing is provided to the intended demographic group.
 - Project Evaluation and Selection:
 - Russian Railway's Corporate Finance Department will work with the Company's Accounting, Investments, Social Department, Human Resources, the Central Directorate of Health, the Directorate of Infrastructure, the Center for Corporate Governance of the Suburban Complex, the Environment and Sustainable Development, Passenger Transportation, Traction and High-Speed Transport Departments to conduct a project evaluation and selection process to determine eligibility, subject to the relevance of the outstanding or new social financing instruments. As part of this process, Eligible Social Projects will be recorded in a social financing register and tracked for the purposes of allocation.
 - Based on the clear definition of responsibilities and oversight, Sustainalytics considers this process to be in line with market practice.
 - Management of Proceeds:
 - In order to ensure that proceeds are allocated in accordance with the Framework, the Russian Railways Corporate Finance Department will work with the abovementioned departments to track investments in selected projects recorded in the Social Financing Register. An amount equal to the net proceeds will be used to finance and refinance Eligible Social Projects, with a lookback period of three years for projects that are being refinanced. Pending full allocation, unallocated proceeds will be held in bank deposits in cash or invested in liquid securities, and/or used for the repayment of short-term indebtedness where there are no direct links to the financing of activities which may conflict with the social objectives of the Framework.
 - Sustainalytics considers this process to be in line with market practice.

- Reporting:
 - Russian Railways will provide allocation and impact reporting on its website on an annual basis, until full allocation.
 - Allocation reporting will be conducted at the category-level and will include example case studies and details of Eligible Social Projects, the amount of cash or cash equivalents unallocated, share of new financing vs. refinancing and confirmation by the Company's management team that an amount equal to the net proceeds was allocated to Eligible Social Projects.
 - RZD will report on several impact metrics per-category depending on the projects, including, but not limited to, amount of people transported, the number of people receiving services, the number of stations equipped/reconstructed, reduced travel time for passengers, number of people enrolled/trained, and the number of equipment installed.
 - Based on the Company's reporting commitments, Sustainalytics considers this process to be in line with market practice.

Alignment with Social Bond Principles 2020 and Green Loan Principles 2020

Sustainalytics has determined that the JSC Russian Railways Social Finance Framework aligns to the four core components of the SBP and GLP. For detailed information please refer to Appendix 1: Social Bond/Social Bond Programme External Review Form.

Section 2: Sustainability Strategy of Russian Railways

Contribution of Framework to Russian Railways' sustainability strategy

Russian Railways' sustainability strategy is driven by the Company's interest in environmental protection and ensuring public health, safety and security. Russian Railways acknowledges that social responsibility must be considered throughout the entire decision-making process and is important for sustainable growth.¹⁰ Regarding its environmental efforts, Russian Railways has developed an ecological strategy, which defines goals, objectives and tools for implementing the Company's policy in the field of environmental management and protection. The target indicators for ensuring environmental safety until 2025 are set in the Long-Term Development Program of Russian Railways and are as follows:¹¹

- A decrease in emission of pollutants into atmospheric air from stationary and mobile sources by 18% by 2025 against a 2018 baseline. In 2019, emissions of harmful substances decreased by 8.8%.
- A decrease in greenhouse gas emissions into atmospheric air by 4.5% by 2025 against 2018. By the end of 2019, RZD achieved a 1% decrease.
- A decrease in utilization of water resources by 20% by 2025 against a 2018 baseline.
- A decrease in discharge of wastewater into surface water-bodies and on the land surface by 18% by 2025 against a 2018 baseline. In 2019, RZD achieved a 10% reduction.

Sustainalytics positively notes the application of time-bound quantifiable targets for its environmental objectives. According to the International Energy Agency and International Union of Railways, Russian Railways is one of the most energy efficient railway companies across the globe.¹² As of 2019, the Company transports more than 86.8% of passengers using electric power and has been able to decrease its annual greenhouse gas emissions by 46%, corresponding to 1990 levels.¹³ In 2019, the Company's energy efficiency improvements resulted in savings of 174.5 GWh of electrical energy and more than 11.4 thousand tons of diesel fuel. Sustainalytics recognizes that the Framework is primarily focused on social projects, while acknowledging the environmental impact of the Company's investments in electric fleet.

