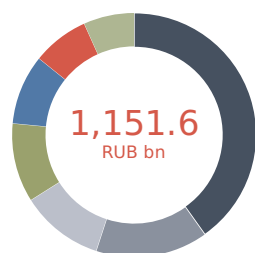


Analysis of expenses in transportation services

Expenses of transportation activity

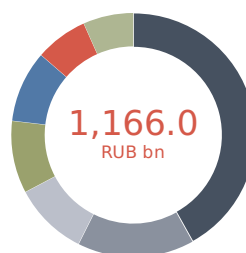
Expenses in transportation services in the reporting year was RUB 1,165.9 bn, which is higher than the level of spending in 2012 by 1.2%.

STRUCTURE OF EXPENSES ON TRANSPORTATION IN 2012, RUB BN.



Payroll expenses and insurance contribution
Depreciation of fixed assets
Other expenses
Other material costs
Electric power
Materials
Fuel

STRUCTURE OF EXPENSES ON TRANSPORTATION IN 2013, RUB BN.



Payroll expenses and insurance contribution
Depreciation of fixed assets
Other expenses
Electric power
Other material costs
Fuel
Materials

THE DYNAMICS OF EXPENSES ON TRANSPORTATION SERVICES OF RUSSIAN RAILWAYS, IN RUB BN

Criteria	Fact, 2012	Fact, 2013	Changes: Fact 2012/Fact 2013	
			RUB bn.	%
Expenses by typ of transportation activity	1,151.5	1,165.90	14.40	1.2
Payroll expenses and insurance contributions	366.7	385.6	18.9	5.1
Social benefit expenses	95.7	102.90	7.20	7.6
Material costs	391	381.7	-9.3	-2.4
▶ materials	86.4	77.70	-8.70	-10.1
▶ fuel	77.4	81.3	3.9	5.1
▶ electric power	106.7	111.9	5.2	4.9
▶ other material costs	120.6	110.9	-9.7	-8
Depreciation	171.3	180.9	9.6	5.6
Other expenses	126.8	114.8	-12.1	-9.5

FACTORIAL ANALYSIS OF CHANGES IN EXPENSES IN 2013 COMPARED TO 2012 LEVELS BY RUB 14.4 BN.

Payroll expenses

Payroll expenses and insurance contributions for 2013 totalled RUB 385.6 billion, which is higher than the same level of costs in 2012 by 5.1%, or RUB 18.9 billion, including the cost of:

- ▶ Rising scale of expenses which depend on the increase in volume of work performed (RUB +0.8 billion);
- ▶ Wage indexation according to the provisions of the Russian Railways Collective

Agreement on 6.7% (RUB +24.6 billion);

- ▶ Reduction of expenses due to optimisation steps connected with the release of numerical strength, as well as the use of part time-modes (RUB -6.6 billion).

Social benefit expenses

Social benefit expenses amounted to RUB 102.9 billion, which is higher than the same level of allocation in 2012 by 7.5%, or RUB 7.2 billion, including the cost of:

- ▶ The establishment of additional insurances under the Pension Fund of the Russian Federation for separate worker groups (RUB +2.9 billion) from January 1, 2014;
- ▶ Labour cost escalation due to an increase in the volume of work performed, wage indexation and optimisation steps (RUB +4.3 billion).

Fuel costs

Fuel costs for 2013 were RUB 81.3 billion; higher than the same level of costs in 2012 by 5.1%, or RUB 3.9 billion.

The fuel costs for hauling operations have increased by 6.2% (RUB 3.8 billion), due to:

- ▶ A rise in transportation volumes – tonne-kilometre works gross weight in petrol-electric traction by 1.5% (RUB +0.9 billion);
- ▶ An increase in price for diesel oil fuel due to the rise of diesel oil fuel excises under Federal Law No.306-NL “On amendments being made to the Part 1 and Part 2 of Tax Code of the Russian Federation” dated November 27, 2010 (RUB +5.8 billion);
- ▶ The implementation of optimisation steps focused on a decrease in fuel consumption (including the decrease of specific power requirements for hauling operations of trains in petrol-electric traction by 4.2%) which allowed for a 2.9 billion cost reduction.

Other production expenses have increased by 0.4% (RUB 0.1 billion), including the cost of:

- ▶ An increase in fuel prices for fuel due to the rise of diesel oil fuel excises according to the Federal Law No.306-NL “On amendments being made to the Part 1 and Part 2 of Tax Code of the Russian Federation” dated November 27, 2010 (RUB +1.5 billion);
- ▶ Reduced energy consumption within a framework of optimisation steps (RUB -1.4 billion).

