# Annual Report 2013

# Russian Railways. The Way to Win!

Joint Stock Company
**“Russian Railways”**

# CONTENTS



Russian Railways
website for investors
www.ir.rzd.ru

# Opening address of Kirill Androsov, Chairman of the Board of Directors of Russian Railways

**Dear sirs,**

In 2013, an important step was taken by the Board of Directors which defined the direction of the company's future development – the approval of Russian Railways' development strategy up to 2030.

Russian Railways is adopting a new business model and becoming an international transportation and logistics company. This will allow us to not only improve the efficiency and competitiveness of the business, but also strengthen Russia's overall international logistics rating.

Realising Russian Railways' potential in global markets presents new challenges for the Company's management as its new objectives and business philosophy call for the implementation of new corporate governance and management structures. Under the new system, we will see a change in responsibilities relating to the achievement of strategic development goals, not only for head office executives, but also executives from the different business units, directorates and subsidiaries, in line with a new set of key performance indicators.

Continuous interaction with federal and regional legislative authorities, as well as consideration of the Company's budgets and the investment programmes of the Russian Federal Government (which founded Russian Railways), are important components of the Company's corporate governance. The Government reviews and approves the Company's financial plan and investment programme annually; Russian Railways is the only infrastructure company that has been openly submitting its plans to the Cabinet Council for several years.

Last year, public, expert technological and price audits of Russian Railways' investment projects were conducted for the first time, and a unified corporate standard for such practices was adopted. This increased scrutiny of the Company's investment projects was driven by several significant recent government decisions Which were related to the development of a Moscow transportation hub.

This will include upgrades to the existing railway facilities and infrastructure using modern scientific and technological processes, as well as an infrastructure development project of unprecedented scale on the network's key eastern railways: the Trans- Siberian and Baikal-Amur Mainlines.

The Russian Railways investment programme includes a number of components, such as the development of heavy vehicles, the introduction of innovative rolling stock with modern automated systems of control, and the use of GLONASS technology to create infrastructure monitoring and traffic management systems.

In 2013, despite the stagnant economy, the pace of railway infrastructure construction slowed very little. I would like to thank all those involved in the construction for dedicating themselves to adhering to deadlines and quality standards while implementing major transportation projects, including transport services for the XXVII World Summer Universiade in Kazan, the XXII Winter Olympic Games and XI Paralympic Winter Games 2014 in Sochi.

Going forward, the Company expects to achieve maximum efficiency in the use of its resources; including design, capital investment, and the operation of infrastructure. Today, we are working on testing the mechanisms of our financial

and technological audits, our banking and construction supervision, and the agreement mechanisms between large investment companies and network users.

Another vital issue is attracting private funds for the development of public railway infrastructure. This requires a systemic solution, and must include the removal of legislative restrictions on Russian Railways' real estate turnover, and the adoption of provisions relating to interaction between railway transport infrastructure owners and service users, based on long-term agreements. We expect these changes to motivate private investors to invest in the construction and renovation of public railway infrastructure.

Attracting private investors to locomotive-hauled services is more of a challenge. While implementing pilot projects in this field, we intend to determine a new and effective model of traffic management based on the models used in other countries. This important issue involves a number of different parties; however, the Government's approach, which centres on reliability, safety and speed, will remain our priority.

Russian Railways' top priority is to ensure the sustainable, secure and safe operation of the railway infrastructure, and its development, in the interests of the state. These are very complex tasks, given the scale of Russia's territory and railway infrastructure. Russian Railways is also a commercial entity that is committed to ensuring the financial sustainability of its operations, and the protection of the interests of creditors and shareholders. I am certain that we will be able to realise our plans through the active involvement of the Company's partners in our business processes, by actively working with the government of the Russian Federation, through expansion (including into international markets), and by continuously boosting our competitiveness.

Kirill Gennadievich
ANDROSOV

# Opening address of the President of Russian Railways V. I. Yakunin

**Dear partners and colleagues,**

In 2013, Russian Railways celebrated its 10th anniversary. During this year, we saw an increase in management efficiency, innovation, energy efficiency and human capital development. As a natural monopoly where the state owns 100% of our shares , the Company always maintains a balance between national and corporate interests in its operations.

Today, Russian Railways Group largely sets the rhythm of life for the country. It is a reliable partner of industry, makes a large- scale contribution to ensuring the mobility of the population, stimulates technical and technological innovations and is one of the largest investors in the real economy.

Russian Railways is responsible for 43% of the country's rail freight turnover (over 85%, excluding pipelines) and approximately 30% of the country's passenger traffic. It generates more than 1.6% of GDP, 1.3% of all tax revenues and 3.5% of investments into the country's fixed assets.

In 10 years of operation, the Company has shipped more than 12.8 billion tonnes of freight, transported approximately 11.7 billion passengers, and invested RUB 4.3 trillion (at 2013 prices) into the renovation of property assets, rail upgrades and the implementation of large infrastructure projects. Extensive work was undertaken during the year to reduce the share of rail tariffs in the price of industrial enterprises' end products. This was facilitated by the increased use of infrastructure and locomotives, as well as more than doubling transportation productivity over the past decade.

The Group includes 123 subsidiaries and affiliates, which are governed in accordance with Russian and international standards. The Group employs more than one million people; 1.5% of all those employed in the country. Given the scale of its activities and the status of Russian Railways as one of the country's largest employers, one of its key priorities is ensuring the stable development of human resources and the implementation of a policy of social responsibility towards employees, society and the state. Almost RUB 104 billion was allocated to these issues in 2013, and sealed with a collective agreement.

Despite all the challenges we faced in 2013, we successfully implemented several ambitious projects set by the state:

- Construction of the infrastructure for the XXII Olympic Winter Games and XI Paralympic Winter Games 2014 in Sochi;
- Providing passenger transport for the XXVII World Summer Universiade in Kazan;
- Developing the key aspects of a new corporate governance system to meet current market conditions;
- Undertaking extensive work to attract new investment in the development of the industry;
- Acted on decisions made by President V.V. Putin to prepare for the implementation of two large-scale projects: the development of the Trans-Siberian and Baikal-Amur Mainlines and the construction of a high-speed railway between Moscow and Kazan.

Due to our timely response, we coped well with the economic crisis in 2013 and achieved a positive financial result in a difficult year. Work carried out by the Board of Russian Railways allowed to us decrease the Company's expenses by almost RUB 100 billion more than originally planned, taking into account increased tax pressures. Main optimization activities included: an increase in internal operations (including improving the efficiency of technological processes), fixed assets conservation, a decrease in total overhauling volume, and effective

interaction with suppliers and contractors to improve pricing policies. By freezing freight tariffs, we also laid the foundation for financial stability in the year ahead.

A mechanism for issuing infrastructure bonds was launched by Russian Railways with the support of the Russian Government. These bonds are unique, long-term investment tools with a guaranteed return of inflation +1% per annum, and have proved to be a popular and attractive way to preserve and increase savings for retirement.

In 2013, the total amount of bonds placed with a maturity of up to 30 years was RUB 150 billion. With the mobilisation of all sources, the Russian Railways investment programme reached RUB 467.2 billion, and the execution of important national projects was completed.

The procurement of 804 locomotives and 450 units of railcar rolling stock is unique amongst our investment projects. This is a record in post-Soviet history and represents a significant contribution by Russian Railways to the development of the domestic engineering industry. It reinforces existing rolling stock with advanced machinery due to long-term agreements with international manufacturers.

Decisions taken by the President of the Russian Federation and the Government in 2013 demonstrate the state's decision to incorporate railway transport into its strategy. As such, the Group is at the forefront of the economic and socio-political life of Russia, guaranteeing its accelerated development.

I am confident that our work will continue to be at the heart of our country's socio-economic activity, and we will make every effort to ensure that this remains the case.

Vladimir Ivanovich
YAKUNIN

# Corporate profile about Joint-Stock Company "Russian Railways"

Russian Railways is Russia's leading railway company and one of the largest companies in the global transport sector. The Company is a natural monopoly and fully owned by the Russian Federation.

**Our primary goal** is to meet the state's rail transport and employment needs, and to provide services to passengers.

## Our mission

We seek to effectively develop a transportation business that is able to compete on the Russian and international markets, whilst respecting our responsability as anational carrier and rail insfrastructure owner.

## Russian Railways is:

- one of the largest freight carriers in the world (third in the world by freight turnover);
- ranked fourth in the world for passenger rail transportation;
- a leading contributor by size to the Russian economy (about 1.6% of GDP in 2013);
- supported by the Russian Federation.

Russian Railways was established by Decree No. 585 of the Russian Government on 18 September 2003, "On establishment of the Joint-Stock Company 'Russian Railways'". Russian Railways began operations on 1 October 2003.

In accordance with Decree No. 1009 of the President of the Russian Federation on 4 August 2004, "On defining the list of strategic enterprises and joint-stock companies", Russian Railways is a strategic joint-stock company.

## The Company's main business activities are:

- freight transport;
- long-distance passenger transportation;
- suburban passenger transportation
- provision of infrastructure services;
- provision of locomotive traction;
- rolling stock repair;
- infrastructure facilities construction
- social responsibility.

**Russian Railways has a stake in 123 subsidiaries and affiliates.**

# Target business model

An updated target business model was adopted as part of the Group's Development Strategy up to 2030. This business model includes the following business units:

## Transportation and logistics business unit

The Group has established an international transport and logistics company business model by developing businesses in unregulated segments. These include rolling stock operations, terminal and stock development, provision of logistics services, logistics outsourcing and international transportation. It will also continue to systematically improve and enhance the attractiveness of its base rail transportation service.

## Infrastructure business unit

Work on the efficient expansion and availability of our transportation network is already underway within this business unit.

Also underway is the optimisation of infrastructure costs, and the identification of opportunities to create of new transportation and logistics products (by increasing train speeds, improving the reliability of infrastructure services, and increasing freight capabilities). The development of rail infrastructure is part of the the foundation for national economic growth, and our goal is to meet the growing demand for transport.

## Passenger transportation and service business unit

The objectives of this business unit include the development of new products and services at attractive prices and ensuring the competitiveness of rail transport against its main rivals – aviation and motor transport.

In the long-distance transport sector, the Company is committed to providing an affordable alternative to other forms of passenger transport to all regions of Russia while maintaining its share of the transport market thanks to growth of short trips and public contracts.

High-speed train operation is being developed in order to increase population mobility between locations.

In the suburban transportation segment, the Company is committed to developing a fast and affordable alternative to private car and public bus transport in large urban areas.

## International engineering and transport construction business unit

This business unit implements turn-key projects in international engineering and transport construction and as a result, gains access to new markets.

## Social service business unit

Separating this out as a business unit highlights the importance of staff as a key asset, instrumental in ensuring the achievement of long-term development targets. It also indicates that the Company views its positive social policies as a significant competitive advantage.

# Russian railways among the leading global rail systems *

**Railway operational length**

**85.2** thousand km

Russian Railways owns the world's third longest railway network

**Length of electrified rails**

**43.3** thousand km

In terms of electrified rails Russian Railways is the world's second longest

**Share of railways in freight turnover** (excluding pipelines)

**85.4%**

One of the world leaders in freight turnover (turnover** 2,196.2 billion tonne-kilometres in Russian Railways infrastructure)

**Share in total passenger turnover of the Russian Federation**

**28.6%**

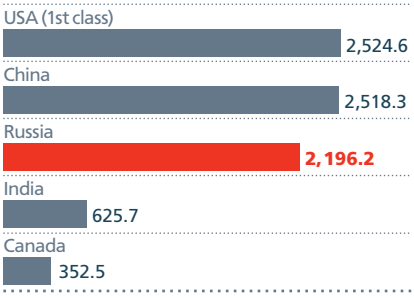
One of the world leaders in the passenger transport segment

**Number of Russian Railways employees**

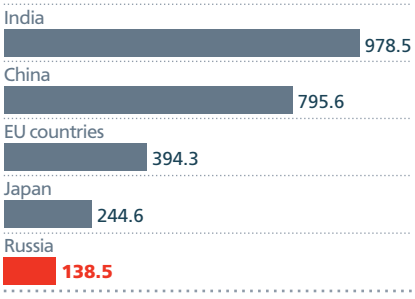
**902.7** thousand people

One of the largest commercial employers in Russia

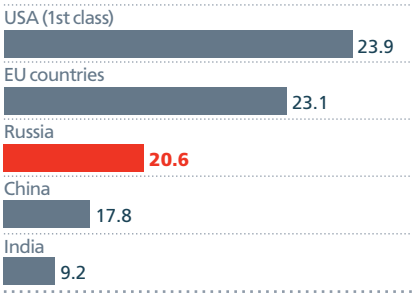
**Freight turnover **,** bn of tonne-kilometres



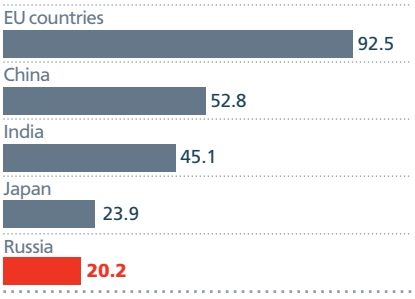

**Passenger turnover,** bn. pas.km



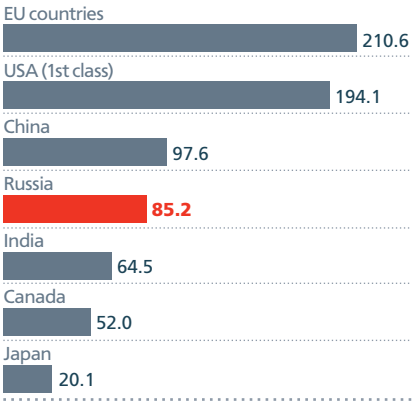

**Locomotive fleet,** thousands of units.



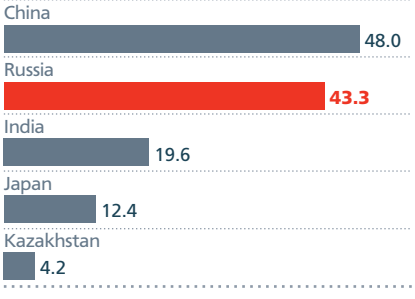

**Passenger car fleet,** thousands of units




**Operational length,** thousands of kilometres




**Length of electrified rails,** thousands of kilometres




* - data on the Group is given as of the end of 2013. Data on other countries is given as of the end of 2012.

** - excluding mileage of empty cars belonging to other owners.

# Organisational structure of Russian Railways

**Russian Railways organisational structure at 31 December 2013***


* The organisational structure of "Russian Railways" Group is presented incorporating all the changes adopted at the Russian Railways Board of Directors meetings in 2013 and as of 31.12.2013 may not coincide with the list of branches and representative offices of Russian Railways according to the appendix to the Charter of Russian Railways on the relevant date.

# Brief results and major corporate events of the year

## Key performance indicators of Russian Railways for 2009-2013

**Freight turnover in 2013**

**2,813.1** bn tn.km

Growth by 1.1% as compared to 2012

**Passenger turnover in 2013**

**138.5** bn pas.-km

Decrease by 4.2% as compared to 2012

**Infrastructure services in 2013**

**5.4** bn car km

Decrease by 3.5% as compared to 2012

| Unit of measurement | Unit of measurement | 2009 | 2010 | 2011 | 2012 | 2013 Index | 2013 Change |
|---|---|---|---|---|---|---|---|
| **OPERATING RATIOS** | | | | | | | |
| **Handling** | **mln tonnes** | **1,108.2** | **1,205.8** | **1,241.5** | **1,271.9** | **1,236.8** | **-2.8%** |
| **Freight turnover** | **bn tonne-kilometers** | **2,271.3** | **2,501.8** | **2,704.8** | **2,782.6** | **2,813.1** | **1.1%** |
| excluding the empty run of other owner's railcars | bn tonne-kilometers | 1,865.3 | 2,011.3 | 2,127.8 | 2,222.4 | 2,196.2 | -1.2% |
| the empty run of other owner's railcars | bn tonne-kilometers | 406.0 | 490.5 | 576.9 | 560.2 | 616.9 | 10.1% |
| **Passenger turnover** | **bn passenger-kilometers** | **151.5** | **138.9** | **139.8** | **144.6** | **138.5** | **-4.2%** |
| long-haul passenger transportation | bn passenger-kilometers | 113.3 | 110.9 | 110.5 | 113.0 | 105.8 | -6.4% |
| including Russian Railways | bn passenger-kilometers | 0.02 | 1.2 | 1.6 | 1.8 | 1.9 | 9.2% |
| suburban passenger transportation | bn passenger-kilometers | 38.2 | 28.0 | 29.3 | 31.6 | 32.7 | 3.5% |
| **Number of transported passengers** | **mln people** | **1,136.9** | **946.5** | **993.1** | **1,058.8** | **1,079.6** | **2.0%** |
| long-haul passenger transportation | mln people | 117.5 | 114.9 | 114.8 | 116.6 | 110.7 | -5.1% |
| including Russian Railways | mln people | 0.037 | 1.93 | 2.8 | 3.2 | 3.8 | 18.1% |
| suburban passenger transportation | mln people | 1,019.4 | 831.6 | 878.3 | 942.2 | 968.8 | 2.8% |
| **Providing infrastructure services to third-party carriers** | **mln car-kilometers** | **0.0** | **4,174.3** | **5,640.9** | **5,558.8** | **5,365.3** | **-3.5%** |
| long-distance transport | mln car-kilometers | 0.0 | 3,405.3 | 4,323.0 | 4,252.1 | 4,102.5 | -3.5% |
| suburban transport | mln car-kilometers | 0.0 | 769.0 | 1,317.9 | 1,306.7 | 1,262.8 | -3.4% |
| **OPERATING EFFICIENCY INDICATORS** | | | | | | | |
| Service speed of a freight train | km/hour | 41.6 | 41.2 | 37.1 | 36.0 | 36.8 | 2.2% |
| Operating speed of a freight train | km/hour | 49.3 | 49.3 | 46.5 | 45.2 | 45.6 | 0.9% |
| Freight car turnaround | day | 7.45 | 13.44 | 14.40 | 15.49 | 16.92 | -8.5% |
| Freight car average weight | tonne | 3,855 | 3,867 | 3,868 | 3,891 | 3,911 | 0.5% |
| Labour productivity growth | % | +1.8 | +17.2 | +17.5 | +4.5 | +4.3 | - |
| Average speed of freight delivery | km/day | 290 | 274 | 247 | 219 | 222 | 3.0 |
| Freight delivered within normative (contractual) terms | % | 90.5 | 87.2 | 81.6 | 72.5 | 77.5 | 5,0 pp |

# Operating results of the year

## FREIGHT TRANSPORT

The Group carries out transportation of freight, luggage and cargo-luggage by public rail transport including that for state needs, loading and unloading, forwarding, protection and storage of cargo.

- Handling of freight decreased by 2.8% compared with 2012 and amounted to 1,236.8 million tonnes.
- Freight turnover (excluding the mileage of empty cars belonging to other owners) decreased by 1.2% compared with 2012 and amounted to 2,196.2 billion tonne-kilometres.
- The volume of handled export freight decreased by 1.7% to 402.4 million tonnes in 2013, representing 32.5% of total freight volume.

## PASSENGER TRANSPORTATION

Russian Railways independently and through its subsidiaries provides passenger railway transportation services on both long-haul (over 200 km) and suburban routes.

- Passenger traffic decreased by 4.2% and amounted to 138.5 billion passenger-kilometres, including:
  - 105.8 billion passenger-kilometres on long distance routes (-6.4%);
  - 32.7 billion passenger-kilometres on suburban routes (+3.5%)
- 1,079.6 million passengers (+2.0%) were transported using railway infrastructure belonging to Russian Railways, including:
  - 110.7 million passengers on long-distance routes (-5.1%)
  - 968.8 million passengers on suburban routes (+2.8%)

## INFRASTRUCTURE SERVICES

Russian Railways provides services involving the use of public transport railway infrastructure and non-public railway tracks owned by society, infrastructure operations, and maintenance and repair services.

- The volume of infrastructure services rendered in 2013 amounted to 5,365.3 million car-kilometres, including:
  - long-distance transport – 4,102.5 million car-kilometres;
  - suburban transport – 1,262.8 million car-kilometres.

## OTHER ACTIVITIES

The Group also provides rolling stock repair services, infrastructure facilities construction services, forwarding and social services as well as electricity transmission and the rental of movable and fixed property assets.

- The Company's revenue from other activities increased by RUB 7.5 billion (+4.7%).

## LOCOMOTIVE TRACTION SERVICES

Russian Railways provides locomotive traction services to private transport companies owning or renting cars.

- In 2013, the average mileage of a locomotive was 591.3 km/day (+1.0%).
- Average daily production increase for a locomotive within the operating fleet was 1.6% over the network.
- Russian Railways acquired 2,537 new locomotives over the period of 2009-2013.

# Major events of 2013

## NEW TARGET STRUCTURE

In December 2013 the Development Strategy for Russian Railways for the period up to 2030 was approved by the Company.

A new target structure for Russian Railways was adopted and includes the following five business units:

- Transport and logistics;
- Passenger transport and service;
- Infrastructure;
- International engineering and transport construction;
- Social service.

Key strategic tasks have been set for each unit for the period up to 2030. The following tasks were undertaken in 2013 under the target structure formation:

- Creation of the Infrastructure business unit;
- Formation of the Passenger Transport business unit ;
- Formation of the Transport and Logistics business unit, with its framework defined.

## INFRASTRUCTURE PROJECTS

The following projects and their completion were the main priorities for 2013:

- Infrastructure development for the Olympic Games was completed;
- Rail freight yards of Imereti lowland were put in commission;
- A railway line from the town of Adler to Sochi Airport was put in commission;
- Construction was completed of double-track railway patches on the line from the town of Tuapse to the town of Adler;
- A regular electric train, Lastochka, was launched from Sochi to the Krasnaya Polyana resort and the Olympic Park;
- A new passenger terminal was opened at Adler station;
- A combined road (motor and rail) from Adler to the mountain resort (the Alpica-Service) was put in commission;
- Russian Railways fulfilled all obligations with regards to freight transport for the construction of Olympic facilities with over 70 million tonnes of cargo delivered;
- Agreed targets were met for the project to develop a Moscow transportation hub;
- Projects for the infrastructure development of Eastern operating domain railways were launched.

## INNOVATION

In 2013 Russian Railways was named 6th in the ranking of the Top 50 Innovative Companies in Russia by the Institute of Socio-economic Modernisation.

The Company's investment into R&D amounted to 0.53% of the proceeds from sales (RUB 7.28 billion) in 2013, which corresponds to the investments of foreign competitors.

In 2013 a centre of high-speed operation organisation was founded at Russian Railways.

During 2013, 45 electric trains of the ES1 Lastochka series were delivered to Russia and entered into active service.

In November 2013 the formal opening of a new generation electric train production complex took place at LLC Uralskiye Lokomotivy.

The management decisions supporting system RRMRA (Risk and Resources Management and Reliability Analysis) was further developed in 2013.

The economic benefits relating to activities carried out under the Energy Saving and Energy Efficiency Raising Programme totalled RUB 610.6 million in 2013.

## INTERNATIONAL COOPERATION

In 2013 Russian Railways continued working on projects aimed at strengthening the Company's competitiveness on the global market for freight and passenger transportation services, ensuring its integration into the Euro-Asian transport and logistics system.

Russian Railways engages in the following international cooperation projects:

- actively interacts with its main partners for freight and passenger traffic – the railways of the CIS and Baltic countries with a gauge of 1520 mm;
- participates in the transport platform of Common Economic Space (CES) that is being created by Russia, Belarus and Kazakhstan;
- successfully implements railway and modal transportation development projects together with partners in Kazakhstan, Ukraine, Belarus, Finland, Slovakia, Germany, China and other countries;
- strengthens cooperation with the world leaders of railway engineering;
- actively participates in the work of international intergovernmental and non-governmental organisations;
- participates in the implementation of infrastructure projects abroad.
- signed a Memorandum of Cooperation with the administration of the town of Chongqing and the Chinese Railways Corporation within the framework of the development of container transportation route Chongqing (China) - Europe;
- resumed freight transportation across the railway border crossing Makhalino – Hunchun;
- began development of a Northern Logistics System and transport corridor between Russia, Mongolia, and China;
- implements development and modernisation projects with regards to the railway infrastructure of Serbia, Democratic People's Republic of Korea, Mongolia and Armenia. The Company also completed reconstruction of the railway infrastructure in Abkhazia. Consideration of projects in Austria, Slovakia, Libya, Ecuador, Ethiopia, Vietnam and Indonesia is underway.

## SOCIAL RESPONSIBILITY

- In 2013 Russian Railways was named as one of the 5 most attractive employers in the country (according to the Russian Public Opinion Research Centre).
- In 2013 the current Policy of Health and Safety, Environmental Protection and Industrial Safety was updated, and a Long-range Comprehensive Programme of Working Conditions and Health and Safety Improvement for 2013-2015 was adopted.
- The average monthly salary of Russian Railways employees increased by 9.1% in 2013 and amounted to RUB 38,936 across all groups. In real terms (taking into account inflation) the average salary at Russian Railways increased by 2.2%.
- The Company has formed a unique system of continuous education for staff in all categories and at all levels.
- In 2013 Russian Railways and the Russian Trade Union of Railwaymen and Transport Constructors signed a new Collective Agreement of Russian Railways for 2014-2016. All obligations in terms of social guarantees for employees, unemployed retired employees and members of their families remained the same.
- In 2013, 2,347 Russian Railways employees received subsidised mortgage loans for purchasing their own housing.
- The number of participants and investors in the Russian Railways corporate pension system was 644,600 during 2013.
- 2013 was declared the 'Year of Environmental Protection' by Russian Railways. The Company adopted an environmental strategy up to 2015 for further extension to 2030. A key element of the strategy is halving the enivironmental impact of the economic activities of the Company by 2030. Green innovative technologies will be prioritized accordingly.



# DESCRIPTION OF TRANSPORT MARKET IN RUSSIA IN 2013

# Setting the Stage for Great Achievements

**85.4%**

share of Russian Railways in the total volume of freight flow handled by the domestic transportation system (net of pipeline transport).

**28.6%**

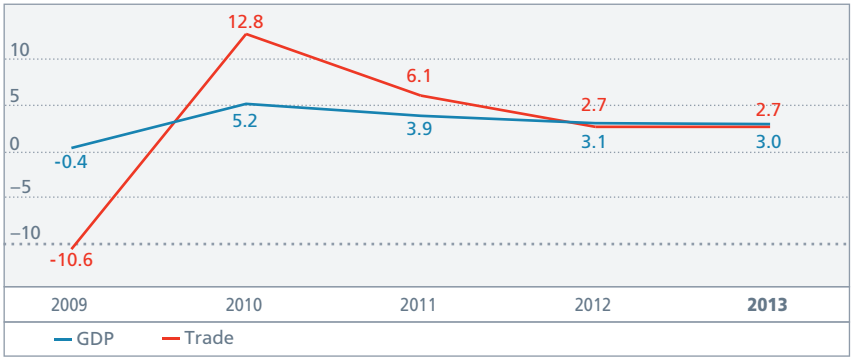
share of Russian Railways in the total passenger turnover carried by public transport, including air and road service.

Since it was established, Russian Railways has ensured significant broadening of its presence in international markets.

# Major trends in the global economy

2013 was the most difficult year faced by the global economy since the financial and economic crisis in 2008-2009. According to the IMF, global GDP growth slowed from 3.1% in 2012 to 3.0% in 2013. The GDP of developed countries increased by 1.3% (1.4% in 2012), while the GDP of developing countries increased by 4.7% (4.9% in 2012).

**Dynamics of global GDP and global trade,** *% to the previous year*




**Global GDP growth in 2013**

**3.0%**

according to IMF estimates presented in January 2014

**The growth rate of global goods and services trade remained at the 2012 level**

**2.7%**

The global situation noticeably improved in the second half of 2013, aided by stabilisation in the Chinese economy, acceleration of economic growth in the USA and the eurozone showing signs of recovery. During 2013, developed countries took the lead in economic development over developing countries.

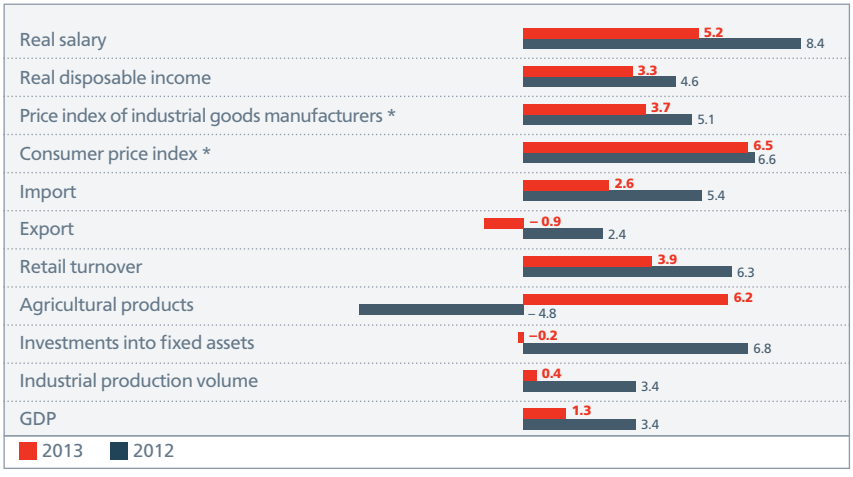
According to experts, the USA had the greatest influence on global economic recovery during 2013, as it enjoyed stable economic growth and the enhancement of numerous macroeconomic indicators.

# Macroeconomic environment in Russia

During 2013, the macroeconomic environment in Russia deteriorated significantly qith GDP growth slowing to 1.3% compared to 3.4% in 2012. Negative dynamics were also noted with regards to other important macroeconomic indicators:

- Industrial production growth which determines the workload for railway transport amounted to just 0.4% in 2013, compared to 3.4% in 2012. Low demand for products remained the main issue for industrial enterprises.
- Investment activity declined sharply. During 2013, the volume of investments into fixed assets decreased by 0.2%, following growth of 6.8% in 2012.
- Consumer demand weakened significantly, resulting in the slowdown of retail turnover growth to 3.9% in 2013, compared to 6.3% in 2012.
- Russian exports decreased by 0.9% following growth of 2.4% in 2012.

**Growth of macroeconomic indicators of Russia in 2012-2013,**
% to previous year




* - December vs December.

**GDP growth in Russia in 2013**

**1.3%**

In 2012 GDP growth amounted to 3.4%

**Industrial production growth in 2013**

**0.4%**

In 2012 industrial production growth amounted to 3.4%

# Transport sector in Russia

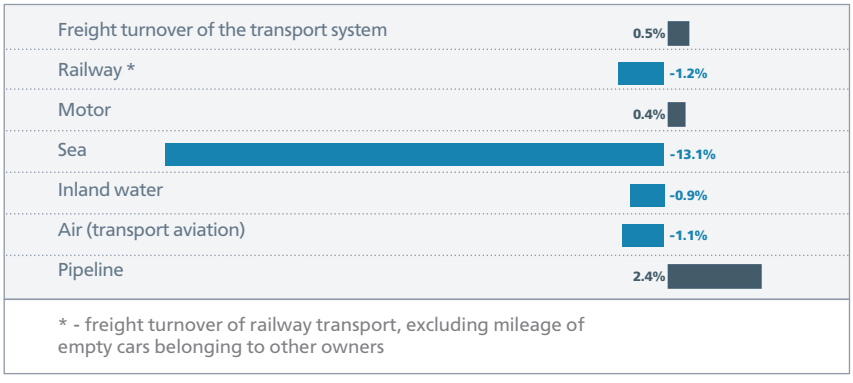
In 2013 the position of rail transport deteriorated in both the freight and passenger transport sectors.

According to the Federal State Statistics Service of the Russian Federation, freight turnover in Russia increased by 0.5% in 2013 and amounted to 5,083.4 billion tonne-kilometres. An increase in freight transport volumes was caused by an increase in the pipeline (+2.4%) and an increase in motor transport sectors (+0.4%). Turnover decreased for the other types of transport.

Freight turnover of railway transport, excluding the mileage of empty cars belonging to other owners, amounted to 2,196.2 billion tonne-kilometres in 2013, 1.2% lower than 2012.

The share of railway transport in the turnover structure of the transport system of the country decreased by 0.8 percentage points, to 43.2%. Excluding pipeline transport, the indicator remained at the 2011 and 2012 level of 85.4%.

**Freight turnover dynamics by transport type in 2013,** % to previous year




* - freight turnover of railway transport, excluding mileage of empty cars belonging to other owners

**Freight turnover in Russia in 2013**

**5,083.4**
**bn tonne-kilometres**

0.5% growth to 2012

**Tariff railway freight turnover in Russia in 2013**

**2,196.2**
**bn tonne-kilometres**

1.2% decrease from 2012

**Railway transport share in freight turnover in the Russian Federation in 2013 –**

**43.2%**

In Russia, public transport passenger turnover increased by 4.1% in 2013 and amounted to 484.5 billion passenger-kilometres. This growth was due to an increase in air passenger turnover of 15.5% by year-end (up to 226.1 billion passenger-kilometres). The positive dynamics of the volume of air passenger turnover is connected with the willingness of airlines to implement a flexible pricing policy as well as with current state policy aimed at ensuring the affordability of this type of transport.

Passenger rail transport in 2013 decreased by 4.2%, to 138.5 billion passenger-kilometres, while motor transport decreased by 4.1%, to 119.3 billion passenger-kilometres.

Air transport dominates in overall passenger turnover structure, and its share in recent years has been steadily increasing. In 2013 its share increased by 5.4 percentage points (up to 46.7%) while the shares of railway transport decreased by 1.9 percentage points and 3.5 percentage points, respectively.

**Passenger turnover transport in Russia in 2013**

**484.5**
**bn passenger - kilometres**

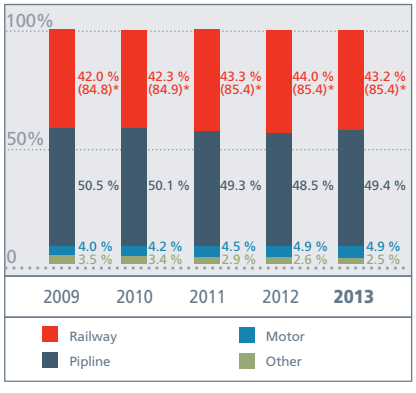
**Passenger turnover using railway transport in Russia in 2013**

**138.5**
**bn passenger - kilometres**

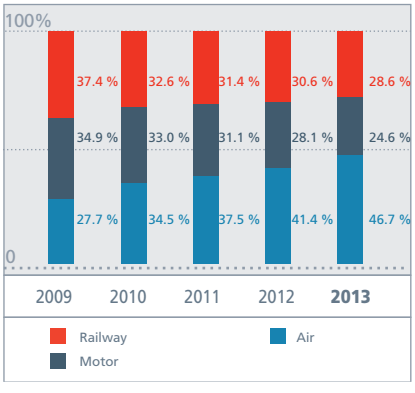
**Share of railway transport in passenger traffic in Russia in 2013**

**28.6%**

**Freight turnover structure by type of transport, %**




**Passenger turnover structure by type of public transport, %**




* - Share of railway transport in the freight turnover structure of the country excluding pipeline transport

# Tariff regulations

The fundamentals of state policy with regards to natural monopolies, including the principles of state regulation and forming of the tariff policy in the freight transport sector are determined by law.

On the basis of federal law, the decisions of the government of the Russian Federation and departmental regulations of federal agencies of executive authority were adopted on natural monopolies regulation. The resulting documents contain state-defined principles of tariff regulation.

During 2013 work on the formation of a tariff policy for the freight transport sector was continued.

**The transition to long-term tariff regulation in the freight railway transport sector was completed during 2013.**

The FTS of Russia approved the Guidelines on State Regulation of Tariffs for Railway Transportation Services and the use of railway public infrastructure during Freight Transport. In accordance with these guidelines, the target indexation level of the freight transport tariffs will be calculated for a period of five years.

A fundamental difference between the new guidelines and the previously existing order of tariff indexation is the calculation of the required indicator of return on invested capital (ROI) in addition to the traditional forward expenses indicator. Application of the market rates of return should allow Russian Railways to increase revenues and spend more of its own funds on the implementation of the investment programme.

Transition to the long-term tariff policy is a key element in the formation of a long-term financial model for Russian Railways operations. The availability of a long-term financial model based on a long-term tariff policy is evaluated by ratings agencies as an indication of the Company's financial stability and is also an important factor of investment attractiveness for Russian Railways.

Despite the transition to the long-term tariff policy, the government of the Russian Federation passed a resolution to preserve the 2014 tariffs for freight transport at the 2013 level and to subsequently carry out their annual indexation in accordance with the inflation indicators in the prior period.

## In order to solve the targets on restructuring of railway transport there were continued works on action plan for implementing the Target Model of railway transportation market for the period through to 2015.

One of the most important areas of work in 2013 was the formation of a legal regulatory framework reflecting our changing approach to tariff policy realization. This will ensure the successful implementation of the Russian Federation's international agreements linked to its accession to the WTO and to the formation of the Common Economic Space.

The following changes took place under the provisions of the Agreement on Railway Transport Services Access Control, including the basics of the tariff policy (paragraphs 4 and 5 of Article 6 of the Agreement):

- From the year 2013, railway transport organizations were granted the right to change tariffs for railway freight transport services within certain price limits (the tariff corridor), thus allowing Russian Railways to independently implement a flexible tariff policy. The price limits for tariffs were set by the Russian Federal Tariff Service (FTS) for railway freight transport services under average network conditions in the form of indices to current tariffs. The minimal index to the current Price List No 10-01 tariffs is 0.872; the maximum index is 1.134.
- In March 2013, new regulations were adopted for the preparation and implementation of Russian Railways resolutions with regards to establishing (changing) tariffs, fees and charges within the price limits set by a federal agency of executive authority on the regulation of natural monopolies.

The primary aim of implementing a tariff policy within the tariff corridor is to create economic benefit for Russian Railways, by attracting additional financial resources for the development of individual public railway transport facilities, solving technological issues, and enhancing the attractiveness of railway transport as a means of cargo delivery.

**Russian Railways benefitted from additional income of**

**RUB 1,493.7 mln**

as a result of the tariff policy implemented in 2013

While the tariff corridor was in force, about 40 requests from shippers and structural divisions of Russian Railways were considered. At the same time 10 of all resolutions of the Board of Russian Railways related to tariff changes came into force were aimed at tariffs reduction and one was aimed at tariffs increase.

As a result, the additional income of Russian Railways on all resolutions in force in 2013 is estimated at RUB 1,493.7 million, with additional freight volume totalling 1,583.6 thousand tonnes and 15.3 thousand TEU.

## Work was carried out on improving the Price List No 10-01, Tariffs for Freight Transport and on the Infrastructure Services Performed by Russian Railways.

A specially created working group within Russian Railways helped to establish a New Freight Transport Price List Concept.

In 2013, it was undertaken tariff unification across all transportation types, in order to bring the current Price List into alignment with the internal and external changes in the economic development of the country. Long-time system exceptional tariffs were also included in the Price List (that being a requirement of WTO and CES).

# Competition and the advantages of Russian Railways

The railroad complex has special strategic importance for Russia. As the primary link for a unified economic system, it ensures the stable operation of industrial enterprises and the timely delivery of vital cargo to the most remote parts of the country. It is also the most affordable type of transport for the population as a whole, carrying 58% of long-distance and 59% of suburban transportation passengers.

**Advantages of rail transport:**

- Developed railway network;
- Low cost of freight transport;
- Large-scale transportation;
- Safety;
- Comfort;
- All-weather capability;
- Regularity of transportation;
- Convenient timetables;
- Affordability.

**Share of rail transport in the total amount of long-distance passenger transportation**

58 %

**Share of rail transport in the total amount of suburban passenger transportation**

59 %

## Competition in the freight transport market

### Russian Railways faces considerable competitive pressure from other types of transport in the freight market.

Russian Railways has approximately 43.2% of the total freight turnover (including pipelines) in the Russian market for freight transport and logistics services (excluding GEFCO).

Pipeline development has led to a reduction in crude oil transportation by rail.

Motor transport also has significant competitive advantages compared to rail transport, and its share in the total freight turnover of the country has increased in recent years. The stated advantages are associated with the following:

- Smaller financial burden on motor transport. Russian Railways maintains and develops public railway infrastructure at its own expense, while major costs relating to road maintenance are borne by the Federal Bugdet;
- Lack of governmental regulation of motor transport tariffs. This allows the motor transport industry to respond quickly to economic environment fluctuations by changing its pricing policy;
- High availability and ease of obtaining transportation services from motor carriers.

The share of motor transport is also growing because it can ensure cargo delivery on a door-to-door basis, which is the most convenient for consumers.

**Share of Russian Railways in the total freight turnover (including pipes)**

**43.2%**

**Share of Russian Railways in the total freight turnover (excluding pipes)**

**85.4%**

There has been growing competition in freight rolling stock operations owing to the implementation of the Programme of Structural Reform of Railway Transport. As a result, Russian Railways share of traffic volumes in Russian freight car operations (excluding subsidiaries and affiliates) decreased from 71.3% in 2003 to 10.2% in 2011. At the end of 2011, the Company sold shares in OJSC PGK and CJSC Rusagrotrans. Consequently, the proportion held by Russian Railways decreased first to 5.4% in 2012 and then to 4.6% in 2013. Finally, Russian Railways' share in the freight car market during this period decreased more significantly – specifically from 78.2% in 2003 to 1.4% in 2013 .

In accordance with the Federal Law No147-NL on natural monopolies dated August 17, 1995, rail transportation is defined as a natural monopoly. State authorities are working on demonopolisation of this segment, but no decision has yet been made with regards to the timing, manner and form of competition development in the field of freight railway transportation.

In order to strengthen its position, Russian Railways plans to enhance its offering from pure stand-alone transportation service to an integrated transportation and logistics service. Additional services include transshipment, sea freight, scheduled transportation, and arranging transportation across foreign railway administrations, as well as switching to electronic document flow. On particular routes the Company will also offer customers a single rate for the entire cargo journey.

The Russian Railways goal of providing integrated transport services in the market will allow the Company to improve its commercial results and strengthen customer loyalty by satisfying demand for comprehensive services via the "one window" principle, whereby all the necessary freight delivery services are provided to a client by the same company.

## Competition in the passenger transport market

The Company's railway passenger unit is in the process of constructing a model that will allow it to successfully compete in the passenger transport market.

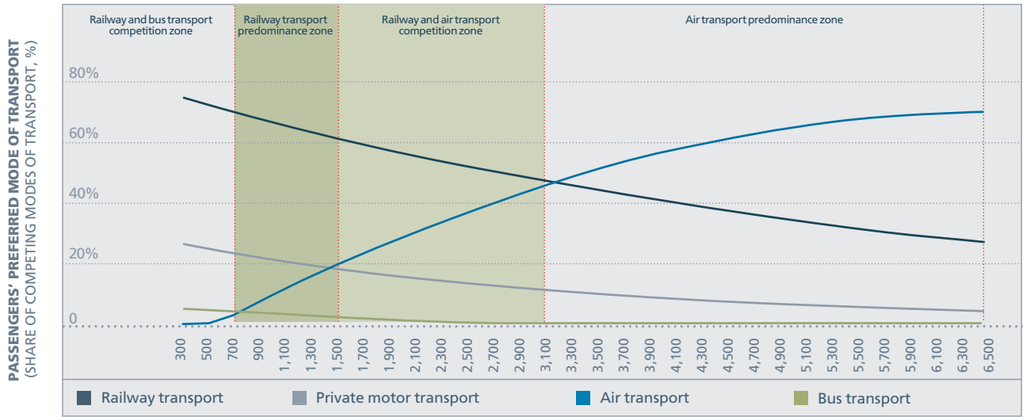
Currently, profitability of the unit is marginal. This is mainly due to the lack of long-term state resolutions on operational subsidies in both suburban and regulated long-distance transport, as well as a lack of competitive proposals in high-margin sectors compared with air and motor transport. As a result, there is a gradual shrinking of railway transport's share of the overall transport mobility market.