The 2025 RZD Long-Term Development Program also includes several social projects and initiatives, including initiatives for people with limited mobility, maintaining the volume of socially significant passenger traffic, localization of production and improvement of the Company's personnel and social policy.¹⁴ In order to ensure

¹⁰ RZD, Corporate Citizenship: <https://eng.rzd.ru/en/9568>

¹¹ Government of the Russian Federation, "Russian Railways Long-Term Development Programme": <http://static.government.ru/media/files/zcAMxApAgvO7PnJ42aXtXAga2RXSVoKu.pdf>

¹² International Energy Agency, "The Future of Rail": <https://www.iea.org/reports/the-future-of-rail>

¹³ RZD, Environmental Protection: <https://eng.rzd.ru/en/9764/page/103290?id=17676#main-header>

¹⁴ Government of the Russian Federation, "Russian Railways Long-Term Development Programme": <http://static.government.ru/media/files/zcAMxApAgvO7PnJ42aXtXAga2RXSVoKu.pdf>

social stability and the protection of its employees and passengers health, safety and security, RZD has implemented a Corporate Social Responsibility Management System (the “CSR System”) which is responsible for developing social programs, primarily in the area of improving the Company’s human capital and ensuring employee wellbeing.¹⁵ In addition, as of December 2019, the Company runs 83 hospitals with a network of 137 healthcare institutions in 75 regions across Russia through RZD-Medicine.¹⁶ One of its key programs is the Company’s Mobile Consultative and Diagnostic Center (MCDC), which in 2019, completed 22 departures at 195 railway stations. In the same year, more than 76.5 thousand doctor visits were made by patients, including Company employees, non-working pensioners and the territorial population.¹⁷ As such, there is high demand for a new MDCD in order to meet the medical needs of territorial residents, particularly in sparsely populated regions of Russia. While Sustainalytics acknowledges the qualitative nature of social initiatives, it encourages the Company to set specific targets to track its ongoing efforts, where feasible.

Based on Russian Railway’s success to date in meeting its environmental goals while focusing on improving employee and passenger health and safety, Sustainalytics considers that the proceeds of social financing instruments issued under the Framework will support the Company’s ongoing sustainability initiatives.

Well-positioned to address common social and environmental risks associated with the projects

Sustainalytics acknowledges that increasing the capacity of affordable transport infrastructure and provision of healthcare, education and other essential services will have an overall positive impact. However, as with any project involving large-scale construction and the installation, operation and maintenance of heavy equipment and machinery, there are associated worker health and safety risks that must be mitigated. Sustainalytics is of the opinion that RZD can proactively manage and mitigate potential risks through the implementation of internal policies and procedures, as outlined below.

- Russian Railways’ ‘Policy of RZD Holding in the Field of Occupational and Environmental Protection, Industrial and Fire Safety’ (the “Policy”), developed in 2008, is the master document that guides the Company’s position, goals and objectives in relation to the safety of work and production processes.¹⁸
- In 2018, RZD joined the international ‘Vision Zero’ movement and has since amended the Policy to include stricter measures to prevent occupational injuries and health problems, as well as to introduce a culture of safety of production processes.¹⁹ In order to execute these measures, RZD developed the Vision Implementation Programme for 2019-2020 to create a synchronized approach to health and safety management, including site assessments and mandatory training.²⁰ For example, in 2019, the Company conducted a special assessment of working conditions at 63.7 thousand workplaces and improved 40.6 workplaces occupying 187 thousand employees.²¹ In the same year, more than 54 thousand employees of the Company were trained on labor protection requirements.
- In 2019, the Company directed RUB 23.9 bn towards the improvement of occupational health and safety measures, with the majority of funds being spent on certified individual protective equipment for workers, periodic medical examinations and health resort treatment for workers whose work involves potentially harmful conditions.²² From 2015 to 2020, the number of injured employees was reduced by approximately 1.5 times (from 223 in 2015 to 152 in 2019) as a result of these processes.²³ Sustainalytics positively notes that the Company provides extensive public reporting on worker health and safety conditions in its annual Sustainable Development Report.²⁴

Based on the policies and progress that the Company has made in relation to worker health and safety, Sustainalytics views Russian Railways as well positioned to mitigate worker health and safety risks associated with construction as well as the installation, operation and maintenance of electrified locomotives and trains for passenger transportation.

