Suburban passenger transportation

In 2013, the trend for increased passenger turnover in suburban transport continued. Growth in this sector amounted to 3.5%, driven by the increased transportation of paid categories of passengers (by 6.3%), who, at 65.7% of total passenger turnover, represent the largest group in the suburban transport segment.

In total, 968.8 million people were carried by suburban rail transport in 2013, 2.8% more than in 2012. The number of dispatched passengers in paid categories increases each year, and currently amounts to 71.4% of the total number.

Currently 25 suburban passenger companies (SPC) are providing suburban transport. The companies were established with the participation of Russian Railways, the executive authority bodies of the regions, and private investors, as well as LLC Aeroexpress, LLC Interregional Passenger Company and Russian Railways in the city of Sochi, covering the Olympic routes. Out of the 25 carriers, 18 are subsidiaries of Russian Railways and offer transportation in 51 regions of the Russian Federation. With a total population of over 86 million people, that represents 70% of the population living in the regions with suburban rail service.
In 18 suburban companies, the share of Russian Railways in the registered capital amounts to over 50%.

Revenue of SPC from passenger transportation in suburban transport in 2013
RUB 49.5 bn

Results of suburban complex activity

From 2013, the number of profitable SPC increased from 7 to 9.

Revenue from SPC transportation activity in 2013 amounted to RUB 49.5 billion, 6.6% higher than in 2012. Revenue growth (average tariff indexing is 2.8%) was generated by 18 carriers out of 25.

Revenue from the transportation of paid passengers increased by 10% and amounted to RUB 33.3 billion.

Transportation activity expenses amounted to RUB 57.4 billion or 6.0% compared to 2012 levels. It should be noted that the main SPC expenses are payments for railway transport infrastructure services that are regulated by the state. Rolling stock rented from Russian Railways comprises over 80% of total expenses for most suburban carriers.

Profitable SPC:
- OJSC Passenger Company Sakhalin;
- OJSC Permskaya suburban company;
- OJSC Volgogradtransprigorod;
- OJSC Krasprigorod;
- OJSC Altai – prigorod;
- OJSC Omsk – prigorod;
- OJSC Severo-Zapadnaya SPC;
- OJSC Moskovsko-Tverskaya SPC;
- OJSC Central exurban passenger company.

Compensation for carrier shortfalls for the subjects of the Russian Federation

In accordance with Federal Law No 184-NL, “On the general principles of the organisation of legislative (representative) and executive bodies of the subjects of the Russian Federation”, dated 06.10.1999, the subjects of the Russian Federation form an order to carriers to organise suburban rail transportation services for the population.

As of December 31, 2013, there are 96 agreements relating to the organisation of transportation services for the population signed with 73 subjects of the Russian Federation.

In the context of the preferential index on tariffs for suburban rail transport infrastructure services, shortfalls from the state tariff regulation in 2013 amounted to RUB 16.2 billion (an increase of 5.9% compared to 2012).
A total of RUB 7.8 billion was accrued by the subjects of the Russian Federation as compensation for shortfalls; of this, over RUB 7.6 billion was paid, less than 50% of the demand. RUB 126.1 million were received for the previous year’s losses.

Nine regions are in full compliance with their obligations. Eight regions reached nearly 100% of compensation level. In particular, Volgograd region and KhMAD took over a commitment to repay 2013 debt in 2014; bringing the shortfalls in income coverage level up to 100%.

In six regions – the city of Moscow, Moscow region, the city of St.Petersburg, the Republic of Adygea, Astrakhan and Ryazan regions – in conditions of preferential infrastructure, transpiration is performed at self-sufficiency level.

At the same time, in 34 regions compensation for the shortfalls of carriers amounted to less than 50%, and in 6 regions, less than 10% (Bryansk region, Chechen Republic, Republic of Buryatia, Orel region, Tver region and Kostroma region). In two regions, subsidies for shortfalls in income compensation is not provided (Leningrad region and Volgda region).

Given that suburban passenger companies are separate legal entities and do not have additional sources for covering transportation activity losses, in the absence of sufficient financing from regional budgets Russian Railways continues to bear the main risks in the form of increasing receivables. Because of this, the Company is forced to divert its own funds to pay the wages of locomotive drivers working on suburban trains and electricity bills, which makes it necessary for Russian Railways to attract additional borrowed funds for financing its operations and leads to increased interests payable, which has a negative impact on the financial results.

### Compensation for Shortfalls of Carriers by the Subjects of the Russian Federation

<table>
<thead>
<tr>
<th>Compensation level by the subjects of the Russian Federation</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment is not required</td>
<td>6</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>100% compensation</td>
<td>15</td>
<td>16</td>
<td>9</td>
</tr>
<tr>
<td>More than 80% compensation</td>
<td>3</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>50-80% compensation</td>
<td>11</td>
<td>6</td>
<td>14</td>
</tr>
<tr>
<td>Less than 50% compensation</td>
<td>32</td>
<td>33</td>
<td>34</td>
</tr>
<tr>
<td>Not provided</td>
<td>6</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>73</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### State regulation system

Price regulation of transport carried out by the subjects of the Russian Federation takes into consideration lower income passengers by offering affordable fares. As a result of this, received revenues cover no more than 50% of expenses.

Since 2011, the Government of the Russian Federation has set a reduced rate of 0.01 on tariffs for using public rail infrastructure services rendered by Russian Railways to provide passenger suburban transportation.

The resulting losses in Russian Railways revenue are offset by subsidies from the federal budget. In 2011–2013, an annual amount of RUB 25 billion was allocated from the budget of the Russian Federation for this purpose.

At the same time, it should be noted that the reduced rate on the tariffs for using the infrastructure is applied to both the tariffs regulated by the state and those which are not regulated. Currently there are no sources for covering the expenses on infrastructure maintenance arising from passenger transportation at non-regulated tariffs.

In order to improve the tariff system, Russian Railways has initiated amendments to Resolution No 844 of the Government of the Russian Federation dated October 17, 2011 with regards to implementing an exclusive preferential tariff for using public rail infrastructure services rendered by the organisation while providing passenger suburban rail transportation at the tariffs set by a subject of the Russian Federation.

The issue of applying the exclusive preferential tariff for infrastructure services while providing passenger suburban rail transportation only for passenger suburban transport performed at tariffs regulated by the subjects of the Russian Federation was also submitted for discussion.
**Rolling stock upgrade**

Upgrades to suburban rolling stock are carried out regularly, with a view to developing and enhancing passenger suburban transport; improving the quality improvement of services and the technical condition of the cars.

In 2013, 260 multiple unit cars were acquired for a total of RUB 7,718 billion. These include 217 cars of electric trains of ED series manufactured by OJSC Demikhovsky Mashinostroitelnny Zavod, 18 cars of electric trains of ET4A series, 1 car of a diesel train DT-1 manufactured by OJSC Torzhoksky Vagonostroitelnny Zavod and 24 cars of rail buses of RA-2 series manufactured by OJSC Metrovagonmash. 241 cars from the new multiple unit have already been placed in service.

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1. **SPC** - undefined

2. **Compensation for shortfalls of carriers by the subjects of the Russian Federation** - undefined