The strongest competitive threat to railway transport in Russia and throughout the world is air transport. The main competitive advantages of air travel are speed, the absence of price regulation, and the commercial and marketing flexibility of airlines . From 2007-2013, air passenger traffic doubled and the airline industry's share of the overall transport market increased by 21.2 percent. This level of expansion is due to the ability of airlines to pursue a flexible tariff policy, an overall increase in business travel leading to higher income generation, and the Russian government's policy of ensuring the affordability of air transport.

Competition from long-distance bus transportation is less significant, but no less important for railway passenger transport. Bus carriers provide a comparable or even higher level of comfort at lower prices than for second-class sleeping transportations with a similar trip duration.

However, the potential for growth in both volume and profitability of the passenger unit is quite significant. The Group is the largest passenger carrier in the country (10% mobility) with available railway infrastructure. It is possible to consolidate the position of railway transport in the passenger traffic market by enhancing the quality of rendered services, and by developing intermodal passenger traffic and the international passenger transport segment.

**Passengers' preferred mode of transport (share of competing modes of transport), %**






# Performance overview

# We arrive on time for you to be first

sochi.ru 2014 | РЖД GENERAL PARTNER

**1050 km/day**

Mean speed of the accelerated container train (under the new project "Trans-Siberian Railway" in 7 days").

**3 h 30 min*** Moscow-Kazan

In 2013, Russian Railways started preparation for implementing its highest-priority project: construction of the Moscow-Kazan high-speed rail line

**10,000 km**

of track Russian Railways has been upgraded through rehabilitation and repair, which allowed increased speed for passenger trains for a distance of 2,740 km and for freight trains, for a distance of 2,270 km.

* - anticipated travel time along the route Moscow-Kazan

# Freight services

**Key indicators of Russian Railways freight transport**

| Indicators | Unit of measurement | 2009 | 2010 | 2011 | 2012 | 2013 Value | 2013 Change in % 2013-2012 |
|---|---|---|---|---|---|---|---|
| **Total handling** | **mln tonnes** | **1,108.2** | **1,205.8** | **1,241.5** | **1,271.9** | **1,236.8** | **-2.8** |
| Average handling per day | thousand tonnes | 3,036.1 | 3,303.5 | 3,401.5 | 3,475.0 | 3,388.5 | -2.5 |
| **Freight turnover** | **bn tonne-kilometres** | **2,271.3** | **2,501.8** | **2,704.8** | **2,782.6** | **2,813.1** | **1.1** |
| — excluding the empty run of other owner's railcars | bn tonne-kilometres | 1,865.3 | 2,011.3 | 2,127.8 | 2,222.4 | 2,196.2 | -1.2 |
| — of the empty run of other owner's railcars | bn tonne-kilometres | 406.0 | 490.5 | 577.0 | 560.2 | 616.9 | 10.1 |
| Average static load | tonnes/car | 60.03 | 60.20 | 60.42 | 60.77 | 60.98 | 0.3 |
| Average service speed of a freight train | km/hour | 41.6 | 41.2 | 37.1 | 36.0 | 36.8 | 2.2 |
| Average operating speed of a freight train | km/hour | 49.3 | 49.3 | 46.5 | 45.2 | 45.6 | 0.9 |
| Average productivity of a working fleet locomotive | thousand tonne-kilometres | - | - | 1,812 | 1,791 | 1,820 | 1.6 |
| Average mileage of a working fleet locomotive per day | km | - | - | 593.6 | 585.4 | 591.3 | 1.0 |
| Average gross weight of a freight train | tonne | 3,855 | 3,867 | 3,868 | 3,891 | 3,911 | 0.5 |
| Average turnaround time of a car | day | 7.45 | 13.44 | 14.4 | 15.49 | 16.92 | -8.5 |
| Average speed of freight delivery | km/day | 290 | 274 | 247 | 219 | 222 | 3.7 |
| Share of freight delivered within normative (contractual) terms | % | 90.5 | 87.2 | 81.6 | 72.5 | 77.5 | 5 p.p. |

## Freight turnover

In 2013, railway freight turnover excluding the empty run of other owner's railcars decreased by 1.2% and amounted to 2,196.2 billion tonne-kilometres. This slowdown is mainly attributed to reduced volumes in domestic traffic (-2.2%) rather than to the reduction in international traffic (-0.3%). The structure of freight turnover during the period also changed, with domestic traffic decreasing from 44.2% to 43.7% while international traffic (export, import and transit) increased from 55.7% to 56.3%.

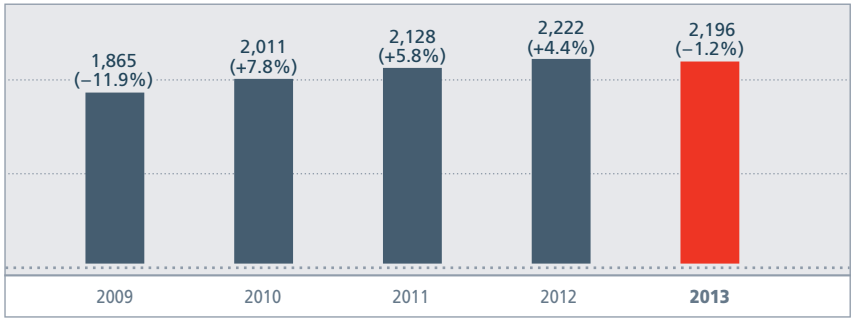
Total freight turnover (including the empty run of other owner's railcars) increased by 1.1% in 2013 and totalled 2,813.1 billion tonne-kilometres.

**Railway freight turnover totalled**

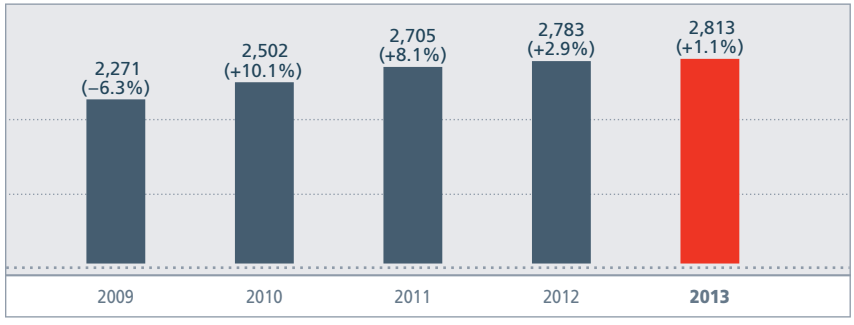
**2,196 bn tonne-kilometres**

(excluding the empty run of other owner's railcars) in 2013

**Freight turnover excluding the empty run of other owner's railcars,** bn tonne-kilometres




**Freight turnover including the empty run of other owner's railcars,** bn tonne-kilometres

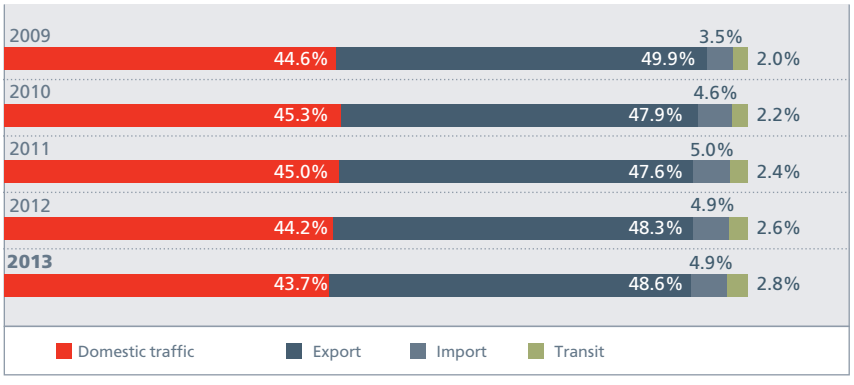



**Russian Railways share of international traffic in the freight turnover structure (export, import and transit) was**

**56.3%**

representing an increase of 1.5% in international traffic compared to 2012.

**Freight turnover structure excluding the empty run of other owner's railcars,** %



## Freight transportation

In 2013, 1,396.1 million tonnes of freight were transported (including luggage) – 3% less than in 2012. At the same time, the volume of domestic traffic decreased in 2013 more significantly than that of international transportation – by 3.6% vs 2.1%, respectively. Consequently, the share of international traffic in the overall structure rose slightly, from 39.2% to 39.6% in 2013.

Export is the main sector of international traffic. In 2013, its volume amounted to 405.6 million tonnes of freight. Traffic export volume for the year decreased by 2.3%; in particular, traffic towards ports decreased - by 3%, and via border crossings – by 1.3%.

The import and transit share in total freight transportation volume is relatively small, at 10.6%. During the year, the transportation of imported freight decreased by 1.5% to 114.9 million tonnes of transit freight – by 1.6%, to 32.7 million tonnes. In particular, the transportation of imports from Kazakhstan decreased by 2.4%. Coal and ore transported to the South Ural and Sverdlovsk railways account for the largest share in the aforementioned traffic.

The main reason for the decrease of transit through the territory of the Russian Federation is the decrease of grain transportation volumes from Kazakhstan to third countries.

In 2013, the average distance of freight transportation increased by 29.7 km (or by 1.9%) compared to 2012, at a total of 1,575 km.

The greatest impact on the average distance increase as a whole was the increase in export shipments via ports.

In terms of freight groups, the average distance increased mainly for stone coal (+33.3 km), mineral construction materials (+2.2 km) and other freight types (+2.5 km). The decrease in distance for ferrous metals (-4.1 km) and ore (-1 km) transportation was a deterrent to average distance growth.

**Freight transport (including luggage) in 2013***

| Indicators | Transported freight | | Average distance | |
|---|---|---|---|---|
| | thousand tonnes | % to 2012 | km | % to 2012 |
| **Freight transport, total** | **1,396,085.7** | **-3.0** | **1,573** | **1.9** |
| **Domestic traffic** | 842,829.4 | | | |
| Freight | 838,245.2 | -3.6 | 1,140 | 1.4 |
| Luggage | 4,584.2 | -13.0 | 931 | -0.9 |
| **International traffic** | 553,256.3 | | | |
| Routed traffic | 553,242.4 | -2.1 | 2,235 | 1.8 |
| Export | 405,623.7 | -2.3 | 2,630 | 1.8 |
| Import | 114,881.9 | -1.5 | 937 | 0 |
| Transit | 32,736.8 | -1.6 | 1,887 | 7.8 |
| Luggage | 13.9 | 3.7 | 612 | 0.8 |

* - Data given excludes re-forwarded tonnes.

## Handling

In 2013, 1,236.8 million tonnes of freight were handled on the railway network – 2.8% less than in 2012. The average daily volume decreased by 2.5% and amounted to 3,388.5 thousand tonnes.

A decrease in handling was observed throughout 2013, with the exception of December, when the average daily handling increased by 1.8%, including an increase of 6.6% in export traffic. The negative dynamics of the average daily handling is accounted for by the trend of industrial growth stagnation that continued.

In order to minimise the negative impact of low dynamics of industrial production with regards to Russian Railways financial and economic activity indicators, the Crisis Committee resumed its work in the Company, and measures were taken to optimise costs, ensure financial stability and maintain sources of investment. Additional measures were taken with regards to cooperation with shippers. As a result, it was possible to keep the decrease in handling at a level of 2.8% and balance the financial results of the Company.

**Total handling using Russian Railways infrastructure in 2013**

**1,237** mln tonnes

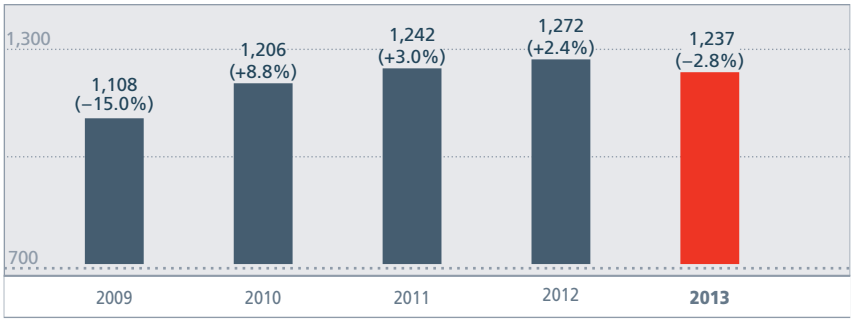
2.8% less than in 2012

**Average daily handling using Russian Railways infrastructure in 2013**

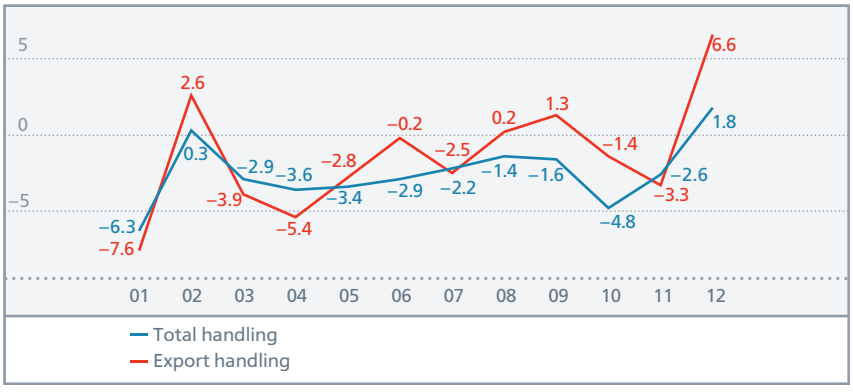
**3,389** thousand tonnes

2.5% less than in 2012

**Handling volume dynamics,** mln tonnes




**Average daily handling dynamics in 2013,** %



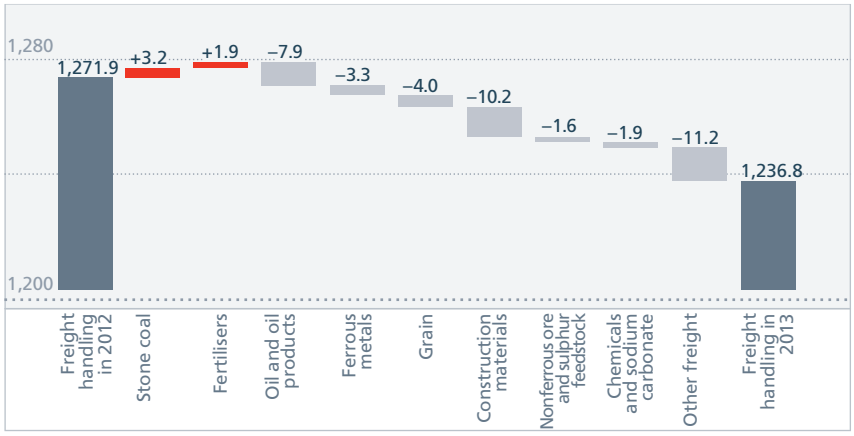
## Handling structure by main freight types

The handling structure is comprised of stone coal, oil and oil products, construction materials, iron and black-iron ore. The combined share of the aforementioned products to total handling volume amounted to 68.1% in 2013.

In the reporting period, the noted reduction of handling was largely due to construction and oil cargos, as well as grain and ferrous metals:

- Construction materials (-5.7% or -10.2 mln tonnes compared with 2012). The decrease in freight handling for the needs of construction enterprises in 2013 was due to the completion of major infrastructure projects in 2012-2013 (Universiade and Olympic facilities), as well as the general growth slowdown of the Russian economy.

**Freight handling dynamics in 2013,** mln tonnes

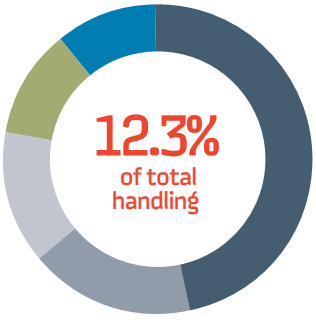


**Main direction of freight flows by rail**


- Oil and oil products (-3.1% or -7.9 mln tonnes compared to 2012). The main reason for the handling decrease is the reduction of crude oil transportation under the ESPO project.
- Grain (-22.4% or -4.0 mln tonnes compared to 2012). The main reason for the handling decrease is smaller harvest of grains in Russia in 2012-2013 agricultural year, as well as increased competition for suppliers in the world grain market in the second half of 2013.
- Ferrous metals (-4.5% or -3.3 mln tonnes compared to 2012). The handling decrease is mainly accounted for by low consumer demand and an oversupply of steel products in the global market.

The largest negative dynamics were shown by higher margin (-5.4%) and medium margin (-3.7%) types of freight. As a consequence, a deterioration of handling structure took place, with low-margin freight share increasing from 59.9% to 60.5%.

**Higher margin freight handling structure,** mln tonnes




| | | |
|---|---|---|
| Ferrous metals | **70.1** | 5.7 % |
| Chemicals | **26.2** | 2.1 % |
| Freight in containers | **21.2** | 1.7 % |
| Other freight | **17.4** | 1.5 % |
| Ferrous scrap | **16.7** | 1.3 % |

Share in total handling – 12.3% (-0.3 percentage points).

Decrease of handling compared to 2012 (-5.4%).

In the higher margin segment, there was a decrease in handling for almost all types of freight, including the primary sources: ferrous metals (-4.5%), chemicals (-6.7%) and ferrous scrap (-7.7%). Only container freight enjoyed positive dynamics (+1.7%).

**Medium margin freight handling structure,** mln tonnes

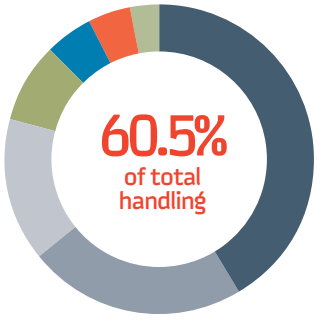

| | | |
|---|---|---|
| Oil and oil products | **250.3** | 20.2 % |
| Fertilisers | **47.0** | 3.8 % |
| Other freight | **15.3** | 1.3 % |
| Grain | **13.8** | 1.1 % |
| Imported freight | **10.4** | 0.8 % |

Share in total handling – 27.2% (-0.3 percentage points).

Decrease of handling compared to 2012 (-3.7%).

The decreased handling of medium margin freight was due to a reduction of oil and oil products handling by 3.1% and grain handling by 22.4%. Growth in this segment took place only for fertilisers (+4.2%) and feed concentrates (+0.2%).

**Low margin freight handling structure,** mln tonnes




| | | |
|---|---|---|
| Stone coal | **310.8** | 25.1 % |
| Construction materials | **170.1** | 13.8 % |
| Iron and black-iron ore | **110.7** | 9 % |
| Other freight | **66.2** | 5.2 % |
| Timber freight | **35.7** | 2.9 % |
| Cement | **34.4** | 2.8 % |
| Nonferrous ore | | |

Share in total handling – 60.5% (+0.6 percentage points).

Decrease of handling compared to 2012 (-1.8%).

During 2013, there was a decrease in the handling of construction materials (-5.7%), nonferrous ore and sulphur feedstock (-7.2%), and industrial raw materials and molding materials (-4.2%) in the low margin freight segment. At the same time, an increase in stone coal handling (+1.0%) and iron and black-iron ore (+0.7%) was achieved.

## Handling structure by destination

In the handling structure by destination, the largest share belongs to domestic traffic - 823.9 million tonnes or 66.7%. The largest freight volumes are on Russian Railways branches lines: the West Siberian (22.1%), Sverdlovsk (10.3%) and Oktyabrskaya (8.4%) railways.

Export freight handling accounts for 32.5%. As of the end of 2013 its volume decreased by 1.9% and amounted to 402.4 million tonnes.

The handling of freight to be transported to Russian ports – accounting for almost 18% of the network handling volume – decreased by 2.6%, to 224.9 million tonnes.

The handling of freight to be transported to border crossings totalled 177.5 million tonnes in 2013, 0.6% lower than in 2012.

**Freight handling structure by destination in 2013**

| | mln tonnes | % to 2012 |
|---|---|---|
| **Total handling** | **1,236.8** | **-2.8** |
| Domestic traffic | 823.9 | -3.3 |
| Export | 402.4 | -1.7 |
| Import and transit | 10.5 | -2.9 |

**Export freight handling in 2013,** mln tonnes

| | mln tonnes | % to 2012 |
|---|---|---|
| **Total export** | **402.4** | **-1.7** |
| Via ports incl. | 224.9 | -2.6 |
| Via border crossings incl. | 177.5 | -0.6 |

**Domestic traffic freight handling structure in 2013,** mln tonnes


| | | |
|---|---|---|
| Construction materials | **243.3** | 29.5 % |
| Coal | **169.7** | 20.6 % |
| Oil freight | **134.5** | 16.3 % |
| Ore | **103.3** | 12.6 % |
| Ferrous metals | **42.0** | 5.1 % |
| Other freight | **131.1** | 15.9 % |

**Export freight handling structure in 2013,** mln tonnes


| | | |
|---|---|---|
| Coal | **141.0** | 35.0 % |
| Oil freight | **115.8** | 28.8 % |
| Fertilisers | **30.2** | 7.5 % |
| All types of ore | **28.1** | 7.0 % |
| Ferrous metals | **28.0** | 7.0 % |
| Timber freight | **21.5** | 5.3 % |
| Other freight | **37.8** | 9.4 % |

# Rolling stock fleet

## Railcar fleets

One of the main outcomes of the state railway transport reform programme was the creation of a private freight car fleet of approximately 1,200 thousand units of rolling stock, which by December 31, 2013 had more than 1,800 owners . During 2013, the freight car fleet increased by 48.7 thousand units or 4.2%.

Russian Railways car fleet includes 54 thousand units of rolling stock or 4.5% of the total number (including 5 thousand of reserve and, – 6,300 subleased gondola cars previously booked as the property of OJSC FGK) since March 2013.

**In July 2013, the fleet of LRF railcars was returned in full to FGK, which is the Group's largest car fleet operator.**

**Structure of the car fleet of Russian Railways and its subsidiaries and affiliates in 2013***

| Companies | Number of cars, thousand | Share |
|---|---|---|
| **Total number of cars** | **252.9** | **100.0** |
| Cars of Russian Railways | 54.2 | 21.4 |
| Cars of subsidiaries and affiliates | 198.7 | 78.6 |
| — Cars of FGK | 162.6 | 64.3 |
| — Transcontainer | 25.6 | 10.1 |
| — Refservice | 5.8 | 2.3 |
| — RailTransAuto | 2.8 | 1.1 |
| — Russkaya Troika | 1.8 | 0.7 |

* - Including FGK, but excluding OJSC PGK, Rusagrotrans and Transles from 2013, as they fall into the category "Cars of other owners".

**The net profit of FGK in 2013 was**

RUB **2.6** bn

**The share of FGK in the network freight turnover is**

**13.6%**

6.5% in 2012

Currently, and according to calculations, 900-950 thousand freight cars are sufficient to carry required and prospective traffic. As such, the current freight car fleet is excessive and the additional 290 thousand cars limit the capacity and flexibility of the infrastructure, impede the traffic of freight flows, and decrease the speed of freight delivery and the overall efficiency of the fleet.

Compared with the maximum volume of loaded car-kilometres achieved within the borders of the RSFSR in 1998, the current indicators are 35% lower. At the same time, the number of empty car-kilometres increased by 2.9%. Railway facilities are largely used not for freight transportation but for moving empty cars based on the commercial interests of operators, and freight car performance has significantly decreased.

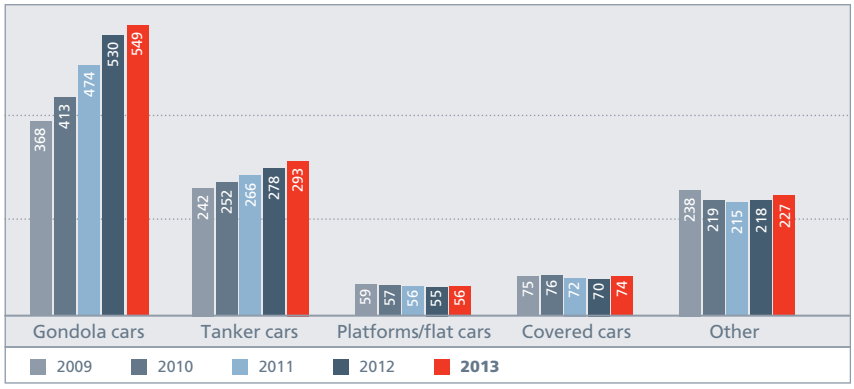
Every 50 thousand cars within the Russian Railways infrastructure that are beyond the rational value cause the following negative consequences:

- Additional maintenance of 130-140 train locomotives and correspondingly providing for 600-620 locomotive teams during the year;
- Additional consumption of 540-570 mln kilowatt hours of electricity for starting up to speed and slowing down freight cars after unplanned stops;

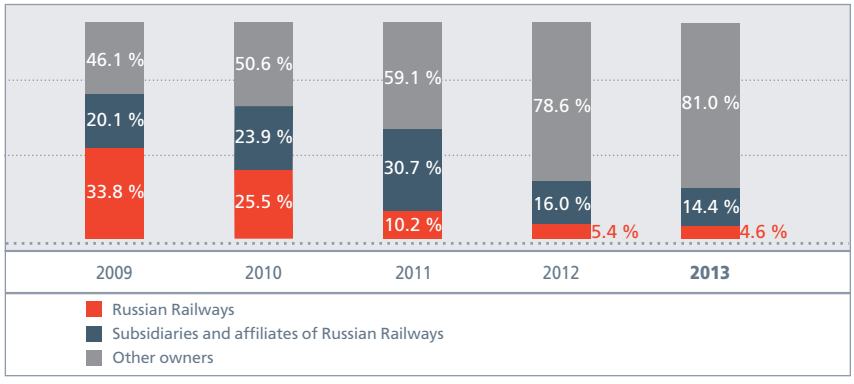
The available excess of rolling stock affected the growth of car turnover and led to a slow down of the speed of freight delivery. It also resulted in additional expenses for Russian Railways of more than RUB 19 billion.

Furthermore, despite being at a historic high in terms of size, the current car fleet does not provide stable freight traffic, which is the first priority for all low margin and socially important types of cargo.

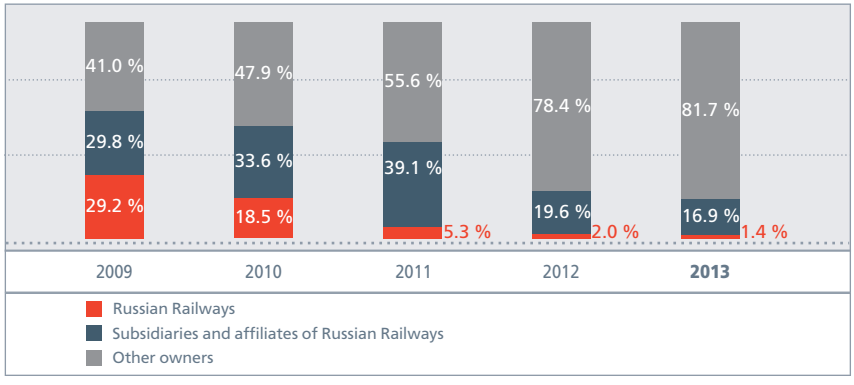
**Structure of the Russian freight cars fleet,** thousand units




**Structure of the market of freight cars operating by traffic volume,** %




**Structure of the market of freight cars operating by freight turnover volume,** %



Due to the unwillingness of rolling stock owners to provide their cars to shippers for the transport of low margin freight, Russian Railways has been forced to arrange a leased car fleet.

The consolidation of a part of the private park under Russian Railways management allowed us to solve the issue of car fleet placement within the rail network based on the real needs of shippers; providing speedy relocation of empty cars into handling regions in order to organise the traffic of low-margin and socially important freight.

By the beginning of 2013, the total number of gondola cars of the leased railcar fleet (the property of FGK) amounted to 74.5 thousand units (15% of the total number of gondola cars of various kinds of property within the fleet network). During the period from January to July 2013, 22.5 million tonnes of freight were transported in gondola cars of the LRF railcars (360 thousand of car-dispatches). Construction materials and stone coal accounted for the majority of freight volume.

Reserve cars are mainly used for low margin public service traffic for municipal and electric utilities authorities and the Ministry of Defence. These segments are not attractive for other owners of the rolling stock. The proportion of this traffic in terms of overall freight turnover for LRF railcars amounted to approximately 60% in 2013. At the same time, the freight of third class tariffs amounted to just 6.7%.

The reasons for the decrease in demand for the fleet of LRF railcars were a reduction by the owners (operators) in the cost of providing cars for transportation due to a surplus of gondola cars in the market and the need to pay for use of the cars from the fleet of LRF railcars while they were under freight operations. Russian Railways therefore took the decision to return the reserve gondola cars into the operation of FGK. In accordance with Resolution No 1467 of the Government of the Russian Federation dated December 28, 2012, the fleet was fully returned to its owner in July 2013.

**Structure of freight transport by the fleet of LRF railcars in 2013,** %


| | |
|---|---|
| Construction materials | 37.8 % |
| Stone coal | 35.7 % |
| Timber freight | 6.9 % |
| Iron and black-iron ore | 2.9 % |
| Ferrous metals | 1.9 % |
| Other | 14.8 % |

## Locomotive fleet


The supply of new locomotives over the year allowed Russian Railways to gradually introduce its operated locomotive fleet and relocate it to railway grounds, leading to growth in freight turnover, and the removal of fleet units that had outlived their standard operation time.

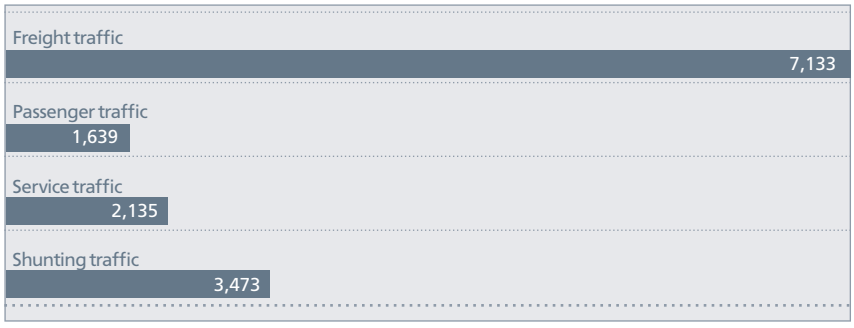
**In 2013, Russian Railways acquired**

**804** new locomotives

In 2013, Russian Railways operated a fleet of 14,380 locomotives. During the year, 804 new locomotives were supplied to the network. This included 421 electric and 383 diesel locomotives. The increase in supply of new locomotives was 51.1% compared to 2012.

Of the 804 new units, 82 were innovative. These included electric freight AC locomotives with an asynchronous tractional drive 2ES10 (40 units), diesel freight locomotives 2TE25A (12 units), and passenger dual-voltage electric locomotives EP20 (30 units).

**Structure of the operated locomotive fleet in 2013,** units



## Key quality indicators of the rolling stock operation in 2013

- Freight train service speed increased by 0.8 km/hour (+2.2%) compared to 2012, reaching 36.8 km/hour; operating speed increased by 0.4 km/hour (+0.9%), reaching 45.6 km/hour
- The average weight of a freight train was 3,911 tonnes (+0.5%). This growth was achieved mainly by increasing the number of connected trains. 22.2 thousand trains of increased length were dispatched within the railway network (+35.8%)
- The average daily productivity of an operating fleet locomotive within the network amounted to 1,820 thousand tonne-kilometres gross (+1.6%). This growth was achieved mainly by increasing average daily mileage to 591.3 km (+1%) and decreasing the percentage of false mileage of an operating fleet locomotive from 12.6% to 12.3%.

**Increase of productivity of an operating fleet locomotive**

# 1.6%

Average daily productivity of an operating fleet locomotive of the network - 1,820 thousand tonne-kilometres gross

**Increase of freight train service speed**

# 2.2%

Service speed of a freight train increased by 0.8 km/hour compared to 2012.

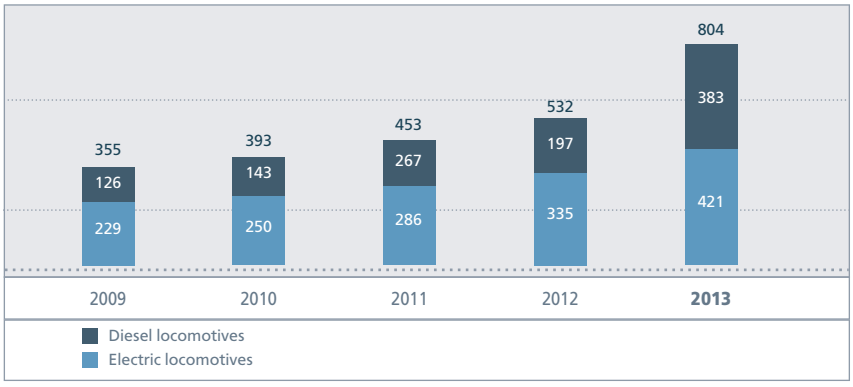
**Between 2009-2013 Russian Railways acquired**

# 2,537 new locomotives

**Structure of locomotives procurement in 2013,** units

| | Amount |
|---|---|
| **Locomotives, total** | **804** |
| **Electric locomotives** | **421** |
| Electric freight AC locomotives | 157 |
| Electric freight DC locomotives | 164 |
| Electric passenger AC locomotives | 50 |
| Electric passenger DC locomotives | 50 |
| **Diesel locomotives** | **383** |
| Diesel freight locomotives | 138 |
| Diesel passenger locomotives | 41 |
| Diesel shunting locomotives | 204 |

**Traction rolling stock procurement,** units



# Logistics services


One of the Group's strategic objectives is a transition from the provision of pure transportation services to offering comprehensive door-to-door services by expanding the range of rendered 2PL, 3PL, 4PL services and the formation of global logistics chains.

## Operational results of GEFCO, an international logistics company

In order to strengthen the position of the Company in the logistics market and to implement 3PL/4PL logistics technologies within the Russian railways network, the Company acquired a 75% share of GEFCO, a French logistics operator, in 2012. GEFCO is one of the leading players in the European market of logistics services and enjoys a leading position in the logistics services segment for the European automobile market.

In 2013, the acquired company was actively integrated into the structure of the Group, with significant opportunities and development potential for the logistics business in Russia and the CIS countries. During 2013, a number of activities were carried out to form a package offer of logistics services for large Russian and foreign industrial enterprises.

An early project involving GEFCO is a joint operation of the Group and the Evraz Group. The project will offer corridor services for cargo delivery to Europe, specifically to the Vitkovice Steel factory in the Czech Republic, using the Ust-Luga-Sassnitz railway-ferry crossing. As part of the integration of GEFCO into the business of the Group, a pilot project was carried out aimed at using the competencies of GEFCO in providing the internal logistics of Russian Railways to procure spare parts supply for locomotive maintenance.

Consolidated revenue of GEFCO in 2013 amounted to EUR 3,991 million, 10.8% higher than in 2012. At the same time, a gradual decline in the proportion of revenue attributable to the Peugeot Citroen Group should be noted. Prior to the acquisition by Russian Railways, the Peugeot Citroen Group was GEFCO's main shareholder and its key client. The change of GEFCO business structure is taking place against a background of an increase in the volume of services rendered to market customers. GEFCO business development in Russia and the provision of services by Russian Railways will allow us to diversify the client base even more, as well as to increase the Company's scale of business.

**In 20134, GEFCO's net profit amounted to**

**EUR 55 mln**

in line with planned targets.

Despite extensive work on the integration of GEFCO into the Group and the development of new markets

the economic situation in Europe, its main operating market, only started to stabilise in 2013. Against a backdrop of relatively unfavourable economic conditions, GEFCO was still able to achieve its planned profit indicators in 2013 due to the implementation of its expenses optimisation programme. Improvement in Europe's macroeconomic situation and the realisation of synergies with Russian Railways and its companies will allow us to achieve further performance improvements.

By the end of 2013, the operational profit of GEFCO totalled EUR 95.5 mlm, with net profit at EUR 55 mlm, corresponding to planned targets. A strategic development plan for GEFCO until 2020 that also incorporates the company's prospects in the markets of Russia and the CIS countries provides for average consolidated sales increase of 6-7% per year.

## Operational results of OJSC RZD Logistics

In general, 2013 was characterised by a negative economic situation. Despite this OJSC RZD Logistics (hereinafter "RZDL") enjoyed a revenue of RUB 5,177 million, reaching an increase of 28% compared to 2012. In general, the operating margin of the Company in 2013 was 10%.

**Net profit of OJSC RZD Logistics in 2013 amounted to**

**RUB 53 mln**

## Main activities of RZDL in 2013

### Multimodal transportation

RZDL continues the development of multimodal transportation via its cooperation with such companies as Sibelco – a world leader in the field of industrial materials production – OBI, and Solikamskbumprom. In 2013, the volume of multimodal transportation amounted to more than 2 million tonnes. The estimated operational profit is RUB 332 million.

Within the development of integrated logistics solutions for industrial enterprises, including supply management, marketing and in-plant logistics using leased locomotive traction, RZDL is implementing and developing the following projects: LLC Guardian Glass Rostov, YugRosProduct, CJSC Keramogranitny Zavod, LLC Transneftstroy, and OJSC Severstal – Sortovoy Zavod Balakovo. Revenue for the integrated logistics projects amounted to more than RUB 600 million, with operational profit reaching over RUB 100 million.

### RZD Express

In 2013, along with transportation of primary freight, RZDL actively promoted a service of transporting small and consolidated cargo by launching the RZD Express service.

During 2013, 2.6 thousand small consignments were delivered via 579 routes from 54 Russian cities. The geographical coverage of the rendered services amounts to 154 cities of Russia (7,914 routes). The Republic of Sakha (Yakutia) and the northern part of Krasnoyarsk Krai (the cities of Norilsk and Dudinka) are also connected to the service. There is a growing tendency to expand the geography of transportation including commercially unpopular routes – for instance, to/from the Magadan and Sakhalin regions, the Chukotka Autonomous District, and Kamchatka Krai.

### Transit

RZDL continues to develop rail transit transportation in the territory of Russia in cooperation with its affiliates. Thus, during 2013, 15 thousand TEUs were transported between Europe and China. In October 2013 the first train between Suzhou (China) and Warsaw (Poland) was launched. The train of 42 cars covered the 11,000-km route from China to Europe in 13 days. Given the potential of the freight base of the region, the frequency of the train dispatch can increase to three times per week.

A joint venture of OJSC RZD Logistics in the city of Chongqing – YuXimOu – transported 36 container trains in transit traffic in 2013 on the route between Chongqing (China) and Duisburg (Germany).

The operational profit of transit transportation in 2013 amounted to RUB 30 million.

# Improving the quality of service for freight owners

As part of the realisation of strategic objectives aimed at increasing the competitiveness of rail transport and transforming Russian Railways from a rail only into a transport and logistics company, a number of projects were implemented starting in 2010 in the sphere of end-to-end transport technologies of freight delivery with additional options on top of a basic transport service.

## Scheduled freight transport

Development of the technology of freight trains on schedule became one of the key activities.

In order to meet clients' needs and increase revenue from freight transport, the tightly run profile for 2013 contained 1,409 freight train schedules on various routes.

## Freight express

On this basis a number of new transport products are being implemented. The "freight express" project was launched in May 2013, with an objective of increasing the speed and enhancing the reliability of delivery of second and third class freight and, as consequence, strengthening the competitive position of rail transport in the high margin freight segment.

Freight train traffic is organised on the routes of stable traffic volumes from the points of mass handling on contractual basis with freight owners. More than 11.7 thousand trains proceeded within the framework of this service in 2013, and this number is constantly growing.

**Number of trains arranged on contractual basis with freight owners**

**11.7** thousand trains

**Customer benefits from the scheduled freight transport service**

- A guarantee of timely delivery of raw materials/products to manufacturing enterprises
- Shorter delivery time and car turnover time
- Release of rolling stock due to shorter car turnover time
- Just in time
- Optimisation of logistics of enterprises
- Reduction of transport component in overall product cost
- Ability to plan production
- Payment for the service via a single customer's account with Russian Railways.

## Trans-Siberian Railway in 7 days

Together with Transcontainer Russian Railways is developing the ability to cross the Trans-Siberian Railway in 7 days. Over 260 high-speed container trains proceeded within the framework of this project, with their average route speed being 1,050 km/day.

Russian Railways introduces new products based on transportation services, as well as integrated transport and logistics products, with companies from the Transportation and Logistics business unit (GEFCO, OJSC RZD Logistics).

As part of rendering integrated logistics services – alongside the project of seamless delivery technology for the freight of the Evraz Group to a plant in the Czech Republic – Russian Railways has worked with clients to launch a new transport product, Kuzbass-Southeast Asia. In September 2013, the first vessel laden with coal was dispatched from the port of Vladivostok to the Chinese port of Zhingtang.

The implementation of these projects allowed Russian Railways to enhance the reliability rate of freight delivery by 5 percentage points, reaching 77.5% in 2013.

**Benefits of the comprehensive transport service scheme**

- Optimisation of logistics of enterprises
- Guaranteed provision of rolling stock
- Cooperation with Russian Railways on the principle of "one-stop service
- Reduction of transport component in product costs
- Ability for clear planning based on vessel arrival
- Reduction in the number of intermediaries
- Just in time
- Payment for the service via a single customer account with Russian Railways.

In particular, the reliability rate of freight delivery amounted to 80.2%, with empty car delivery at 74.7%. 12.6 million shipments reached their destination stations on time.

The speed of empty car delivery increased by 3.4 km/day, while freight shipment speed increased by 6.3 km/day, reaching 192 km/day (+3.4 km/day).

Positive dynamics were also achieved in terms of the main quality parameters of operational work. In particular, the route speed of loaded routes and container trains increased. Dispatch schedule performance increased by 1.2 percentage points, while passage performance schedule increased by 8.6 percentage points, reaching 248.7 km/day (+6.3 km/day).

**Average route speed of a high-speed container train is**

**1,050 km/day**

# Passenger transportation


In 2013, passenger rail turnover decreased by 4.2% due to an overall reduction in long-distance passenger turnover. However, following the introduction of additional routes, high-speed passenger transportation demonstrated a significant growth of 9.2%.