¹⁵ RZD, Corporate Citizenship, Sustainable Development Report 2019: <https://eng.rzd.ru/api/media/resources/1624677?action=download>

¹⁶ RZD, Corporate Citizenship, Sustainable Development Report 2019: <https://eng.rzd.ru/api/media/resources/1624677?action=download>

¹⁷ RZD, Corporate Citizenship, Sustainable Development Report 2019: <https://eng.rzd.ru/api/media/resources/1624677?action=download>

¹⁸ RZD, Corporate Citizenship, Sustainable Development Report 2019: <https://eng.rzd.ru/api/media/resources/1624677?action=download>

¹⁹ RZD, Health and Safety: <https://ar2019.rzd.ru/en/sustainable-development/health-safety>

²⁰ RZD, Annual Report 2019: https://ar2019.rzd.ru/download/full-reports/ar_en_annual-report_spreads_rzd_2019.pdf

²¹ RZD, Corporate Citizenship, Sustainable Development Report 2019: <https://eng.rzd.ru/api/media/resources/1624677?action=download>

²² RZD, Corporate Citizenship, Sustainable Development Report 2019: <https://eng.rzd.ru/api/media/resources/1624677?action=download>

²³ RZD, Corporate Citizenship, Sustainable Development Report 2019: <https://eng.rzd.ru/api/media/resources/1624677?action=download>

²⁴ RZD, Corporate Citizenship, Sustainable Development Report 2019: <https://eng.rzd.ru/api/media/resources/1624677?action=download>

Section 3: Impact of Use of Proceeds

All four use of proceeds categories are aligned with those recognized by the SBP and GLP. Sustainalytics has focused below where the impact is specifically relevant in the local context.

The importance of Russian Railways in fostering accessible transportation

Russia hosts several of the busiest metro systems in the world and has a share of urban rail that is higher than the world average.²⁵ The majority of the population relies on railways for transportation due to limited road networks, large distances and the remoteness of large parts of the country. In addition, approximately 74.59% of Russia's population reside in metropolitan cities.²⁶ This high concentration of population leads to imbalanced economic development which make Russia's public transportation network a crucial factor for sustainable development throughout the country. As the country's largest railway transportation services provider, RZD owns and operates Russia's approximately 85.5 thousand-kilometer-long rail system and related infrastructure with 44,100 km of electrified lines in total. In this context, RZD's investment in the Urban Commuter Train expansion as well as its construction and reconstruction of railway lines for passenger transportation, are expected to yield positive social impact by providing increased transport accessibility for citizens living in both urban and suburban areas.²⁷ Currently, RZD facilitates both long-haul and suburban transportation. Within the long-haul segment, RZD's goal is to develop affordable, high-speed transportation to encourage accessible travel between metropolitan areas, while in the suburban segment, the Company is focused on developing an affordable high-speed alternative to personal cars and public buses in order to make accessibility to large metropolitan areas more feasible, cost-effective and environmentally friendly.²⁸

Another way in which RZD intends to foster inclusive transportation is by increasing accessibility for people with limited mobility. Specifically, the Company is focused on helping people with reduced mobility by making a growing number of its stations fully accessible. Since 2014, the number of people with limited mobility served by the Company has increased five-fold, with 225,500 customers served in 2019. In order to increase transport accessibility, Russian Railways intends to use proceeds from its social financing instruments to expand its assistance centers to provide additional support, adapt stations to meet the needs of people with limited mobility as well as acquire locomotives or trains that are equipped with people for limited mobility. This includes specialized cars that have been equipped with additional features such as handrails and ramps.

Based on this context, Sustainalytics is of the opinion that Russian Railway's extensive railway network and its investment in social initiatives centered on affordability and accessibility will foster inclusive growth and accessibility throughout Russia, while also promoting environmental benefits.

The importance of improving public healthcare in Russia

Since 1996, the Constitution of the Russian Federation has provided all citizens the right to free healthcare.²⁹ Specifically, healthcare in Russia is provided by the state through the nation's Federal Compulsory Medical Insurance Fund and is regulated through the Ministry of Health.³⁰ Federal regions also have their own departments of health that oversee local administration and implementation of healthcare systems. Despite the intent of these regulations, studies have shown that the Russian healthcare system lacks efficiency, with a Bloomberg report ranking the nation's healthcare last out of 55 developed countries.³¹ Similarly, only 2% of Russian citizens feel proud of the Russian healthcare system, according to a 2016 survey conducted by a Moscow-based polling agency.³² As a result, many choose to opt for private medical treatment which is widely available across the region.³³ Therefore, despite its efforts to provide affordable and adequate medical care

²⁵ International Energy Agency, "The Future of Rail," <https://www.iea.org/reports/the-future-of-rail>

