

Working capital management

Russian Railways uses the aggressive working capital management model which relies on the maximum possible reduction of the financial cycle for the purpose of the fast release and focusing of funds into the financing of its current and investment activities.

According to the results of 2013, the Company's negative net working capital of the Company totalled RUB -159.6 billion, with a reduction at the beginning of the year and the corresponding outflow of funds (negative net cash flow) in the amount of RUB 26.7 billion, caused by the following factors:

- ▶ The decrease of accounts debts to suppliers and contractors (RUB -17.4 billion) due to the reduction of investment costs (-3% from the previous year) and decrease in the volume of purchases (-3% from the previous year), as well as the repayment of accounts debts on guarantee withholdings as a result of significant entry of main equipment into operation (1.5 times higher than in the previous year);
- ▶ An increase in accounts debt of suburban passenger traffic companies of RUB 16.0 billion for the provision of rolling stock rentals and infrastructure services.

The Company has managed to partly balance out these factors with a decrease in prepayments issued to suppliers and contractors and by improving the state of intercompany payments.

Russian Railways has implemented an effective debtor and accounts debts management policy as a source of funding of economic activity through conditions of payments in agreements with contractors.

Thus, for the last 5 years, the following key regulatory and methodological documents have been drafted:

- ▶ Standard settlement terms on agreements where the payer is Russian Railways;
- ▶ Standard payment terms on agreements where the payer is the buyers and consumers of goods and materials, works and services provided and/or performed by Russian Railways
- ▶ Rules of organisation of the system of planning and management over debtor and accountant debts with Russian Railways.

In addition, beginning in 2012 the automated system of operation management over debts, calculations and the liquidity of Russian Railways Group companies was put into operation in terms of the formation of matrices (plans) of intra-calculations.

Inventory control

According to the results of 2013, the Company stocks comprised RUB 83.1 billion, with the increase to the beginning of the year of RUB 5.9 billion.

CHANGES IN MATERIAL AND PRODUCTION STOCKS, IN RUB BN.

Indicator	31.12.2009	31.12.2010	31.12.2011	31.12.2012	31.12.2013	+/- 31.12.2013 to 31.12.2012	% 31.12.2013 to 31.12.2012
Stocks, including:	66.2	65.4	76.5	77.2	83.1	5.9	10.4
Raw material, materials and similar products	63.5	63.7	74.7	75.9	81.5	5.6	7.4
Expenses for incomplete production	0.8	0.8	1.2	0.7	0.8	0.1	14.3
Completed products and products for resale	0.3	0.2	0.3	0.2	0.2	0	0
Shipped goods	0.6	0.1	0	-	-	-	-
Expenses of future years	1	0.6	0.3	0.4	0.6	0.2	50
Other stocks and expenses	-	-	-	-	-	-	-

Due to the significant upgrading of rolling stock undertaken by the Company, with the exception of parks with expired service life and the usage of old spare parts; there was a notable growth of stocks in the locomotive, railcar and other farms.

THE DYNAMICS OF CHANGES IN EMERGENCY RESTORATION STOCK (ERS), SEASONAL STOCK OF

PERMANENT-WAY MATERIALS AND STOCKS OF REUSED MATERIALS, IN RUB BN.

Indicator	31.12.2011	31.12.2012	31.12.2013	% 31.12.2013 to 31.12.2012	% 31.12.2013 to 31.12.2012
Emergency restoration stock (ERS)	2.7	2.7	2.7	100	100
Seasonal stock of permanent-way materials	18.5	14.5	12.6	68	87
Stocks of reused materials	7.4	8.1	9.4	127	116

CHANGES IN MATERIAL AND PRODUCTION STOCKS, IN RUB BN.

Indicator	31.12.2012	31.12.2013	% 31.12.2013 to 31.12.2012
Availability of stock for production process in consumption days (total) including:	50	52	104
► Materials	57	59	104
► Fuel	27	28	104

According to the results of 2013 the availability of stock in consumption days is 52 days (at the level of the previous year) despite the fact that the value of stock availability has increased by 10% (or RUB 6 billion) since 2012.

Debts receivable of Russian Railways

According to the results of 2013 the value of account receivable of Russian Railways is RUB 79.3 billion, with a reduction since the beginning of the year of RUB 2.1 billion (or 3%). For the most part, the debts on other debtors (-39%), prepayments (-12%), for transportation (-8%) and taxes and fees debts (39%) have increased.

Consequently, the debt of other buyers and customers has increased almost two-fold (the increase of interholding debt receivable of suburban passenger traffic companies for the rolling stock rent services is connected with nonfulfillment by subjects of the Russian Federation of their obligation for the compensation of Passenger Traffic Companies shortfall in revenues from the state regulation of tariffs on a full scale).

As of December 31, 2013 the debt receivables in the account of Russian Railways (including the provision for doubtful debts) of suburban passenger traffic companies (including FAZHT) was listed at RUB 52.6 billion (RUB +16.0 billion to the beginning of the year), including:

- On transportation – RUB 24.5 billion (RUB +8.3 billion to the beginning of the year);
- On other types of activity – RUB 27.3 billion (RUB +8.2 billion to the beginning of the year);
- Other (locomotive haulage) – RUB 0.7 billion (RUB -0.7 billion to the beginning of the year).

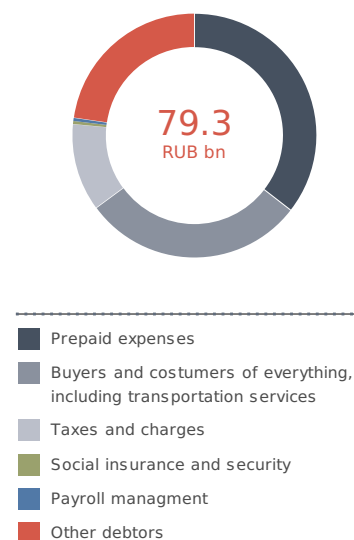
Among these, the stock on doubtful account receivable of passenger traffic companies (including FAZHT) has a debt totalling amount of RUB 41.3 billion.

The FAZHT debt as at December 31, 2013 is RUB 20.0 billion (listed in a stock on doubtful debts).

The share of overdue debt receivables is 1.5% of the total amount of debt.

The average duration of one turnover (the turnover period) of debt receivable on sales (transportation and other implementation) is 5.7 days, with an increase to the level of the same period of the previous year on 2.7 days. This is connected with an increase of debt by suburban passenger traffic companies.

DEBT RECEIVABLE STRUCTURE AS FOR 31.12.2013, RUB BN.



DEBT RECEIVABLE, RUB BN.

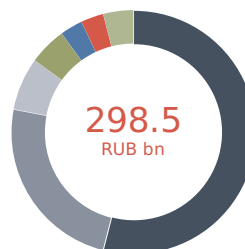
Accounts payable of Russian Railways

The decrease in debt to suppliers and contractors by RUB 160.0 billion is due to the reduction of debt from investing activities by the Company of RUB 9.2 billion (or 9%) and on current activity by RUB 8.3 billion (or 11%).

According to the results of 2013, the period of creditor indebtedness turnover to suppliers and contractors company-wide has remained at the level of the previous year and comprised 36.8 days.

The share of overdue creditor indebtedness to suppliers and contractors is less than 1% of the total amount of debt.

ACCOUNTS PAYABLE STRUCTURE AS FOR 31.12.2013, RUB BN.



- Suppliers and contractor
- Prepayment of transportation services
- Advances obtained on other payments
- Payables to employees
- Social insurance and security debts
- Taxes and charges debts
- Other accounts payable

ACCOUNTS PAYABLE, RUB BN.