**Increase in the number of passengers transported in 2013**

**2.0%**

compared with 2012

**Key performance indicators of railway passenger transport**

| Indicators | 2009 | 2010 | 2011 | 2012 | 2012 | 2013 Value | 2013 % to 2012 |
|---|---|---|---|---|---|---|---|
| **Passenger turnover of railway transport, bn passenger-kilometres** | | **151.5** | **138.9** | **139.8** | **144.6** | **138.5** | **-4.2** |
| — Suburban passenger transportation | | 38.2 | 28.0 | 29.3 | 31.6 | 32.7 | 3.5 |
| — Long-haul passenger transportation | | 113.3 | 110.9 | 110.5 | 113.0 | 105.8 | -6.4 |
| — High-speed passenger transportation | | 0.02 | 1.2 | 1.6 | 1.8 | 1.9 | 9.2 |
| **Number of transported passengers, mln passengers** | | **1,136.9** | **946.5** | **993.1** | **1,058.8** | **1,079.6** | **2.0** |
| — Suburban passenger transportation | | 1,019.4 | 831.6 | 878.3 | 942.2 | 968.8 | 2.8 |
| — Long-haul passenger transportation | | 117.5 | 114.9 | 114.8 | 116.6 | 110.7 | -5.1 |
| — High-speed passenger transportation | | 0.04 | 1.9 | 2.8 | 3.2 | 3.8 | 18.1 |

**The electric train Lastochka was launched on the routes Moscow – Nizhny Novgorod, St.Petersburg – Veliky Novgorod, and St.Petersburg – Bologoye routes, as well as on Olympic routes.**

**A car-garage service was launched on the Moscow – St.Petersburg and Moscow – Petrozavodsk routes.**


**A deluxe double-decker train began operating on the Moscow – Adler route.**

**An upgrade was carried out on the Sapsan high-speed electric trains**

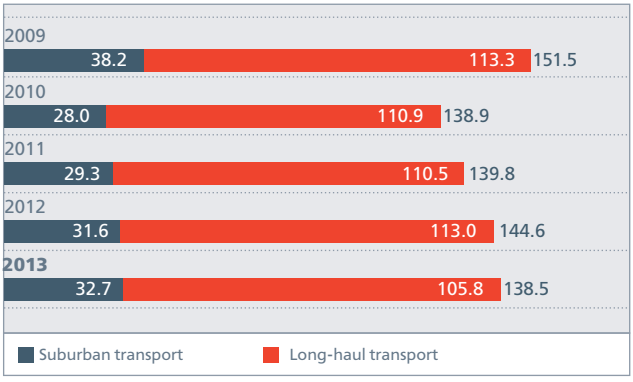
**A pilot programme of buying electronic tickets for suburban trains online was launched.**

**Increase of passenger turnover on high-speed passenger transport in 2013**

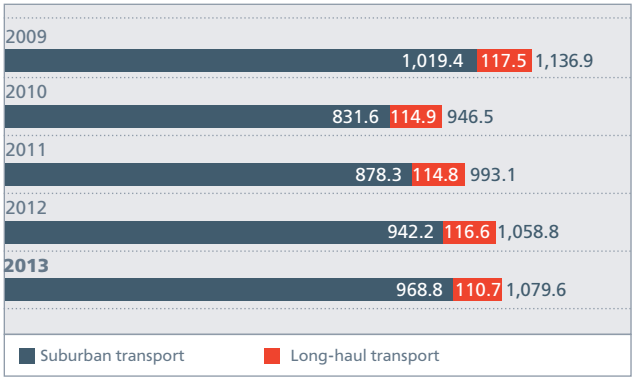
**9.2%**

compared to 2012

**Railway passenger turnover,** bn passenger-kilometres




**Number of rail passengers,** mln people



## 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.

**Increase of passenger turnover in suburban transport in 2013**

**3.5%**

higher than 2012.

**Increase in the number of passengers transported in suburban transport in 2013**

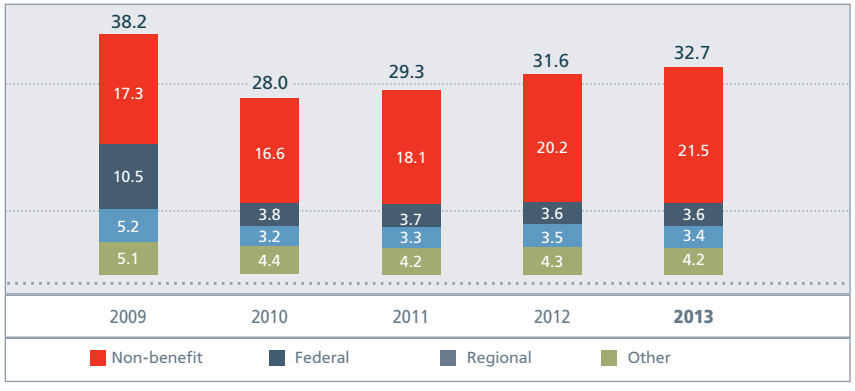
**2.8%**

compared higher than 2012.

**Number of suburban transport passengers in 2013 by category,** mln people


| | | |
|---|---|---|
| Non-benefit | **691.6** | 71.4 % |
| Regional | **89.2** | 9.2 % |
| Federal | **80.3** | 8.3 % |
| Other | **107.7** | 11.1 % |

**Passenger turnover in suburban transport,** bn passenger-kilometres



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.

**SPC activity indicators in 2013 with a infrastructure rate of 1%**

| Indicator | Billion RUB |
|---|---|
| Revenue | 49.5 |
| Expenses | 57.4 |
| Losses | -7.9 |
| — Excluding profitable regions | -16.2 |
| Accrued subsidies | 7.8 |
| Received subsidies | 7.6 |
| Loss/profit including accrued subsidies | -0.2 |
| — Excluding profitable regions | -8.4 |

### 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 Vologda 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***

| | Number of subjects of the Russian Federation | | |
|---|---|---|---|
| Compensation level by the subjects of the Russian Federation | 2011 | 2012 | **2013** |
| Number of subjects of the Russian Federation | 6 | 5 | **6** |
| 100% compensation | 15 | 16 | **9** |
| — More than 80% compensation | 3 | 9 | **8** |
| — 50-80% compensation | 11 | 6 | **14** |
| — Less than 50% compensation | 32 | 33 | **34** |
| — Not provided | 6 | 4 | **2** |
| **Total** | | **73** | |

* - Until the end of 2010 suburban transportation was an unprofitable activity supported by cross-subsidisation by freight transportation. Since the beginning of 2011, all rail passenger suburban transportation has been served by suburban passenger companies.

## 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.

**RUB 7.6 billion was allocated by the subjects of the Russian Federation as shortfalls in income compensation in 2013 – 50% of the required amount.**

RUB 7.6 bn

**Annual amount of allocated from the State federal budget of the Russian Federation as shortfalls in income compensation during 2011–2013**

RUB 25 bn

## 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 Mashinostroitelny Zavod, 18 cars of electric trains of ET4A series, 1 car of a diesel train DT-1 manufactured by OJSC Torzhoksky Vagonostroitelny 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.

**Number of new cars placed in service in 2013**

241 new cars

# Long-distance passenger transportation

## Federal Passenger Company key performance indicators

Despite a decrease in Federal Passenger Company's performance indicators, the Company's net profit in 2013 amounted to RUB 4.1 billion, 70.7% more than in 2012.

Net profit margin increased from 1.1% in 2012 to 1.9% in 2013 by 0.9 percentage points.

Investments amounted to RUB 27.5 billion, 25.2% more than last year. Over 87.5% of the total programme is allocated for the acquisition of rolling stock – RUB 24.1 billion (by 53.6% more than in 2012).

**Net profit of Federal Passenger Company in 2013**

RUB **4.1** bn

**Number of long-distance passengers transported in 2013**

**110.7** mln people

**Investments in 2013**

RUB **27.5** bn

25.2% more than last year.

**Long-distance passenger traffic in 2013**

**105.8** bn passenger-kilometres

## The following companies provide long-distance passenger transportation:

- JSC Federal Passenger Company – a subsidiary of Russian Railways. Its share in passenger traffic amounts to 97%;
- OJSCo Passenger Company Sakhalin. Provides transportation in the Sakhalin region. Its share in passenger traffic is 0.2%;
- Independent carriers: CJSC TC Grand Service Express, LLC Tverskoy Express, CJSC TransClassService. Their share in passenger traffic is 0.9%.
- Directorate of speed transport – a subsidiary of Russian Railways. Its share in passenger traffic is 1.9%.

## Measures to improve the quality of long-distance passenger transportation taken by Federal Passenger Company

Optimisation of the route network and development of multimodal transportation will allow increased speed of long-distance passenger trains; optimisation of the schedule, and increased efficiency of the operational rolling stock fleet.

There was also an increase in tariff policy flexibility. In order to attract additional passenger flow and increase revenue, a number of marketing campaigns were introduced by Federal Passenger Company with regards to the compartment transportations of selected domestic trains in 2013. These campaigns covered about 10% of the non-regulated transport segment.

The effect of implementing special tariff plans and discounts in 2013 was about RUB 243 million of revenue and over 166 thousand passengers.

## Double-decker transportations

In November 2013, the deluxe double-decker passenger train No 103/104 started operation on the Moscow-Adler route with three trains formed of 50 double-decker transportations.

### Advantages of innovative new transportations:

- Convenient timetable and minimum travel time for more passengers;
- Speed of the train increased to 160 km/hour;
- Capacity of a compartment transportation is increased by 78% (to 64 seats); and of a first-class transportation by 67% (to 30 seats);
- Potential to reduce the cost of travel in compartment and first-class transportations by increasing the number of seats;
- More environmentally friendly (the cars are constructed using new technology, equipment and materials).

### Overall effect of the project:

- A 38% reduction in operating expenses per passenger-seat;
- A 40% reduction in life cycle unit cost per passenger-seat;
- A 32% reduction in energy consumption per passenger-seat;
- A 33% increase in train conductors' productivity;
- A 41% decrease in the payback period.

## Speed transportation

Russian Railways has already implemented several successful projects in speed and high-speed passenger transport using of the modern electric trains Sapsan, Allegro and Lastochka.

**Increase of passenger traffic of high-speed transport in 2013**

**9.2%**

compared to 2012.

During their initial operating period, these high-speed electric trains transported over 12.5 million people, with 10.9 million people carried by Sapsan and 1.1 million by Allegro. During the first year of operation, 511,187 people travelled via the high-speed electric train Lastochka.

The average capacity usage of Sapsan trains is consistently high, at 92.7%. However, there is a shortage on the Moscow-St. Petersburg route, and the demand has not been satisfied. In order to meet passenger demand for high-speed electric transportation, double-decker Sapsan trains will be placed in service in 2014.

**Number of transported people**

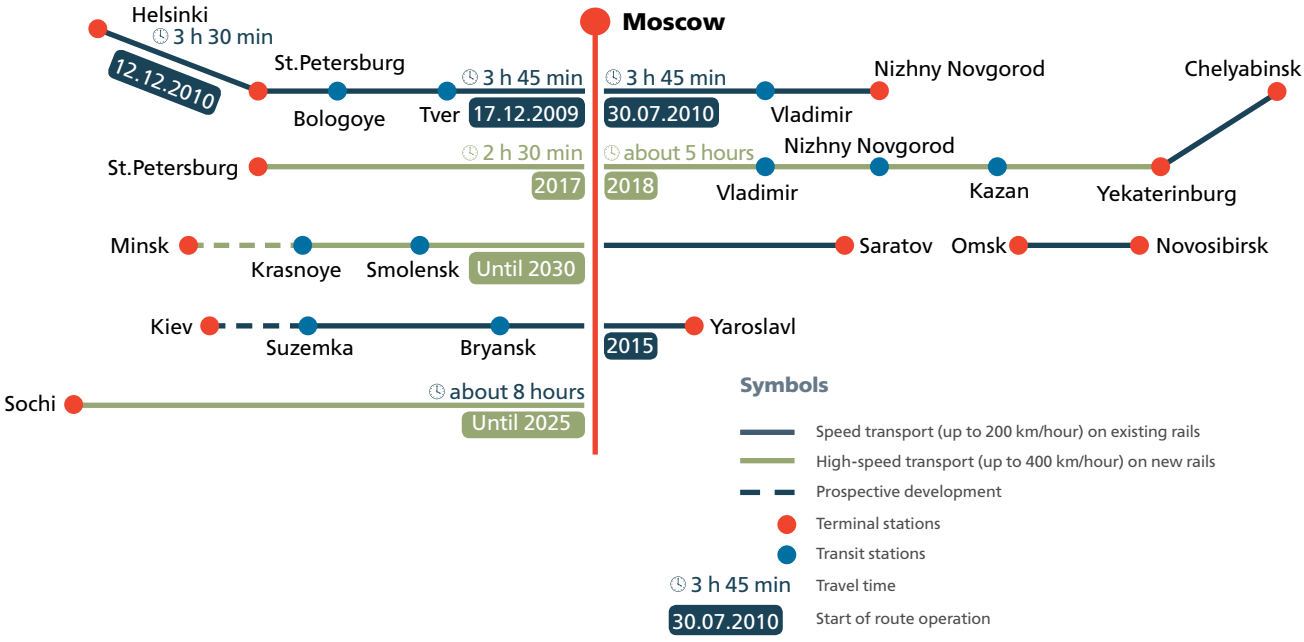
**12.5 mln**

during the operation of high-speed electric trains.

**Main characteristics of high-speed trains**

| Train | Start of operation | Routes |
|---|---|---|
| Sapsan<br>Max speed – 250 km/hour | 17.12.2009 | Moscow – St.Petersburg<br>Number of trains – 7 pairs per day |
| | 30.07.2010 | Moscow – Nizhny Novgorod<br>Number of trains – 2 pairs per day |
| Allegro<br>Max speed – 220 km/hour | 12.12.2010 | St.Petersburg – Helsinki<br>Number of trains – 4 pairs per day |
| Lastochka<br>Max speed – 160 km/hour | 23.01.2013 | St.Petersburg – Bologoye, Veliky Novgorod<br>Number of trains – 2 pairs per day |
| | 28.04.2013 – 31.07.13 | Moscow – Nizhny Novgorod<br>Number of trains – 1 pair per day |

**High-speed transport scheme**

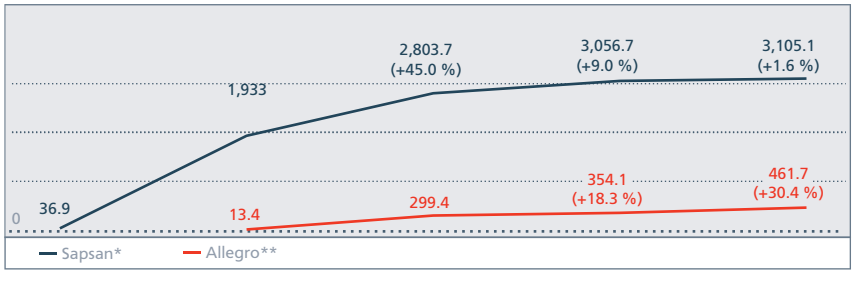



Currently, occupancy of the Allegro trains does not exceed 50%. However, in 2013, transportation on the Moscow-Helsinki route with the same number of trains (4 pairs of trains per day) demonstrated stable growth compared with 2012. In particular, the number of tickets sold increased by 30.2%. The increase in passenger flow was largely due to the implementation of a new flexible tariff scheme based on the date and time of the train departure and taking into consideration high and low seasons and occupancy rate.

Overall, in 2013 passenger traffic on high-speed electric trains increased by 9.2% compared with 2012, to 1.92 passenger-kilometres, and the total number of transported passengers increased by 18.1%, to 3.8 million people.

In order to enhance service quality, the modernisation of Sapsan trains was completed in 2013. To provide more comfort cars No 1 (first-class) and No 2 (second-class) were fully renovated. The first modernised train started operation on July 15, 2013 between Moscow and St.Petersburg. Since 1 December 2013, all Sapsan trains have now been modernised.

**Passenger turnover in speed transport,** bn passenger-kilometres




* - high-speed electric train Sapsan started operation in December 2009

** - data for 2009 with regards to the high-speed electric train Allegro is unavailable as the train started operation in 2010

Development of speed and high-speed transportation is determined by "Development of Speed and High-Speed Transportation Program for Russian Railways Railroad Network in a long term perspective by 2020" and "Railroad Transport Development Strategy in Russian Federation by 2030".

Implementation of Russian Railways speed and high-speed transportation development projects will be held through 2 stages:

**The first stage (2014 – 2020)**
**Investment volume by 2020 – RUB 1,334.7 billion**
(in 2013 prices excluding VAT) namely
speed transportation development – RUB 291.6 billion
high-speed transportation development – RUB 1,043.1 billion

## Actions

Organizing high-speed transportation on special main lines, train speed up to 300-400 km/h in Moscow – Nizhniy Novgorod – Kazan direction.

Organizing speed transportation between large regional centers on the basis of the existing infrastructure, maximum train speed is 160-200 km/h including:

- Moscow – Yaroslavl direction;
- Moscow – Suzemka (with further extension to Kyiv)
- Moscow – Krasnoye (with further extension to Minsk and deeper into Europe)


## The First Stage Results (by 2020)

Total length of speed and high-speed lines in Russian Railways system is about 3.3 thousand km, including:

- High-speed lines – about 0.8 thousand km;
- Speed lines – 2.5 thousand km.

Total speed and high-speed passenger traffic is nearly 14.1 million people annually including:

- Speed trains – 7.7 million people;
- High-speed trains – 6.4 million people

Total number of speed and high-speed trains are 45 pairs, including:

- Speed trains – 22 pairs;
- High-speed trains – 23 pairs.

**The second stage (2021 – 2030).**
**Investment of RUB 7,045.9 billion by 2030 –** (in 2013 prices excluding VAT):
High performancerail transportat development – RUB 1,810.6 billion
high-speed transportat development – RUB 5,235.2 billion

## Actions

Implementing high-speed transportat on special main lines,
train speeds up to 300-400 km / h on routes:

- Moscow – Rostov – Adler;
- Moscow – St. Petersburg;
- Kazan – Yekaterinburg with branch line Kazan – Samara and also branch line to Perm and Ufa (new higher speed line).

Implementing high performance rail transport between major regional centers on the basis of the existing infrastructure, maximum train speed of 160-200 km/h including:

- Moscow – Tula – Oryol – Kursk ;
- Povolzhye (Saransk – Samara – Penza; Samara – Saratov; Saratov – Volgograd);
- the Urals (Yekateringburg – Chelyabinsk);
- Siberia (Novosibirsk – Omsk, Barnaul, Kemerovo, Novokuznetsk and Krasnoyarsk connections);
- the Far East (Khabarovsk – Vladivostok).

## Results of the second stage (by 2030)

Total length of higher speed and high-speed lines in the Russian Railways system is more than 11.8 thousand km, including:

- High-speed lines – 4.3 thousand km;
- Higher Speed lines – more than 7.5 thousand km.

Total higher speed and high-speed passenger traffic – 69.1 million people per year including:

- Higher Speed trains – 13.5 million people;
- High-speed trains – 55.6 million people.

Total number of hugher speed and high-speed trains- 261 pair including:

- Hugher Speed trains – 47 pairs;
- High-speed trains – 214 pairs.

The most promising and priority project for construction of new sections for higher-speed and high-speed transportation is the high-speed railway HSML-2 main line Moscow–Kazan . The section will be 770 km long, with a maximum speed- of up to 400 km/h.

HSML Moscow-Kazan will connect the territories of seven entities of the Russian Federation: Moscow, the Moscow Region, the Vladimir Region, the Nizhny Novgorod Region, the Chuvash Republic, the Mari El Republic and the Tatarstan Republic.

The section will help reduce travel time between Moscow and Kazan fourfold: from the current 14 hours to 3.5 hours; the travel time between Nizhny Novgorod and Kazan will be reduced sevenfold: from 10 h 32 min down to 1 h 37 min. HSML Moscow–Kazan will assist in increasing population mobility.

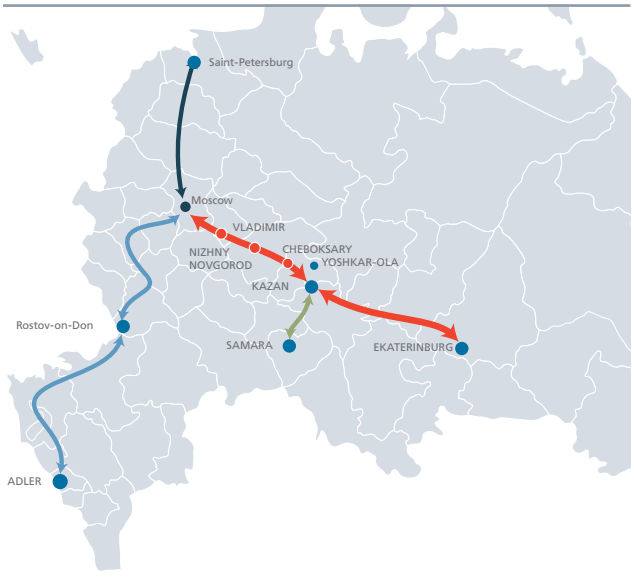
In 2013 Russian Railways prepared the case for investment into the construction of the Moscow–Kazan section of the high-speed main line Moscow–Kazan–Yekaterinburg as well as the financial and legal process for project implementation.

In order to verify the received materials under the global practice of HSML project construction Russian Railways conducted an audit of the investment case using external auditors from the audit companies.

**Key HSML Projects**

## HSML: Kazan – Samara

- 560 km long
- transportation volume by 2030 – 2.8 billion pass-km*
- Passenger traffic – 5 million pass.*




## HSRML 1 Moscow – St.Petersburg

- Travel time- 2.5 h (659 km)
- Transportation volume by 2030- 11.7 billion pass-km *
- Passenger traffic –17.8 million pass.*
- Connects 2 biggest cities

## HSML 2: Moscow – Kazan – Yekaterinburg

- Travel time 7 h. (1,532 km)
- Transportation volume by 2030- 17 billion pass-km *
- Passenger traffic – more than 23 pass* (Moscow – Kazan – up to 18.2 million pass)
- Connects 4 biggest cities of Russia, and also 2 cities of major transport routes.

## HSML -3: Center-South Moscow – Rostov-on-Don – Adler

- 1,540 km long
- Transportation volume by 2030 – 14.0 billion pass-km *
- Passenger traffic – 17.7 million pass.*

* - forecast passenger traffic according to innovation scenario

## Railway station complex

Railway stations of Russian Railways are constantly working on improving quality of service and providing a comfortable and safe stay at stations.

Standard solutions and constant service quality control help us noticeably reduce the impact of the human factor on service level, provide a high level of competitiveness and proper service quality simultaneously assisting in optimization of service costs.

In 2013 we continued introducing new automatic luggage and hand luggage lockers with non-contact smart cards as pass keys and means of payment. During the year we installed 4,287 automatic lockers increasing their total number to 5,666.

Revenues from passenger servicing at railway stations amounted to1.9 billion roubles, 9% more than in 2012.

We are actively introducing Wi-Fi network: you can find it at the 60 larggest railway stations in Russia.

We are planning to increase the number of railway station complexes with an Internet connection up to 100 by the end of 2014.

Since 2011 we have started using more outsourcers to improve service quality and increase profitability. At the moment services at 167 railway stations have been handed over to outsourcing (145 stations in 2012).

The company is still taking measures to create a barrier free environment for disabled and physically challenged people at railway stations. To improve service quality for such groups of people we installed 33 units of special equipment in 2013 (elevators, moving staircases, chairlifts, ramps). The number of sanitary rooms adjusted for handicapped people has increased from 3 to 34.

In 2013 the Company continued works on reconstruction, modernization and construction of railway station infrastructure. It should be noted that the works were finished by the Sochi Winter Olympic and Paralympic Games in the course of which we undertook large-scale reconstruction of existing stations

and constructed new ones. For example, we built a new multimodal railway station terminal in Adler and reconstructed passenger terminals for railway stations in Sochi, Dagomys, Khosta and Matsesta for the needs of handicapped peoples.

In 2013 total investment for railway station complex development amounted to 6,805.6 million roubles.

**Total investment for development of railway stationsx in 2013 was**

**RUB 6,805.6 mln**

**Revenues from passenger servicing at railway stations for 2013 have grown by 9% comparing to 2012**

**9%**

Within the framework of the investment program railway stations of Rybinsk, Atkarsk, Saransk, Novkuznetsk, 6 railway stations in Moscow (Savelovsky, Leningradsky, Paveletsky, Rizhsky, Yaroslavsky, Belorussky), Pensa-1, Ladozhsky (1 stage) opened after reconstruction in 2013.

# Russian Railways infrastructure support

Central Infrastructure Direction – the division of Russian Railways which maintains the Company's infrastructure and is the largest division of the Company. It employs 318 thousand people.

The main components of Russian Railways infrastructure complex are the following:

**Track and facilities management unit**

This is a multifunctional complex, it accounts for roughly a half of major railway funds, a quarter of operational expenses and one fifth of railway personnel from the main areas of activity.

The major task of the track and facilities management unit is to maintain tracks and facilities in a condition that guarantees non-stop and safe train movement.

Structural subunits maintaining tracks and man-made facilities include the track maintenance department and engineering facilities.

As of December 31, 2013 the Central Infrastructure Direction included 8 administrations, 378 track maintenance departments, 16 engineering facilities departments and 79 operational railcar depots.

Enterprises of the Track and facilities management unit make running repairs and provide technical support for cars, their cleaning and sanitation and prepare cisterns for pouring.

## Key tasks in infrastructure sector:

- Developing infrastructure to prepare and conduct the Olympic Games;
- Meeting targets on the project «Development of Moscow Traffic Center";
- Beginning to implement projects to develop Eastern polygon railway infrastructure;
- Preparing and approving the program aimed at providing safe transportation on the Zabaikalskaya railway.

**Russian Railways infrastructure complex employs**

**318 thousand people**

**Investment budget of the Central Infrastructure Direction in 2013 is**

**RUB 115.5 bn**

The budget has been fully completed

### Automation and telemechanics facilities

Automation and telemechanics management of the railroad automation and telemechanics system (RAT) is a combination of technical means used to control and manage railway stationary track facilities and vehicles at fixed operational safety level.

Railway automation is based on signals and interconnection providing safe railway operation given centralized control and management of track facilities of railway stations and lines.

### Implementing 2013 Investment program of the Central Infrastructure Direction

The Investment program of the Central Infrastructure Direction is aimed at renewing funds, eliminating infrastructure limits of the Direction's management units, increasing safety in operation and optimizing operational expenses..

2013 investment budget of the Central Infrastructure Direction has been fully completed – 115.5 billion roubles have been assimilated.

## Completing investment budget

| | | |
|---|---|---|
| Track and facilities management unit | 98.8 RUB bn | 3.98 thousand km of track superstructure was reconstructed; 1,569 sets of rails switches were replaced; 10 stations (316 running lines) were equipped with electrical heating; 14 protective barriers were installed along lines. |
| Electrification and power supply | 9.8 RUB bn | 391 km of aerial contact wire and 141 km of automatic blocking lines and longitudinal power supply lines were renewed, equipment at 31 traction substation was modernized, 14 telemechanics systems and 15,000 of contact system masts were replaced. |
| Automation and Telemechanics | 5.3 RUB bn | 233 power switches, 29.5 km of automatic blocking lines, 502 km of centralized traffic control systems were renewed, 100.5 km were equipped with two-side automatic blocking systems. |
| Rolling stock | 1.6 RUB bn | 7 equipment sets for training car inspectors, 10 automatic railcar brakes diagnostic systems, 1 car repair machine, 9 gantries, 4 systems to control defects on wheel threads were purchased. |

### Main results of track management in 2013

In 2013 we reconstructed and repaired 10 thousand km of track.

Track recovery helped us:

- Increase train speed to 2,740 km for passenger trains and 2,270 km for freight trains.

As of 2013 results showed that the speed limit for passenger trains increased by 1.6 km/h for freight trains – by 1.0 km/h. The weighted average speed of passenger trains in the network was 93.1 km/h and 74.3 km/h for freight trains.

- Make train operation more reliable by increasing:
  - continuous welded rail was increased by 2.44 thousand km. By the end of 2013 its length on main lines was 85.87 thousand km or 69% of its total length;
  - reinforced concrete sleeper rail was increased by 2.88 thousand km –that is 74.6% from main line length;
  - rails with separation layer increased by 2.79 thousand km.

### Rolling stock

Rolling stock includes:

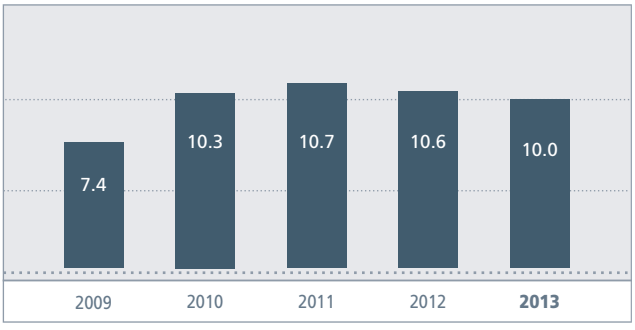
- 80 operational railcar depots;
- 445 technical support stations;
- 266 current uncoupling repair stations;
- 85 stations to prepare railcars for loading.

**In 2013 continuous welded rail was lengthened by**

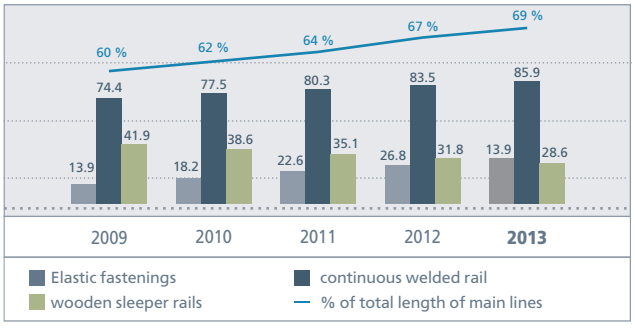
**2,440 km**

The length of continuous welded rail is 85,870 km

**Track repair works performed by the Central Infrastructure Direction,** thousand km.




**Length of continuous welded rail including elastic fastenings, thousand,** thousand km.



### Higher efficiency of railway operation

In November 2013 the Science and Engineering Council of Russian Railways approved the Complex program to increase efficiency of railway operation and innovation technologies of its technical support.

The program stipulates using a complex of organizational, technical and technological solutions which guarantee design, production and delivery of track maintenance complex including innovation superstructure materials, diagnostics means and maintenance vehicles. We prepared and launched a delivery program for combined maintenance vehicles. Thus we can optimally use human resources in remote areas.

Key targets of the Program are reaching 1.5 billion gross tons by 2020 against the current 700 million gross tons (increased by 2.1 and reducing the lifecycle cost by 20 % taking one year of operation.

### More reliable operation of railway infrastructure

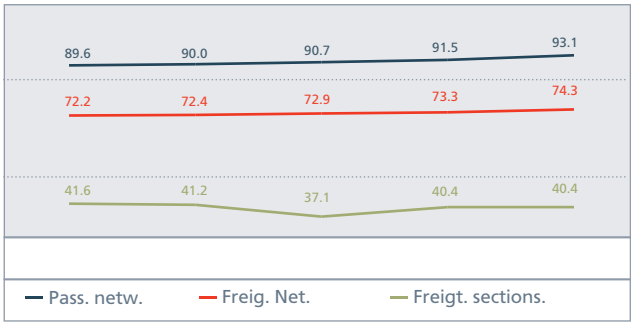
As of December 31, 2013 length of lines equipped with automatic blocking (AB) in the Russian railway network was 60,978 km.

In 2013 the number of incidents linked with railway safety violation in automation and telemechanics management unit fell from 19 down to 13 compared to 2012.

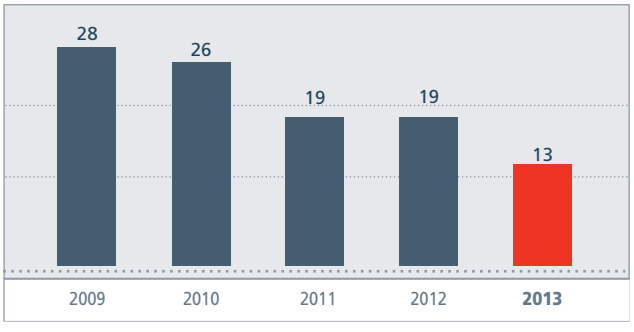
A number of investment projects are being implemented in railway network in automation and telemechanics management to renew RAT means and increase railway capacity.

Modernization of RAT technical means with double useful life helped to increase railway safety and reliability of equipment operation; diagnostics systems and remote railway control provide maximum identification of pre-failure conditions of RAT technical means.

**Weighted average speed limits within network,** km/h




**Number of incidents linked with railway safety violation**



# International activity


## International activity strategy

JSC Russian Railways has achieved significant results in developing international cooperation, which has a strategic mission to ensure the efficient fulfillment of Russia's transit potential.

Modernization and augmentation of the carrying capacity of routes, which are part of the international transportation corridors, enabled to significantly increase the transit volume upon the Russian railway network, first of all in the "East-West" destination.

The geography of passenger railway routes from Russia to western countries has been significantly extended as well. Currently there are nearly 100 international direct and transit routes to more than 30 countries.

### Key strategic priorities:

- Creation of conditions for sustainable, safe and efficient operation of railway transport as an organizing element of the country's transportation system in order to achieve Russia's major geopolitical and geoeconomic goals;
- Integration of the main lines of the Russian railway network into the international transportation system and development of the International transportation corridors (East-West; North-South) which pass through Russian territory;
- Cooperation with adjoining railways in the field of freight transportation on the basis of mutual creation of through transport products; development of logistics and terminal capacities; definition of mutually advantageous tariff solutions, aimed at stimulating transportation growth; creation of international specialized freight carriers;
- Development of the activity aimed at providing transport and logistics services in neighboring countries on the basis of implementing corresponding investment projects (through establishing subsidiaries of carrier companies, freight terminals, freight-forwarding and logistics subunits and enterprises);
- Expansion of presence upon foreign infrastructure markets and increase of global competitiveness of the RZD Holding Company through promotion of Russian railway goods and services for the railway sector.

In 2013 JSC Russian Railways continued implementing projects to increase its competitiveness in the global market for passenger and freight transportation services and guarantee its integration into the Euro-Asian transport and logistics system.

JSC Russian Railways:

- Is actively interacting with the 1,520 mm gauge railways in CIS and Baltic countries – the Company's principal partners in freight and passenger transportation;
- Is involved in creation of a transport platform for the Common Economic Space (CES) created by Russia, Belarus and Kazakhstan;
- Along with its partners in Kazakhstan, Ukraine, Belarus, Finland, Slovakia, Germany, China and other countries, the company is successfully implementing projects aimed at development of railways and intermodal transportation;
- Is strengthening cooperation with global leaders in the field of railway machine construction and engineering;
- Is actively involved in the work of international and intergovernmental and nongovernment organizations;
- Is involved in the implementation of infrastructure projects abroad.

**Cooperation with international organizations**

Efficient cooperation of JSC Russian Railways with railway companies in the CIS and Baltic countries enables to maximize the use of the competitive advantages of the "1,520 Domain".

Important work on strengthening such cooperation is being performed by the Railway Transportation Council of CIS countries.

In 2013 the Council held two sessions, which were attended by the heads of railway administrations of the CIS member-countries as well as Georgia, Latvia, Lithuania, Estonia, Bulgaria, Finland and Iran (in the capacity of observers).

Tangible results were achieved in developing a unified system of transport connections among Russia, Belarus and Kazakhstan within the framework of the Customs Union (CU) and the Common Economic Space (CES). The United Transport and Logistics Company (UTLC) is to become the principal element for integration of the transportation systems of the CU countries. JSC Russian Railways is working on the project of establishing the UTLC together with SA Belorussian railway and railway enterprise JSC NK Kazakhstan Temir Zholi with the support of the supreme political leadership of the CU member-countries.

Active involvement of representatives from JSC Russian Railways, Belorussian and Kazakh railway companies in the advisory committees of the Eurasian Economic Commission assists in the development of the transit potential. In 2013 the Company executives were included into 6 new committees.

Given the expanded cooperation with partners within the CES framework, the General representative office of JSC Russian Railways was opened in the Republic of Belarus in May 2013.

In the course of 2013 Russian railways actively developed their cooperation with international governmental and nongovernment organizations:

- UIC (International Union of Railways);
- OSJD (Organization for Cooperation Between Railways);
- European multilateral structures (Directorate-General for Transport and Mobility; European Railway Agency of the European Commission);
- UN ECE ITC (UN Inland Transport Committee of the European Economic Commission);
- UN ESCAP (UN Economic and Social Commission for Asia and the Pacific);
- CIT (International Rail Transport Committee).

The International Railway Business Forum "Strategic Partnership 1520" that took place in Sochi in May 2013 has served as a basis for consolidation and promotion of integration initiatives by the Company for 8 years already. The agenda of the forum was focused on relevant issues and prospects of railway transportation market development in Europe and Asia.

Regional platform for the International Railway Business Forum "Strategic Partnership 1520" opened in Minsk in October 2013. It focused on the issues of developing transit potential of "West-East" corridor by improving quality of transport and logistics services in Central and Eastern European countries.

**Developing international intermodal transportation**

In 2013 JSC Russian Railways and its subsidiaries together with their partners in Kazakhstan, Ukraine, Belorussia, Finland, Slovakia, Germany, China and other countries continued implementing projects aimed at developing intermodal transportation.

Main events and agreements in the area of international intermodal transportation include:

- Launch of operations at the Caucasus-Samsun railway-ferry crossing. The Crossing helps to substantially reduce time and cost of freight delivery form Turkey to Russia and Central-Asian republics. Transportation is undertaken by ferries from Black Sea Ferry Investment Company established with participation of JSC Russian Railways.
- Developing container transportation on the route Chongqing (China)-Europe.
- In September 2013 Chongqing government, Chinese Railways Corporation and JSC Russian Railways signed a Memorandum of cooperation. In the future it is planned to sign an agreement between the Russian and Chinese railway companies. It will determine priorities and emphasis in mutual work and new mechanisms of cooperation.
- Efforts to resume freight transportation across railway border crossing Makhalino-Khunchun. On August 2nd, 2013 a demonstration train with coal consisting of 30 cars made the crossing from Russia to China. The forecast volume of transportation via the border crossing is approximately 2 million tons per year with the prospect of further increase in volumes.

The key projects of JSC Russian Railways focus on providing an efficient transportation link between Europe and Asia using via land-based railway communications. They were presented at the First European Railway Congress held in London last November under the auspices of the EU and have evoked significant interest among European businessmen.

**Cooperation with West-European manufacturers of railway rolling stock**

One of the important aspects of JSC Russian Railways international activity is cooperation with global leaders in the field of railway mechanical engineering.

## Major projects in which foreign transport mechanical engineering companies are involved

| Company (country) | Project target | Events conducted in 2013 |
|---|---|---|
| Siemens AG (Germany) | Design and supply of electric trains "Lastochka" | Supply of 45 electric trains "Lastochka" |
| | Domestic production of electric trains "Lastochka" (Swallow) at Ural locomotives LLC | Launch of a production facility to manufacture electric trains "Lastochka"(November 2013) |
| | Production of direct-current electric freight locomotives 2ES10 "Granit" with asynchronous traction drive at Ural locomotives LLC | Supply of 40 electric trains 2ES10 |
| Alstom (France) | Design and production of two-system electric trains EP20. Production is organized at the Novocherkask Electric Locomotive Plant (a part of CJSC Transmashholding) | Supply of 30 electric trains EP20 |
| Talgo (Spain) | Design and supply of passenger trains, equipped with automatic variable gauge axles and compulsory body tilt | Work to fulfill the contract is currently in progress |
| Joint Venture RCC Railway Casted Components a.s. (with participation of Russia and Slovakia) | Manufacture of heavy casting of Barber bogies for the rolling stock, utilized on the "1520 Domain" market | Launch of production on the basis of a joint venture (November 2013) |

# Implementation of international projects to construct infrastructure facilities abroad

In 2013 the Company achieved notable results in implementing international projects to construct railway infrastructure abroad, extended cooperation geography in this field and signed a number of important documents with foreign railway administrations on construction and renovation of railways.

Implementation of infrastructure projects abroad is an important element of the Company's portfolio diversification and is primarily determined by economic feasibility.

Vietnam, Ecuador, Brasil, Namibia, Jordan, Kuwait, Ethiopia, Iran and India have expressed their interest in cooperation with JSC Russian Railways.

This demonstrates the Company's potential competitiveness upon the local infrastructure construction markets of these countries.


## Serbia

One of the most significant results of 2013 is the signing of a contract between RZD International LLC – a subsidiary of JSC Russian Railways – and JSC Serbian Railways for the sum of 941.2 million US dollars.

The project stipulates:

- Construction and electrification of 15 km of the second track of the railway line Belgrade – Panchevo;
- Reconstruction of 6 sections with a total length 112 km of Pan-European Corridor X;
- Reconstruction of the existing and construction of a new track in the railway section Stara Pazova – Novi Sad (43 km);
- Reconstruction of the Serbian section of the railway line Belgrade – Bar with a total length of 200 km;
- Supply of diesel trains produced by JSC Metrovagon-mash (Russia).


## DPRK, Republic of Korea

On September 22nd, 2013 the first stage of the project was completed – the reconstructed railway section Hasan (Russia) to Rajin (DPRK) was launched into operation. Furthermore, reconstruction of quay No 9 Terminal in Rajin port was largely finished, except for bottom dredging. The works to dredge the bottom and launch the port terminal into operation is scheduled in 2014. It is planned that initially the new terminal will be used to export Russian coal to APC countries in the volume of up to 4 million tons per year. Later it can be utilized for container transportation.

An important outcome of 2013 was the reaching of an agreement with a group of South Korean companies, which stipulated that they will become a part of the project "Hasan-Rajin"


## Austria, Slovakia, Ukraine

The work on evaluating and developing the project of constructing a 1,520 mm gauge railway line to Bratislava and Vienna has been continued.

In July 2013 project participants made a joint decision to conduct the tender for the next stage of the technical and economic review entitled "Engineering services for the Feasibility Study, selection of a route and track, ecological analysis" and also to prepare a business model and conduct a goods traffic marketing research. The Joint Venture tender documentation for the next stage of the Feasibility Study has been officially published in September 2013


## Mongolia

In 2013 the Company continued working on the project of modernization of the Ulan-Bator Railways (JSC UBZD) and construction of a new railway infrastructure in Mongolia.

It was decided to allocate the funds which remained after the increase of the JSC UBZD charter capital in 2012 to fulfill the first stage of the Program of Technical Modernization and Development of JSC Ulan-Bator Railways (for the period up to 2015).

Modernization of the Ulan-Bator Railways will provide the required carrying capacity increase for freight transportation, primarily of mineral products from deposits in Mongolia in the direction of China and the Far East ports of Russia, as well as an increase of transit transportation between Russia and China.


## Vietnam

May 14th, 2013 JSC Russian Railways, Vietnamese Railways and company An Vien signed a Framework Agreement on cooperation in the area of design and construction of railway infrastructure in the south of the country.


## Indonesia

In 2013 the Company continued to finance a project in Indonesia. The project envisaged construction of transport infrastructure on Kalimantan Island to transport coal from deposits in the central part of the island to the eastern coast. Within the project framework we are planning to build 180 km of railway infrastructure, a marine coal terminal in the eastern coast and a power station.


## Libya

In 2013 JSC RZD has resumed the consideration of the project to construct a railway line Sirte–Benghazi in Libya, earlier suspended in 2011. JSC Russian Railways, the Ministry of Transportation of Libya and Libyan Railways have reached an agreement to establish a joint commission to determine conditions and parameters for further cooperation in project implementation.


## Ecuador

In October 2013 JSC Russian Railways and the Ministry-coordinator of strategic sectors in the Republic of Ecuador signed a Declaration of Intent in the area of new railways construction in the Republic.


## Ethiopia

In 2013 the Company took certain steps to expand the portfolio of infrastructure projects implemented by JSC RZD in Africa. In October 2013 JSC Russian Railways and Ethiopian Railways signed a revised Memorandum of Understanding to construct a railway line Mojo–Veite–Moyale.

# Innovations and technological development

The Company's innovation development is aimed at achieving efficiency given the constantly increasing quality of the provided services, high level of innovation and safe transportation.

Russian Railways innovations are developed in accordance with tasks determined in such documents as the Strategy for Railway Development in the Russian Federation up to 2030; Russian Railways Strategy of Innovation Development up to 2015; Russian Railways Program of Innovation Development up to 2015.