²⁶ Statista, Russia: "Degree of urbanization from 2009-2019": <https://www.statista.com/statistics/271343/urbanization-in-russia/#:~:text=This%20statistic%20shows%20the%20degree,population%20lived%20in%20Russian%20cities.>

²⁷ RZD, Corporate Citizenship, Sustainable Development Report 2019: <https://eng.rzd.ru/api/media/resources/1624677?action=download>

²⁸ RZD, Corporate Citizenship, Sustainable Development Report 2019: <https://eng.rzd.ru/api/media/resources/1624677?action=download>

²⁹ European Observatory on Health Systems and Policies, "Russian Federation: Health system review":

https://www.euro.who.int/_data/assets/pdf_file/0006/157092/HiT-Russia_EN_web-with-links.pdf

³⁰ The Russian Government, Ministry of Health of the Russian Federation: <http://government.ru/en/department/23/events/>

³¹ Bloomberg, "U.S. Health-Care System Ranks as One of the Least-Efficient": <https://www.bloomberg.com/news/articles/2016-09-29/u-s-health-care-system-ranks-as-one-of-the-least-efficient>

³² Newsweek, "Russia's Bad Health Care System Is Getting Worse": <https://www.newsweek.com/2016/12/02/dire-russia-health-care-523380.html>

³³ Expatica, "Healthcare in Russia: the Russian healthcare system explained": <https://www.newsweek.com/2016/12/02/dire-russia-health-care-523380.html>

to all citizens, there remains a large segment of the population who are underserved, lacking quality access to essential healthcare facilities.

RZD-Medicine, Russian Railways' public health network, runs 134 non-state (private) healthcare institutions in 75 regions across the Russian Federation. As the largest network of healthcare institutions of Russia, this includes 81 hospitals with approximately 16,000 beds, 53 outpatient clinics. Further, 12 of RZD's private healthcare institutions are the only medical facilities in certain settlements. To further contextualize the scale of RZD's services, in 2019, approximately 2.5 million people were assigned to one of RZD's healthcare facilities, with 55% representing non-employees. In accordance with the Russian Federation's current legislation, all of RZD-Medicine's private healthcare facilities must participate in the implementation of the territorial programs of CHI, which are free for society, with healthcare institutions receiving compensation for CHI patients from municipalities.³⁴ Considering the RZD-Medicine network's scope and reach, Sustainalytics believes that the Company's investments towards improving the infrastructure and services offered at its various healthcare facilities are expected to deliver positive social impacts by increasing accessibility to quality healthcare services.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This social bond advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Affordable Transport Infrastructure and Transport Accessibility	9. Industry, Innovation and Infrastructure 11. Sustainable Cities and Communities	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all 11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.
Health and Healthcare	3. Good Health and Well-Being	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.
Education	4. Quality Education	4.2 By 2030, ensure that all girls and boys have access to quality early childhood development, care and pre-primary education so that they are ready for primary education. 4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university.
Other Social Projects	1. No Poverty	1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new

³⁴ Value in Health, "Drug Policy in the Russian Federation": [https://www.valuehealthregionalissues.com/article/S2212-1099\(18\)30230-9/fulltext](https://www.valuehealthregionalissues.com/article/S2212-1099(18)30230-9/fulltext)

		technology and financial services, including microfinance
	3. Good Health and Well-being	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.

Conclusion

RZD has developed the JSC Russian Railways Social Finance Framework under which it intends to issue social bonds and use the proceeds to finance projects that support the Company's sustainable development plan and ongoing initiatives. Sustainalytics expects that the projects funded by the social bond proceeds will provide positive social impact.

The JSC Russian Railways Social Finance Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the JSC Russian Railways Social Finance Framework is aligned with the overall sustainability strategy of the company and that the social use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goal 1, 3, 4, 9 and 11. Additionally, Sustainalytics is of the opinion that RZD has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that Joint Stock Company Russian Railways is well-positioned to issue social bonds and that the JSC Russian Railways Social Finance Framework is robust, transparent, and in alignment with the core components of the Social Bond Principles 2020 and Green Loan Principles 2020.

