

Procurement activities

At present, the procurement activities of Russian Railways are carried out in accordance with the requirements of federal Law No.223-NL Concerning procurement of goods, works and services by separate types of incorporated parties, dated July 18, 2011, as well as according to the regulatory legal acts ratified in the execution of this law.

According to these documents, the Board of Directors of Russian Railways has approved and accepted for guidance and execution the regulation on the procedure for goods purchase order placement, works performance and services for the main types of services that Russian Railways provides. This regulation entered into legal force on January 1, 2012.

The Company has created a unified purchasing system which is functioning on the basis of general rules and provisions and is equally accessible for all market participants.

The Company's total volume of purchases in 2013 was RUB 834.7 billion; thereafter, 54% of total volume purchases were bought from one supplier.

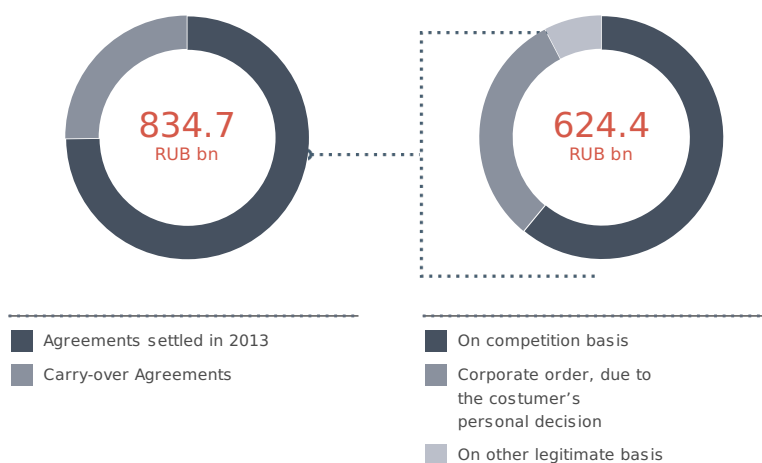
Direct contracting can be undertaken in the following circumstances:

- Services purchased from large businesses (such as the purchase of water supply, wastewater disposal, heat supply, and natural gas supply);
- Via Russian Railways order documents (highly specialised purchases which have no alternative on the market, such as traction rolling stock or track superstructure materials);
- By corporate order placed with Russian Railways associated enterprises;
- If the supplier (contractor) holds exclusive rights for procured goods, works and services.

The share of manufacturing procurements represents 84% of the Company's total purchase volume; the share of intermediary organisations procurements is 16%. The intermediary organisations are selected on the basis of competitive procurement. Major trading companies therefore have an advantage due to availability of huge product selection and a more flexible pricing policy. However, the Company also endeavours to purchase goods and services from small and medium-sized enterprises.

Cost savings during both the undertaking of the procurement process and in the price of goods and services purchased were a key factor for the Company's cost minimisation programme.

TOTAL NUMBER OF AGREEMENTS SETTLED BY RUSSIAN RAILWAYS IN 2013 ACCORDING TO THE REPORTING FROM DEVELOPED BY THE MINISTRY OF ECONOMIC DEVELOPMENT OF THE RUSSIAN FEDERATION, RUB BN



On a permanent basis, Russian Railways engages in the following activities: the establishment of overall price levels at the lower end of the market; potential price decreases from the current level; the testing of to determine the real economic feasibility of any increase; the monitoring of the business environment in the relevant markets, and ongoing negotiations with current and potential suppliers of goods.

To determine the original (maximum) price for Russian Railways orders, the following methods, which allow for the most favourable conditions in the procurement of goods, works and services are used:

The Company's measures enable procurement prices decreases on the main commodity groups below the level of inflation.

In 2013, the Company's collective savings during the formation of original (maximum) prices over the course of procurement procedure preparation were RUB 34.9 billion, or 9.2% (from the procurement volume on a competition basis), including:

- ▶ RUB 21.5 billion – at the expense of a decrease in procurement prices for goods purchase;
- ▶ RUB 8.7 billion – at the expense of degression factor 0.9 implementation for objects of construction, reconstruction and repair works;
- ▶ RUB 4.7 billion – at the expense of saving of original maximum prices for the procurement of services at the level of previous years based on inflationary constituent availability in 2013 – 6.5%.

Summarising the results of order placement procedures performance in 2013, the savings totalled RUB 7.4 billion, or 2%

The Company's complex approach to cost reduction during the implementation of procurement activities allowed Russian Railways to achieve a total saving of RUB 42.3 billion, or 11.2%.

METHODS OF DECREASE COSTS OF RUSSIAN RAILWAYS		
Method	Method description	Application area
Comparable market prices method (market analysis)	Original (maximum) price of a contract is determined according to the information on market prices of the same goods and services, procured by the Company or in case of their absence, according to the information on market prices of similar goods, services and works.	Definition of original (maximum) prices during the procurement of goods and services is made according to the results of price analysis on earlier procurement activities of similar goods or according to the results of price quotation analysis on similar goods presented at market.
Tariff method	Original (maximum) price of a contract is determined according to the tariffs (prices) set and fixed by the state (municipality) authorities, the subjects of natural monopoly.	During procurement of electric energy and housing and utilities infrastructure services the information on tariffs set and fixed by the corresponding authorities and the subjects of natural monopoly are used.
Design and estimate method	Original (maximum) price of a contract is determined according to the results (calculations) of design and estimate documentation.	Definition of original (maximum) prices for objects of construction, reconstruction and repair works is made according to calculations made under the development of design and estimate documentation with the degression factor 0.9 implementation.