## Major results of implementing Russian Railways Program of Innovation Development

| Tasks | Results |
|---|---|
| **Transportation and Logistics Management Program** | |
| – Introducing freight delivery technologies on "door-to-door" and "just-in-time" principles.<br>– Increasing efficiency of transportation process by introducing innovation technologies and new technical means..<br>– Developing and introducing technologies to organize operation of freight trains according to schedule.<br>– Integrating into the Euro-Asian Transportation and Logistics System on the principles of logistics management. | – We introduced an information planning regime for the automatic system controlling train movement in the section St. Petersburg-Moscow.<br>– We expanded the field to introduce technologies for scheduled freight train operation.<br>– APK "Elbrus" -automatic system for forecasting optimal daily energy - was introduced in the testing field Chelyabinsk-Inskaya.<br>– We established five Traction Resources Management Centers.<br>– The Sorting Stations Developing Program was updated up to 2025. |

| Tasks | Results |
|---|---|
| **Infrastructure** | |
| – Harmonized development of transportation infrastructure on the basis of imitating transport network models.<br>– Designing normative-methodical base to calculate resistance, safety, resource and risks parameters.<br>– Developing normative-methodical base to provide product quality.<br>– Developing normative-methodical base to construct high-speed main lines.<br>– Introducing new materials and structures.<br>– Introducing a system of infrastructure complex diagnostics. | – Reduced number of failures at infrastructure facilities by more than 10% by 2011.<br>– Developed hardware and software and technologies of complex automatic control for rail joints at rail-welding enterprises<br>– Dynamic laboratories were designed to test infrastructure with axle loading 27 tons and speed 200 km/h.<br>– Introduced technologies for railway repair and reconstruction using coordinate methods based on satellite technologies GLONASS/SRB and CDTN<br>– Introduced technologies to reconstruct alternative current traction substations on the basis of relocatable buildings.<br>– Introduced composite glass structures for infrastructure facilities and passenger railway facilities.<br>– Normative and technical documentation was prepared to evaluate reliability and safety of infrastructure facilities. |
| **Rolling stock** | |
| – Developing normative-methodical base to control rolling stock life cycle.<br>– Increasing axle loading.<br>– Increasing speed limit.<br>– Reducing dead weight of freight cars.<br>– Developing product range of locomotives with asynchronous traction motors.<br>– Introducing alternative energy sources for locomotives and special self-propelled rolling stock. | – Acceptance inspections of locomotives 3TE116Uwere conducted.<br>– Produced shunting diesel locomotive TEM19 with gas engine and gas turbine locomotive GT1I-002.<br>– Serial production and operation of mainline doubly-fed passenger electric train with asynchronous traction motor EP20 with engineering speed 200 km/h.<br>– Designed and produced two prototypes of mainline freight accident current electric train with asynchronous traction motor 2ES5 with 25 tons axle load.<br>– Prepared technical requirements and technical project for mainline freight accident current electric train with asynchronous traction motor 2ES5 with 25 tons axle load.<br>– A 4-axle flat car for piggyback container transportation was designed and certified.<br>– A multipurpose box car with operable walls and 25 tons axle load was tested in lines. |

## Increasing operation reliability and operational resource of technical means

| Tasks | Results |
|---|---|
| – Designing and introducing technology to manage resources and risks at lifecycle phases based on safety of traffic management system (STMS) | – Introduced STMS technology at track facilities, automation and telemechanics, electrification and energy supply management units<br>– Approved STO RZD 02.037-2011.STMS. Regulating cost of lifecycle of systems, devices and equipment at Russian Railways management units.; STO RZD 02.0412011 STMS. Systems, devices and equipment of track facilities management unit. Reliability and functional safety requirements; STO RZD 02.043-2011 STMS. Systems, devices and equipment of electrification and energy supply management unit. Reliability and functional safety requirements; STO RZD 02.044-2011 STMS. Terms and definitions».<br>– The Company approved methodologies to calculate reliability and operational safety indexes and evaluate risks for infrastructure management units<br>– The number of 1st and 2nd category technical equipment failures (impacting train schedule) has been reduced by 9.6%. |

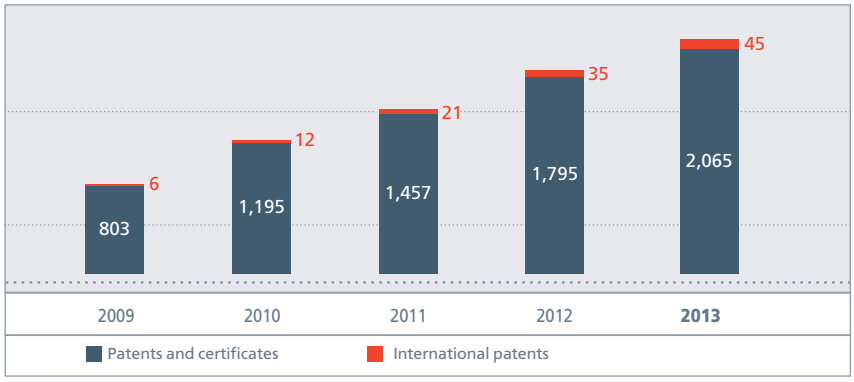
The Company's key indicators that show growing innovation development are volumes of purchased innovation technical means, growing labour productivity, energy efficiency of transportation process and volumes of heavy hauls transportation.

Currently the Company's intellectual property portfolio accounts for more than 2000 protection documents, more than 1000 of which are invention patents and useful models.

Correspondently the Company's non-material assets are growing. As of December 31, 2013 they cost 8.2 billion roubles.

In 2013 R&D costs decreased compared to the previous year (by 0.8%). They amounted to 7.28 billion roubles (0.53% of profit). This rate is consistent with comparable international companies .

**Number of received patents and certificates for PC and DB**
(by the end of the year, units)

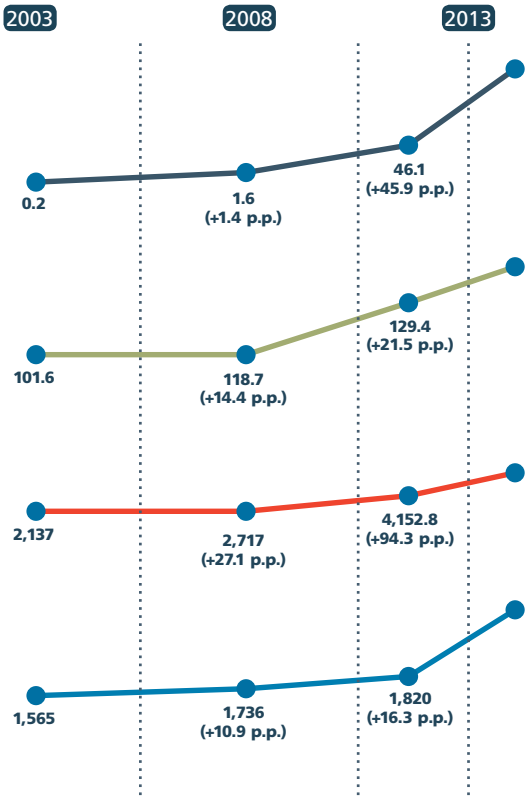



**R&D costs In 2013**

RUB **7.28** bn


**Russian Railways innovation development indexes**

| | |
|---|---|
| | Innovation technical means purchase costs, share of new equipment purchase costs, % (% by 2003) |
| | Energy efficiency of transportation process, calculated in tonne-km netto/kg of c.f. (% by 2003) |
| | Labour productivity growth ratio of employees engaged in transportation, thous. priv. tonne- km (% by 2003) |
| | Average daily performance of locomotive for freight transportation, thous. gross tonne-km (% by 2003) |



## Speed and high-speed electric trains

# Sapsan

The major result of the Higher-Speed and High-Speed Transportation Development Program is commercial exploitation of electric trains produced by Siemens AG Velaro RUS. In Russia they were named Sapsan. Functional speed of the trains is 300 km/h, operational speed – 250 km/h.

In December 2009 Sapsan started providing high-speed transportation services first in Moscow–St Petersburg line then in Moscow–Nizhny Novgorod line in July 2010. Now 7 electric trains have been put in operation

In December 2011 Russian Railways and Siemens AG concluded a contract for an additional supply of 8 high-speed Sapsan electric trains and an agreement for their technical support for 30 years. Electric trains delivery to Russian Railways is scheduled for October 2014 – May 2015. The new eight trains will set to work on the Moscow–St Petersburg line. The distinguishing feature of these trains is double train set function. It will provide higher train capacity without increasing the number of train pairs.

20 coupled cars will be 500 meters long, the train will admit 1024 passengers. All the cars will have an Intranet connection.

In December 2013 2 rolling stocks of Sapsan arrived in Russia. The electric trains are being delivered ahead of schedule.

# Allegro


We are developing higher-speed transportation on the St Petersburg–Helsinki route. Russian Railways and Finland Railways established a joint venture Oy Karelian Trains Ltd which bought 4 sevencar double-fed electric trains Repino Bt6 from Alstorm within the framework of an international tender. The trains have a functional speed of 220 km/h and 344 seat capacity.

In December 2010 a new high-speed service commenced between St. Petersburg and Helsinki , which helped to reduce travel time between two cities (415 km) to 3 h 36 min. Customs and passport control is conducted during the journey.

In November 2013 modernization of banking systems on 4 sets of Allegro electric trains was completed. Compared to a standard rolling stock structure the system helps to significantly increase curving speed providing safe and comfortable transportation. It does not require changing its geometry and current track leveling.

Currently there are 4 Allegro train sets providing movement of 4 train pairs per day.

# Lastochka

Within their cooperation framework Russian Railways and Siemens AG signed a contract in December 2009 to design and supply electric trains of the ES1 series Lastochka (factory name Desiro RUS) intended for operation in suburban areas.

The primary task of the trains is providing passenger transportation services in the section Sochi – Adler – Alpika Service during the Olympic and Paralympic Games in Sochi in 2014.

In 2012 the electric train Lastochka passed the complete cycle of preliminary acceptance inspections and certification tests. Last January they were put in supervisedl operation on the section St Petersburg – Bologoye, St Petersburg – Veliky Novgorod.

The electric trains operate on the section Moscow-Nizhny Novgorod, Sochi-Sochi Airport. During the first ten days of June 2013 we organized passenger transportation using these electric trains on the section Kazan–Kazan Airport to deliver visitors and participants of the XXVII World Summer Universiade in Kazan in 2013. With the opening of a new railway section Adler-Krasnaya Polyana of the North Caucasus Railways on November 1,2013 the electric trains Lastochka operated according to the schedule designed to organize transportation services at Sochi-2014 Olympic Games.

In 2013 45 electric trains of the series ЭС1 Lastochka were delivered to Russia and by the end of the year all of each were involved in commercial use.

## Production of electric trains at Uralskiye locomotivy Ltd

In September 2011 Russian Railways and Uralskiye locomotivy Ltd (a joint venture of CJSC Sinara Group and Siemens AG) signed a delivery contract for 1,200 cars for electric suburban passenger trains designed on the basis on electric trains series Desiro RUS. The electric trains will be produced by Uralskiye Locomotivy Ltd by the end of 2017. The level of production localization must reach at least 80% of the cost of the train.

In the course of the fiscal year Uralskiye Locomotivy Ltd. conducted wide-scale construction of new production areas on its territory. Last November there was an official opening of the production complex designed to produce a new generation of electric train.

## Innovation technological solutions in Russian Railways infrastructure

### Automation of transportation management

- Developing by modernizing of existing and building a new infrastructure to provide forecas transportation.
- Dividing public transport infrastructure into passenger and freight as independent technical and technological systems to organize speed transportation.
- Developing infrastructure to transition to heavy haul transportation with tonnage rating 9,000 and more.
- Renewing the locomotive fleet and reducing traction life cycle cost.
- Loading and reconstructing low intensity lines, increasing even use of infrastructure.
- Optimizing costs by increasing energy efficiency and labour productivity, rational organization of repair and operational works.
- Improving transportation management systems to meet market demands given the level of transportation and infrastructure assets.
- Increasing transportation safety and reducing risks linked with influence of "human factor" on production process.
- Gradually decreasing negative impact infrastructure and traction on environment, reducing hazardous emissions.

## Resource and safety management systems

In 2013 the support system for making management decisions when planning operational expenses and investment given limited resources which is realized within the framework of introducing STMS methodology in the activity of Russian Railways structural subdivisions and affiliates.

Functional tasks of automation and telemechanics management unit to be solved using STMS:

- evaluating automation and telemechanics management unit subdivisions activity;
- operational expenses planning;
- investment planning;
- evaluating railway automation and telemechanics technical means condition

Introducing the system into locomotive facility management unit on the testing field of the Northern Railway* as well as Motorcar Rolling Stock Directions*, Central Communications Station and Labour Protection, Industrial Safety and Environmental Control Department of Russian Railways

*branches of Russian Railways

## Increasing capacity

- Introducing Microprocessor Centralization Systems (MCS) with microprocessor element base extended functions. These systems help provide higher railway safety, increase capacity, reliability and technical means life cycle, extend RAT functions, reduce operational expenses. In 2013 various types of MCS were introduced at 30 stations (1,096 railroad switches). Currently 304 stations (8,906 railroad switch) are equipped with RAT devices with microprocessor element base. In 2013 a mobile MCS-M complex based on BINosk 950 hardware and software was first introduced at East Siberian Railway*.
- Introducing state-of-the-art Microprocessor Automatic Blocking Systems of interval train movement.
- Centralized Microprocessor Automatic Blocking Systems help use the safety system with centralized introduction of equipment at stations restricting running, use of continuous welded rail, introduction of signaling, centralization and blocking systems in heated premises, complex simultaneous protection of all power sources of all CBS systems.
- In 2013 railway sections 155.9 km long equipped with various types of Microprocessor Automatic Blocking Systems started their operation.
- Implementing functions of additional information radio transmission from CBS systems to on-board locomotive equipment using decentralized automatic blocking. Trains move with set speed 160 km/h n on the Moscow-Nizhny Novgorod main line sections of the Gorky Railway* equipped with automatic blocking system ABSCEI (automatic blocking system with centralized equipment installation). Implementing the function of additional information radio transmission from CBS systems to on-board locomotive safety equipment using decentralized automatic blocking. This will help increase train speed up to 180 km/h and more
- Introducing railway dispatcher technical diagnostics and RAT monitoring centers. Introducing diagnostics and monitoring systems since 2003 to control technical condition of railway automation and telemechanics in railway network. Railroad dispatcher monitoring and diagnostics centers are introduced in the following railways-branches of Russian Railways: Oktyabrskaya, Moskovskaya, West Siberian, North Caucasus, Kuibyshevskaya, South Eastern, Sverdlovskaya, East Siberian.

*branches of Russian Railways

## Increasing energy efficiency

In 2013 within the framework of implementing the Energy Saving Program and increasing energy efficiency of Russian Railways 1,930 structural affiliates and 16 railways took relevant actions.
In general the Company saved fuel and energy resources for traction and non-traction needs in the sum of more than RUB 2.3 bn.

**In 2013 taking measure to save resources resulted in annual economic effect of**

**RUB 610.6 mln**

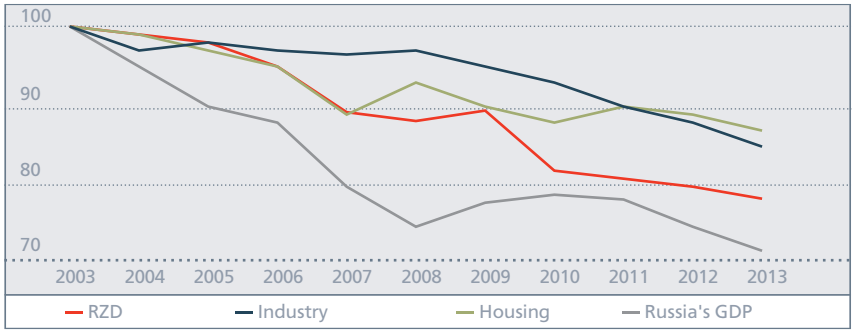
These measures helped to reduce production power capacity by1.4%. It amounted to 77.3 kg of fuel equivalent/10 thous. net tonne-km.

The Energy Saving Program and higher energy efficiency helped to save fuel and energy resources in the amount of 25.8 thous. tons of reference fuel of the value of 217.2 million roubles including: electric power of 73.96 million kWh. The total value of RUB 204.5 million includes 26.1 tonnes of diesel fuel worth RUB 919.2 thous., 117.7 tonnes of patrol worth RUB 4.4 million, 4813.8 Gcal of heat energy worth RUB 7.4 million and coal worth RUB 7.2 thous.

Given the authorization of the Government of the Russian Federation for the extended use of gas as engine fuel the Company and OJSC Rosneft and OJSC Gazprom signed Memorandums in which they determined areas of their cooperation during joint implementation of projects to use gas for railway transport and reduce negative impact on the environment.

In 2013 within the framework of implementing the investment project "Introducing Energy Saving Railway Technologies" the Company spent RUB 2.34 billion.

**Dynamics of change of the energy intensity of Russia's GDP and separate branches, %**




## Introducing lean production instruments

In 2013 the number of structural subdivisions taking part in the Program of projects "Lean Production" almost doubled compared to 2012 (from 553 to 982 enterprises)

To make the transportation process more efficient the Company is implementing 272 inter functional projects on railway testing grounds. They are designed to improve the technology of subdivisions' operational activity in infrastructure, track and transportation management units.

Within the Program's framework the Company established 277 key working groups, considered 3,104 improvement projects and has already implemented 1,889 of them.

When implementing the projects the Company reviewed 2187 operating procedures and standards of railway facilities maintenance.

In 2013 economic effect of the Program of projects "Lean Production" was more than RUB 560 million. The Company's Journal "Zheleznodorozhny Transport" conducted a prize competition among Russian Railways work collectives on the results of Program Implmentation.

**In 2013 economic effect of the Program of projects "Lean Production" was more than**

**RUB 560 mln**

**Within the framework of "Lean Production" Program the Company implemented improvement projects**

**1,889 projects**

# Transport safety

Since Russian Railways was founded the number of transport accidents and incidents linked with violations of transportation and railway operation safety rules has been reduced.

Since Russian Railways was founded the number of transport accidents and incidents linked with violations of transportation and railway operation safety rules has been reduced.

The Company managed to reduce the number of car uncouplings from passenger trains 16.7 times. The number of rail defects blocking train movement or causing lower speed limit of 15 km/h decreased from 406 to 55 cases or 7.4 times

Russian Railways leadership constantly analyses external and internal risks of transport accidents and takes special measures including preventive ones.

## Transport safety regulation

Under the Federal Law "On Transport Safety" Russian Railways are taking a number of measures to provide safety of railway facilities.

In 2013 the Company allocated more than 16.3 billion roubles to provide safety of important railway public transport facilities (in 2012 — 14.9 billion roubles). It helped to activate security system of 6,130 facilities (9.3% more than in 2012).

Greater number of secure railway facilities helped to improve their safety and decrease property thefts by 18%.

In 2013 the Company focused its efforts on taking a number of measures to improve safety of railway infrastructure facilities used for transport servicing of XXVII World Summer Universiade Games held in Kazan and forthcoming XXII Winter Olimpic Games and XI Winter Paralympic Games in Sochi 2014.

In the course of preparing and conducting the Universiade–2013 the Company activated security systems of an additional 27 railway facilities including very busy facilities (railway stations Kazan–1, Kazan–2, suburban station Kazan), and the inter modal transportation railway line Kazan- international Airport Kazan. When the Universiade was held the safety measures helped to prevent any violations at railway facilities.

In 2013 the Company also took a number of measures to provide security of railway facilities used for transportation servicing at XXII Winter Olimpic Games and XI Winter Paralympic Games in Sochi in 2014.

The security system was also activated for the transport infrastructure facilities in railway sections Tuapse–Adler–Veseloye

and Adler-alpika Service (Krasnaya Polyana) and the inter modal transportation line Adler–Sochi Airport, and a network of security points wasestablished with a situation center of transport safety monitoring at Adler station.

The Company also cooperated with MTD RF MVD to provide security, preventing any crimes and violations at railway facilities.

As a result of measures taken together with the MVD Transport Agency 465 people were detained (in 2012 – 543). 167 criminal cases were opened (in 2012 – 213). In 2013 the law enforcement agency conducted 465 planned training sessions and attracted 4,354 railway employees.

In terms of team building for railway employees, security agencies and regional security centers carried out 1,120 planned training sessions to prevent unlawful interference with railway activity.

4,542 employees of Russian Railways took part in trainings 255 video films for broadcasting, 193 radio programs and 2,050 paper articles were prepared on how to prevent of unlawful interference in railway operation.

As a result of the conducted work the total number of registered incidents of unlawful interference in operation of the Company's facilities fell by 26% compared to 2012 (in 2013 –1,257 cases, in 2012 – 1,702).

**The Company allocated**

**RUB 16.3 bn**

to activate security of important public transport railway facilities

## Project “Transport Safety”

Within the investment program Russian Railways continued implementing the project “Transport Safety” to reduce risks of unlawful interference in railway operation.

The project is aimed at equipping important railway infrastructure facilities with security systems and modernizing previously installed ones.

In 2013 the Company's budget stipulated allocating more than 680 million roubles to equip the facilities with security systems. The funds were used to equip 12 additional railway infrastructure facilities with security systems. Thus the total number of secure facilities reached 1,480.

Within the framework of project implementation the Company took security measures at railway infrastructure facilities involved in transport servicing of the World Summer Universiade in Kazan and Winter Olympic Games in Sochi in 2014 and also at high-speed railway transport.

High-speed infrastructure facilities as well as Kazan and Sochi transportation hubs including Kazan railway station – Kazan airport, Kolpino –Torfyanoye, the routes Moscow – St. Petersburg, Tuapse – Dagomys of North Caucasus Railway are equipped with security and video surveillance systems.

Railway stations of Kazan, Sochi passenger complex (at Sochi, Khosta, Adler, Olympiisky Park, Esto-Sadok, Krasnaya Polyana, Imeretinsky resort railway stations) are equipped with screening systems.

Within the framework of implementing the Complex to provide population security there were installed new security technologies using security systems for railway control and supervision in sections Roshino-Gavrilovo, Gavrilovo – Buslovskaya, Akademicheskaya – Zavidovo on the St Petersburg – Moscow route, Petushki – Vtorovo, Vtorovo – Vyazniki in Moscow – Nizhny Novgorod route, insection Degomys – Veseloye of North Caucasus Railway.

The total volume of funds allocated from 2013 federal budget amounted to 670.5 million roubles.

In 2013 security systems installed at the facilities helped law enforcement and security agencies to detect 401 and prevent 318 violations and incidents, detain 17,012 people for administrative violation and 38 wanted criminals and find 111 ownerless suspicious items.



# Development strategy

# With a Clearly Defined Goal

In 2013, the Board of Directors of Russian Railways approved the new Development Strategy of Russian Railways Group up to 2030. Implementation of the Strategy will be based on a business model consisting of 5 key-business components,  created with regard for common objectives, technologies and the additional synergetic effects of coordinated activities.

A targets achievement strategy has been developed for each separate business component and for the Group as a whole.

# Mission and main priorities of Russian Railways Group

We seek to effectively develop a transportation business that is able to compete on the Russian and international markets, whilst respecting our responsability as anational carrier and rail insfrastructure owner.

The new strategy of Russian Railways Group up to 2030 was approved by the Board of Directors of Russian Railways in December 2013

## The Group's Mission until 2030 is represented by the following strategic objectives:

- to maintain its leading position in the field of rail freight in Europe, to increase the attractiveness of rail for customers, increasing transportation of goods by 2030 to 500-800 million tons;
- to increase customer satisfaction by improving quality of service while maintaining a competitive cost of transportation;
- to become one of the leading 5 companies in Europe in terms of logistics business and increase the share of transport and logistics services in the portfolio of business of the Group;
- to provide an efficient service of global supply chains of major Russian and international customers and to expand the transportation and logistics business in the Eurasian space;
- to ensure the preservation of the existing shares in the passenger traffic of the Russian transport system, to increase until 2030 suburban passenger traffic by 1.8–2.2 times,and long and interregional traffic by 1.3–1.7 times;
- to implement development projects and high-speed traffic, to achieve an increase of up to 20% in share of traffic with faster speeds in total passenger traffic in 2030;
- to beome one of the leading 10 companies in the world in infrastructure construction, to ensure the formation of a long-term order book
- and the highest standard of project implementation;
- to maintain its leading position in the world in terms of efficiency, safety and quality of infrastructure services;
- to provide systematic update of assets using innovative technologies and solutions based on the effective management of life cycle cost and availability and reliability of fixed assets;
- to enter the top 5 most attractive large employers in Russia, to attract the best professionals to the Group ensuring competitive wages, productivity growth and improved working conditions, with a modern social package;
- to give priority to "green" technologies to ensure reducing the burden on the environment by half;
- to consistently optimize the business portfolio of the Group
- according to the chosen strategy, focusing on the main activity and the most effective types of business, to ensure a stable synergy between the elements of the Group.

## Tasks of Russian Railways until 2030:

- To increase by 40-60% the volume of goods traffic and by 20-40% passenger transportation
- To eliminate "bottlenecks" on all major trade routes;
- To ensure the formation of an extensive network of higher speed (6.9 thousand km) and high-speed transport (4,3 thousand km)
- To significantly improve the quality of freight and passenger transport and safety;
- To triple the amount of transit in infrastructure of the Russian Railways;
- To halve $CO_2$ emissions per 1 ton-km of reduced traffic;
- To ensure the active renewal of the rolling stock, the introduction of modern technologies and innovative information and control of intelligent transport systems and on this basis to dramatically increase productivity.

## Implementation of strategic objectives should be achieved by:

- reforming the structure of the Company and highlighting key elements
- setting target strategic development parameters for each business unit;;
- development of strategic initiatives aimed at achieving the target parameters ;
- development and implementation of corporate policies, programs, standards, aimed at the implementation of the Strategy;
- close integration of strategic and operational management;
- evolutionary development of the system of Group control following implementation of Strategy and improvement of the business model;
- effective interaction with the State to improve the regulatory model and compensate lost revenues in the performance of public requirementss;
- carrying out effective financial, investment and credit policy in accordance with the strategic goals and objectives;
- continuous personnel training, employee motivation to achieve targets;
- open interaction with the public, experts and customers.

# Improvement of the organizational structure

The target organizational model of the Group is an integrated system of five key business units fulfilling their specific tasks for the improvement of efficiency, development and diversification of services provided and their increased profitability, and implementation of new technical and technological solutions.

The center of strategic decision-making and the formation of common policies and standards will be the Corporate Center – a complex of divisions of Russian Railways, specializing in the management of the Group as a set of business units.

## TRANSPORTATION AND LOGISTICS BUSINESS UNIT

Forming a diversified product package of Russian Railways Group with the transition from the provision of transport services to the provision of comprehensive, integrated services to shippers on a "door to door" principle, expanding consistently the range from 2PL to 3PL, 4PL services, with the emergence of global supply chains.

## PASSENGER TRANSPORTATION AND SERVICE

Expanding service offerings to consumers of modern transport services, having provision for acceleration and increase of multimodal transportation, improving the quality of traditional service in trains and areas related to transportation, including expansion of high-speed and ultra high-speed transport between the major agglomerations of the country on the basis of modern efficient technologies.

## INFRASTRUCTURE

This unit plays a fundamental role in the Group's development

Reducing infrastructure costs, increasing opportunities for creation of transportation and logistics products (speed and reliability of infrastructure services, increase of carrying capacity), network modernization and construction of required additional main lines according to increasing traffic volumes, improving efficiency of traffic control and locomotive traction.

## INTERNATIONAL ENGINEERING AND TRANSPORT CONSTRUCTION

Strengthening and expanding the presence of the Group in the market of international rail transport engineering and infrastructure construction, creating the groundwork for the expansion of other types of the Company's business in the target markets as a contractor in the construction of infrastructure facilities.

## SOCIAL SERVICE BUSINESS UNIT

Improving the competitiveness of the Company as an employer; attracting and retaining personnel with the required qualifications in the Group continuous personnel development; social support and provision of health care services.

In 2013, active work was carried out on the implementation of activities provided for by the Concept of Organizational Development of the Russian Railways Group for the period until 2015

## KEY PROJECTS OF ORGANIZATIONAL DEVELOPMENT IN 2013

1

DRAFT CONCEPT OF INFRASTRUCTURE BUSINESS UNIT WAS DEVELOPED»

2

FORMATION OF PASSENGER TRANSPORTATION BUSINESS UNIT WAS COMPLETED

3

DEVELOPMENT AND CREATION OF TRANSPORTATION AND LOGISTICS BUSINESS UNIT WAS COMPLETED


In the reporting year management bodies of the Transportation and Logistics and Passenger Transportation business units were formed and the Committee on Transport and Logistics Business of the Group was established, The draft Development Concept of the Infrastructure business unit was developed and priorities were identified. In order to meet the priorities, the systems of the Infrastructure business unit should be implemented.

In 2013, simultaneously with changes in the structure of Russian Railways, the application of process and service approaches to the organization and management was significantly extended, introduction of an internal exchange of services, balanced scorecard, an effective system of motivation and evaluation of the contribution to the overall result was envisaged. The format of the management model of the Group was also defined.

# Long-term objectives for business units

## Transportation and logistics business unit

To achieve the set objectives Russian Railways Group implements the business model of an international transportation and logistics company through the development of business in the segments of operating rolling stock, terminals and warehouses, logistic services and logistics outsourcing and international transportation. Systematic work to improve and enhance the attractiveness of basic rail transport service will continue.

### Main objectives of the development of the transportation and logistics business unit of the Group:

- improving the competitiveness of the Group in the freight transportation market
- Increasing the share of high loads while meeting the growing demand for bulk cargo transportation;
- Building long-term relationships with customers, improving customer feedback;
- Increasing flexibility and expanding business in deregulated segments with the effective provision of services in the natural monopoly segment;
- Developing logistic capacities to meet customer needs for comprehensive services, including for global transport chains
- Increasing the transit cargo transportation by 2-3 times by 2030;
- Developing new products and services in rail transport;
- Strengthening relationships with key partners in the transport market;
- Ensuring sustainable cash flow growth for the development of the transportation and logistics business and infrastructure;
- Reducing the risks associated with the high volatility of commodity markets and the volatility of export flows.

**Transport and logistics services market forecasts show sustained trends prevailing in recent years:**

- Shares of logistics, freight forwarding, warehousing services in the transportation and logistics market will grow;
- Higher budget financing of highway development will remain, the density of the road network will significantly increase;
- the rate of growth of road transport by 2030 will be twice the rate of growth of rail cargo turnover;
- Implementation of projects aimed at expanding pipeline and product supply line network will continue.

## Passenger Transportation and Service business unit

Main objectives of the business unit are determined by the Transport Strategy of the Russian Federation until 2030 and targets for the development of business; they are focused on the movement in three strategic areas:

**1**

Stabilization of the market share of rail transport in the growing market of passenger transportation;

**2**

Interaction with the state regulators and state support of the rail transportation with regard to their social and economic efficiency;

**3**

Increase in the economic efficiency of transport and related additional types of businesses.

**Given the complexity and diversity of passenger transportation market, the activities within the business unit will focus on three major segments:**

- High-speed and rapid transportation;
- Traditional long-haul;
- Commuter and intercity transportation,

In accordance with the parameters of the draft Transport Strategy of the Russian Federation till 2030, passenger transportation demand may increase by 1.8-2.1 times with a corresponding rise in passenger traffic.

This is due to the projected significant growth in transport mobility of the population with the growth in real disposable income and improvement of the transport system to the level of developed countries. In value terms, the market of public passenger transportation may grow by 3.5-4 times.

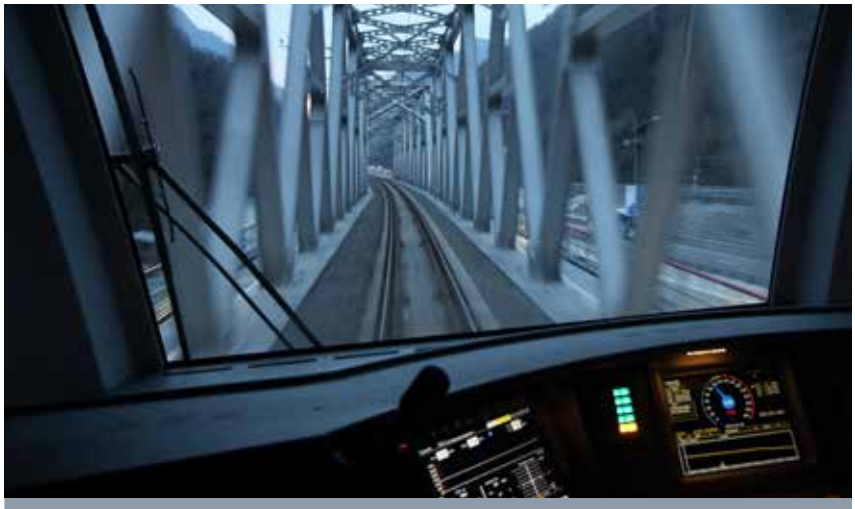
## Infrastructure business unit

Russian Railways in close cooperation with the State is elaborating the possibility of transition to the regulator (network) contract linked to the conduct of long-term tariff policy. The Group also interacts with shippers, involving them in the development of the railway infrastructure on the basis of conclusion of “take or pay” contracts».

### Main objectives of infrastructure business unit of Russian Railways Group are:

- development existing and construction of new infrastructure for the projected transportation volume;
- cost optimization due to the increase of energy efficiency and labour productivity, efficient organization of repairs and maintenance
- separation of public infrastructure for passenger and freight as independent technical and process systems, including infrastructure for rapid and high-speed transportation;
- development of infrastructure for transition to high-weight traffic with weighted norms of 9,000 tons or more;
- improving traffic control systems in accordance with the requirements of the market and the level of development of transport and infrastructure assets;
- improving transport safety and reducing the risks associated with
- the influence of the "human factor" on the production process;
- locomotive fleet renovation and reducing the cost of traction resources life cycle;
- loading or restructuring of low-intensity lines, improving the uniformity of infrastructure use;
- progressive reduction of the negative impact of infrastructure and traction
- on the environment, reduction of harmful emissions.

## International engineering and transport construction business unit



### Main objectives of the international economic activities of the Group in infrastructure project implementation:

**1**

Developing a portfolio of infrastructure projects of the Group abroad

**2**

Group revenue growth through the implementation of cost-effective infrastructure projects abroad, as well as projects, providing additional loads on the infrastructure owned by Russian Railways

**3**

Increasing the share of presence in international infrastructure markets and enhancing the global competitiveness of the Group by advancing Russian railway products and services for the railway sector

**In the long term (by 2030) Russian Railways shall become the leader of a consortium of companies (both within and outside the Group, offering comprehensive services, in the international market of railway infrastructure projects, including:**

- consulting;
- development of concepts;
- design;
- construction;
- supply of materials;
- machinery and equipment;
- management of transport systems.

## Social service business unit

**Given the scale of activities and the status of Russian Railways as the country's largest employer, the key priority is to implement the policy of social responsibility towards employees, society and the state.**

### Main objectives of the social policy pursued by Russian Railways Group:

- improving the competitiveness of the Group as an employer;
- attracting and retaining personnel with required qualifications in the Group;
- effective management of headcount subject to introduction of new techniques and modern technologies;
- introducing the competency-based approach to personnel management;
- forming the effective skill pool;
- continuous development of personnel
- carrying out an efficient youth policy and strengthening the corporate culture;
- implementing an efficient social policy;
- efficient personnel management and social support;
- provision of health care services.

The Company considers the personnel as its essential asset.

The strategy of theGroup's personnel unit is a continuation of the Company overall strategy aimed at achieving the strategic objectives of other business units in terms of their staff as a key resource of the Company.

Russian Railways development strategy for the period up to 2030 defines the key strategic objectives of its social policy, including improving the competitiveness of the Group as an employer through the implementation of the principle of real wage growth in line with labour productivity growth and ensuring the ratio of wages to the national level in the long term of 1.4.



# Investment activity results

# We Create Movement

In 2013, the primary objective of the Russian Railways Investment Programme was to finalise the projects aimed at supporting the Sochi Olympic and Paralympic Games and the Kazan Universiade, which were finished as scheduled or ahead of schedule.

**RUB 562 bn**

total forecast cost of one of the largest-scale projects in recent years – upgrading the Baikal-Amur Trans-Siberian Mainlines.

# Approach to investment projects planning

The development of the Russian Railways investment programme is based on the General Plan of Railway Network Development by 2020, the cargo element of which has been developed on the basis of submissions received from the shipping companies.

In the calculations of the cargo base, the available forecasts and targets contained in the government and regional strategic documents, as well as data from international organisations and institutions (International Monetary Fund, World Bank and others) and leading scientific organisations (both domestic and international) are taken into account. The forecasting also takes into account plans for the development of related modes of transport, plans of individual stevedoring organisations fromRussian seaports, and programmes and strategies of Russian Federation entities. The quality of cargo base forecasting is largely improved through the use of transport and economic data or interregional and intersector freight transportation data. Russian Railways carries out this work in collaboration with industry institutes, the Institute of Economic Forecasting of the Russian Academy of Sciences and the Council for the Study of Productive Forces.

A three-tiered approach to developing the investment programme has been developed. It allows for highly accurate forecasts of railway infrastructure development and, in turn, shapes the Russian Railways investment programme.

**When determining its investment programme, Russian Railways uses the principle of consistency of financing sources and the investment programme structure aimed at:**

- Renewal of fixed assets at the level of depreciation deductions;
- Commercially viable projects at the level of the volume of borrowed funds;
- Commercially inefficient projects at the level of the volume of state support.

**ALL INVESTMENT PROJECTS OF RUSSIAN RAILWAYS, ARE DIVIDED BY PAYBACK PERIOD AND COMMERCIAL EFFICIENCY INTO THREE CATEGORIES:**

## 1st category

**10-15 YEARS**
**PAYBACK PERIOD**

Projects in which payback is achieved within 10-15 years, and which Russian Railways is ready to finance from its own cash flow and borrowings within the allowable debt burden

## 2nd category

**15-30 YEARS**
**PAYBACK PERIOD**

Projects for which the payback period is 15-30 years. These projects cannot be currently financed by Russian Railways by borrowing, as there are no loans meeting these terms available on the market. These projects are financed through the issuance of infrastructure bonds.

## 3rd category

**SUBSIDISED (WITHOUT POSSIBILITY OF DEBT FINANCING)**

Projects that are inappropriate for all types of debt financing. They are financed only through budgetary sources, since only the state budget can return the invested funds due to the multiplier budget effect.

# Investment projects of the first category

Projects for which payback is achieved within 10–15 years, and which Russian Railways is ready to finance from its own cash flow and borrowings within the allowable debt burden, are "own" projects and belong to the first category.

# Investment projects of the second category financed through the issuance of infrastructure bonds

Investment projects of the second category are financed through the issuance of infrastructure bonds of the Company. These bonds are issued for a period of 15 to 30 years with a coupon rate set at the level a period of 15 to 30 years with an annual coupon rate set at the level of inflation and increased by 1%

In 2013, funds from infrastructure bonds were allocated mostly for projects of integrated development of the railway infrastructure on the approaches to the ports of the Northwest, South Russia and the Urals and Western Siberia, with reconstruction of sections between:

- Mga-Gatchina-Veimarn-Ivangorod
- Trubhaya-Baskunchak-Ksarayskaya
- Tobolsk-Surgut-Korotchaevo.

Morover, the reconstruction of Leningradsky, Paveletsky, Yaroslavlsky, Belarusky, Rizhsky and Savelovsky railway stations in Moscow was completed,

**In 2013, infrastructure bonds totalling**

**RUB 150 bn**

were placed

381 new locomotives were purchased, and an automated system of electricity fiscal metering was implemented at 170 substations.

These projects have a payback period of up to 30 years, with a significant multiplier effect on the economy of the Russian Federation.

# Investment projects of the third category financed from budget sources

Investment projects of the third category are the projects that are commercially inefficient for Russian Railways with payback period above 30 years. These projects may be financed only through budgetary sources, since only the state budget can return the invested funds due to the multiplier budget effect.

IN 2013, THE COMPANY MANAGED TO GET A POSITIVE DECISION ON ATTRACTING STATE SUPPORT FUNDS FOR SUCH A CAPITAL-INTENSIVE PROJECTS, WHICH ARE IMPORTANT FOR THE COUNTRY

## Modernization of the Baikal-Amur and Trans-Siberian railways

The means of financing the projects on the modernisation of the Baikal-Amur and Trans-Siberian railways shall include the investment of budget funds in the ordinary shares of Russian Railways and funds of the National Welfare Fund in the company's preference shares.

## Comprehensive reconstruction of the M. Gorky–Kotelnikovo–Tikhoretskaya–Krymskaya sections, with construction of a bypass of the Krasnodar railway hub.

## Development of the railway infrastructure of Moscow transport hub, as well as comprehensive reconstruction of Mezhdurechensk-Tayshet section.

# Main results of investment activity

The main objective of the Russian Railways investment programme is the development of railway infrastructure operability and its preservation at the proper level, ensuring the safety and sustainability of the transportation process and operational reliability. Most of the funds go towards the rolling stock, with the maintenance of conditions of occupational safety, environmental and fire safety, and upgrading of worn high-risk facilities.

**Total amount of the investment budget (actual utilisation)**

RUB 467.2 bn

**Investments aimed at removing infrastructural constraints**

RUB 169.0 bn

**Investments aimed at improving transport accessibility for population of the country**

RUB 59.5 bn

**Total indicators of the investment budget of Russian Railways in 2013,** RUB bn.

| Items | 2012 | | 2013 | | | | +/- 2013 to 2012 | % 2013 to 2012 |
|---|---|---|---|---|---|---|---|---|
| | Actual | Ratio of the total | Year plan | Actual | Ratio of the total | Utilisation, | | |
| **TOTAL** | **480.1** | **100** | **467.5** | **467.2** | **100** | **99.9** | **-12.9** | **97.3** |
| Projects related to the performance of instructions of the Government of the Russian Federation | 73.4 | 15.3 | 45.8 | 46 | 9.9 | 100.4 | -27.4 | 62.7 |
| Ensuring security | 66.9 | 13.9 | 55 | 56.1 | 12.0 | 102.0 | -10.8 | 83.9 |
| Removing infrastructure constraints | 178.1 | 37.1 | 166.8 | 169.0 | 36.2 | 101.3 | -9.1 | 94.9 |
| Improving transport accessibility for the population | 36.4 | 7.6 | 61 | 59.5 | 12.7 | 97.5 | 23.1 | 163.5 |
| Rolling stock upgrading | 75.5 | 15.7 | 119 | 118.7 | 25.4 | 99.7 | 43.2 | 157.2 |
| Other projects | 49.8 | 10.4 | 19.9 | 17.9 | 3.8 | 89.9 | -31.9 | 35.9 |

## THE MAIN OBJECTIVE OF THE INVESTMENT BUDGET IN 2013 WAS THE COMPLETION OF PRIORITY PROJECTS FOR THE SOCHI OLYMPIC GAMES AND THE UNIVERSIADE IN KAZAN

DEVELOPMENT OF RAILWAY INFRASTRUCTURE TO PROVIDE TRANSPORT SERVICE FOR THE XXVII WORLD SUMMER UNIVERSIADE 2013

COMBINED (ROAD AND RAIL) LINE FOR THE ADLER-MOUNTAIN CLIMATE RESORT ALPIKA-SERVICE WITH THE CONSTRUCTION OF A SECOND RAIL TRACK ON THE SOCHI-ADLER -VESELOE SECTION

INFRASTRUCTURE DEVELOPMENT IN PREPARATION FOR AND DURING SOCHI OLYMPIC GAMES


The Company's 2013 budget as initially approved by the Board of Directors amounted to RUB 411.4 billion. Subject to adjustments made, the planned investment budget for 2013 amounted to RUB 467.5 billion, and actual utilisation totalled RUB 467.2 billion, or 99.9% of the plan.

The main objective of the investment budget in 2013 was the completion of priority infrastructure projects for the preparation and holding of Sochi Olympic Games and the World Summer Universiade in Kazan.

The federal budget, the Company's own funds and the funds of Moscow budget were used to fulfill targets on the project "Development of the Moscow Transport Hub".

In 2013, the Company fulfilled all targets for the year, including the projects related to the implementation instructions of the Government of the Russian Federation.

The most significant and capital intensive project was the "Combined (road and rail) Line Adler-Mountain Climate Resort "Alpika Service", with the construction of a second rail track on the Sochi-Adler-Veseloe section, which was implemented in preparation for the Sochi 2014 Winter Olympic Games.