Appendix

Appendix 1: Social Bond/ Social Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Joint Stock Company Russian Railways
Social Bond ISIN or Issuer Social Bond Framework Name, if applicable:	JSC Russian Railways Social Finance Framework
Review provider's name:	Sustainalytics
Completion date of this form:	November 13, 2020

Publication date of review publication:

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the SBP:

- | | |
|------------------------------------------------------------|----------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---------------------------------------------------------------------------------|----------------------------------------|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (if applicable):

The eligible categories for the use of proceeds, Affordable Transport Infrastructure and Transport Accessibility, Health and Healthcare, Education and Other Social Projects, are aligned with those recognized by the Social Bond Principles that seek to achieve positive socio-economic outcomes for target populations. Sustainalytics considers that the eligible categories will lead to positive social impacts and advance the UN Sustainable Development Goals, specifically Goals 1, 3, 4, 9 and 11.

Use of proceeds categories as per SBP:

- | | |
|---------------------------------------------------------------------|------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
|---------------------------------------------------------------------|------------------------------------------------------------------|

- | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| <input type="checkbox"/> Affordable housing | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify): |

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Joint Stock Company Russian Railways' Corporate Finance Department will be responsible for the project evaluation and selection process and will work in collaboration with several internal departments to ensure compliance with the Framework. As part of this process, eligible projects will be tracked and recorded for the purposes of allocation. Sustainalytics considers the project selection process in line with market practice.

Evaluation and selection

- | | |
|---------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Credentials on the issuer's social objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Social Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|----------------------------------------------------------------------------------------------------------------|----------------------------------------------|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Joint Stock Company Russian Railways will track investments in selected projects using a social financing register. An amount equal to the net proceeds will be used to finance and refinance eligible social projects. Pending full allocation, unallocated proceeds will be invested in accordance with the Company's cash management policies. This is in line with market practice.

Tracking of proceeds:

- Social Bond proceeds segregated or tracked by the issuer in an appropriate manner

Disclosure of intended types of temporary investment instruments for unallocated proceeds

Other (please specify):

Additional disclosure:

Allocations to future investments only

Allocations to both existing and future investments

Allocation to individual disbursements

Allocation to a portfolio of disbursements

Disclosure of portfolio balance of unallocated proceeds

Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

Joint Stock Company Russian Railways intends to provide allocation and impact reporting on its website on an annual basis, until full allocation. Allocation reporting will be executed at the category level and will include example case studies and details of Eligible Social Projects, while impact reporting will draw on several qualitative impact metrics. Sustainalytics views Joint Stock Company Russian Railways' allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

Project-by-project

On a project portfolio basis

Linkage to individual bond(s)

Other (please specify):

Information reported:

Allocated amounts

Social Bond financed share of total investment

Other (please specify):

Frequency:

Annual

Semi-annual

Other (please specify):

Impact reporting:

Project-by-project

On a project portfolio basis

Linkage to individual bond(s)

Other (please specify):

Information reported (expected or ex-post):
 Number of beneficiaries

 Target populations

 Other ESG indicators (please specify):
Frequency:
 Annual

 Semi-annual

 Other (please specify):
Means of Disclosure

- | | |
|-----------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other (please specify): Available on Company's website. |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): | |

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**Type(s) of Review provided:**

- | | |
|----------------------------------------------------------------------|----------------------------------------|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Review provider(s):**Date of publication:****ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE SBP**

- i. Second-Party Opinion: An institution with social expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Social Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Social Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the social features of the type of projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the socially sustainable features of

underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Social Bond proceeds, statement of social impact or alignment of reporting with the SBP, may also be termed verification.

- iii. Certification: An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against a recognised external social standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Social Bond Scoring/Rating: An issuer can have its Social Bond, associated Social Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on social performance data, process relative to the SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.

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In case of discrepancies between the English language and translated versions, the English language version shall prevail.

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About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. The firm works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The world's foremost issuers, from multinational corporations to financial institutions to governments, also rely on Sustainalytics for credible second-party opinions on green, social and sustainable bond frameworks. In 2020, Climate Bonds Initiative named Sustainalytics the "Largest Approved Verifier for Certified Climate Bonds" for the third consecutive year. The firm was also recognized by Environmental Finance as the "Largest External Reviewer" in 2020 for the second consecutive year. For more information, visit www.sustainalytics.com.

5th Green Bond Pioneer Awards

Climate Bonds Initiative

Largest Verifier for Certified
Climate Bonds of 2019

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More information conference.climatebonds.net/awards



GlobalCapital SRI Awards

Named

2015: Best SRI or Green Bond Research or Rating Firm
2017, 2018, 2019: Most Impressive Second Opinion Provider



The
**Green Bond
Principles**

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