Electricity costs

Electricity costs for 2013 were RUB 111.9 billion – higher than the same level of costs in 2012 by 4.9%, or RUB 5.2 billion.

The electricity costs for hauling operations have increased on 4.5% (RUB 4.1 billion) due to:

- ▶ A rise in the average level of electricity for hauling operations tariffs by 7% (RUB +6.4 billion);
- ▶ A cost reduction of RUB 1.3 billion due to a decrease in transportation volumes – tonne-kilometre works gross weight in petrol-electric traction by 1.4% compared to the level of 2012;
- ▶ A decrease in specific power requirements for train hauling operations in petrol-electric traction by 0.9% has also allowed for a RUB 0.9 billion cost reduction.

Other production expenses have increased by 7.9% (RUB +1.1 billion), largely caused by the increased electricity tariffs.

Other material costs

Other material costs (materials and other material costs) totalled RUB 188.5 billion, which is lower than the level of costs in 2012 by 8.9%, or RUB 18.4 billion. The shift in spendings to the level of 2012 is due to the following reasons:

- ▶ The rising scale of expenses due to the increase of prices for consumed goods by RUB 14.1 billion. In addition, the limiting of price increase for consumed goods (goods and services) have allowed for a positive economic effect in the amount of RUB 8.1 billion;
- ▶ The implementation of a cost optimisation programme, including the deferral of expense for capital repairs to rail infrastructure (including materials and other

material costs); saving RUB 24.4 billion.

Depreciation

Amortisation for the reporting period has increased by 5.6% (RUB 9.6 billion) compared to 2012 levels. The cost escalation is caused by the Company's primary new funding being established within the framework of the Russian Railways investment programme implementation (RUB +12.8 billion) and retirement, as well as the temporary freezing of funds not involved in rail traffic.

Other expenses

Other expenses for the year totalled RUB 114.8 billion, which is lower than 2012 spending by 9.5%, or RUB 12.1 billion. The key reasons for this are:

- ▶ Rising scale of expenses due to the increase in prices for consumed goods by RUB 8.6 billion;
- ▶ The rise of property tax expenses by RUB 8.0 billion (including RUB 6.8 billion due to the repeal of property tax benefits legislation for rail infrastructure);
- ▶ Rising scale of expenses by RUB 4.2 billion for modern maintenance vehicles lease programme financing. This programme is designed for a wide range of track repair works in order to provide the most effective rail infrastructure operations;
- ▶ Optimisation steps for cost control of RUB 35.4 billion such as leasing of a wagonpark, as well as the reduction of general and administrative expenses;
- ▶ Spending on transportation safety during the preparation for the 2014 Olympic Games in Sochi (including the maintenance of building construction zones and equipment at transportation infrastructure and railway stations) was increased by RUB 2.5 billion according to the Regulation of the Government of the Russian Federation No.232 "Concerning additional measures for security assurance at objects located in Sochi due to the XXII Olympic Winter Games 2014 and XI Paralympic Winter Games 2014 held in Sochi", dated March 18, 2013.

PP&E capital repairs

In 2013, a full-scale rolling stock capital repair programme was carried out 2,160 electric locomotive sections, 1,076 diesel-power locomotive sections, 992 electrical train railcars and 652 track machines were repaired.

During the reporting year approximately 10,000 km of tracks were revitalised, which allowed Russian Railways to:

- ▶ Increase trains speed;
- ▶ Enhance the length of main tracks with thermal-reinforced rails, as well as enhance the length of continuous welded rails;
- ▶ Reduce the number of defective tracks.

During the repairs, electrification and electrical supply materials were also replaced as follows:

- ▶ Approximately 7 contact-line supporting structures;
- ▶ 495 km of worn out aerial contact wire;
- ▶ 1,386 km of automatic block signalling and longitudinal electrical supply high voltage wires;
- ▶ 13.1 thousands pieces of automatic block signalling and longitudinal electrical supply power pylons;
- ▶ 378,000 pieces of high-voltage insulator at overhead constructions of all types.

Automation and remote control spheres were also repaired, with about 4,927 km of automatic block signalling, 2,981 km of cable connections and 10,447 pcs of electric interlocking arrows replaced in 2013.

The total spending in 2013 on transportation activities from the Russian Railways main funds capital repairs performance was over RUB 83.8 billion.