Implementation of the project started in 2008 and was carried out mostly using federal funds. Actual expenses totalled RUB 271.6 billion.

In 2013, the project "Organisation of Intermodal Transportation from Kazan Train Station to Kazan International Airport" was fully completed. It was carried out in preparation for the XXVII World Summer Universiade 2013 in Kazan.

## Projects removing infrastructural constraints

**New railways put into operation in 2013**

**67.8 km**

**Railways under comprehensive reconstruction**

**3,982 km**

Table of the projects on removing infrastructural constraints

| Region | Project | Objective | Expenses in 2013, RUB bn | Results of implementation in 2013 |
|---|---|---|---|---|
| Northwest | Comprehensive reconstruction of the Mga-Gatchina-Veimar-Ivangorod section and railway approaches to ports on the southern coast of the Gulf of Finland. | Providing transportation of cargo flows on the approaches to the port of Ust-Luga in accordance with the projected growth in traffic volumes. | 12.5 | Commissioned:<br>1) Electric interlocking of 112 air flow systems at Mga station<br>2) Automatic locking with remote-fed coded audio-frequency track circuits of 31 km of Kerstovo-Kotly 2 running line<br>3) Traction substation of Luzhskaya st.<br>4) Railway overpass at Vladimirskaya st.<br>5) Railway bridge over Kyamyshy river<br>6) Railway tunnel at Luzhskaya st.<br>7) Superstructure at Luzhskaya st – 20.7 km<br>8) Alert centre of contact rail at Veimarn st.<br>Works performed helped to increase the processing capacity of Ust-Luga railway hub from 31 to 44 pairs of trains a day. |
| | Organisation of rapid passenger traffic on the section St. Petersburg – Buslovskaya | Reduction of train traffic time from St. Petersburg to Helsinki from 5 hours and 50 minutes (across the territory of Russia - 2 hours 30 minutes) up to 3 hours 30 minutes (1 hour 30 minutes across the territory of Russia). | 4.7 | Commissioned:<br>2.8 km of superstructure, 2.1 km of electrified line. |
| South | Comprehensive reconstruction of the Trubnaya-V. Baskunchak-Aksarajskaya section | Reconstruction of the railway infrastructure for delivery of goods to the ports of the Caspian Sea and the southern regions of the country. | 0.5 | Commissioned: second track on Zaplavnoe – Trubnoye running line - 17.7 km. |
| | Comprehensive reconstruction of the M. Gorky-Kotelnikovo-Tikhoretskaya-Krymskaya section with a bypass of the Krasnodar hub | Reconstruction of the railway infrastructure for delivery of goods to the ports of the Azov-Black Sea transport hub (Novorossiysk, Tuapse, Caucasus, Temruk and new seaport Taman), as well as optimisation of the Krasnodar hub with a switch of the freight traffic to the Timashevskaya – Krymskaya section. | 1.5 | Commissioned: Eya traction substation |

| Region | Project | Objective | Expenses in 2013, RUB bn. | Results of implementation in 2013 |
|---|---|---|---|---|
| Urals and Western Siberia | Development of Tobolsk – Surgut section | Increased export of hydrocarbons from the Yamal-Nenets and Khanty-Mansiysk AD by gradually increasing the throughput and transport capacity of the Tobolsk-Surgut section to 66 pairs of trains a day. | 7.5 | Commissioned: 6 running lines with a total length of 41.2 km of the second track, 39.3 km of automatic locking that will increase the section capacity from 38 to 40 pairs of trains a day. |
| Far East | Comprehensive reconstruction of the Karymskaya-Zabaikalsk section | Infrastructure development in connection with the projected increase in the volume of foreign trade traffic through the border station Zabaykalsk. | 1.1 | Commissioned:<br>1) Continuous welded rail Sedlovaya-Buryatskaya - 10.7 km<br>2) Fencing of yards "A" and "D" at Zabaykalsk st. |
| | Reconstruction of the Komsomolsk-on-Amur-Sovetskaya Gavan section, with the construction of a new tunnel at Kuznetsovsky | Increasing the capacity of the Komsomolsk-on-Amur-Sovetskaya Gavan line. | 7.1 | Commissioned:<br>The second line on the East Portal of Kuznetsovsky Tunnel-Vysokogornaya section; 4.3 km long, which enabled Russian Railways to increase the minimum transport capacity to 30 pairs of trains a day and carrying capacity to 23.8 million tons. |
| | Comprehensive development of the section Mezhdurechensk – Taishet of Krasnoyarsk Railways | Increase in freight transit traffic from the Kemerovo region to the Far East ports. | 1.7 | Completed and commissioned works:<br>30 km automatic locking on the line Awda-Gromadskaya (commissioning of the Awda-Gromadskaya connecting loop in 2014), and downyard shunting of Abakan st. |

Among the projects related to the removal of infrastructure constraints, the largest in terms of investment in the reporting year was “The comprehensive reconstruction of the Mga-Gatchina-Veimar-Ivangorod section and railway approaches to ports on the southern coast of the Gulf of Finland” to provide transportation to the Ust-Luga seaport. Overall for 2013, 67.8 km of new tracks, 113.2 km of replacement track, 65 km of electrification, and 151.9 km of station tracks were commissioned. In addition to 3,982.2 km of railways, 469.1 km of contact rail, 774.8 km of automatic locking, 781 interlocked switches, 37 traction substations, and 3,932 km of cable lines underwent comprehensive reconstruction.During the year, the Company purchased 804 locomotives and 450 multiple units, including 190 “Lastochka” (Desiro). Russian Railways purchased the total locomotive engineering industrial output of Russia.

# Implementation of projects for hosting the Olympic and Paralympic Games in Sochi

The key objective of Russian Railways in preparing for the XXII Olympic Winter Games and XI Paralympic Winter Games 2014 in Sochi was to create a new, advanced transport infrastructure in the region of the competition.

sochi.ru 2014 | РЖД ГЕНЕРАЛЬНЫЙ ПАРТНЕР

# Implementation of projects for hosting the Olympic and Paralympic Games in Sochi

The key objective of Russian Railways in preparing for the XXII Olympic Winter Games and XI Paralympic Winter Games 2014 in Sochi was to create a new, advanced transport infrastructure in the region of the competition.

**157 km**

The total length of the railway built by Russian Railways in the region holding the Games

**48 km**

Combined motorway and railway laid in severe conditions

Projects developed and implemented by the Company in the Sochi Olympics are unique not only in Russian, but also globally

**27 km**

Length of tunnel complexes

**88**

Motorway and railway bridges

< See more inside

## Combined motorway and railway Adler-alpine resort Alpika-Service, with construction of the second continuous railway line Sochi-Adler-Veseloe

The largest infrastructural unit newly built by Russian Railways in the region. The  Games in Sochi were recognised as the most compact in the history of the Olympic Winter Games. On November 1, 2013 the railway line of the combined road  welcomed its first modern, high-speed electric Lastochka trains, and on November 24, 2013, the motorway was put into operation.

**Project mission**
The provision of fast and comfortable transfer for the guests and participants of the Olympics from the coast to the alpine region.
The following infrastructure was built and put into operation:

- Over 27 km of tunnels (12 in the mountain region and 2 on the coast, including the Sochi-Matsesta section);
- 38 km of bridges and overpasses (41 motorway bridges and 47 railway bridges – 37 in the mountains and 10 on the Sochi-Adler-Veseloe section).

Mountain direction:
- 46 km motorway and 6 transport junctions;
- 48 km electric single-line railway with double-line sections;
- 2 stations with passenger terminals (Esto-Sadok and Krasnaya Polyana).

Coastal direction:
- 32 km of the second main railway on the Sochi-Adler-Veseloe section;
- 3 new stations (the Adler multimodal terminal station and the Olympic Park and Olympic Village stations).

**Project value**
According to estimates for the construction of all 28 stages of the unit, the total value was RUB 285 billion, out of which RUB 264 billion was spent on the mountain section and RUB 21 billion on the coastal section. However, the bottom-line value of the completed work was reduced to RUB 272 billion due to the use of a number of engineering and innovative solutions.
The costs were distributed between the state and Russian Railways as follows: RUB 241 billion of federal budget funds transferred to the charter capital of Russian Railways; with the remainder coming directly from the Russian Railways investment budget

## Railway line from Adler to Sochi airport and the railway terminal at the airport

Operations started in February 2012.

**Project mission**
The provision of regular railway passenger services between the airport and the city.
The following infrastructure was built and put into operation:
Total length of the railway line – 2.8 km

- 2 tunnels (164 and 368 metres);
- 3 overpasses with a total length of 750 m;
- A bridge of 44 m;
- A modern railway passenger terminal in the airport complex

**Project value**
About RUB 10 billion


**Additional facilities**

Apart from its major projects, Russian Railways also took a number of actions to improve infrastructural facilities and ensure the safety of the Games.

For instance, in 2013 under the order of the Government of the Russian Federation, city squares were renovated, security check areas were equipped, and pedestrian crossings, sidewalks, and passagenger stops, as well as public transport and car parks were built.

In addition to the federal programme units, a service station was built for the Lastochka electric trains, which carried passengers during the Games.

Furthermore – and also under the order of the Government of the Russian Federation – the  Company implemented activities to ensure the safety of the Olympic infrastructure facilities. Points of passenger inspection were equipped with security alarms and video surveillance, and control and access management engineering systems were installed at the Olympic Park, Krasnaya Polyana, Esto-Sadok, Olympic Village, Matsesta, and Hosta stations, at the railway station in Sochi, and in the multimodal terminal and the transportation service station of Adler.


## Passenger railway station terminals Dagomys, Matsesta, Hosta and Sochi

**Project mission**
The construction and reconstruction of a number of passenger terminal facilities in line with the concept of creating the so-called "no-barrier" environment in Sochi designed for the comfort of disabled passengers..
The following infrastructure was built and put into operation:
Overhead and underground pedestrian crossings were built and the existing ones were reconstructed; facilities were equipped with lifts and wheelchair ramps; tactile signs were installed on the sidewalks, platforms, rails and buttons of lifts; special ticket offices were organised, and lounges and specially adapted toilets were provided. For the convenience of visually and hearing impaired people, navigation systems were rebuilt in the terminals, including the display with the train schedule, and route indicators and signs were equipped with additional sound and light signals.

**Project value:**
RUB 2 billion

## Tuapse-Adler railway line

Construction completed in April 2012.

**Project mission**
Reinforcement of the Tuapse-Adler railway line.
The following infrastructure was built and put into operation:
Double line segments on 8 sections with a total operating length of 30 km for a gradual line capacity increase from 54 to 70 pairs of trains per day. A considerable scope of shore protection works was completed, including the construction of wave-absorbing groyne, sea walls and headwalls, filling coastal gravel protection bands.

**Project value:**
RUB 16 billion

## Railway freight terminals in Imereti lowland

Construction completed in 2009.

**Project mission**
Ensuring acceptance and handling freights for the Olympics construction development.
The following infrastructure was built and put into operation:
Two temporary freight terminals with a total capacity of 15 mln tonnes per year:
- Rosselkhozakademia freight terminal – 11 million tonnes of inert and bulk cargos per year (macadam, sand, gravel, sand and gravel mix);
- Sochinsky freight terminal – 3.7 million tonnes of packaged, long and container cargos per year.

**Project value:**
RUB 3.7 billion

# Commissioning Russian Railways Olympic Facilities

All stages of the construction of the Russian Railways Olympic facilities were supervised by the International Olympic and Paralympic Committees and the leaders of the Russian Federation.
All the facilities were commissioned in due time or earlier.

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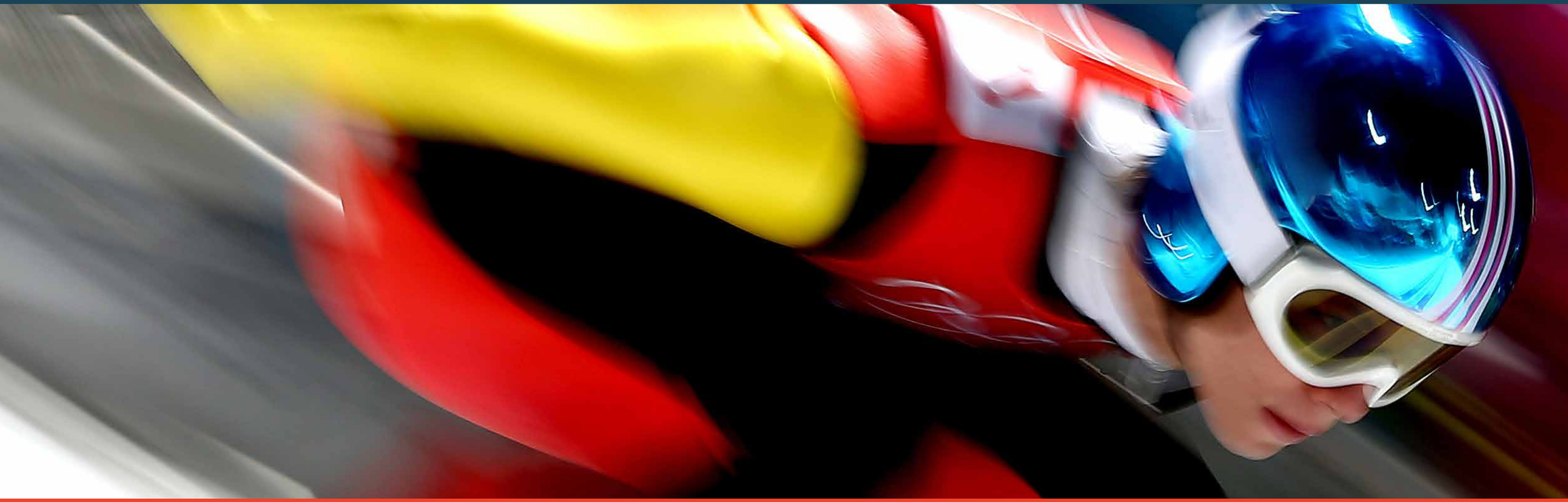
# Olympic Torch Relay

On November 16, 2013, the railway stage of the Olympic Torch Relay started in Vladivostok. From there to Sochi, the Olympic Torch covered over 17 thousand kilometres on a special Russian Railways train.




# Financial and Economic Performance



# Achievement of targets

Russian Railways successfully overcame the adverse effects of the economic crisis in its financial performance.

The government adopted an important decision to invest in 2014-2016 a total of RUB 150 billion owned by the National Wealth Fund in the preferred shares issued by Russian Railways in order to finance the Eastern Region development projects.

# Key Financial Results*

In 2013 the Company's business activities were carried out in more complicated economic conditions than in 2012.

Considerable deterioration of the macroeconomic situation in the country was recorded, which resulted in significant decline of GDP growth, and, more importantly, an essential decrease in the industrial-production growth was seen in 2013. Forecast of changes in these parameters has been consistently adjusted since September 2012. GDP growth slowed to 1.3% compared with 3.4% in 2012. Industrial-production growth, which determines the volume of rail transport activities, was only 0.4% in 2013 compared with 2.6% in 2012.

Due to changes in macroscenarios, the Company was forced to repeatedly adjust the plan on the transportation dynamics. While the initial loading plan assumed the 3.3% growth compared with 2012 report, due to the circumstances prevailing in the end of the year, the loading reduction in 2013 was 2.8%

**Key events in 2013**

- The Board of Directors of Russian Railways approved the Group Development Strategy until 2030 and set up its financial resilience model.
- The Company fully implemented its obligations of timely funding for the final stages of works linked to the Olympic facilities in Sochi.
- It was decided to transfer RUB 260 bn from the Federal budget to the charter capital of Russian Railways for development of the Baikal-Amur Mainline and the Trans-Siberian Railway, including investment of the Fund of National Welfare in the preferred shares of Russian Railways to be issued in 2014-2016 at a value of RUB 150 bn.
- The Government made a vital decision that the source of funding for the Company investment programme would be for the first time the issue of infrastructure bonds for the amount of RUB 300 bn in 2013–2015, with a maturity period of 15-30 years.
- A public process and price audit of the railway's Eastern test range infrastructure development projects was carried out. Its findings were considered at expert and public hearings and were submitted to the Government of the Russian Federation.

* In accordance with the Russian legislation the annual report of Russian Railways is based on stand-alone financial statements based on Russian accounting standards

**Revenues from all activities in 2013 were**

RUB 1,376.6 bn

+ 0,8% to 2012

**Expenses in all activities in 2013 was**

RUB 1,317.8 bn

+ 1,5% to 2012

**Revenues from selling the shares of subsidiaries and affiliates of Russian Railways in 2013 were**

RUB 4.4 bn

**Dividends from subsidiaries and affiliates of Russian Railways in 2013 were**

RUB 23.0 bn

**Net profit in 2013 was**

RUB 740 mln

**Formed sources of funding investment budget equalled**

RUB 467.2 bn

After assessing the extent of the adverse effects of the economic crisis in December 2012, the company commenced the timely development of preventative anti-crisis measures and maintained stable railway transport operations.

All the parameters of the company operations were repeatedly discussed at the meetings of the Board of Directors of Russian Railways and in the interested federal executive bodies. The loss of revenues of Russian Railways resulting from the original plan was RUB 137.5 billion.

To ensure financial balance in the face of revenue reduction and tax liability increases (rise of insurance payments and cancellation of property tax exemption) and also the review of the forecasts of the Ministry of Economic Development of Russia, the original plan of transportation expenses was adjusted and reduced by RUB 98.8 billion.

Alongside the reduction in expenses dependent on the transportation volumes, the primary measures included: optimisation of process flows, conservation of fixed assets, optimisation of outsourced fleet activities, negotiations with suppliers and contractors to alter their pricing policy, and the introduction of a part-time schedule.

Thus, thanks to continuous work on expense management, and also due to the fulfillment of the shareholder's order

(the Russian Federation) on cutting costs, the growth of the specific transportation cost was only 0.4%, which was significantly lower than the average annual inflation rate in the country as a whole (6.8%). The rate of efficiency growth in 2013 was 104.3%, taking into account the fact that across in the country, labour efficiency grew by 1.5%.

Considering this in the context of the conditions for state regulation of railway cargo transportation rates, the company ensured profitable activities in the year's results and generated a net profit of RUB 740.4 million. At the same time, it established the sources of funding for an investment budge of RUB 467.2 billion, which is more than twice the volume of depreciation in 2013.

**The dynamics of financial results in 2009-2013**

| Index | Unit | 2009 | 2010 | 2011 | 2012 | 2013 | | Actual versus target performance 2013 | | Changes 2013 versus 2012 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Target | Actual | +/- | % | +/- | % |
| **Total revenues** | **RUB bn** | **1,050.2** | **1,195.1** | **1,288.3** | **1,366.0** | **1,358.6** | **1,376.6** | **18.0** | **101.3** | **10.6** | **100.8** |
| **Revenues from transportation, infrastructure services and locomotives** | **RUB bn** | **956.8** | **1,079.3** | **1,109.1** | **1,206.5** | **1,199.4** | **1,209.5** | **10.1** | **100.8** | **3.1** | **100.3** |
| — Freight transportation | RUB bn | 783.0 | 936.2 | 1,003.1 | 1,089.3 | 1,078.5 | 1,088.2 | 9.7 | 100.9 | -1.1 | 99.9 |
| — Infrastructure services | RUB bn | 11.7 | 88.4 | 87.2 | 96.7 | 100.8 | 101.7 | 0.9 | 100.9 | 5.0 | 105.2 |
| — Locomotive services | RUB bn | 11.0 | 11.8 | 11.4 | 12.4 | 11.1 | 11.0 | -0.1 | 99.1 | -1.3 | 89.2 |
| — Passenger transportation | RUB bn | 151.0 | 42.9 | 7.4 | 8.1 | 9.0 | 8.6 | -0.4 | 95.9 | 0.5 | 106.1 |
| Gains from other activities | RUB bn | 93.4 | 115.8 | 179.2 | 159.5 | 159.1 | 167.0 | 7.9 | 105.0 | 7.5 | 104.7 |
| **Total expenses** | **RUB bn** | **999.9** | **1,084.2** | **1,215.6** | **1,298.6** | **1,307.9** | **1,317.8** | **9.9** | **100.8** | **19.2** | **101.5** |
| **Expenses on transportation, infrastructure services and locomotives** | **RUB bn** | **913.8** | **986.4** | **1,050.8** | **1,151.5** | **1,162.6** | **1,165.9** | **3.3** | **100.3** | **14.4** | **101.2** |
| — Freight transportation | RUB bn | 691.1 | 796.1 | 933.3 | 1,017.4 | 1,023.8 | 1,027.6 | 3.8 | 100.4 | 10.2 | 101.0 |
| — Infrastructure services | RUB bn | 11.1 | 86.2 | 102.2 | 118.8 | 122.9 | 122.3 | -0.6 | 99.5 | 3.5 | 103.0 |
| — Locomotive services | RUB bn | 8.3 | 8.8 | 8.4 | 9.2 | 8.2 | 8.2 | -0.1 | 99.1 | -1.0 | 89.2 |
| — Passenger transportation | RUB bn | 203.3 | 95.3 | 7.0 | 6.2 | 7.7 | 7.8 | 0.1 | 101.5 | 1.6 | 126.2 |
| Revenues from other activities | RUB bn | 86.1 | 97.9 | 164.7 | 147.1 | 145.3 | 151.9 | 6.6 | 104.5 | 4.8 | 103.3 |
| **Total sales profit** | **RUB bn** | **50.2** | **110.9** | **72.8** | **67.4** | **50.6** | **58.8** | **8.1** | **116.1** | **-8.6** | **87.2** |
| **Profit from transportation, infrastructure services and locomotives** | **RUB bn** | **43.0** | **92.9** | **58.3** | **54.9** | **36.8** | **43.6** | **6.8** | **118.5** | **-11.3** | **79.4** |
| — Freight transportation | RUB bn | 91.9 | 140.1 | 69.9 | 71.9 | 54.8 | 60.6 | 5.8 | 110.7 | -11.3 | 84.3 |
| — Infrastructure services | RUB bn | 0.6 | 2.2 | -15.0 | -22.1 | -22.1 | -20.6 | 1.5 | 93.3 | 1.4 | 93.5 |
| — Locomotive services | RUB bn | 2.7 | 3.0 | 3.0 | 3.2 | 2.9 | 2.9 | 0.0 | 99.1 | -0.3 | 89.3 |
| — Passenger transportation | RUB bn | -52.3 | -52.4 | 0.4 | 1.9 | 1.3 | 0.8 | -0.5 | 62.4 | -1.1 | 41.5 |
| Revenues from other activities | **RUB bn** | **7.2** | **18.0** | **14.5** | **12.5** | **13.8** | **15.1** | **1.3** | **109.7** | **2.7** | **121.5** |
| **Other profits and losses** | **RUB bn** | **10.1** | **14.9** | **3.8** | **-1.3** | **-33.4** | **-39.3** | **-6.0** | **117.9** | **-38.1** | **3,116.0** |
| Profits and losses from selling shares of subsidiaries and affiliates | RUB bn | 1.0 | 6.9 | 66.3 | 33.9 | 3.6 | 1.4 | -2.2 | 37.6 | -32.5 | 4.0 |

**The dynamics of financial results in 2009-2013 (continued)**

| Index | Unit | 2009 | 2010 | 2011 | 2012 | 2013 | | Actual versus target performance 2013 | | Changes 2013 versus 2012 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Target | Actual | +/- | % | +/- | % |
| Budget funds | RUB bn | 76.8 | 52.2 | 1.8 | 23.2 | 0.4 | 0.9 | 0.5 | 225.6 | -22.3 | 3.8 |
| Exchange differences | RUB bn | -4.6 | 0.9 | -6.4 | 4.5 | -22.0 | -18.4 | 3.6 | 83.6 | -22.8 | -410.7 |
| Changes of reserves and other estimated liabilities | RUB bn | -15.4 | -17.3 | -51.8 | -18.2 | 4.4 | -1.7 | -6.1 | -38.1 | 16.5 | 9.3 |
| Revenues from the interest in other entities, including dividends | RUB bn | 1.6 | 2.1 | 21.3 | 9.8 | 22.9 | 23.0 | 0.1 | 100.4 | 13.2 | 234.2 |
| Credit and loan expenses * | RUB bn | -24.3 | -20.6 | -19.6 | -19.3 | -24.7 | -26.8 | -2.0 | 108.3 | -7.5 | 138.7 |
| **Pretax profit** | **RUB bn** | **60.3** | **125.9** | **76.6** | **66.2** | **17.3** | **19.4** | **2.2** | **112.6** | **-46.7** | **29.4** |
| **Profit tax and other similar liabilities** | **RUB bn** | **45.9** | **51.1** | **59.8** | **52.0** | **17.1** | **18.7** | **1.6** | **109.3** | **-33.3** | **36.0** |
| **Net profits** | **RUB bn** | **14.4** | **74.8** | **16.8** | **14.1** | **0.1** | **0.740** | **0.6** | **512.1** | **-13.4** | **5.2** |
| **Expenses on investment activities with no capitalised interest (excl. VAT)** | **RUB bn** | **265.5** | **317.4** | **395.4** | **480.1** | **467.5** | **467.2** | **-0.2** | **99.9** | **-12.8** | **97.3** |
| **Governmental support, including** | **RUB bn** | **108.6** | **163.2** | **119.7** | **152.7** | **84.1** | **87.1** | **2.9** | **103.5** | **-65.7** | **57.0** |
| Subsidies and other compensations from the federal budget, regional budgets and non-budget funds. | RUB bn | 80.3 | 59.6 | 31.2 | 51.7 | 28.0 | 27.6 | -0.5 | 98.2 | -24.1 | 53.3 |
| Contributions into charter capital | RUB bn | 28.2 | 103.6 | 88.6 | 101.0 | 56.0 | 59.5 | 3.4 | 106.1 | -41.6 | 58.9 |
| Transportation cost | kop./ 10 virtual TKM | 377.2c | 372.3 | 369.4 | 393.4 | 397.5 | 395.0 | -2.5 | 99.4 | 1.6 | 100.4 |
| **EBITDA** | **RUB bn** | **269.2** | **329.0** | **273.4** | **274.0** | **237.0** | **244.1** | **7.1** | **103.0** | **-29.9** | **89.1** |
| **Financial debt** | | | | | | | | | | | |
| **Financial debt (liabilities under credits+leasing) / EBITDA** | **x** | **1.4** | **1.0** | **1.4** | **1.6** | **2.7** | **2.6** | **-0.1** | **96.5** | **1.1** | **167.6** |

* - Excluding capitalised interests

**The dynamics of financial results in 2009-2013 (continued)**

| Index | Unit | 2009 | 2010 | 2011 | 2012 | 2013 | | Actual versus target performance 2013 | | Changes 2013 versus 2012 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Target | Actual | +/- | % | +/- | % |
| **Net debt (financial debt – balance funds) / EBITDA** | **x** | **1.3** | **0.8** | **0.8** | **1.2** | **2.4** | **2.3** | **-0.1** | **94.2** | **1.1** | **199.2** |
| Changes in debt (principal amount) | RUB bn | 19.8 | -23.7 | 74.7 | 38.3 | 174.2 | 175.4 | 1.2 | 100.7 | 137.1 | 457.5 |
| Net change of debt Portfolio, including exchange differences and accrued interest | RUB bn | 29.9 | -23.3 | 79.8 | 35.7 | 198.4 | 196.5 | -1.9 | 99.0 | 160.8 | 550.4 |
| **Loan debt** | **RUB bn** | **327.4** | **304.1** | **383.9** | **419.6** | **618.1** | **616.1** | **-1.9** | **99.7** | **196.5** | **146.8** |

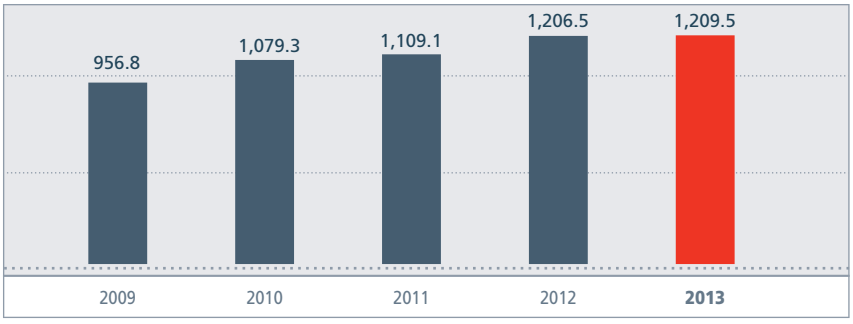
**Equity capital, assets and liabilities (according to the accounting balance-sheet of Russian Railways for 2013)**

| | Unit | 2012 | 2013 | % to 2012 |
|---|---|---|---|---|
| Currency of balance sheet | RUB bn | 4,330.8 | 4,577.5 | 5.7% |
| Fixed assets | RUB bn | 4,053.2 | 4,319.6 | 6.8% |
| Floating assets | RUB bn | 277.6 | 258.0 | -7.1% |
| Capital and reserves | RUB bn | 3,481.8 | 3,540.3 | 1.7% |
| Long-term liabilities | RUB bn | 427.8 | 656.7 | 53.5% |
| Short-term liabilities | RUB bn | 421.2 | 380.5 | -9.7% |
| Net asset value | RUB bn | 3,488.9 | 3,547.6 | 1.7% |

# Analysis of revenues from transportation services

For the period from 2009-2013 the revenues derived from transportation services has increased from RUB 956.8 bn to RUB 1,209.5 bn (including the increase on RUB 3.0 bn, or 2% during the last year).

**The dynamics of revenues from transportation for the period of 2009-2013,** in RUB bn.




The structure of revenue from transportation in the reporting year has not significantly changed: the biggest share of revenues belongs to the freight transportation (90%). The revenue from infrastructure services for freight and passenger transportation is 8.4%. The remaining 1.6% is accounted for the locomotive traction services (0.9%) and high-speed passenger transportation (about 0.7%).

**The share of revenues from transportation of goods is**

**90 %**

**The structure of revenues from transportation activities in 2013,** in RUB bn.


| | | |
|---|---|---|
| Transportation of goods | **1,088.2** | 90.0% |
| Support services | **101.7** | 8.4% |
| Locomitve traction services | **11.0** | 0.9% |
| Passenger traffic | **8.6** | 0.7% |

**The dynamics of transportation services revenues structure of Russian Railways,** in RUB bn

| Revenues | Fact, 2012 | Plan, 2013 | Fact, 2013 | +/- to the Plan | % to the Plan | +/- to 2012 | % to 2012 |
|---|---|---|---|---|---|---|---|
| Freight transportation | 1,089.3 | 1,078.5 | 1,088.2 | +9.7 | 100.9 | -1.1 | 99.9 |
| Locomotive traction services | 12.4 | 11.1 | 11 | -0.1 | 99.1 | -1.4 | 89.2 |
| Long-haul passenger transportation | 8.1 | 9 | 8.6 | -0.4 | 95.3 | +0.4 | 105.4 |
| Suburban passenger transportation | 0.004 | 0.012 | 0.062 | +0.05 | 5 times | +0.06 | 15 times |
| Infrastructure services | 96.7 | 100.8 | 101.7 | +0.9 | 100.9 | +5.0 | 105.2 |
| **TOTAL for all types of transportation activities** | **1,206.5** | **1,199.4** | **1,209.5** | **+10.1** | **100.8** | **+3.0** | **100.3** |

## Freight transportation revenues

In 2013 the revenues from freight transportation made RUB 1,088.2 billion, which is RUB 1.1 billion, or 0.1%, lower than the level of revenues in 2012.

**The main impact on the change in freight transportation revenue**

- The decrease in freight turnover (excluding the empty run of other owner's railcars) by 1.2% against 2012 (from 2,222.4 billion to 2,196.2 billion tonne-kilometre) has resulted in the decrease of revenues in the amount of RUB 12.8 billion.

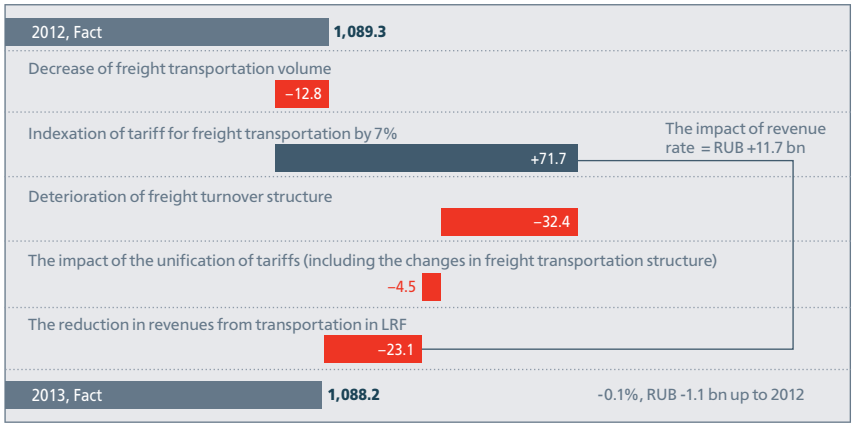
- The rise in average revenue rate for 10 tonne-kilometre to the level of 2012 by 1.1% has affected the increase of revenue in the amount of RUB 11.7 billion due to the following key reasons:

– Tariffs indexation on 7% (RUB +7.7 billion);
– The deterioration of freight turnover structure (RUB -32.4 billion), which happened mostly due to:
  • The changes in the freight turnover structure by types of cargo (RUB -16.8 billion) due to the growth of the share of coal (with low margin) on 2.4 pp from 3.8% to 37.1%, the decrease of the share of ferrous metals (with high margin) from 6.2% to 5.8%, the decrease of share of petroleum cargo transportation (with average margin) on 0.3 pp from 19.9% to 19.6%;
  • The changes in the freight turnover structure by destination (RUB -2.3 billion). In the reporting year the share of domestic Russian transportations has decreased from 45.4% to 45%, while international transportation through ports has increased from 33.6% to 34.3% due to the increase of average transportation distance. Hence, the revenue rate for the freight transportation through ports is lower than the mid-network level on 30% and 3 times lower for the coal transportation;
  • The increase of routed shipment (with a discount of up to 15% to the Price list 10-01) share to 2.6 pp, allowing Russian Railways to more effectively organise freight flows and to decrease the expenses connected with sorting and handling of freight. However, the above-mentioned factor has resulted in the decrease of revenues in the amount of RUB 9.6 billion.

- The impact of the unification of tariffs – the decrease of revenue by RUB 4.5 billion. Further to the unification of tariffs (equalisation of transportation tariffs towards the Russian ports and land border-crossing points) the changes to the Price list No.10-01 were adopted in order to compensation for the losses in revenues of the Company, and additional scale-up factors were set to the prices for the freight transportation through land border-crossing points of the Russian Federation. However, the analysis of Russian Railways revenues from freight transportation (oil, timber , inorganic chemistry products) has shown that after the unification of tariffs, the structure of these goods has changed, which did not allow to keep revenue on the same level, and Russian Railways has received approximately RUB 4.5 billion less than what was due in 2013.

- The reduction of revenues from the changes in the size of LRF (leased railcar fleet) exploitation has led to the decrease of revenues on RUB 23.1 billion. From June 2013, LRF was fully returned under the operation of JSC Federal Freight.

**Factorial analysis of decrease of revenues from transportation of goods in 2013 to the level of 2012 on RUB -1.1 billion.**




## Revenues from locomotive traction services

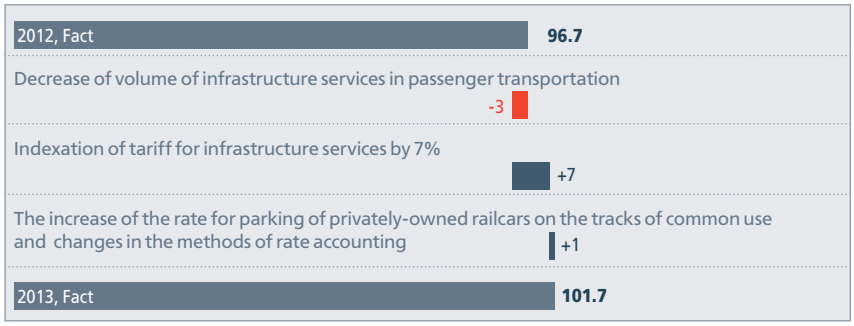
The revenues is RUB 11.0 billion, which is 10.8% lower than the level in 2012. The decrease of revenues was due to a drop in the volume of services on railcar cleaning and supply to the tracks of uncommon use according to the decrease in the volume of cargo turnover.

## Revenues from infrastructure services

Revenues from infrastructure services totalled RUB 101.7 billion with growth over the previous year of RUB 5 billion, or by 5.2%., attributable to

- a 3.5% reduction in passenger railcar-kilometres. With the costs not being reimbursed in the full amount and the decrease of subsidies, the carriers have been optimizing their operations, with some trains cancelled, routes shortened and reduced transportation volumes, which together has led to a RUB 3 billion decrease in revenues;
- a tariff increase of 7% has led to a rise in revenues of RUB 7 billion;
- an increase in payments collected for the parking of privately-owned railcars on common-use tracks, connected with the increase in the number of railcars owned by private operators and the transfer of LRF railcars back to JSC Federal Freight, as well as the changes in the methods of calculating rates for the use of railway tracks belonging to Russian Railways and not in common use, , which altogether increased revenues in 2013 by RUB 1 billion.

**Factorial analysis of increase of revenues from supply services in 2013 to the level of 2012 on RUB 5 bn.**




## Revenues from long-haul passenger services

Russian Railways provides long-haul passenger services using the high-speed Sapsan, Lastochka, and Allegro electrical trains. These services generated revenue of RUB 8.6 billion, which is RUB 0.4 billion, or 5.4%, higher than the level of revenue in the previous year.

The main driver of this increased revenue is the increase of passenger turnover in long-haul transportation via high-speed electrical trains (+9.2%). This mirrors an increase during a similar period in the previous year caused by the introduction of additional electrical trains. Sapsan trains were added at peak times, and Lastochka trains were introduced from January 23, 2013 on the St. Petersburg – Chudovo – Bologoe – Novgorod route (1 pair per day). The implementation of a "special price" tariff for morning trains from St. Petersburg to Helsinki (where the lowest occupancy rate was fixed, due to early train dispatch) has also affected the rise in passenger turnover for international traffic (on Allegro trains, at +35.4%).

## Revenues from suburban passenger transportation services

The revenues from suburban passenger transportation services is RUB 0.06 billion.

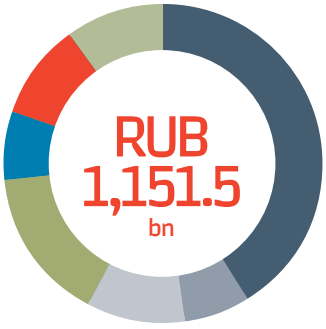
In order to facilitate passenger traffic during the 2014 Winter Olympic Games, Russian Railways added extra train routes. From May 1, 2013, the Lastochka electrical trains started operations on the Sochi-Airport route (10 pairs per day), and from November 1, 2013 the Lastochka trains operated on all Olympic routes at a rate of 30% of the regular schedule for the duration of the Games.

# 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 transporation in 2012,** RUB bn.




| | | |
|---|---|---|
| Payroll expenses and insurance contributions | **462.4** | 40.0 % |
| Fuel | **77.4** | 7.0 % |
| Electric power | **106.7** | 9.0% |
| Depreciation of fixed assets | **171.3** | 15.0% |
| Materials | **86.4** | 8.0% |
| Other material costs | **120.6** | 10.0% |
| Other expenses | **126.8** | 11.0% |

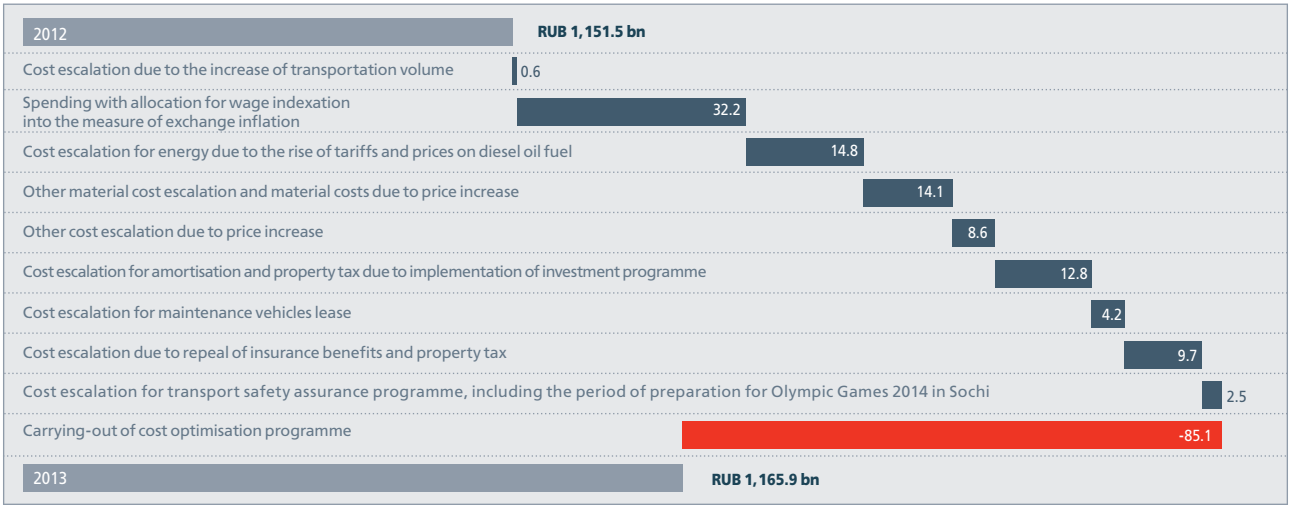
**Structure of expenses on transporation in 2013,** RUB bn.


| | | |
|---|---|---|
| Payroll expenses and insurance contributions | **488.5** | 42.0 % |
| Fuel | **81.3** | 7.0 % |
| Electric power | **111.9** | 10.0% |
| Depreciation of fixed assets | **180.9** | 15.0% |
| Materials | **77.7** | 7.0% |
| Other material costs | **110.9** | 9.0% |
| Other expenses | **114.8** | 10.0% |

**The dynamics of expenses on transporation services of Russian Railways,** in RUB bn

| | | | Changes: Fact 2012/Fact 2013 | |
|---|---|---|---|---|
| Criteria | Fact, 2012 | Fact, 2013 | RUB bn. | % |
| **Expenses by typ of transportation activity** | **1,151.5** | **1,165.9** | **14.4** | **1.2** |
| **Payroll expenses and insurance contributions** | **366.7** | **385.6** | **18.9** | **5.1** |
| **Social benefit expenses** | **95.7** | **102.9** | **7.2** | **7.6** |
| **Material costs** | **391.0** | **381.7** | **-9.3** | **-2.4** |
| — materials | 86.4 | 77.7 | -8.7 | -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 | -8.0 |
| **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.
- 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).

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

## 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.

# Cost minimisation

During 2013, the Company's efforts were focused on the development of effective measures to provide balanced financial activity in the face of reduced load volumes and the worsening structure of transported goods. The issues of risks and adjustment of investment budget and financial plan of Russian Railways for 2013 were placed for the consideration of the Board of Directors of Russian Railways, where the proposed approaches were completely supported and approved.

The main reason for cost minimisation in 2013 was the decrease in transportation volumes and the resulting loss of revenues. Among the other reasons are:

- A considerable increase in tax burden (the overall increase in types of transportation activities is estimated at RUB 9.7 billion), the repeal of tax benefits on railway transport assets (an increase of RUB 6.8 billion), and the rise of premium rates to the Pension Fund of the Russian Federation (increase of RUB 2.9 billion);

- An increase in prices for diesel oil fuel due to additional forecasts made by the Ministry of Economic Development and Trade of the Russian Federation (increase in expenses of RUB 6.9 billion).

In 2013 the Board of Directors of Russian Railways refined the parameters of the Company's financial plan twice. As a result, the total amount of cost minimisation on types of transportation activities in comparison with the base plan was RUB 98.8 billion, including the cost of:

- Decreased transportation volumes – RUB 14.3 billion;

- The optimisation of technological processes – RUB 48.8 billion, including:

  - Optimisation of work with railcar park ;
  - Optimisation of locomotive hauls, improvement of tight-run profile, provision of movement and admission of trains to ports and border-crossing points, introduction of park control technologies at amalgamated grounds, etc.
  - The temporary freezing of funds not involved in rail traffic;
  - The optimisation of price policy;
  - A reduction in expenses due to more rigid specific power requirements of fuel and power resources consumption on haulage operations;
  - The placement of freight locomotives and shunting engines into reserve (cost savings due to the reduced working hours of electric and diesel locomotives in operational condition without foot-plate staff, as well as a reduction in the number of technical support staff for locomotives);
  - The optimisation of costs for the services of hosting, cleaning and transportation services companies;
  - Optimisation of operating modes and traffic routes of automobile transportation;
  - A reduction in material and technical resources consumption due to tougher expenses norms;
  - The optimisation of costs for staff training due to the introduction of distance learning;
  - The optimisation of other costs (consulting and information services, archival and bindery services, office supplies, forms and blanks, programme products, etc).

- Administrative cost minimisation – RUB 32.7 billion, including RUB 26.1 billion of deferred expenses for capital repairs of rail infrastructure objects;

- Reduction in expenses for managerial staff labour compensation funds by RUB 3.4 billion.

In the reporting year, the challenging financial and economic environment led to Russian Railways taking severe measures to economise on all types of costs. For the first time, a part-time work pattern was implemented by Russian Railways as a coercive measure based on the necessity of further cost minimisation due to a continuing decrease of transportation volumes and consequently reduced income. This measure did not extend to the employees working directly on the railways. The implementation of this measure has mostly affected administrative personnel.

Taking into account social responsibility and the necessity to retain qualified personnel, Russian Railways was lucky to avoid the mass personnel base layoff originally foreseen.

All social obligations of the Company's employees in the current year were implemented on a full scale.

# 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.

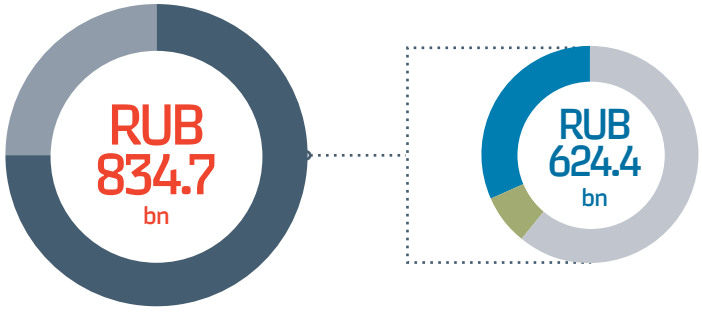
Direct contracting can be undertaken in the following circumstances:

- 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 hte Russian Federation,** RUB bn




| | | |
|---|---|---|
| Agreements settled in 2013 | **624.4** | 75.0 % |
| Carry-over Agreements | **210.3** | 25.0 % |

| | | |
|---|---|---|
| On competition basis | **380.8** | 61.0 % |
| On other legitimate basis | **47.7** | 7.6 % |
| Corporate order, due to the costumer's personal decision | **195.9** | 31.4 % |

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%.

| 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. |

# Other types of activity

In 2013, the Company's earnings from other types of activity were RUB 167.0 billion, which is RUB 7.9 billion, or 5.%, higher than the approved 2013 plan. The revenues from other types of activity was RUB 15.1 billion, which is RUB 1.3 billion, or 9.4%, higher than the approved 2013 plan.

The Company's earnings have increased to by RUB 7.5 billion, or 4.7%, matching the levels of the previous year. Revenues from other types of activity has increased on RUB 2.6 billion, or 20.8% .

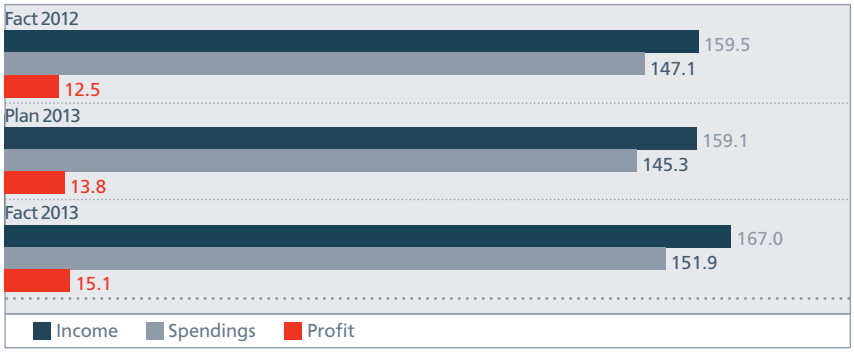
The relative share of revenues from other types of activity has increased and reached 26% of the Company's total revenues volume from sales in 2013.

Other sales pattern in 2013 have seen no significant change. There is an overrepresentation of low-margin services with limited opportunities for revenues growth (the rent of rolling stock, transmission of electric energy, social programmes , and housing and utilities infrastructure services).

In order to maximise revenues from other types of sales, in 2013 the Company management has increased the effectiveness of other types of activity.

In 2013, the earnings and revenues from uncoupling and repair services on private railcars continued to grow. This trend is driven by the following factors: the transfer from a fixed (average) price for railcar repairs performance to a valuation of actual expenses was made in agreement with the major owners of rolling tracks, which allowed for the full application of working cost to expenses connected with the repair of each railcar.

**Revenues flows from other types of activities,** RUB bn.




In addition, the final payment for duplicate parts purchase, with their further repair and installation, is made by the owners of the rolling stock. The impact of these factors, along with the rise in the number of private freight railcars parked to 48.7 thousand, and the increase of the current uncoupling repairs volume by 30%, enabled additional revenues from rolling stock repair of RUB 6.5 billion.

To avoid a tariff imbalance in services from regulated segments (such as transmission of electrical energy to outside consumers, and housing and utilities infrastructure services), Russian Railways works alongside the Federal Tariff Service and Regional Energy Commissions to set economically feasible tariffs.

According to the results of the 2013 campaign on the services of electrical energy transmission to the outside consumers, the level of required gross revenues has significantly increased in Omsk region, Krasnodar Krai and Zabaykalsky Krai.

**Revenue structure on other types of activities,** RUB bn.


| | | |
|---|---|---|
| Services for JSC FPC | **37.6** | 23.0% |
| Services for SPC | **34.8** | 21.0% |
| Other | **21.2** | 13.0% |
| Repair of rolling stock | **18.9** | 11.0% |
| Technical and economic assessment | **16.1** | 10.0% |
| Property rent | **12.4** | 7.0% |
| Social services | **10.1** | 6.0% |
| Electric-power transmission | **8.9** | 5.0% |
| Metal scrap | **7.0** | 4.0% |

In the area of housing and utilities infrastructure services provision, Russian Railways managed to achieve a rise in tariffs for the Kursk region (+13% over the previous year); in Zabaykalsky Krai and in the Khabarovsk Territory. Alongside this was the transfer of ineffectively used domestic facilities to other regions (the heat and water supply facilities of the Amur Region and the water supply facilities of the Khabarovsk Territory and the Sverdlovsk Region were transferred to the Republic of Bashkortostan).

The aforementioned work facilitated a RUB 0.6 billion improvement in financial results.

Work on the measured tariff policy on rent and control of passenger locomotive to long distances and multiple units in suburban traffic in the aggregate with implementation of measures on internal efficiency increase continues (in 2013, over 400 sections of unclaimed rolling stocks were put in dead storage). Also underway is work on economic efficiency by means of rolling stock modernisation and the introduction of a pilot project on the transfer of locomotives to a complete maintenance service. In addition, the increase of passenger locomotive park management effectiveness has provided volumetric data based on locomotives in an operating park in the calculations of JSC FPC in 2013.

The implemented measures have allowed a RUB 1.6 billion reduction in losses from the rolling stock rental services provided to suburban passenger companies, as well as increased earnings from the rent of long-distance locomotives by 5.5%.

Simultaneously, the volume of rolling stock rentals for both suburban and long-distance traffic has decreased by 5%. However, this is not a consistent trend in every region. The Moscow region in particular has maintained its 2012 volumes in suburban traffic, while at the same time in some regions where the issue of subsidy appropriation by the suburban passenger companies is still unresolved, transportation volumes were significantly reduced – in some cases, by as much as 30%). This includes the Chelyabinsk Region, the Kurgan Region, the Vologda Region and the Kirov Region.

The work on finishing reconstruction of Moscow junction and on putting new stations into operation for the 2014 Olympic Games 2014 (Adler, Estosadok and Olympic Park) is in process. This allowed for increased revenues from the rent of real estate, first class serviuces services provided to passengers and use of parking areas.

Some services were outsourced in order to increase their effectiveness and quality. The implementation of projects by network operators (arrangements for feeding and retail trading, vending machines) continues, and the use of new technologies was expanded – in particular, the installation of automated left-luggage facilities at stations. These measures allowed the Company to increase its earnings by RUB 0.3 billion.

Despite a reduction in freight handling volumes due to the completion of Olympic facilities construction, the work with cargo shippers on new customer acquisition and on the accumulation of freight handling shares by Russian Railways subsidiaries continues; and the implementation of complex transport-logistic service operation on cargo transshipment in docks is underway. These measures have facilitated additional revenues from client services of RUB 0.9 billion.

Taking into account the perspective of further growth of other types of activities in 2014 and the after years, the Company's management team will make the best use of internal reserves to increase the effectiveness of other types of sales and external markets environment to support the trend towards stable growth in of other types of activity.

# Other revenues and expenses

In 2013, the negative result from other revenues and expenses was RUB 39.4 billion.

## Profit from sales of subsidiaries and affiliates shares

**Profit on sales of subsidiaries and affiliates shares,** RUB bn.


The revenues from shares off-load in 2013 was RUB 4.4 billion, and the Company's profit from the sale of shares was RUB 1.4 billion.

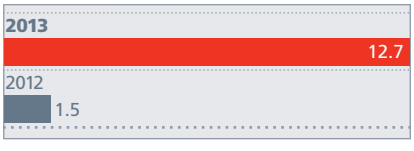
In 2013 the following stock of shares were off-loaded:

- JSC Krasnoyarsk EVRZ – 100% minus 1 share;
- JSC Central Passengers Traffic Company – 50% minus 2 shares;
- JSC NSZ – 100% of shares.

In 2013, Russian Railways experienced a RUB 75.7 billion decrease in revenues from the sale of shares in subsidiaries and affiliates, with a decrease in profit of RUB 32.5 billion. This was mostly due to the sale of 25% +1 share of JSC Freight One Company in 2012.

## Positive results from the introduction of property into the registered capital of subsidiaries and affiliates

**Profit from introduce of property into the registred capital of subsidiaries and affilates,** RUB bn.

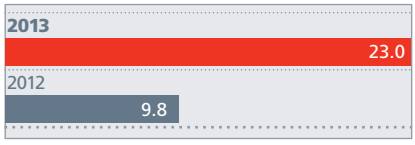



In the reporting year, there was a positive financial result in the amount of RUB 12.7 billion linked to cash flow from the closed deal on the introduction of freight railcars into the registered capital of JSC Federal Cargo Company.

In 2012 the introduction of freight railcars into the registered capital of CJSC TransTeleCom Company and the "Remputmash" Kaluga plant created revenues of RUB 1.5 billion.

## Subsidiaries and affiliates dividends receivables

**Subsidiaries and affiliates dividends,** RUB bn




According to 2013 the results, the dividends receivables from companies in which shares are held by Russian Railways was RUB 23.0 billion in total. The base quantity of dividends receivables was provided by JSC Federal Cargo Company (RUB 16.9 billion).

In 2012 the dividends comprised RUB 9.8 billion.

## Expenses on debt servicing

In 2013 the expenses on debt servicing were mostly represented by repaid interest on received loans and credits and comprised RUB 25.5 billion, excluding capitalised interests.

The planned parameters approved by the Board of Directors on the growth of corresponding expenses was RUB 2.7 billion, which is defined by the changes in capitalised interest shares and an increase of percentages allocated at the expense of the Company's revenues.

The growth of expenses to the level of 2012 was caused by similar reasons and comprised RUB 8.0 billion.

## Exchange rate differences

**Exchange rate differences**

| | 2012 | 2013 |
|---|---|---|
| Devaluation/ adjustment of rouble against the USD for the period | +4.70% | **-7.60%** |
| The rouble's rate against the dollar at the end of the period | 30.37 | **32.73** |

In the reporting period the loss from exchange rate differences was RUB 18.4 billion. At the end of 2013, the adjustment of the rouble's rate against the US dollar allowed for compensation in the increase of devaluation of Russian currency partially (more than 10%) towards the British pound sterling and Swiss franc.

In 2012 the favourable business activity of the rouble lead to positive exchange rate differences in the amount of RUB 4.5 billion.

**Change in USD exchange and rate of Ruble devaluation,** RUB per 1 USD

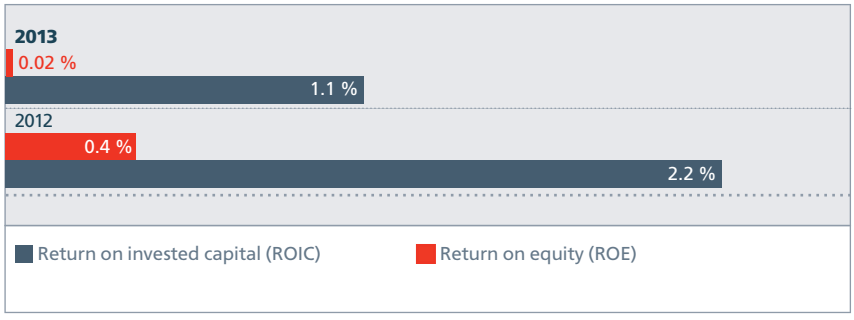
# Factorial analysis of return (profitability)

**The dynamics of return change**

| | | | | | | | Changes | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 2013 | | Fact to 2013 Plan | | 2013 to 2012 | |
| Показатель | 2009 | 2010 | 2011 | 2012 | Plan | Fact | +/- | % | +/- | % |
| Return on invested capital (ROIC ) | 2.4% | 4.2% | 2.6% | 2.2% | 0.9% | 1.11% | 0.18 | - | -1.1 | - |
| Return on equity (ROE) | 0.5% | 2.4% | 0.5% | 0.4% | 0.004% | 0.02% | 0.02 | - | -0.4 | - |
| Net revenues margin (net profit/ revenue) | 1.4% | 6.3% | 1.3% | 1.0% | 0.011% | 0.05% | 0.0 | - | -1.0 | - |
| Assets turnover) (earnings/assets) | 28.6% | 31.3% | 31.2% | 31.5% | 29.6% | 30.1% | 0.4 | - | -1.5 | - |
| Capital leverage (assets/equity) | 123.7% | 120.0% | 123.0% | 124.4% | 129.3% | 129.3% | 0.0 | - | 4.9 | - |
| Return on assets (ROA) | 0.4% | 2.0% | 0.4% | 0.3% | 0.003% | 0.02% | 0.0 | - | -0.3 | - |
| Return on sales | 4.8% | 9.3% | 5.6% | 4.9% | 3.7% | 4.3% | 0.5 | - | 3.2 | - |
| Return on transportation | 4.5% | 8.6% | 5.3% | 4.6% | 3.1% | 3.6% | 0.5 | - | -0.9 | - |
| Return on other types of activity | 7.8% | 15.5% | 8.1% | 7.8% | 8.7% | 9.1% | 0.4 | - | 1.3 | - |

The return on equity (ROE) is 0.02% with a 0.4 p.p. decrease against 2012 levels. The decrease of indicators of net revenues margin and the assets turnover have affected the decrease of ROE. However this was partly offset by capital leverage growth (balance between assets and equity).

**Return on equity**



**Net revenues margin (net profit/ revenues)**

# 0.05 %

**Assets turnover**

# 30.1%

**Capital leverage**

# 129 %

The decrease of return on net profit on 0.9 pp is caused first of all by the current impact of the following factors on financial results:

- Decline in growth of transportation works (-2.8% from 2012) due to degradation of macroeconomic situation, including a decrease in consumer demand; a decrease in investment activity and in non-energy goods export.
- The decrease of investment revenues from the sale of Russian Railways subsidiaries and affiliates (the revenues from the sale of subsidiaries and affiliates has decreased by RUB 32.5 billion in comparison with 2012).
- Volatility in national and foreign currency rates has lead to the formation of negative exchange rate differences in the amount of RUB 18.4 billion.

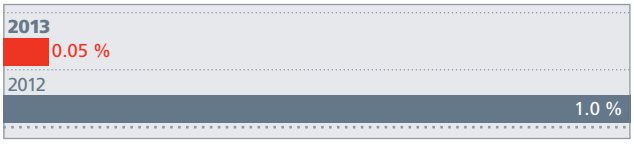
Thus, the impact on net profit covers both the transportation and non-operational segments, as evidenced by the difference between the decrease in the rate of sales profitability to the level of the previous year (-0.6 pp ) and the net revenues margin (-0.9 pp).

The decline in the assets turnover (1.4 pp) shows that less rouble assets are accounted for than the number of roubles of economic benefits inflows which these assets generate. This is caused primarily by the regulations on tariff load curbing.

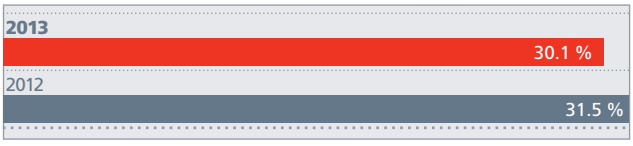
The 5 pp growth in capital leverage had a positive impact on ROE which, despite the increase in equity of RUB 58 billion (including the securing of contributions to the registered capital in the amount of RUB 59.5 billion and the revaluation of separate financial investments) is caused by greater high asset growth rates; mainly due to the increase of the Company's financial obligations share.

Despite these factors, the Company sought the maximum reserves to ensure the break-even and cost-return of activity in 2013.

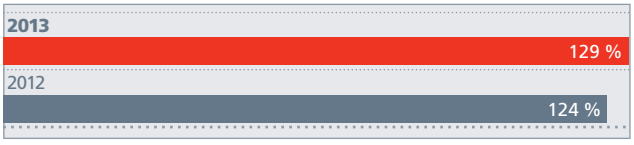
**Net profit margin**




**Asset usage (turnover) Revenues/Assets**




**Capital leverage (Assets/Owned capital)**



# 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 | 75.9 | 75.9 | 81.5 | 5.6 | 7.4 |
| Expenses for incomplete production | 0.8 | 0.8 | 0.7 | 0.7 | 0.8 | 0.1 | 14.3 |
| Completed products and products for resale | 0.3 | 0.2 | 0.2 | 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 | 10 | 100 |
| Seasonal stock of permanent-way materials | 18.5 | 14.5 | 12.6 | 68 | 87 | 87 |
| Stocks of reused materials | 7.4 | 8.1 | 9.4 | 127 | 116 | 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 | 104 |
| Materials | 57 | 29 | 104 | 104 |
| Fuel | 27 | 58 | 104 | 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 receivableof 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).

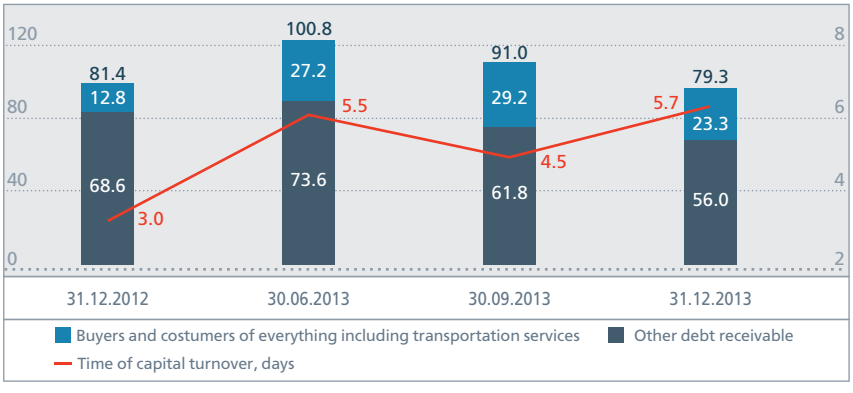
Among these, the stock on doubtful account receivableof passenger traffic companies (including FAZHT) has a debt totalling amount of RUB 41.3 billion.

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

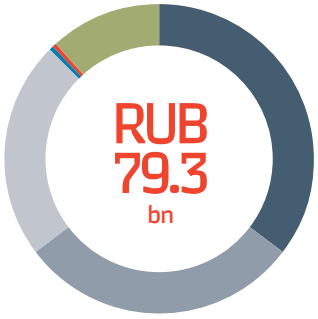
The share of overdue debt receivables is 1.5% of the total amount of debt.

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,** RUB bn.




**Debt receivable structure as for 31.12.2013,** RUB bn.



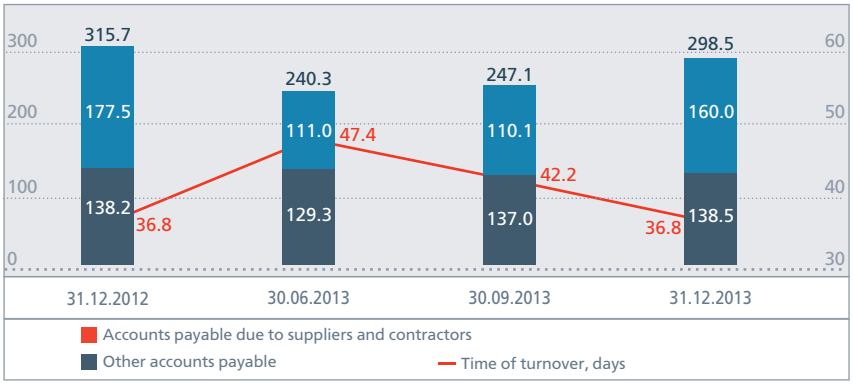

| | |
|---|---|
| Prepaid expenses | 35.5% |
| Buyers and costumers of everything, including transportation services | 29.4 % |
| Taxes and charges | 11.6 % |
| Social insurance and security | 0.4 % |
| Payroll managment | 0.4 % |
| Other debtors | 22.7 % |

# 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.

**Accounts payable,** RUB bn.




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 | 53 % |
| Prepayment of transportation services | 24 % |
| Advances obtained on other payments | 7 % |
| Payables to employees | 5 % |
| Social insurance and secutiry debts | 3 % |
| Taxes and charges debts | 3 % |
| Other accounts payable | 4 % |

# Cooperation with Public Authorities

In 2013, the Company obtained state support for investment projects in Kazan in the course of preparations for the 27th Summer Universiade in Kazan and for the XXII Olympic Winter Games and XI Paralympic Winter Games in Sochi. Also, both the government of the country and the government of Moscow made important decisions with regard to the development of the Moscow transport hub that required significant investments.

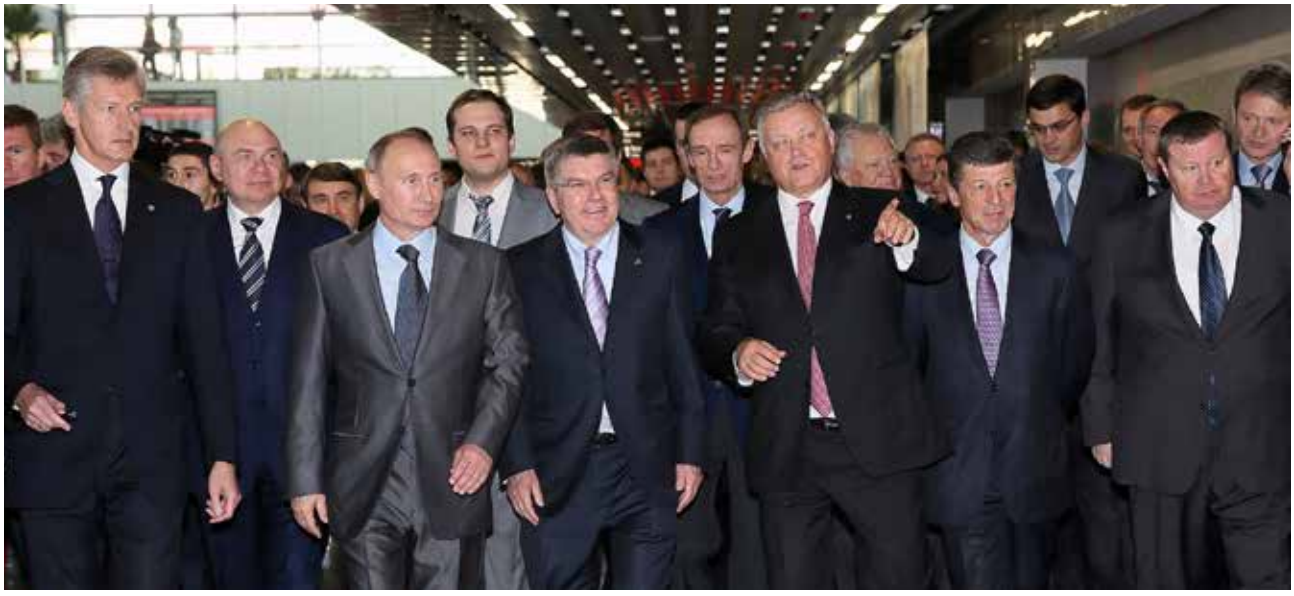
## KEY ISSUES IN RUSSIAN RAILWAYS WITH RELATION TO THE BODIES OF STATE AUTHORITY IN 2013

- Conducting 27th Summer Universiade in Kazan and preparation for the Olympic Games in Sochi
- Development of the Moscow transport hub
- Discussion of non-tariff sources of financing for investment programmes
- Interaction with regional bodies of authority
- Development of the issue of spending the funds from the National Wealth Fund for the purposes of infrastructure project financing by the Government of Russia

In order to implement the specified investment projects under conditions in which the Russian economy was undergoing adverse circumstances and in which there were legislative restrictions of tariff financing sources for investment programmes, the Company initiated discussions with the representatives of federal bodies of state authority on the possibility of non-tariff sources of financing. This issue was raised in the framework of the XII International Investment Forum "Sochi 2013" in the course of a meeting held by the Chairman of the Government of the Russian Federation, D.A. Medvedev, with the members of the Russian Union of Industrialists and Entrepreneurs on the issue of the business and investment climate in the regions.

The support of the President and the Government of the Russian Federation with regard to the transformation of Russian Railways to a transport-logistics company is of key significance. The approval of JSC Transcontainer's joining of the Combined Transport & Logistics Company (CTLC) was a confirmation of this. An agreement to this effect was signed at the St.Petersburg International Economic Forum in June 2013.

Within a year, on the initiative and with the active participation of Russian Railways, changes were twice introduced into the federal law on the federal budget for 2013 that resulted in the increase of the volume of financial support of the Company from the Federal Budget by more than three times. For the period of 2013, the total amount of funds allocated to Russian Railways from the federal budget was RUB 86.7 billion.



As the result of work carried out in regard to the law "On the Federal Budget for 2014 and for the Planned Period of 2015 and 2016", the volume of financing of Russian Railways from the federal budget is expected to be RUB 75.4 billion.

In the reporting year, Russian Railways, along with the Russian Federation Government, negotiated the issue of financing methods for strategic long-term projects that were sunk for the Company at the expense of the National Wealth Fund (this includes such projects as the development of the railway infrastructure in the Far East of Russia). The intention is to use the Fund assets for Russian Railways's preferred shares that will be issued in the period from 2014 to 2016 in the amount of RUB 150 billion with a rate of return of 3% per annum and payment of dividends beginning from the sixth year of project implementation. This decision is unprecedented and underlines the high priority for the development of railway infrastructure.

In 2013, Russian Railways concluded 20 new mid-range agreements for interaction and cooperation for 2013-2016 with the regions whose cooperation agreements for 2012-2013 had expired. In total, the Company concluded mid-term agreements for interaction and cooperation with 76 regions.

**The volume of investments related to carrying out Russian Federation Government orders**

RUB 46 bn

**The volume of investments targeted at the construction of Olympic facilities in Sochi**

RUB 38.8 bn

In 2013, Russian Railways carried out all its objectives for the implementation of projects related to commissions from the Russian Federation Government.

# State support of Russian Railways

In 2013, the overall volume of state support of Russian Railways from the federal budget, regional budgets and extra-budgetary funds was RUB 87.1 bn, which is RUB 65.7 bn less than in 2012 (-43 %)

**The amount of state financing from budgets at all levels in 2013 is**

RUB 87.1 bn

In 2013, the overall volume of state support allocated from the Federal Budget was RUB 86.7 billion.

As compared to 2012, the reduction in financing for Russian Railways from the federal budget in 2013 was RUB 65.4 billion (-43%).

In 2013, the Russian Federation Government continued to pay special attention to the implementation of state projects for the development of the railway transportation infrastructure, whose financing mechanism is operated by way of contributions to the Company's charter capital.

The amount of contribution to charter capital in 2013 was RUS 59.5 billion. At the same time, the amount of state financing in this area was reduced as compared to 2012 by RUB 41.6 billion (-41.2%).

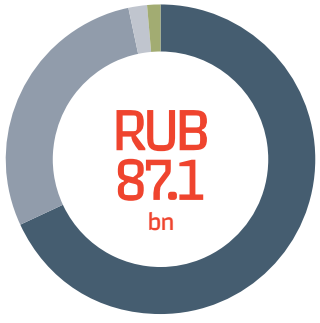
In 2013, according to the Russian Federation Resolution dd. 17.10.2011 No. 844, the volumes of financing for the compensation of revenue losses that occur in the result of state regulation of tariffs for the services of using public transport rendered in the course of conducting suburban passenger transportation remained the same. In 2013, as well as in 2012, RUB 25 billion was allocated from the federal budget for this purpose.

**Budget funds that came from the federal budget in 2013,** RUB bn

| | |
|---|---|
| Implementation of state projects through the budget of Russian Railways | |
| Implementation of activities for the development of a transportation complex | 38.3 |
| for the Moscow region, including funds allocated from Moscow budget | 3.4 |
| Activities for development of railway infrastructure on the Mezhdurechensk – Tayshet section | 16.2 |
| Development and renewal of Baikal – Amur and Trans-Siberian Mainlines | 4.6 |
| Complex reconstruction of the M.Gorky – Kotelnikov – Tikhoretskaya – Krymskaya section, with a detour of the Krasnodar hub | 0.3 |
| Direct support of Russian Railways | |
| Compensation of revenue losses for services using the infrastructure to carry passengers in suburban transport | 25.0 |
| Subsidy for compensation of losses related to the elimination of large-scale floods in the territory of FEFD | 1.5 |
| Subsidies for implementation of activities in the framework of Integrated programme for public safety maintenance on transport | 0.4 |
| Subsidies for the compensation of costs for the maintenance of automobile road Adler – alpine climatic resort | 0.4 |
| **Total*** | **86.7** |

* - Not taking into account regional budgets and extra-budgetary funds .

**Structure of state financing from the budgets of all levels in 2013,** in bn RUB.




- Contribution to charter capital **59.4**
- Compensation of revenue losses from rendering suburban traffic infrastructure services **25.0**
- Compensation of costs related to elimination of consequences of a large-scale flood in the Far Eastern Federal District **1.5**
- Other subsidies **1.2**

# Payment of taxes and contributions

**Total amount of accrued taxes and contributions**

RUB 239.6 bn

**The amount of taxes and contributions paid**

RUB 237.2 bn

The total amount of taxes and contributions payable for 2013 was RUB 239.6 billion, or 95.5% as compared to 2012, including:

- To the Federal Budget – RUB 28.0 billion, or 97.5% as compared to 2012;
- To regional and local budgets – RUB 90.3 billion, or 81.9% as compared to 2012;
- To extra-budgetary funds – RUB 121.3 billion, or 108.5% as compared to 2012.

**The amounts of accrued tax payments with regard to taxes and contributions of Russian Railways,** RUB bn

| Name | 2012 | 2013 | +/- | % |
|---|---|---|---|---|
| **Total for taxes and dues** | **250.8** | **239.6** | **-11.2** | **95.5** |
| **Federal budget** | **28.7** | **28.0** | **-0.7** | **97.5** |
| VAT | 23.93 | 27.03 | +3.10 | 112.9 |
| Profits tax | 4.61 | 0.80 | -3.81 | 17.5 |
| Other taxes to the federal budget | 0.14 | 0.14 | -0.00 | 100 |
| **Regional and local budgets** | **110.4** | **90.3** | **-20.1** | **81.9** |
| Profits tax | 36.39 | 5.60 | -30.79 | 15.4 |
| Tax on revenues of physical persons | 51.50 | 54.32 | +2.82 | 105.5 |
| Property tax | 20.36 | 28.42 | +8.06 | 139.6 |
| Land tax | 1.75 | 1.66 | -0.09 | 94.7 |
| Transport tax | 0.18 | 0.19 | +0.01 | 104.9 |
| Mineral extraction tax | 0.009 | 0.009 | 0.00 | 100 |
| Water tax | 0.03 | 0.03 | 0.00 | 100 |
| Other taxes to regional and local budgets | 0.15 | 0.13 | -0.02 | 84.1 |
| **Extra-budgetary funds** | **111.8** | **121.3** | **+9.5** | **108.5** |
| Pension fund | 82.26 | 89.94 | +7.68 | 109.3 |
| Social insurance fund | 10.06 | 10.68 | +0.62 | 106.2 |
| Medical insurance fund | 17.76 | 18.87 | +1.11 | 106.3 |
| Insurance fund for occupational accidents | 1.68 | 1.76 | +0.08 | 104.6 |

**Share of Russian Railways tax proceeds to the Russian Federation**

# 1.1%

In 2013, RUB 237.2 billion was paid in current taxes and contributions, including:

- To the federal budget – RUB 29.1 billion.;
- To the budgets of constituent entities of the Russian Federation and municipal entities – RUB 94.8 billion;
- To extra-budgetary funds – RUB 113.3 billion.

The level of taxes and contributions paid in 2013 was less than that paid in 2012 by RUB 19.1 billion, or by 7.5%.

The amount of taxes paid to the federal budget in 2013 was RUB 1.8 billion. or 5.9%, less than in 2012. Tax payments to regional and local budgets were reduced by RUB 27.3 billion, or by 22.4%; while those paid to extra-budgetary funds increased by RUB 10 billion, or by 9.7%.

The share of tax proceeds of Russian Railways to the Russian Federation budget was 1.1% of the total amount of proceeds.

The value of tax load in 2013 was equal to 14.4%, which is below the level of 2012 by 1.1%.

**The structure of tax payments by the type of taxes and dues,** RUB bn

| Name | 2012 | 2013 | +/- | % |
|---|---|---|---|---|
| Total for taxes and dues | 256.3 | 237.2 | -19.1 | 92.5 |
| including: | | | | |
| **Federal budget** | **30.9** | **29.1** | **-1.8** | **94.1** |
| of these: | | | | |
| Value added tax | 26.8 | 28.5 | +1.7 | 106.3 |
| Profits tax | 4.0 | 0.5 | -3.5 | 12.5 |
| **Regional and local budgets** | **122.1** | **94.8** | **-27.3** | **77.6** |
| of these: | | | | |
| Profits tax | 48.1 | 11.4 | -36.7 | 23.7 |
| Tax on the revenues of physical persons | 51.8 | 53.9 | +2.1 | 104.0 |
| Property tax | 20.1 | 27.4 | +7.3 | 136.3 |
| Land tax | 1.8 | 1.7 | -0.1 | 94.4 |
| **Extra-budgetary funds** | **103.3** | **113.3** | **+10.0** | **109.7** |
| including: | | | | |
| Insurance contributions | 101.7 | 111.7 | +10.0 | 109.8 |
| Insurance fund for occupational accidents | 1.6 | 1.6 | 0.0 | 100 |

## Insurance contributions

The total amount of accrued insurance contributions to extra-budgetary funds for 2013 was RUB 121.3 billion, which is RUB 9.5 billion, or 8.5%, more than in 2012.

In 2013, insurance contributions rates for those paying into physical entities were: Pension Fund of the Russian Federation (PFRF) – 22%, Social Insurance Fund (SIF) – 2.9%, Federal Compulsory Medical Insurance Fund (FCMIF) – 5.1%.

Under Federal Law dd 03.12.2012 No 243-NL as of January 1, 2013, new additional insurance contribution rates to the Pension Fund of the Russian Federation were introduced with regard to individual categories of Russian Railways personnel.

In particular, for persons engaged in activities associated with harmful labour conditions, the additional insurance contribution rate for financing the insurance share of labour pension in 2013 was 4%.

The additional insurance contributions rate for the staff of locomotive brigades and workers of individual categories that are directly involved in the organisation of transportation and the maintenance of transport safaty on railway transport in 2013 was 2%.

As a result of these additional rates for insurance contributions to finance the insurance portion of the Russian Railways labour pension, additional insurance payments in the amount of RUB 2.9. billion were made.

The effective rate of insurance contributions for 2012 was 22.3%, and the effective rate of insurance contributions in 2013 was 23.0%.

In accordance with the Resolution of the Russian Federation Government dd 10.12.2012 No 1276 as of January 1, 2013, the maximum basis for the accrual of insurance contributions with regard to each physical entity taking into consideration indexing was RUB 568,000 annually.

The amount of expenses saved owing to the use of regression (of the revenues that exceeds RUB 568 thousand, the contribution is paid in the size of 10%) was RUB 11 billion.

# Charter capital and dividends

## Charter capital

The Russian Federation is the founder and the sole shareholder of Russian Railways. On behalf of the Russian Federation, the Government of the Russian Federation exercises the powers of shareholder.

The charter capital of Russian Railways was established by the founder by way of depositing the property and asset complexes of federal railway transport organisations.

As of the end of 2013, the charter capital of Russian Railways was RUB 1,919.5 billion and was divided into 1,919,454,568 registered ordinary shares in book-entry form with the nominal value of RUB 1,000 each.

**Charter capital of RUSSIAN RAILWAYS**

RUB 1,919.5 bn

**Increase of Russian Railways charter capital in 2013**

RUB 59.5 bn

## Report of the distribution of net profit obtained by the results of 2012

**According to the results of 2012, Russian Railways obtained net profit in the amount of**

RUB 14.1 bn

According to the results of 2012, Russian Railways obtained net profit in the amount of RUB 14.1 billion.

In accordance with point 42, Section 6 of Russian Railways's Article of Association, the reserve fund will be 5% of reporting period net profit (RUB 705.5 million).

**Distribution of Russian Railways net profit for 2012,** RUB mln.

| Name of indicator | Amount | % |
|---|---|---|
| Reporting period net profit | 14,110 | 100 |
| **Total profit assignment, including:** | **705.5** | **5** |
| Reserve Fund | 705.5 | 5 |
| Payment of dividends on outstanding shares | 0 | 0 |
| Accumulation and use of profit, including for financing investment projects and payment of remuneration to Russian Railways Board of Directors | 13,404.5 | 95 |

## Estimation of the Company's net profit distribution based on the results of 2013

**Russian Railways net profit**

RUB 740 mln

According to the results of 2013, Russian Railways secured net profit in the amount of RUB 740 million.

In accordance with point 42, Section 6 of Russian Railways's Article of Association, the reserve fund will be 5% of reporting period net profit (RUB 37 million.).

**Forecast of Russian Railways net profit distribution for 2013,** RUB mln.

| Name of indicator | Amount | % |
|---|---|---|
| Reporting period net profit | 740 | 100 |
| **Total profit assignment, including** | **222** | **30** |
| Reserve fund | 37 | 5 |
| Payment of dividends on outstanding shares | 185 | 25 |
| Accumulation and use of profit, including for financing investment projects and payment of remuneration to Russian Railways Board of Directors and The Audit Committe | 518 | 70 |

## Dividends

Russian Railways dividend policy is based on the balance of the Company and its shareholders' interests when determining the amount of dividend payments, and namely for:

- Increasing the Company's investment attractiveness;
- Strict compliance with shareholders' rights specified by the applicable legislation of the Russian Federation.

In accordance with the recommendations of Federal Property Management Agency of the Russian Federation, based on the results of 2013, it is planned to allocate RUB 185 million (25% of 2013 net profit) for the payment of dividends on Russian Railways ordinary shares.

**Dynamics of attributed dividends for the period 2009-2012,** RUB bn

| Indicator | 2009 | 2010 | 2011 | 2012 | **2013** |
|---|---|---|---|---|---|
| Net profit | 14.4 | 78.5 | 16.8 | 14.1 | **0.7** |
| Reserve fund | 0.7 | 3.9 | 0.8 | 0.7 | **0.03** |
| Attributed dividends | 3.6 | 4.0 | 4.2 | 0.0 | **0.185** |
| Attributed dividends, % of net profit | 25.0% | 5.1% | 25.0% | 0% | **25 %** |



# Debt policy, credit ratings and relations with investors

# Achieving global recognition

The debut placement of RZD's Eurobond denominated in Swiss francs, executed by the Company in 2013, was recognised as the "Most successful offering in Swiss francs in 2013" by the financial magazines EuroWeek and EMEA Finance.

Following the respective government decisions, in the middle of 2013 Russian Railways successfully placed the first 30-year tranche of infrastructure bonds with CPI-linked coupon with the pension resources of the Pension Fund of the Russian Federation (managed by Vnesheconombank) being invested.

**RUB 150 bn**

is the total amount of the infrastructure bonds placements in 2013.

# Debt Policy

The Company carries out a balanced approach to credit portfolio management and debt capital raising, ensuring the required flexibility of current liquidity management that takes specific business requirements into account.

**THE COMPANY RAISES DEBT CAPITAL TAKING INTO ACCOUNT THE FOLLOWING TARGET PARAMETERS:**

| 2.5x | 40 % | 20 % to 80 % |
|---|---|---|
| The net debt to EBITDA ratio is not more than 2.5x in the long term | The proportion of indebtedness in foreign currency in the debt portfolio is not more than 40% | The ratio of short-term to long-term indebtedness is in the range of 20% to 80% |
| The net debt to EBITDA ratio is one of the key indicators of the stability of company debt | The share of debt in foreign currency shows the structure of revenue and costs of Russian Railways | This ratio shows the long-term character of investment projects implemented by the Company |

## The following results have been achieved based on the performance in 2013

**The net debt to EBITDA ratio at year-end 2013 was**

2.3

**The proportion of indebtedness in foreign currency at year-end 2013 was**

34%

**The short-term indebtedness at year-end 2013 was**

7%

**The total value of the loan portfolio at year-end 2013 was**

RUB 606 bn

# Russian Railways Important Transactions on Capital Markets

The scale of borrowings of Russian Railways usually depends on the dynamics of the macroeconomic situation in Russia and the state of the world economy in conditions of increased integration.

## International markets

In the first half of 2013 Russian Railways twice entered the international capital markets and made issuances of Eurobonds in Swiss francs and euros.

The placement in Swiss francs was executed in two tranches and, while all previous issues of Russian Railways bonds since 2010 were listed on the Irish Stock Exchange, this issue was listed on the Swiss Stock Exchange because this Exchange is a niche market that works separately from classic international trading floors.

The final parameters for both tranches are as follows:

- 525 mln francs and a coupon rate of 2.177% per year, with a maturity period of 5 years;
- 150 mln francs and a coupon rate is 2.730% per year, with a maturity period of 8 years.

Both tranches were placed at the lower end of the price range and made the Company the outstanding Russian corporate borrower in the market. Based on year-end results, the transaction won an award in the category of "Most Successful Offering in Swiss Francs in 2013" from two financial magazines: EuroWeek and EMEA Finance.

In April 2013, Russian Railways again entered international capital markets with a placement of Eurobonds denominated in euros for 8 years. The selection of both currency and maturity period was based on the main parameters and the calculated payback period of the Company's investment in 75% of GEFCO's shares, purchased by Russian Railways at the end of 2012. As a result of the placement, Russian Railways became the third borrower in the CIS that issued Eurobonds in euros, with the largest placement volume since 2007.

The incredibly high demand from investors increased the initial offering by more than 4 times and the bid book was closed after only a few hours following the official announcement of the transaction. The issue size was increased from 800 million euro to 1 billion euro while the coupon was set at 3.375%, 0.3% less than the initial price guidance. Central banks and sovereign foreign funds showed interest in this issue, thus confirming the high credit rating of Russian Railways.


The Most Successful Offering in Swiss Francs in 2013


## The Russian Market

In 2013, Russian Railways entered the internal market twice, with an offering of corporate bonds in roubles at a fixed rate totalling RUB 35 billion.

In April, Russian Railways placed corporate bonds totalling RUB 20 billion, with a maturity of 15 years and a put option of 7 years. During the placement, because of the high demand for the bonds from investors, the coupon rate was established below the initially announced range of 8.25-8.50% per year and was set at 8.20% per year. The transaction was the most successful internal market placement in 2013.

In November Russian Railways again entered the internal market with a bond offering in the amount of RUB 15 billion and a maturity of 3 years. This emission was placed in full at a rate of 7.7% per year.

In the second half of the year, the Company placed 6 issues of extra long-term infrastructure bonds totalling RUB 150 billion, with a maturity of 15 to 30 years and with the coupon linked to the annual inflation ratio.

Infrastructure bonds are a fundamentally new financial product in the internal market, which is designed for long-term investors interested in the diversification of their portfolio and aimed at reliable securities that guarantee the safety of their funds in case of inflation. Such investors are mainly pension funds.

The main investor in infrastructure bonds placed in 2013 was Vneshekonombank, which is the authorised manager of the Russian Pension Fund.

The proceeds from infrastructure bonds placement are used in investment projects with comparable payback periods, including the partial financing of reconstruction projects for the Baikalo-Amurskaya and Trans-Siberian lines. Thus, infrastructure bonds became the first target tool of private investments in railway infrastructure development in the country.

**The total amount raised in the form of infrastructure bonds**

**RUB 150 bn**

### Annual Results

Overall, during the year Russian Railways borrowed the total amount of RUB 293.8 billion, RUB 150 billion of which were in the form of infrastructure bonds, RUB 63.2 billion were in the form of Eurobonds (at the euro exchange rate as of the date of placement), RUB 35.6 billion were corporate bonds placed on the Russian market, including the secondary market placement of bonds bought back earlier under the put option, and RUB 45 billion were bilateral bank loans (including RUB 35 billion of short-term loans repaid within the same year).

# The Loan Portfolio Structure

For a number of years, Russian Railways has been optimising the structure of its debt portfolio and reducing the cost of borrowing.

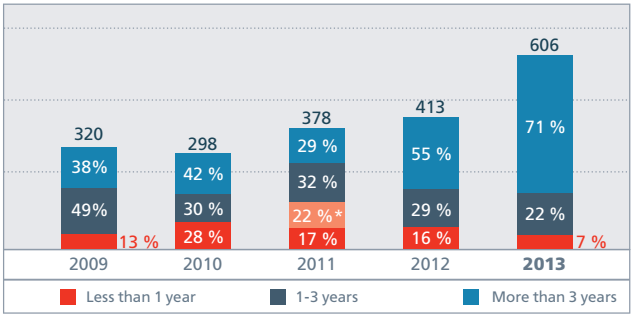
In the reporting year Russian Railways has repaid borrowings in the amount of 118 billion RUB, including short-term loans raised during the year. At the year-end, the share of the long-term part of the debt portfolio (where the maturity is over 3 years) was 71%, which is the highest it has been since 2008. The share of debt with a maturity of less than one year is only 7%, which is less than half the figure of the previous year.

The intention is to maintain the loan repayment amount at a comfortable level – from 50 to 80 billion RUB per year. In the reporting year, Russian Railways has repaid borrowings in the amount of 118 billion RUB, including short-term loans raised during the year. The debt portfolio size (the debt accounting for the foreign exchange gains and losses but without accrued interest) by the end of 2013 was higher than in 2012 by RUB 193.3 billion. This increase is mainly attributable to the placement of infrastructure bonds in the amount of RUB 150 billion. However, RUB 50 billion of this amount was raised in the form of advance financing for the 2014 investment programme. Thanks to the unique maturity of infrastructure bonds, varying from 15 to 30 years, the average maturity period of the portfolio in 2013 nearly doubled and exceeded 9 years.

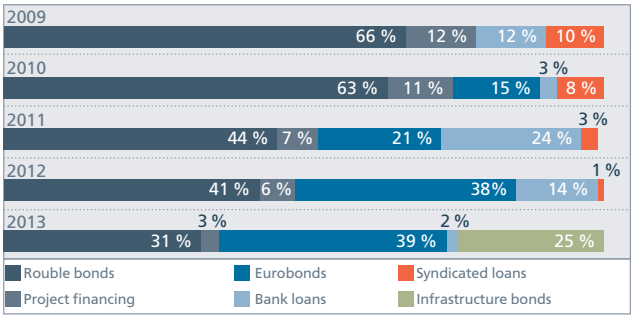
For a number of years, Russian Railways has been conducting preliminary work in order to optimise its loan portfolio structure and reduce borrowing costs. Thus, at the end of 2008, more than 55% of debt portfolio consisted of short-term borrowings with a maturity period of less than 1 year (taken in difficult macroeconomic conditions). These borrowings were gradually replaced by long-term and cheaper sources such as corporate bonds and Eurobonds. As a result of such refinancing, at the end of 2013 the share of short-term borrowings was reduced to 7% and the average payback time was more than 9 years, which was the best terms among Russian issuers, including the Ministry of Finance of Russia.

In 2013 Russian Railways continued to diversify its borrowing sources, with a focus on capital markets. The total share of the Company's bonds placed on

**Dynamics of the debt portfolio structure at year-end,** bn RUB




**Dynamics of the debt portfolio structure by instrument types,** bn RUB




* Bridge financing (83 billion RUB) done as a part of the liquidity management programme influenced the metrics in 2011. At the same time, the amount of money and deposits on balance achieved 184 billion RUB as of December 31, 2011.

internal and international markets was more than 90% of the total portfolio amount by the end of 2013. Approximtely 70% of Russian Railways borrowing is represented by the public instruments – bonds and Eurobonds, and 25% is infrastructure bonds, which are considered to be an element of state support.
The amount of bank loans (including project financing and syndicated loans) in the Company portfolio is about 5%. This instrument is used by the company mainly for current liquidity management.

The share of rouble borrowings is stable at a level of 60-70% as the rouble is the main currency of Company revenue and it corresponds to the target debt structure established by the Russian Railways Debt Policy.

**Reduction of the debt portfolio size with a maturity of less than one year is**

**7%**

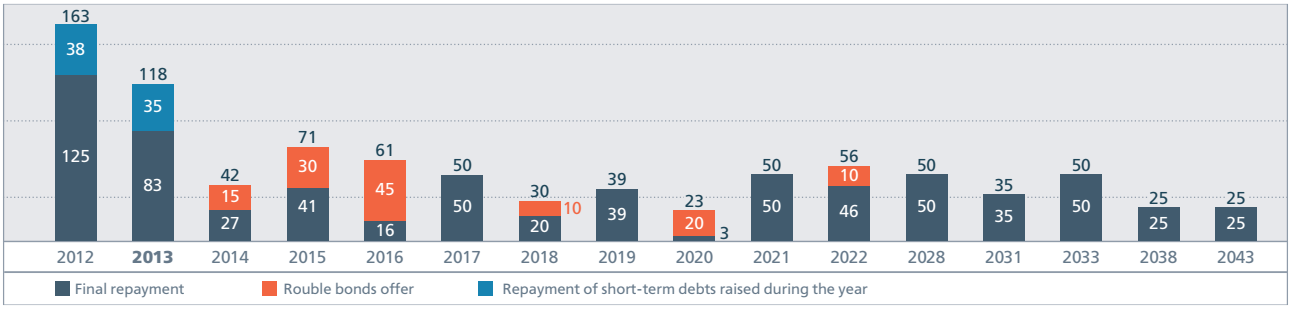
versus 16% at the beginning of the year

**The average maturity of the debt portfolio has increased to**

**9 years**

versus 5 years at the beginning of the year

**Debt repayment schedule,** bn RUB
As of the year-end 2013; future debt repayment in foreign currency is calculated at exchange rates at year-end 2013



# Leasing

In 2013 Russian Railways leased passenger cars and electric multiple rolling stock, and track equipment purchased from Russian producers of railway rolling stock and equipment.

As of January 1, 2013, the scope of Russian Railways lease liabilities was RUB 9.6 billion with VAT. Settlements under lease agreements are completed in the reporting period for passenger cars, electric multiple rolling-stock and track equipment signed in 2006-2008. The property was purchased by Russian Railways.

RUB 6.5 billion was spent on lease payments in 2013, including VAT.

As of December 31, 2013, Russian Railways had leased the track equipment supplied under the lease agreement with JSC VEB-Leasing to deliver in 2012-2016 the high-end track equipment produced by JSC Remputmash Kaluga plant for complex infrastructure needs. In 2013 the amount of leased track equipment was RUB 18.8 billion with VAT.

As of December 31, 2013, the size of Russian Railways leasing liabilities was RUB 27.3 billion.

**Lease payments in 2013 totalled**

**RUB 6.5 bn**

**Leased track equipment was received at a value of**

**RUB 18.8 bn**

**The size of Russian Railways leasing liabilities was**

**RUB 27.3 bn**

# Relationships with Rating Agencies, Investors and Analysts

In December 2013, Russian Railways conducted a number of traditional annual meetings with analysts from the Standard & Poor's, Moody's and Fitch rating agencies, at which analysts were presented with the expected results of the Group activity for 2013 and plans for 2014-2016.

Additionally, in order to fully address all agency questions, the Company organised additional triangular meetings with the participation of the Ministry of Economic Development.

Further to these meetings, the agencies prepared reports which confirmed the BBB/Baa1/BBB rating of Russian Railways and marked the most important achievements of the Company in financial stability management in 2013, including the following:

Implementation of the long-term tariff regulation;

- Conservative financial policy of the Company and considerable increase of the average maturity of the debt portfolio;
- Large-scale programme of cost cutting in 2013-2014 implemented in response to a deteriorating market environment;
- Optimal debt repayment schedule ensuring low refinancing risks.

The analysts noted the strategic importance of the Company for the Russian economy and emphasised the close link between the operating and financial results of the Group and the state of the Russian economy.

**Sovereign credit ratings of the Russian Federation and Russian Railways at year-end 2013**

| Issuer | Agency | Rating | Outlook |
|---|---|---|---|
| Russian Federation | Standard &Poor's | BBB | Stable |
| | Moody's | Baa1 | Stable |
| | Fitch | BBB | Stable |
| Russian Railways | Standard & Poor's | BBB | Stable |
| | Moody's | Baa1 | Stable |
| | Fitch | BBB | Stable |


## Company representatives were among the participants and organisers of the following investment meetings and conferences:

### January-April

- Euromoney conference (Vienna)
- Bonds & Loans Russia Conference (Moscow)
- Road Show devoted to Eurobond IPOs in Swiss francs (Zurich) and euro (Frankfurt, Munich, Vienna, London)

### May-September

- VTB Capital Investment Forum "Russia Calling" (London)
- International Regional Rail Business Forum (Strategic Partnership 1520)
- St. Petersburg International Economic Forum (St. Petersburg)

### October-December

- Round tables of Fitch, Standard & Poor's, Moody's (Moscow)
- VTB Capital Investment Forum "Russia Calling" (Moscow)
- London Stock Exchange Conference (London)
- XI Russian Bond Congress (St. Petersburg)
- XI International Conference "The Transport Services Market: Cooperation and Partnership" (Moscow)
- Investors' Day (London)
- Investors' Day (Moscow)

## Investors' Days

Key events organised by Russian Railways in 2013 were Investors' Days held in December in London and Moscow. These events included a series of meetings with representatives of international and Russian innovation circles during which the Company submitted the most up-to-date information about its activities including its financial reporting and operating results.

Based on the experience of such events conducted by the Company since 2010, this form of interaction with investors is the most efficient and helps to maintain the demand for Russian Railways debt securities.



# Risk Management

# Smart control of the Situation

The risk management system created by the Company supports effective decision-making. It creates an opportunity for a more flexible adaptation of Russian Railways in a changing transport and commodity market environment and allows for internal structural transformation within the Company.

# Main Challenges

## Main potential challenges for Russian Railways

### TRANSPORTATION LOAD

Slower growth or reduction of transportation load inside Russia because of slower industrial production in the country

### TARIFFS

Tariff limitations, insufficient compensations from all budgets, uncertainty of the tariff policy of the country regarding railway transport

### INFRASTRUCTURE

Reduction of the throughput and processing capacity of the infrastructure due to increase of light running of private cars in the main directions of the railway network

### GOVERNMENT SUPPORT

Reduction of government budget expenses to support development of the railway transport leading to reduction of the throughput capacity of the infrastructure in conditions of big wear and tear and numerous bottlenecks

### COMPETITION

Stronger competition in traditional and developing, potentially profitable segments of the internal transport market. Stronger competition in the automobile, pipeline and water transportation services.

### TECHNOLOGIES

Violation of technological links as a result of sale of the blocking stake of subsidiaries and dependent companies.

# Risk Management System

## Tasks and Goals of the Russian Railways Corporate Risk Management System

To achieve the prescribed goals of the Russian Railways Group development strategy un to 2030, the Company uses existing management tools and also creates new and efficient management tools. One such tool is the Corporate Risk Management System of the Group.

In 2012, the president of Russian Railways approved a functional risk management strategy for the Group Company. The establishment of the corporate Risk Management System of Russian Railways was driven by practical objectives – to secure financial and economic benefits and the need of Russian Railways Group to use proactive management tools. The perception of the need in assessment and risk management on its own means a high level of maturity in the current and strategic decision-making processes.

### Goals of the Russian Railways Corporate Risk Management System

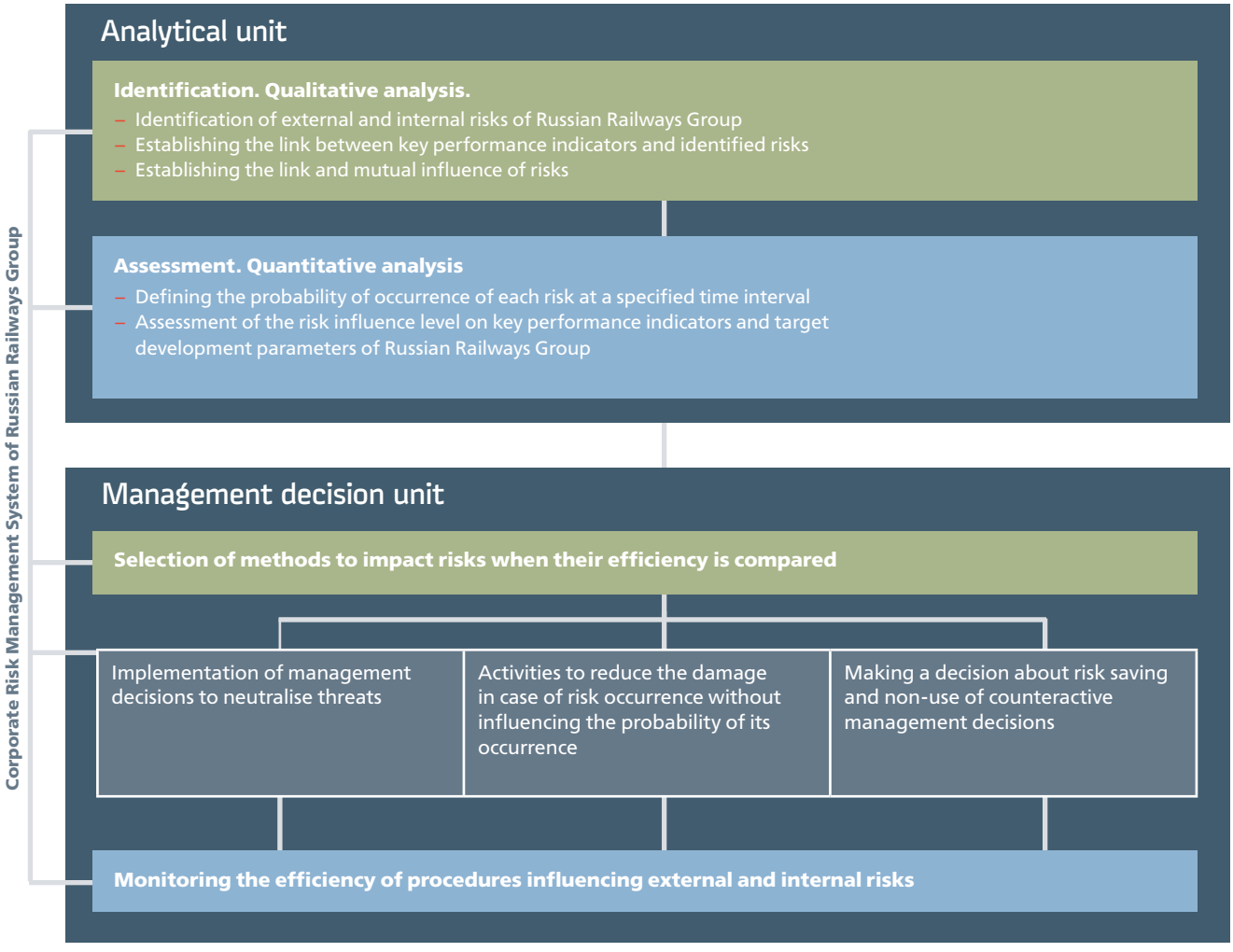
- Optimisation of strategic management results for Russian Railways Group in conditions of external and internal risks
- Achievement of target benchmarks envisaged by the Russian Railways Group Development Strategy
- Ensuring the system approach for long-term strategic decision-making

### The Main Tasks Resolved by the Corporate Risk Management System

- Identification of potential risk areas and assessment of possible risk prevention or minimisation
- Prevention of risk occurrence on the basis of systematic forecasting and assessment
- Creation of management tools and mechanisms ensuring efficient risk management
- Development and assessment of activities to prevent risky situations and minimise their impact in case of occurrence
- Defining resources needed to remove or minimise identified risks and their optimal distribution in accordance with the established procedures
- Maximising the additional profit received as a result of risk management based on prudent management of risky situations.

## Corporate Risk Management System

The Corporate Risk Management System and the analytical base formed within it helps to prepare justified managerial solutions and the possibility of more flexible adaptation of Russian Railways Group in a quickly changing environment on the transport and commodity markets, on one hand, and internal structural transformations in Russian Railways Group, on the other hand. Also, risk management will help maintain the trust of private investors and largest international investors to implement joint projects and will help to ensure the high credit rating of Russian Railways.



## External Risks of Russian Railways

| Risk category | Risks |
|---|---|
| **Macroeconomic risks** | ■ Reduction of originating traffic scope<br>■ Risk of unplanned fluctuations of transportation load exceeding the traffic carrying capacity of certain railroad sections<br>■ Deterioration of structure of industrial and agricultural production<br>■ Reduction of personal income<br>■ Price increase for goods and services consumed by Russian Railways Group<br>■ Restriction of Russian Railways tariffs<br>■ Weakening of investment and business activity |
| **Market risks** | ■ Reduction of Russian Railways Group share in highly profitable segments of the transport market<br>■ Increase of intrasectoral and intersectorial competition<br>■ Faster growth of alternative transport types including those that develop due to faster implementation of innovations<br>■ Growth of the share of other market participants due to Russian Railways Group<br>■ Technical and equipment lag of related transport types<br>■ Creation and starting to use the design capacity of international transport corridors bypassing the Russian territory<br>■ Deficit of production capacity of product suppliers for Russian Railways Group |
| **Financial risks** | ■ Risk of changing values of market parameters (interest rates, currency rates, security or goods value) and other parameters of financial instruments which are subjects of transactions concluded by Russian Railways Group<br>■ Credit risks<br>■ Risk of non-fulfillment or incomplete fulfillment of obligations of Russian Railways Group counterparty<br>■ Risk of unregulated price growth in conditions of strict government regulation of tariffs for main Russian Railways Group services |
| **Human resource risk** | ■ Reduction of human resources inflow starting from 2007 due to demographic crisis at the beginning of 1990s<br>■ Reduction of human resource quality<br>■ More disproportion in structure of human resources available in the market<br>■ Less able-bodied population in remote regions due to urbanisation development in the society<br>■ Risk of less attractiveness of professions in railway transport area<br>■ Lower education level at colleges and technical vocational schools |
| **Reputation risks** | ■ Weaker positions of Russian Railways in international agency's ratings<br>■ Weaker business reputation of Russian Railways due to not enough level of corporate culture of its employees<br>■ Less information transparency of Russian Railways Group |
| **Political risks** | ■ Continuing strict government regulation of tariffs<br>■ Strengthening environmental requirements<br>■ Law enforcement (transport, tax law, etc.)<br>■ Deterioration of state-to-state relations<br>■ Local military actions |

## External Risks of Russian Railways

| Risk category | Risks |
|---|---|
| Reform risks | ■ Price growth in subsidiaries and affiliated companies following sale of their shares to investors<br>■ Conversion and reprofiling of subsidiaries and affiliated companies' activity<br>■ Unfriendly merger of subsidiaries and affiliated companies |
| Technogenic and environment risks | ■ Accidents at industrial facilities related to support of Russian Railways Group activity<br>■ Technogenic accidents at related transportation modes (first of all, in sea harbour waters and main auto routes)<br>■ Fires, natural disasters in the areas of the Group activity |
| Scientific, research and technology risks | ■ Application of new energy carriers and energy saving regimes at alternative modes of transport<br>■ Higher lifting capability of cars and ships. |

## Internal Risks of Russian Railways

| Risk category | Risks |
|---|---|
| Production and technology risks | ■ Infrastructure development gap with cargo and passenger traffic flow<br>■ Failures in cargo delivery logistics<br>■ Violation of train makeup schedules and train times<br>■ Violation of transport safaty<br>■ Less efficiency in usage of rolling stock<br>■ Unreliability of forecasting data in terms of cargo traffic volume, directions and structure<br>■ Noncompliance of transport management technology and processes with the quality of transport product<br>■ Risk of quality and service assortment noncompliance with new requirements of clients<br>■ Risk of IT system quality noncompliance with growing demand in terms of transportation scope and quality |
| Technical and resource risks | ■ Noncompliance of Russian Railways Group fleet of cars with the structure of cargos<br>■ High level of consumption of fixed capital<br>■ Deficit of loading and unloading equipment corresponding to parameters of new transportation means<br>■ Deficit of maintenance and repair facilities<br>■ Risk of incorrect (unjustified) selection of product and service suppliers for Russian Railways Group<br>■ Violation of deadlines and conditions of material resources delivery<br>■ Receipt and use of unreliable information from shippers regarding transportation problems and structure<br>■ Risk of using low quality and incomplete information about Russian Railways Group service customers<br>■ Risk of unauthorised use of Russian Railways Group confidential information and intellectual properly |

## Internal Risks of Russian Railways

| Risk category | Risks |
|---|---|
| **Investment risks** | ■ Incorrect substantiation and selection of new investment projects<br>■ Lower profitability and unprovided planned profitability of invested funds<br>■ Lack of clear guarantees of transportation scope from cargo owners during infrastructure investment projects |
| **Structure transformation risks** | ■ Threat of disturbance of Russian Railways Group technology processes and, consequently, considerable financial losses<br>■ Price increase for Russian Railways Group goods and services provided by detached subsidiaries and affiliated companies<br>■ Threat to lose financial stability and bankruptcy risk for subsidiaries and affiliated companies<br>■ Less profitability of Russian Railways Group due to non-recompensable withdrawal of highly profitable subsidiaries and affiliated companies<br>■ Reduction of asset value and capitalisation of Russian Railways Group in case of inefficient activity of subsidiaries and affiliated companies<br>■ Monopolisation of certain market segments<br>■ Risk of inefficient adaptation of dedicated subsidiary or affiliated company to market conditions |
| **Financial risks** | ■ Liquidity risk<br>■ Property risk<br>■ Operations risk<br>■ Accounting risk<br>■ Budget risk |
| **Human resource risks** | ■ Lack of compliance of personnel at a professional level with Russian Railways Group needs<br>■ Risk of further growth in number of preretirement age employees<br>■ Highly qualified staff outflow due to lack of motivation and noncompetitive salary of RZD Group employees versus other industries<br>■ Violation of occupational safety rules due to employee fault<br>■ Violation of safe railway operation due to employee fault |
| **Management risks** | ■ Less controllability of Russian Railways Group structures<br>■ Risk of inefficient selection, placement and management of human resources<br>■ Violation of labour discipline<br>■ Making unreasoned management decisions<br>■ Failure to fulfill made decisions within the established deadlines<br>■ Failure to achieve target economic and production results of Russian Railways Group activity<br>■ Lack of information to support management decision-making<br>■ Problems and failures in management information systems<br>■ Failure to achieve target parameters of projects (budget deficit, noncompliance with deadlines, failure to achieve project goals) |

## Risk Management and its Mitigation is Carried Out According to Several Scenarios

### RISK PREVENTION

Implementation of management decisions prevent risk occurrence (active risk management). This activity envisages prevention of risk occurrence through efficiently neutralising its sources, mainly for Russian Railways Group internal risks

### MITIGATION OF DAMAGE IN CASE OF RISK OCCURRENCE

Activities to reduce damage in case of risk occurrence without influencing its probability. This activity envisages development of certain measures to mitigate damage in case of unfavourable events and is aimed mainly at Russian Railways Group external risks

### KEEPING THE RISK

Making a decision to keep a risk and not to use counter-control measures. This activity is justified if costs to remove the risk are much higher than the damage caused by it.

**The portfolio of potential risks for Russian Railways Group** is identified and evaluated within the analytical unit of the Russian Railways Group corporate management system. The evaluation and consideration of any impact of identified risks on Russian Railways Group at this stage is the basis for working out and implement strategic activities to improve the work of Russian Railways Group.

**Risk management and mitigation** in order to achieve the Group strategic targets and mitigate their influence in the overall efficiency of Russian Railways Group activity is made within the management decision unit. Its main tasks are to work out activities to reduce risk influence on the efficiency of the Group activity and the achievement of Russian Railways strategic targets.

The task of active risk management is to minimise possible damage and the probability of risk occurrence due to systematic influence on reasons and the consequences of risk occurrence when passive risk management usually suggests waiving of risky projects or deliberate keeping of risks if its probability is low or its influence on Russian Railways Group activity is low.

# Financial Risk Management

The Russian Railways Financial Risk Management Policy is approved by Russian Railways Group. The Risk Management Committee is working and financial risk management procedures and guidelines have been implemented.

The Russian Railways Financial Risk Management Policy is approved by Russian Railways Group. The Risk Management Committee is working and financial risk management procedures and guidelines have been implemented.

The Company Financial Risk Management Policy defines the following:

- Company financial risks;
- Financial risk management principles
- Management process:

– identification
– analysis and assessment
– comparing risk scope with risk appetite
– decision-making (selection of risk management strategy)
– risk management including hedging, if necessary
– monitoring of results;
– assessment of efficiency of financial risk management activities (self-diagnostics);

- Management instruments including hedging;
- Understanding the risk appetite to take a decisions about risk management.

The decision-making centre on financial risks is the Risk Management Committee of the Company, headed by the senior Vice President of Economics and Finance.

The Company is focused on management of the following financial risks:

**Financial Consequences of Property Risks**
Property risks are transferred to large Russian insurance companies and reinsured in the largest international insurance companies. The single policy and principles of Russian Railways Group insurance protection are defined by the corporate insurance concept for Russian Railways subsidiaries and affiliated companies. The concept stipulated the united approach to building insurance protection of Group companies;

**Credit Risks**
To manage credit risks, the Company has approved the methodology of calculating credit limits for partner banks, with normative documents regulating activity with bank guarantees. On the basis of this methodology, the Company evaluates financial institutions and calculates the corresponding loan limits that restrict bank operations to place deposits and accept bank guarantees depending on the state of a corresponding financial institution. When working with real sector companies to protect Russian Railways against counterparty default risk (improper or incomplete fulfillment) of its obligations, banking guarantees of intention criticality, performance guarantees are used (including the guarantee period under supply contracts), return of advance guarantees, parental surety. For financial institutes, the emitters of bank guarantees are selected taking into account the credit policy and active credit limits.

**Liquidity Risks**
The operative liquidity management of the Company is assessed on the balance of payments, the payment schedule and the payment position formed based on the information received from subdivisions about planned receipts for the calendar months by days. If necessary, the Company operatively raises money under the best conditions. Operative liquidity management is conducted on the basis of Reuters terminal and other automated electronic systems.

**Market Risks (currency, interest and commodity risks)**
To assess these risks, procedures are used that calculate risk size and compare them with values of established risk appetites.

Assessment of currency risk size and selection of management tool of currency risk is based on the analysis of the open currency position of the Company on the horizon up to 4 years, which is the difference between incoming and outgoing money flows.

**Hedging**
deals are used as a basic tool in the market risk management. In particular, swaps in Swiss francs are made as part of the currency risk management. This approach allows to reduce the currency risk by reducing the open foreign currency position of the Company, a significant proportion of which is part of the operating income denominated in Swiss francs.

# Insurance

The real estate, freight rolling stock, passenger cars fleet, locomotives, electric trains are insured by the Company, which also carries personal insurance for employees, liability insurance for rail infrastructure owners and carrier liability insurance. Liability insurance is provided for directors of the Company and of its 77 subsidiaries and affiliated companies.

**The total amount of the received insurance in 2013 indemnity was over**

**RUB 768 mln**

The company provides timely fulfillment of legislative requirements for all types of mandatory insurance, like mandatory liability insurance for hazard facility owners and others.

In 2013 an open competition was held and a carrier mandatory liability insurance contract was signed in case of damage caused to life, health, property of carry passengers using long-distance and local trains. The Company also held an open competition for mandatory liability insurance in February 2014.

In the reporting year, a tender was held to choose the insurance company for property insurance. Under this contract, over 439 thousand property assets of the Company are insured, including 105 high-risk assets, complex technical facilities with a higher policy limit and special facultative reinsurance at leading foreign reinsurance companies.

In the reporting year, settlement of insurance claims began for such large insurance events as the flood in the Far-East Region and in the polygon of the Yuzhno-Ural railroad in August-September, as well as the explosion at the Volgograd-1 railway station in December.

The total amount of the received insurance indemnity was over RUB 768 million in 2013.

The Company constantly develops and implements regulating documents and procedures to specify the order of insurance protection at Russian Railways Group.

Since 2010, in order to ensure a unified approach to the organisation of insurance protection of subsidiaries, there has been a Single Corporate Concept of insurance protection for Russian Railways subsidiaries and its affiliated companies. This document specifies the common principles of insurance protection organisation for Russian Railways subsidiaries and its affiliated companies, the interaction procedure for Russian Railways subsidiaries and its affiliated companies with insurance market participants, and the insurance protection planning procedure, signing and administration of insurance contracts in accordance with the Russian Federation law and Group company guidelines.

In order to increase the efficiency of insurance events settlement, a set of methodological guidelines was developed for each type of insurance contract, and in 2013 the regulations were developed for subsidiaries interaction to organise insurance protection. The Company subsidiaries organise their process of insurance events settlement in accordance with these regulations.



# Corporate Management

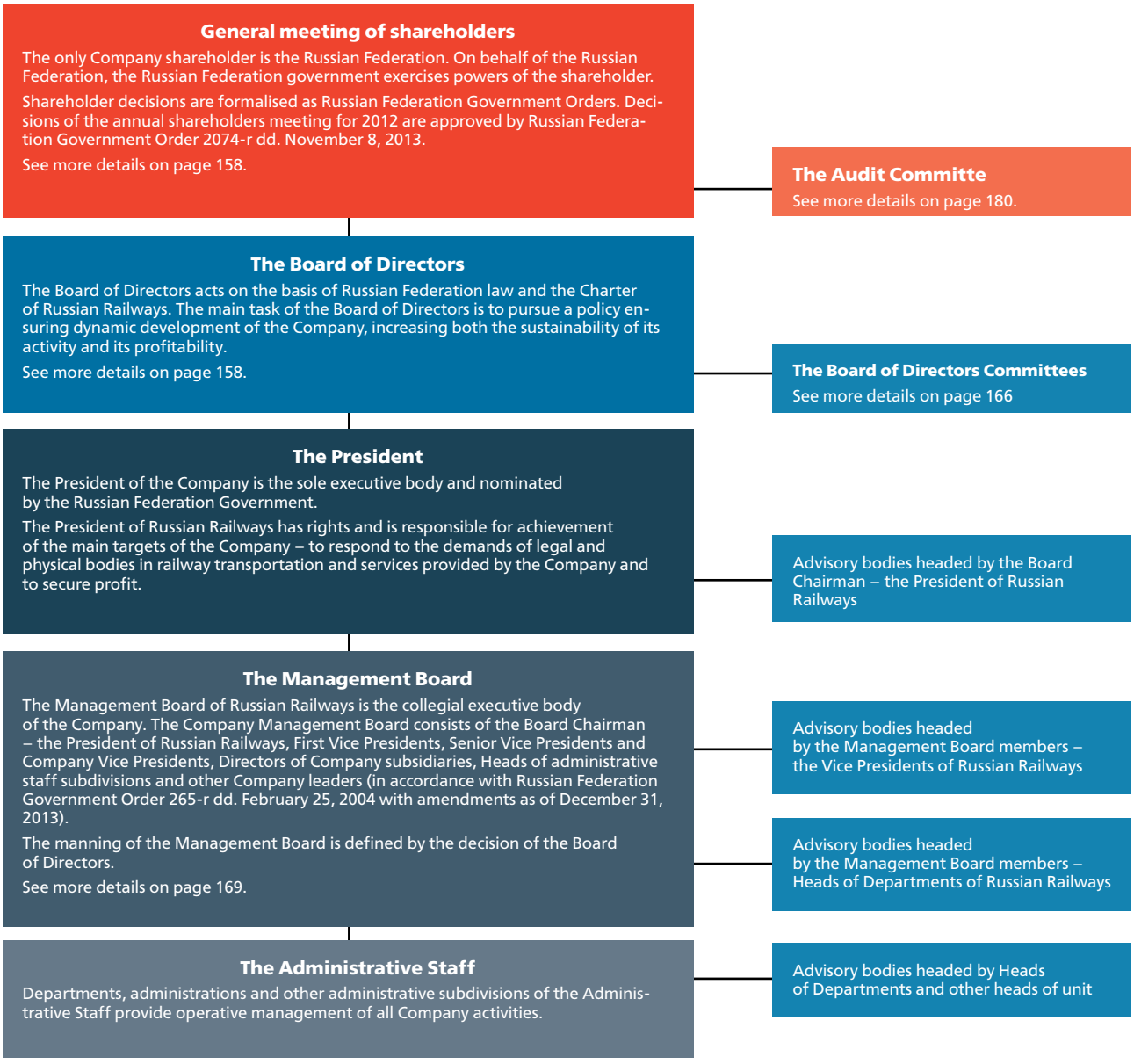

# Teamwork Helps to Accomplish National Objectives

Russian Railways is a company of strategic importance and is wholly owned by the Russian Federation. The corporate strategy of Russian Railways is based on national objectives.

Following the best corporate practices, the company is undertaking structural reforms focused on building a corporate governance system for Russian Railways Group as a whole.

# Corporate Management System

## Russian Railways Management Structure



# Russian Railways Management and Control Bodies

## The General Meeting of Shareholders

In accordance with articles 5 and 7 of the federal Law "On Railway Property and Asset Management", all shares of the Company belong to the Russian Federation. On behalf of the Russian Federation, the Russian Federation government exercises powers.

The superior administration body of Russian Railways is the general meeting of shareholders. In accordance with article 47 of the federal Law "On Joint Stock Companies", decisions at the general meeting of shareholders are taken in writing in the form of orders and resolutions. Decisions of the Annual General Meeting of Russian Railways are formalised as Russian Federation Government Order No 2074-r dd. November 8, 2013.

## Board of Directors

The Board of Directors is the key corporate management body in Russian Railways and is acting on the basis of the Russian Federation law, the Russian Railways Charter approved by Russian Federation Government Order No 585 dd. September 18, 2003, and the Regulations on the Russian Railways Board of Directors approved by Russian Federation Government Order No 265-r dd. February 25, 2004.

The main task of the Board of Directors is to pursue a policy ensuring dynamic development of the Company, increasing the sustainability of its activity and its profitability.

Since 2008 independent directors are elected to the Russian Railways Board of Directors in accordance with international practice. Board members do not own any shares in the Russian Railways authorised capital.

## Board of Directors Members in 2013

In 2013 there were changes to the composition of the Russian Railways Board of Directors; according to the decision of the Annual General Meeting of Russian Railways, the new following members were elected: Artem Davidovich Avetisyan and Igor Arnoldovich Lozhevsky.

The powers of the following Board of Director members were terminated: Nickolay Nickolaevich Kosov and Nickolay Alexandrovich Sobolev.

The active composition of the Russian Railways Board of Directors is elected at the Annual General Meeting of Russian Railways. In 2013 the number was 11 members; with five being independent directors.

| Representatives of the Russian Federation | |
|---|---|
| **Artem Davidovich Avetisyan** | Director of the New Business direction, independent noncommercial organisation "Strategic Initiatives Agency for Promoting New Projects" |
| **Kirill Gennadievich Androsov** | Altera Capital managing partner |
| **Grigory Viktorovich Berezkin** | Chairman of the Board of Directors of ESN Energo limited liability company |
| **Dmitry Georgievich Komissarov** | Chairman of the Board of Directors of Technologicheskaya Kompaniya JSC |
| **Vasiliy Valerievich Sidorov** | Member of the Shareholders Advisory Board of VTB Bank JSC |
| **Vladimir Ivanovich Yakunin** | President of the Russian Railways JSC |
| **Independent Directors** | |
| **Vladimir Anatolievich Gusakov** | Managing Director on Government Relations of Moscow Exchange JSC |
| **Igor Arnoldovich Lozhevsky** | Deputy Chairman of Deutsche Bank AG for Eastern Europe |
| **Hans Hartmut Medorn** | Managing Board Chairman of Berlin Brandenburg airport |
| **Alexander Nickolaevich Ryazanov** | Chairman of the Board of Directors Russian Group Company CJSC |
| **Alexander Nickolaevich Shokhin** | President of the Russian Union of Industrialists and Entrepreneurs |

## Brief background information about Board of Directors members

**Chairman of the Board of Directors, Russian Railways**
**Kirill Gennadievich Androsov**

Born in 1972
1994 – Honors diploma in Economic Engineering, St. Petersburg State Marine Technical University, faculty of engineering and economics.
2000 – Ph.D in Economics, St. Petersburg State University of Economics and Finance
2003-2005 – Chicago Business School, Executive MBA

**Professional Experience:**

- 2005 – Deputy Minister, Ministry of Economic Development and Trade of the Russian Federation
- 2008 – Deputy Head of the RF Government Office
- 2010 – Managing Partner, Altera Capital
- Mr Androsov is also Chairman of the Board of Directors of Aeroflot JSC, and a member of the Board of Directors of First Channel JSC, LSR Group JSC, Ruspetro plc, Russian Machines JSC and Altera Investment Fund.
- 2011 – Member of the Public Council, The Federal Tax Service
- 2012 – Professor, High Economic School. Also a member of the RF Public Chamber and the member of the Public Council of the RF Ministry of Energy
- 2012 – Winner of the National Award "Director of the Year" in the category "Board of Directors Chairman: Contribution to Corporate Management"
- Government awards: the certificate of honour of the RF Government, the Medal of Honour, the Medal of Stolypin P.A., second degree.
- 2011 – Member of the Board of Directors, Russian Railways; since September 2011, Chairman of the Board of Directors, Russian Railways.

**Artem Davidovich Avestisyan**

Born in 1976
1998 – diploma in Assessments and Evaluations, the Financial Academy of the Russian Federation Government, Finance and Loans
2001 – postgraduate studentship, the Financial Academy of the Russian Federation Government

**Professional Experience:**

- 2000-2003 – lecturer at the Financial Academy of the Russian Federation Government, the Department of Assessments and Evaluations
- 1997 – founder of the Independent Expertise and Assessment Center CJSC later transformed to the Consulting Group "NEO Centre" in 2004
- August 2011 – Head of New Business Direction, Strategic Initiatives and Project Agency
- February 2012 – Chairman of the Russian Society "Leaders' Club of Business Initiatives"
- Member of the Board of Directors of Rosagroleasing JSC, member of the Supervisory Board of Rosselkhozbank JSC, member of the Board of Directors of Russian Horsecourse JSC, member of the Supervisory Board of MSP Bank, member of the Board of Directors of RZD.
- Member of the interagency task force to protect rights of entrepreneurs, the Prosecutor-General's Office, the Social Council of the RF Tax Service, the Council for State and Private Partnership, the Military and Industrial Committee of the Russian Federation Government, the Public Council of the RF President Authorised Representative for Protection of Entrepreneur Rights, the Public Council of the Federal Security Service of Russia, the member of the Expert Council of the Russian Federation Government.
- Director of New Business direction of the independent noncommercial organisation Strategic Initiatives and Project Agency, Chairman of the Russian Society "Leaders' Club of Business Initiatives".

**Grigory Viktorovich Berezkin**

Born in 1966
1988 – Lomonosov Moscow State University, Department of Chemistry
1993 – Ph.D. thesis in Petrochemistry

**Professional Experience:**

- 2000-2003 – Cheif Executive Officer of ENS Energo LLC, Kolenergo JSC managing company, Member of the Board of Directors, Kolenergo JSC
- 2004-2007 – Member of the Board of Directors, RAO Unified Energy System of Russia
- 2007-2010 – Member of the Board of Directors, First Cargo Company JSC
- 2008-2011 – Member of the Board of Directors, SG-Trans JSC
- Since 2006 – Chairman of the Board of Directors, ESN LLC
- Member of the Management Board, Chairman of the Electric Power Engineering Committee, Chairman of the Independent Directors Committee, the Russian Union of Industrialists and Entrepreneurs
- Member of the General Council, the all-Russia nonprofit organisation "Business Russia"
- Since 2010 – Member of the Board of Directors, Russian Railways

**Vladimir A. Gusakov**

Born in 1960
1984 – Honors diploma in mathematics, the University of Nations' Friendship. Translator of English and French
2003 – The second higher education, diploma in Finance and Loans, Plekhanov Russian Economics Academy
2008 – The Russian Academy of State Services of the RF President, diploma in Law.
Doctor of Physics and Math, associated professor
RF Counsellor of State of the 3rd class.

**Professional Experience:**

- 2004-2007 – Deputy Head of the Financial Markets Federal Service
- 2007-2009 – President of CenterInvest Securities LLC, President of Group CIG CJSC
- 2009-2011 – Vice President, member of MICEX Managing Board
- December 2011 – Managing Director for Corporate Development, October 2013 – Managing Director for Government Relations, Moscow Exchange JSC
- 2008 – Member of the Supervisory Board, AIZHK JSC, 2009; Member of the Board of Directors, Rosagroleasing JSC (since 2012 – Chairman of the Board of Directors, Rosagroleasing JSC)
- Winner of the National Award "Director of the Year 2011" in the category "Independent Director". Winner in the category "The Best Independent Director" of ARISTOS-2012 Award
- Since 2008 – Member of the Board of Directors, Russian Railways

**Dmitry Georgievich Komissarov**

Born in 1970
1992 – Diploma in International Relations, Currency and Loans, Moscow Financial Institute

**Professional Experience:**

- 2003 – 2008 – Chairman of the Board of Directors, Transmashholding CJSC
- 2006 – present – Member of the Managing Board, the Russian Union of Industrialists and Entrepreneurs
- 2007 – present – Member of the Managing Board Office, the Russian Engineering Workers Guild
- June 2008 – present – Chairman of the Board of Directors, Technological Company JSC
- Since 2008 – Member of the Board of Directors, Russian Railways.

**Igor Arnoldovich Lozhevsky**

Born in 1957
1979 – Diploma of Omsk Polytechnic Institute, 1994 – MBA, Massachusetts University, Boston. Currently working on Ph.D. in Finance at EDHEC Asset Allocation and Risk Management Institute.

**Professional Experience:**

- 1998 – Councillor in energy policy implementation at the Europe and Central Asia Department, the World Bank, Washington
- 2001 – Director of International Corporate Financial Administration, Deutsche Bank AG, London
- 2003 – Co-Leader of the Investment Banking Department, VTB, Moscow
- 2005 – Chairman of Global Banking Services Administrations and Capital Markets for Russia and CIS, Dresdner Bank, Moscow
- 2008 – Chief Executive Director, Deutsche Bank Group, for Russia and CIS, Moscow
- 2013 – Deputy Chairman, Deutsche Bank AG for Eastern Europe, London
- Significant work experience on the boards of the largest Russian and international companies (Kamaz JSC, FESCO Transport Group, Eurotek Ltd., Russian Regional Development Bank, Bank of Cyprus).
- Mr Lozhevsky is currently an independent director of Aeroflot JSC at which he headed the Strategy Committee (2012 – 2013) and the Audit Committee (2013 – 2014), and also the Independent Director of GeoProMining LLC.
- 2013 – Winner of the National Award "Director of the Year" in the category "Independent Director".

**Hans Hartmut Medorn**

Born in 1942
Diploma in Engineering, the Department of Mechanic Engineering, Berlin Technical University.

**Professional Experience:**

- End of 1999 – April 2009 – Chairman of the Managing Board, Deutsche Bahn AG, Berlin
- July 2009 – January 2013 – Chairman of the Managing Board, Member of the Board of Directors, Air Berlin
- March 2013 – Chairman of the Managing Board, Berlin Brandenbrug Airport
- Member of advisory boards in Fiege-Stiftung & Co KG, Commerzbank AG,
- Energie-Baden-Wurttemberg AG
- Honorary Doctor of Engineering Science
- Since 2011 – Member of the Board of Directors, Russian Railways

**Alexander Nickolaevich Ryazanov**

Born in 1953
1979 – Diploma from Gubkin Moscow Oil and Gas Institute, 1993 – Diploma from All-Union Extramural Financial and Economic Institute

**Professional Experience:**

- 2001 – 2006 – Deputy Chairman of the Managing Board, Member of the Managing Board, Gazprom JSC
- 2007 – present – Chairman of the Board of Directors, Russian Group Company CJSC, Moscow
- March 2009 – February 2010 – Chairman of the Managing Board Stroytransgaz JSC
- 2008 – present – Member of the Board of Directors, Russian Railways
- 2007 – present – Chairman of the Board of Directors, BIOTechnologies CJSC
- 2010 – present – Member of the Guardianship Board, Moscow State Institute for International Relations (social activity)
- 2011 – present – Cheif Executive Officer, UK Plyuschikha LLC
- 2012 – present – Member of the Managing Board of Directors, Member of the Independent Directors Register Committee, the Russian Union of Industrialists and Entrepreneurs
- 2013 – present – Member of the Board of Directors, Petrotool LLC

**Vasily Vasilievich Sidorov**

Born in 1971
1993 – Diploma in International Public Law, Moscow State Institute for International Relations, and Diploma in Finance, Business School, Wharton Pennsylvania University

**Professional Experience:**

- 2000 – 2003 – First Vice President, Systema-Telekom CJSC
- 2003 – 2006 – President, Mobile TeleSystems JSC (MTS)
- 2006 – 2010 – Co-Owner of Telekom-Express Group
- 2010 – present – Managing Partner, Euroatlantic Investments Ltd.
- 2012 – present – Cheif Executive Officer, ARIDA LLC
- Since 2012 – Member of the Board of Directors, Russian Railways
- Since 2013 – Member of the Board of Directors, JSC Aeroflot
- Member of the Expert Council of the RF Government, member of the Advisory Council of Shareholders, VTB Bank JSC

**Alexander Nickolaevich Shokhin**

Born in 1951
1974 – Diploma in Economics, Lomonosov Moscow State University, Ph.D. in economics (1989), professor (1991)

**Professional Experience:**

- 1995 – present – President of the National Research Institute High Schools of Economics. Head of the Department of Theory and Practical Interaction of Business and Power
- 2002 – 2005 – Chairman of the Supervisory Board, IG Renaissance Capital
- 2005 – 2009 – member of the RF Public Chamber
- 2005 – present – President of the Russian Union of Industrialists and Entrepreneurs
- Independent Director of several companies including TMK JSC, member of the Supervisory Board, Alrosa JSC
- 2008 – present – member of the Board of Directors, Russian Railways

**Vladimir Ivanovich Yakunin**

Born in 1948
1972 – diploma of Leningrad Mechanical Institute

**Professional Experience:**

- October 2000 – present – Deputy Minister of Transport, the Russian Federation
- February 2002 – present – First Deputy Minister of Railways
- October 2003 – present – First Vice President, Russian Railways
- June 2005 – present – President, Russian Railways

## Russian Railways Board of Directors Meetings held in 2013

Meetings of the Board of Directors are held in accordance with its activity plan formed on the basis of proposals of the Board Chairman, members of the Board of Directors, the President, Managing Board members, Audit Commission members and the Company Auditor. The work plan is drawn up for 6 months and approved by the Board of Directors. If necessary, it is possible to call extraordinary meetings of the Board of Directors.

20 meetings of the Russian Railways Board of Directors were held in 2013 (5 in presence and 15 with absentee voting) at which some issues were considered and over 180 decisions were made in different activity fields.

## Compensation received by Board of Directors Members

According to a decision taken at the Annual General Meeting of Russian Railways, 39.53 million RUB (0.28% of annual net profit) was spent on compensation to members of the Board of Directors.

Participation of Russian Railways Board of Directors members in Board of Directors Meetings

| Board of Directors members | Number of meetings in which the member could participate/number of meetings in which the member actually took part |
|---|---|
| K.G. Androsov | 20/20 |
| A.D. Avestisyan* | 6/5 |
| G.V. Berezkin | 20/20 |
| V.A. Gusakov | 20/20 |
| D.G. Komissarov | 20/20 |
| N.N. Kosov ** | 14/14 |
| I.A. Lozhevsky* | 6/6 |
| H. Medorn | 20/20 |
| A.N. Ryazanov | 20/20 |
| V.V. Sidorov | 20/20 |
| N.A. Sobolev ** | 14/14 |
| A.N. Shokhin | 20/20 |
| V.I. Yakunin | 20/20 |

* - became a member of the Russian Railways Board of Directors on November 8, 2013

** - withdrew from the Russian Railways Board of Directors on June 30, 2013

# Board of Directors Committees

For preliminary consideration of the most important issues and preparation of corresponding recommendations to the Russian Railways Board of Directors, the following committees are operating at the Company:

- The Strategic Planning Committee of the Russian Railways Board of Directors
- The Audit and Risk Committee of the Russian Railways Board of Directors
- The HR and Compensations Committee of the Russian Railways Board of Directors

In accordance with the decision of the Russian Railways Board of Directors dd. November 25, 2013, the Strategic Planning Committee of the Russian Railways Board of Directors, the Audit and Risk Committee of the Russian Railways Board of Directors, the HR and Compensations Committee of the Russian Railways Board of Directors were established at the Company. The previously established Audit, Risk and Compensations Committee of the Russian Railways Board of Directors was eliminated.

The Audit and Risk Committee and the HR and Compensations Committee are headed by independent directors.

## The Strategic Planning Committee

In the reporting year, the Strategic Planning Committee of the Russian Railways Board of Directors conducted 8 meetings. The Committee prepared recommendations to the Russian Railways Board of Directors for decision-making, including the following:

- Russian Railways Group development strategy until 2030;
- Consolidated financial plan projects of Russian Railways and its main subsidiaries and affiliated companies and the Russian Railways investment programme for 2014 and the planning period 2015 and 2016;
- Results of the public technological and price audit of Russian Railways investment projects and review of the corporate standard project "Conducting mandatory technological and price audit of Russian Railways investment projects and its affiliates and subsidiaries;
- Review of preparation and decision-making of tariff, fees and charges setting within price limits established by Federal executive bodies regulating natural monopolies;
- Making amendments in the Russian Railways Charter, the Provision on the Board of Directors, the Federal Law "On Railway Asset Management and Disposal" and Order of the RF Government No 57 dd. February 06, 2004 "On restricted property assets of Russian Railways;
- Principles of Russian Railways Board of Directors participation in affiliates and subsidiaries;
- Implementation of the development strategies of Russian Railways key affiliates and subsidiaries and termination of membership of Russian Railways in certain affiliates and subsidiaries.

**The Strategic Planning Committee membership as of December 31, 2013**

| | |
|---|---|
| **D.G. Komissarov** | Chairman of the Committee, member of the Russian Railways Board of Directors |
| **G.V. Berezkin** | Member of the Russian Railways Board of Directors |
| **I.A. Lozhevsky** | Member of the Russian Railways Board of Directors |
| **V.V. Mikhailov** | Senior Vice President, Russian Railways Board of Directors |
| **V.I. Reshetnikov** | Senior Vice President, Russian Railways Board of Directors |
| **A.N. Ryazanov** | Member of the Russian Railways Board of Directors |
| **V.V. Sidorov** | Member of the Russian Railways Board of Directors |
| **A.K. Starkov** | Corporate Secretary of the Russian Railways Board of Directors |
| **A.N. Shokhin** | Member of the Russian Railways Board of Directors |

The Risk and Audit Committee of Russian Railways Board of Directors (until November 25, 2003 – the Audit, Risk and Compensations Committee of the Russian Railways Board of Directors) conducted 6 meetings in the reporting year:

- The Committee prepared recommendations for the Russian Railways Board of Directors to take decisions on the following issues:
- Reduction of the Russian Railways share in certain subsidiaries and affiliates
- Defining the position of Russian Railways (Russian Railways representatives) at the meeting of directors of subsidiaries and affiliates to approve the budgets of subsidiaries and affiliates;
- Recommendations for the Annual General Meeting regarding the agenda (approval of the company auditor, approval of the annual statement of the Company, annual accounting (financial) reporting of the Company including the report on financial results and distribution of the net profit at year-end and dividend payments).
- Long-term bonus payment to Russian Railways Board of Directors members

| The Risk and Audit Committee membership as of December 31, 2013 | |
|---|---|
| **V.A. Gusakov** | Chairman of the Committee, member of the Russian Railways Board of Directors |
| **A.D. Avetisyan** | Member of the Russian Railways Board of Directors |
| **D.G. Komissarov** | Member of the Russian Railways Board of Directors |
| **A.N. Ryazanov** | Member of the Russian Railways Board of Directors |
| **V.V. Sidorov** | Member of the Russian Railways Board of Directors |
| **A.K. Starkov** | Corporate Secretary of the Russian Railways Board of Directors |

## The HR and Compensations Committee

Meetings of the HR and Compensations Committee of the Russian Railways Board of Directors are planned for the first half of 2014 in accordance with the work plan of the Russian Railways Board of Directors. In 2013, the Chairman of the Committee held meetings with the executive bodies of Russian Railways to jointly work out proposals to improve the motivation system and pay bonuses to Russian Railways Board of Directors members.

| The HR and Compensations Committee membership as of December 31, 2013 | |
|---|---|
| **A.N. Shokhin** | Chairman of the Committee, member of the Russian Railways Board of Directors |
| **A.D. Avetisyan** | Member of the Russian Railways Board of Directors |
| **V.A. Gusakov** | Member of the Russian Railways Board of Directors |
| **D.G. Komissarov** | Member of the Russian Railways Board of Directors |
| **A.N. Ryazanov** | Member of the Russian Railways Board of Directors |
| **V.V. Sidorov** | Member of the Russian Railways Board of Directors |
| **A.K. Starkov** | Corporate Secretary of the Russian Railways Board of Directors |

## The Corporate Secretary

The Corporate Secretary of Russian Railways is a special officer whose tasks are to ensure that all bodies and officials comply with Russian Federation law, with the Charter and with internal documents that guarantee the enforcement of rights and legitimate interests of shareholders; to organise events to resolve conflicts related to the violation of shareholders' rights and to organise interaction between the Company and its shareholders and between management bodies of the Company.

The Corporate Secretary is appointed and dismissed by a decision of the Board of Directors based on a majority of vote of Board of Directors members. Duties of the Corporate Secretary are defined in the regulations for the Corporate Secretary of Russian Railways and the Corporate Secretary staff.

Andrey Krasnoslavovich Starkov has been the Corporate Secretary of Russian Railways since November 2011.

## The Managing Board

The Managing Board of Russian Railways as a collegial executive body provides general management of company economic activity (except resolving the issues referred by the federal law "On Joint Stock Companies" and the Company Charter to the competence of the general meeting of shareholders and the Board of Directors and also the President of the Company if the Company Charter does not specify otherwise).

The main tasks of the Company's Managing Board are the development of proposals regarding the strategy of the Company's activity; the implementation of the Company's financial and economic policy; reaching decisions in relation to the most important issues of its current economic activity and the coordination of its subdivision operation; the expansion of the internal control system and risk monitoring system enhancement, and ensuring protection of shareholders' rights and legal interests.

The Company's Managing Board exercises its activity in accordance with the legislation of the Russian Federation, the Company Charter, sharedholder decisions and the Company's Managing Board general meetings, provision of Russian Railways Managing Board, and the Company's internal documents.

The Managing Board acts in the Company's interests and reports to the Company's general meeting of shareholders and the Managing Board.

The powers of the Company's Managing Board include the following:

- Development and presentation of priority directions for the Company's activity and prospective plans for their implementation to the Company's Board of Directors, including the Company's annual budgets and investment programmes and preparation of reports on their execution for the Board of Directors, as well as the development and approval of the Company's current activity;
- Approval of internal settlement rates, fees, and payment for work (services), carried out (provided) by the Company that do not relate to the area of natural monopoly;
- Establishing of rules that ensure proper arrangement and accurate accounting in the Company, and timely presentation of the annual report and other financial records to corresponding bodies, as well as information regarding the Company's activity to shareholders, creditors and the mass media;
- Presentation of prospects of securities issue and other documents related to the issue of the Company's securities to the Board of Directors;
- Arrangements to carry out the Company's prospective and current plans, with the implementation of investment, financial, and other Company projects;

- Establishing the procedure for recording the Company's affiliated entities;
- Consideration and coordination of collective agreement projects in the Company, of provisions on industry no-state pension provision, compulsory pension insurance, professional pension insurance, and industry tariff agreement on railway transport, as well as their submission to the Company's President for signing;
- Establishing the procedure for shareholders' familiarisation with information about the Company;
- Establishing a labour payment system and determining the measures for the Company's personnel labour motivation;
- Giving obligatory instructions to affiliate companies on the issues determined in those companies' charters or in agreements entered with them by the Company;
- Approval of the Company's internal documents regarding the issues related to the Managing Board competence;
- Resolving other issues related to the Company's current activity that are offered for consideration by the Company's Chairman of the Managing Board, the Company's Board of Directors or the shareholder.

| As of December 31, 2013, the Managing Board of Russian Railways included 24 members: | |
|---|---|
| **Yakunin V.I.** | President |
| **Morozov V.N.** | First Vice-President |
| **Misharin A.S.** | First Vice-President |
| **Gapanovich V.A.** | Senior Vice-President |
| **Mikhailov V.V.** | Senior Vice-President |
| **Reshetnikov V.I.** | Senior Vice-President |
| **Krasnoschek A.A.** | Senior Vice-President |
| **Kraft G.V.** | Chief Accountant |
| **Mescheryakov A.A.** | Official Secretary – Vice-President |
| **Akulov M.P.** | Vice-President |
| **Atkov O.Y** | Vice-President |
| **Babayev S.M.** | Vice-President |
| **Bobreshov A.S.** | Vice-President |
| **Vorotilkin A.V.** | Vice-President, Chief of Motive Power Department |
| **Illarionov A.V.** | Vice-President |
| **Saltanov A.V.** | Vice-President |
| **Toni O.V.** | Vice-President |
| **Tselko A.V.** | Vice-President |
| **Shaidullin S.N.** | Vice-President, Chief of Traffic Safety Department |
| **Shakhanov D.S.** | Vice-President |
| **Bynkov V.I.** | Chief of Legal Department |
| **Gnedkova O.E.** | Chief of Corporate Finance Department |
| **Lapidus B.M.** | Chief Advisor of Russian Railways President |
| **Starostenko V.I.** | Advisor of Russian Railways President until 31.12.2013 |

There were no changes in the composition of the management within the reporting year.

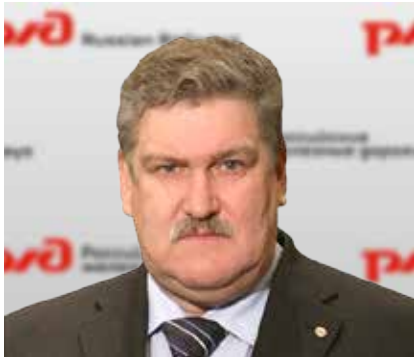
# Brief biographical information about the Board members of Russian Railways

**President of Russian Railways Vladimir Ivanovich Yakunin**

Born on June 30, 1948, in Melenki town, Vladimir Region.
Graduated from the Leningrad Mechanical Institute in 1972.
Mr Yakunin began his career as a junior research scientist in the State Institute of Applied Chemistry. Following service in the Soviet Army, he worked as an engineer and then as a senior engineer of the Directorate of the State Committee of the Council of Ministers of the USSR for Foreign Economic Relations, and as Chief of the Department of the Ioffe Physical-Technical Institute of the Russian Academy of Sciences.

**Professional career:**

- 1985–1991 – diplomatic service (Second, then First Secretary of the Permanent Mission of the USSR to the United Nations).
- After 1991 – Chairman of the Board of CJSC International Centre for Business Cooperation; Head of the Northwest District Inspectorate of the Main Control Department of the President of Russian Federation.
- From October 2000 – Deputy Minister of Transport of the Russian Federation.
- From February 2002 – First Deputy Minister of Railway Transport of the Russian Federation.
- From October 2003 – First Vice-President of Russian Railways.
- June 14, 2005 – appointed President of Russian Railways.
- V.I. Yakunin is the Chairman of the Board of Trustees of the Centre of National Glory of Russia and the Foundation of St. Andrew the First-Called, the Founding President of the World Public Forum Dialogue of Civilisations, Co-President of the Association for Franco-Russian Dialogue, Scientific Director and Chairman of The Board of Trustees of the Centre for Problem Analysis and State-Governance projecting at the Social Sciences Department of the Russian Academy of Sciences, Head of the Department of State Policy at the Faculty of Political Science of the Lomonosov Moscow State University, Chairman of the Board of Trustees of the child welfare foundation Spread Your Wings!, a member of the Board of Trustees of the Russian World fund, a member of the Board of the Russian Union of Industrialists and Entrepreneurs, Chairman of the Transport and Transport Infrastructure Commission, Visiting Professor at the Stockholm School of Economics, Honorary Doctor of the Diplomatic Academy of the Ministry of Foreign Affairs of Russia, a member of the Board of Trustees of the Diplomatic Academy of the Ministry of Foreign Affairs of Russia, a member of the Board of Trustees of the Moscow State Institute of International Relations (university) of the Ministry of Foreign Affairs of Russia, Chairman of the International Union of Railways (UIC), Chairman of the Board of GEFCO, and Head of the Centre for Scientific Substantiation and implementation of the mega-project "Integrated Eurasian transport system" (ISPR RAS).
- For his great contribution to the realisation of measures for reforming railway transport, for working out a strategy for the Russian Railways; providing constructive social policy, efficient interaction with the state authorities of the Russian Federation and the members of the Russian Federation, as well as with foreign railway administrations and international organisations, Mr Yakunin was given the Order of Alexander Nevsky, the Order of Honour, the Fourth Class Order for Merit to the Fatherland, the Order of Friendship, the Medal for Battle Merit, the Medal "For the Development of Railways", the merit Badge "Honorary Railwayman of Russian Railways" and other awards. He is a laureate of the Prize of Russian Government in science and technology. He was awarded the Gold Medal for Merit of the Republic of Serbia for organising humanitarian aid for Kosovo and Metohija; awarded the Order of Friendship; and awarded the Order of Alexander Nevsky for his great contribution to the preparations for the XXI Olympic Winter Games and XI Paralympic Winter Games, Sochi 2014.



**First Vice-President of Russian Railways**
**Vadim Nikolaevich Morozov**

Born in 1954, Morozov graduated from the Leningrad Institute of Railway Engineers in 1977 with a degree in Railway Operation. In 2009, he passed a professional training course at the Academy of National Economy under the Government of the Russian Federation, on the programme "Modern trends of railway transportation management". He is a Doctor of Engineering Sciences.

**Professional career:**

- 1998 – elected Vice-Chairman of the Legislative Assembly of the Leningrad Region.
- 1998 – 1999 – First Deputy Head of South-East Railways and 2000-2002 – First Deputy Head of the Moscow Railways.
- 1999 – 2000 – Deputy Minister of Railway Transport of the Russian Federation.
- From February 2002 – First Deputy Minister of Railway Transport of the Russian Federation.
- From October 2003 – Minister of Railway Transport of the Russian Federation.
- From July 2004 – Executive Director of the non-state pension fund "BLAGOSOSTOYANIE".
- From August 2005 – First Vice-President of Russian Railways.
- Mr Morozov is the Chairman of the Board of Directors of Locomotive FC, Chairman of the Board of JSC Ulan Bator Railway, and Head of the Department of "Management of operational work and safety on transport" at the Moscow State University of Railway Engineering.

**First Vice-President of Russian Railways**
**Alexandr Sergeyevich Misharin**

Born in 1959, Misharin graduated from the Urals State University of Railway Transport in 1981 with a degree in Electrification of Railway Transport and in 1997 with a degree in Economics and Business Management (Railway Transport). He is a PhD in Economics, and a Doctor of Engineering Sciences.

**Professional career:**

- Misharin began his professional career in railway transportation in 1981 at Sverdlovsk railway, starting as an electrician and eventually becoming chief railway engineer.
- He subsequently worked as Deputy Minister and then First Deputy Minister of Railway Transport of the Russian Federation; as Head of the Sverdlovsk Railway; as Director of the Integrated Infrastructure Development Department of the Ministry of Transport of the Russian Federation; as Deputy Minister of Transport of the Russian Federation, and as Director of the Department of Industry and Infrastructure of the Government Staff of the Russian Federation.
- From November 2009 – Governor of Sverdlovsk Region.
- From December 2012 – First Vice-President of Russian Railways.

**Senior Vice-President of Russian Railways**
**Valentin Aleksandrovich Gapanovich**

Born in 1955, Gapanovich graduated from the Novosibirsk Institute of Railway Engineers with a degree in Management of Transportation Processes on the Railways in 1992. In 1998, he undertook professional training at the Academy of National Economy under the Government of the Russian Federation under programme "State governance of railway transport", gaining a PhD in Engineering.

**Professional career:**

- From January1998 – Deputy Head of the West Siberian Railway.
- From November 2000 – Chief Engineer of the Oktyabrskaya Railway.
- From November 2003 – Vice-President of Russian Railways.
- From June 2008 – Senior Vice-President of Russian Railways.

**Senior Vice-President of Russian Railways Vadim Valerievich Mikhaylov**

Born in 1969, Mikhaylov graduated from the State Financial Academy with a degree in Finance and Credit in 1992. He began his professional career at Arthur Andersen, where he moved from being an economist to Director of the Bank Audit Department.

**Professional career:**

- From April 2003 – Director of Ernst & Young Business Consulting LLC.
- From November 2003 – Cheif Executive Officer of Ernst & Young Business Consulting LLC.
- From September 2009 – Senior Vice-President of Russian Railways.

**Senior Vice-President of Russian Railways Valery Ilyich Reshetnikov**

Born in 1952, Reshetnikov graduated from the Leningrad Electrotechnical Institute in 1975 with a degree in Automated Control Systems.

**Professional career:**

- 1985 – 1987 – worked at the Trade Representation of the USSR in Norway.
- 1987 – 1998 – worked in commercial organisations in St. Petersburg.
- 1998 – 2001 – worked in executive positions at JSC (KB) Baltoneksim Bank.
- From February 2002 – Head of the Department of Economic Security at the Ministry of Railway Transport of the Russian Federation.
- From October 2003 – Head of the Safety and Security Department of Russian Railways.
- From August 2004 – Advisor to the Cheif Executive Officer of JSC Severstaltrans.
- From September 2005 – Advisor to the President of Russian Railways. From March 2007 – Vice-President of Russian Railways. From March 2010 – Senior Vice-President of Russian Railways.

**Senior Vice-President of Russian Railways Anatoly Anisimovich Krasnoschok**

Born in 1959, Krasnoschok graduated from the Leningrad Institute of Railway Engineers in 1988 with a degree in "Management of transportation processes in railway transport" and a PhD in Economics.

**Professional career:**

- From September 2002 – Deputy Head of Transportation of the Oktyabrskaya Railway.
- From June 2004 – First Deputy Head of the Oktyabrskaya Railway and Chief Auditor of Train Traffic Safety.
- From March 2005 – First Deputy Head of the Oktyabrskaya Railway.
- From July 2008 – Head of the East-Siberian Railway.
- From December 2011 – Vice-President of Russian Railways. From March 2013 – Senior Vice-President of Russian Railways.

**Chief Accountant of Russian Railways**
**Galina Vasilievna Kraft**

Born in 1950, Kraft graduated from the Leningrad Institute of Railway Engineers in 1973, with a degree in Automation, Remote Control and Communication in Railway Transport and in 1983 with a doctorate in Economics and the Organisation of Railway Transport.

**Professional career:**

- From July 2000 – Professor in the Department of Accounting and Auditing of the Petersburg State Transport University.
- From May 2002 – Deputy Head of the Finance Department of the Ministry of Railway Transport of the Russian Federation.
- From August 2002 – Head of the Investment management office of FSUE "Directorate of Railways Ministry of Railway Transport of the Russian Federation".
- From October 2003 – Head of the Department of Investment Operations of Russian Railways.
- From November 2003 – Vice-President of Russian Railways and Head of the Department of Investment Operations.
- From August 2005 – Vice-President of Russian Railways.
- From December 2005 – Chief Accountant of Russian Railways.

**State Secretary — Vice-President of Russian Railways**
**Anantoly Anatolievich Meshcheryakov**

Born in 1966, Meshcheryakov graduated from the Kiev Military Aviation Engineering Academy in 1988 with a degree in Aircraft Avionics and in 1998 from the Institute of Contemporary Business with a degree in Finance and Credit and a PhD in Engineering Sciences.

**Professional career:**

- From January 2004 – Deputy Cheif Executive Officer of External Relations; Director of External Relations; Head of the Department of External Relations; Director of Human Resources and External Relations, First Deputy Cheif Executive Officer of CJSC Transmashholding.
- From December 2011 – Chief Advisor to the President of Russian Railways.
- From February 2012 – State Secretary and Vice-President of Russian Railways.

**Vice-President of Russian Railways**
**Mikhail Pavlovich Akulov**

Born in 1960, Akulov graduated from the Moscow Institute of Railway Engineers in 1982 with a degree in Electrification of Railway Transport. In 1998 and 2000, he undertook professional training at the Academy of National Economy under the Government of the Russian Federation under the programme "State governance of railway transport" and "State and corporate governance of railway transport in modern conditions".

**Professional career:**

- From May 1999 – First Deputy Head of the South-East Railway.
- From December 2000 – Head of the South-East Railway.
- From May 2002 – Deputy Minister of Railway Transport of the Russian Federation.
- From December 2003 – First Deputy Minister of Railway Transport of the Russian Federation.
- From March 2004 – Head of the Federal Agency for Rail Transport of the Ministry of Transport of the Russian Federation.
- From December 2005 – Vice-President of Russian Railways.
- From July 2009 – Vice-President of Russian Railways and Cheif Executive Officer of the Federal Passenger Directorate.
- From March 2013 – Vice-President of Russian Railways.

**Vice-President of Russian Railways**
**Oleg Yurievich Atkov**

Born in 1949, Atkov graduated from the I.M. Sechenov First Moscow Medical Institute in 1973 with a degree in General Medicine. He is a Doctor of Medicine, Professor, and Hero of the Soviet Union.

**Professional career:**

- March 1984-May 1997 – cosmonaut-researcher of the USSR.
- From May 2002 – Head of the Health Department of the Ministry of Railway Transport of Russia.
- From October 2003 – Head of the Department of Medical Support for Russian Railways.
- From August 2005 – Vice-President of Russian Railways.
- Dr Atkov is Head of the Instrumental Diagnostic Methods Department of the Russian State Medical University, Chairman of the Commission on interoperability of the railway administrations of the Commonwealth in Health, Chairman of the Board of the all-Russian public organisation Russian Medical Association of Railway Transport, Chairman of the Board of the Trustees of the Russian Telemedicine Association, and Chairman of the Russian Railways delegation at the International Union of Railway Medical Services (MSMZS).

**Vice-President of Russian Railways**
**Salman Magomedrasulovich Babaev**

Born in 1955, Babaev graduated from the Khabarovsk Institute of Railway Engineers in 1978 with a degree in Railway Operation.

**Professional career:**

- From April 1997 – First Deputy Head of the Far-East Railway.
- From June 1998 – Deputy Head of the North-Caucasian railway.
- From June 1999 – Deputy Head of the Moscow Railway.
- From February 2002 – Cheif Executive Officer of the Center of Premium Transport Services.
- From November 2002 – Head of the Privolzhskaya Railway.
- From November 2003 – Vice-President of Russian Railways and Cheif Executive Officer of the Centre for Premium Transport Services.
- August 2005 – Vice-President of Russian Railways.
- October 2007 – Cheif Executive Officer of Pervaya Gruzovaya Kompanya (JSC PGK) and Advisor to the President of Russian Railways, with combined duties.
- March 2011 – Vice-President of Russian Railways.

**Vice-President of Russian Railways**
**Alexander Sergeyevich Bobreshov**

Born in 1965, Bobreshov graduated from the Leningrad Shipbuilding Institute in 1988 with a degree in Instrument Engineering.

**Professional career:**

- 1990-1995 – served in the bodies of the FSB of Russia and subsequently worked in executive positions for government and commercial organisations on issues of economic security and security activities.
- From February 2004 – Deputy Head of the Security Department for of Russian Railways.
- From July 2004 – Head of the Security Department of Russian Railways.
- From August 2005 – Vice-President of Russian Railways.

**Vice-President of Russian Railways and Head of the Directorate of Traction Alexey Valerievich Vorotilkin**

Born in 1961, Vorotilkin graduated from the Irkutsk Institute of Railway Engineers in 1988 with a degree in Electrification of Railway Transport. In 2001 and 2009 he undertook professional training at the Academy of National Economy under the Government of the Russian Federation under the programme "Modern trends of railway transportation management", with a Doctor of Engineering Sciences.

**Professional career:**

- From July 2001 – Deputy Head of the East-Siberian Railway.
- From September 2005 – Head of the East-Siberian Railway.
- From June 2008 – Vice-President of Russian Railways.
- From February 2011 – Vice-President of Russian Railways – Head of the Directorate of Traction.

**Vice-President of Russian Railways Aleksey Viktorovich Illarionov**

Born in 1966, Illarionov graduated from the Leningrad Polytechnic Institute in 1989 with a degree in Applied Informatics.

**Professional career:**

- From November 2005 – Head of the Department of Corporate Informatisation
- From March 2007 – Head of the Department of Informatisation and Corporate Processes of Governance.
- From March 2012 – Vice-President of Russian Railways.

**Vice-President of Russian Railways Alksandr Vladimirovich Saltanov**

Born in 1946, Saltanov graduated from the Moscow State Institute of International Relations in 1970 with a degree in International Relations. He is a specialist in international relations and an officer for Eastern countries.

**Professional career:**

- From 1970 – diplomatic service.
- From December 1992 – Ambassador Extraordinary and Plenipotentiary of the Russian Federation to the Hashemite Kingdom of Jordan.
- From February 1999 – Director of the Department of Middle East and North Africa of the Ministry of Foreign Affairs of Russia.
- From October 2001 – Deputy Minister of Foreign Affairs of the Russian Federation.
- From May 2011 – Vice-President of Russian Railways.

**Vice-President of Russian Railways**
**Oleg Vilyamsovich Toni**

Born in 1964, Toni graduated from the Voronezh Civil Engineering Institute in 1986 with a degree in Industrial and Civil Construction and in 2003 from the North-West Academy of State Service with a degree in State and Municipal Government and a PhD in Economics.

**Professional career:**

- From January 1997 – Cheif Executive Officer of CJSC Baltiyskaya Stroitelnaya Kompaniya No24, St. Petersburg.
- From March 2000 – Cheif Executive Officer of CJSC Baltiyskaya Stroitelnaya Kompaniya (BSK), Moscow.
- From February 2001 – Cheif Executive Officer of CJSC Baltiyskaya Stroitelnaya Kompaniya (M), Moscow.
- From March 2004 – First Deputy Head, Head of the Capital Construction Department of Russian Railways.
- From April 2006 – Vice-President of Russian Railways.

**Vice-President of Russian Railways**
**Aleksndr Vitalievich Tselko**

Born in 1956, Tselko graduated from the Novosibirsk Institute of Railway Engineers in 1978 with a degree in Operation of Railways as a railway engineer. In 2000, he undertook professional training at the Academy of National Economy under the Government of the Russian Federation under programme "State governing of railway transport".

**Professional career:**

- From June 1999 – Head of the West-Siberian Railway.
- From November 1999 – Head of the South-Ural Railway.
- From May 2000 – Deputy, First Deputy Minister of Railway Transport of the Russian Federation.
- From February 2002 – Head of the West-Siberian Railway.
- From November 2012 – Vice-President of Russian Railways.

**Vice-President of Russian Railways – Head of the Traffic Safety Department**
**Shekvet Nurgalievich Shajdullin**

Born in 1961, Shajdullin graduated from the Kuybyshev Institute of Railway Engineers in 1990 with a degree in Locomotive Maintenance Management. In 2000, he undertook professional training at the Academy of National Economy under the Government of the Russian Federation under programme "State governing of railway transport", with a PhD in Engineering Sciences.

**Professional career:**

- From March 2001 – First Deputy Head of the Gorkovskaya Railway.
- From September 2002 – Head of the Gorkovskaya Railway.
- From May 2004 – Head of the Sverdlovskaya Railway, and from April 2007 – Advisor to the President of Russian Railways.
- From December 2008 – Cheif Executive Officer of CJSC South Caucasus Railway.
- From February 2012 – Head of the Kuybyshevskaya Railway.
- From December 2012 – Vice-President of Russian Railways and Head of the Traffic Safety Department.

**Vice-President of Russian Railways**
**Dmitry Sergeyevich Shakhanov**

Born in 1961, Shakhanov graduated from the Academy of the Ministry of Internal Affairs of the USSR in 1988 with a degree in Jurisprudence.

**Professional career:**

- From 1979 until 1998 – service in bodies of Internal Affairs and then in different government and commercial organisations.
- From November 1999 – Deputy Cheif Executive Officer of JSC Lenenergo.
- From October 2005 – Deputy Cheif Executive Officer of JSC Territorial Generating Company No. 1.
- From October 2006 – Deputy Director of "Roszheldorsnab".
- From November 2006 – Director of "Roszheldorsnab".
- From April 2009 – Vice-President of Russian Railways.

**Head of the Legal Department of Russian Railways**
**Vadim Ivanovich Bynkov**

Born in 1962, Bynkov graduated from Kalinin State University in 1985 with a degree in Jurisprudence.

**Professional career:**

- From 1989 until 1993 – worked in bodies of the Prosecutor's Office, Tver, and then at executive positions in commercial organisations.
- From June 2002 – Head of the Legal Department of JSC Investment Group ALROSA.
- From April 2004 – Lawyer at the Law Office of Bynkov V.I. of the Tver Regional Chamber of Lawyers.
- From October 2005 – Head of the Legal Department of Russian Railways.
- From December 2007 – State Secretary and Head of the Legal Department of Russian Railways.
- From April 2009 – Head of the Legal Department of Russian Railways.

**Head of the Corporate Finance Department of Russian Railways**
**Olga Eduardovna Gnedkova**

Born in 1960, Gnedkova graduated from the Novosibirsk Institute of Railway Engineers in 1981 with a degree in Accounting and a PhD in Economics.

**Professional career:**

- From May 2002 – Deputy Head of the Moscow Railway and Head of the Financial Service.
- From September 2004 – Deputy Head of the Moscow Railway for Economics and Finance.
- From November 2004 – Head of the Financial Administration Department of Russian Railways.
- From September 2005 – Head of the Corporate Finance Department of Russian Railways.

**Senior Advisor to the President of Russian Railways**
**Boris Moiseyevich Lapidus**

Born in 1947, Lapidus graduated from the All-Union Correspondence Institute of Railway Engineers in 1973 and 1984 with degrees in the Electrification of Railway Transport and Economics and the Organisation of Railway Transport, with a doctorate in Economics. He is a professor and Honored Economist of the Russian Federation.

**Professional career:**

- From January 1994 – Head of the Economics and Development Directorate of the Ministry of Railway Transport of Russia.
- From June 1996 – Cheif Executive Officer of the Centre for Premium Transport Services at the Ministry of Railway Transport of Russia.
- From March 1997 – Head and Executive Officer of the Economic Department of the Ministry of Railway Transport of Russia
- From October 2003 – Head of the Department of Economic Forecasting and Strategic Development of Russian Railways.
- From November 2003 – Vice-President of Russian Railways.
- From August 2005 – Senior Vice-President of Russian Railways.
- From March 2010 – Cheif Executive Officer of the JSC Research Institute of Railway Transpor and Senior Advisor to the President of Russian Railways, with combined duties.

**Advisor to the President of Russian Railways until 31.12.2013.**
**Vladimir Ivanovich Starostenko**

Born in 1948, Starostenko graduated from the Novosibirsk Institute of Railway Engineers in 1975 with a degree in Railway Operation.

**Professional career:**

- From June 199 – Head of the Kemerovskaya Railway.
- From February 1997 – Head of the West-Siberian Railway.
- From May 1999 – Minister of Railway Transport of the Russian Federation.
- From September 1999 – Head of the West-Siberian Railway.
- From February 2002 – Head of the Moscow Railway.
- From November 2009 until 31 December 2013 – Advisor to the President of Russian Railways.

## The Remuneration System for Members of the Executive Board of Russian Railways, Remuneration Principles and Indicators Influencing the Remuneration

The remuneration system for members of the Executive Board of Russian Railways was approved by the Board of Directors. It is designed for the purpose of increasing the individual and collective working efficiency of the members of the Executive Board both in the short-term and long-term, as well as encouraging the actual successful performance results of JSC Russian Railways as a single economic entity.

Bonus payments to executives based on their work results for the year are approved on the basis of the results of fulfillment of key performance indicators (KPI), evaluating the performance of the Board and Russian Railways in general.

The key performance indicators system was approved by the Board of Directors of Russian Railways and consists of:

- General corporate indicators;
- Functional indicators;
- Individual tasks.

In 2014 the company will continue work on improving the motivation system of the Board of Directors members.

The level of total income received by the members of the Board of Directors of Russian Railways in the reporting year according to the results of company's activity during 2013 was 1,744.6 million RUB.

## The Audit Committe

The Audit Committee oversees the financial and economic activities of the company and acts on the basis of the legislation of the Russian Federation, the charter of Russian Railways, and the Regulation of the Auditing Committee of Russian Railways approved by Government resolution of the Russian Federation on February 25, 2004 No 265-p.

The competence of the Audit Committee includes the financial and economic activity of the Company on the results of operations for the year, as well as at any time on its own initiative, the decision of the Board of Directors or at the request of the shareholder; review and analysis of the financial state of the Company, its solvency, functioning of the internal control system and system of management of financial and operational risks, liquidity of assets, the ratio of own and borrowed funds; verification of the data contained in the annual report of the company, the annual financial statements and other reports and other financial documents of the company; verification of conformity of decisions on issues of financial-economic activity taken by the President, the Board of Directors and Management Board to Charter and decisions of the General Shareholder Meeting.

### Staffing of the Audit Committee of Russian Railways elected in accordance with Government resolution of the Russian Federation on November 8, 2013 No 2074-p., has been approved, with 7 people appointed:

**Aleksandr Viktorovich Varvarin**

Lawyer. Education: graduated from the Griboyedov Institute of International Law and Economics in 1998 with a degree in Jurisprudence

**Professional career:*:**

- 2005–2009 – Head of the Legal Department, Director of the Department of Corporate Relations of the Russian Union of Industrialists and Entrepreneurs.
- From 2006 – Cheif Executive Officer of NP Centre for the Development of Corporate Relations and the Resolution of Economic Disputes.
- From 2009 – Managing Director of Corporate Relations and Legal Support of the Russian Union of Industrialists and Entrepreneurs, Member of the Board of Directors of JSC VCIOM; JSC MRSK Volga; JSC Kubanenergo; JSC MRSK North Caucasus and JSC State transport leasing company; Chairman of the Board of Directors of JSC Innovative Research and Production Centre of Textiles and Light Industry; JSC VNIPIneft; JSC Production Scientific Centre; JSC Central Research Institute of the Leather and Footwear Industry, JSC Central Research Institute of Machining Attachments of Textile Equipment; JSC Central Research Institute of Complex Automation of Light Industry and JSC Central Research Institute of Film Materials and Artificial Leather.
- From 2012 – Member of the Audit Committee of Russian Railways.

**Yelena Nikolayevna Yerokhova**

Born in 1973.
Education: graduated from Bauman Moscow State Technical University in 1996. In 1999, graduated from the Academy of National Economy under the Government of the Russian Federation.

**Professional career:**

- 2010–2013 – referent of the Division of Transport Reforming and Communications of the Department of State tariffs regulation, infrastructure reforms and energy efficiency of the Ministry of Economic Development of the Russian Federation.
- Since February 2013 – Adviser to the Cheif Executive Officer of JSC CPPK.
- From 2012 – Member of the Audit Committee of Russian Railways.

**Yaroslav Vladimirovich Mandron**

Born in 1983.
Education: the State University of Management – State and Municipal Governance; Jurisprudence.

**Professional career:**

- Since 2005 – Adviser, Deputy Head of the Department, Head of the Department of the Transport Reform and Communication, Director of the Department of State tariffs Regulation, Infrastructure Reforms and Energy Efficiency of the Ministry of Economic Development of the Russian Federation.
- From 2010 – Member of the Audit Committee of Russian Railways.

* - Professional career of members of the Auditing Committee is presented for the last 5 years.

**Roman Sergeyevich Samarskiy**

Education: Moscow State University of Railway Engineering.

**Professional career:**

- 2007–2011 – Head of Economic Analysis and Tariff Policy Unit of the Department of State Policy for Railway Transport of the Ministry of Transport of the Russian Federation.
- From 2011 – Deputy Director of the Department of State Policy for Railway Transport of the Ministry of Transport of the Russian Federation
- From 2012 – Member of the Audit Committee of Russian Railways.

**Viktoriya Vladimirovna Semerikova**

Born in 1983.
Education: Plekhanov Russian University of Economics.

**Professional career:**

- 2006-2013 – Senior manager, General manager, Director of banks' departments of the Russian Federation of Administration of Subsidiary Banks of Corporate Development and Financial Assets, Department of JSC VTB Bank.
- Since 2013 – Adviser to the Head of Federal Property Management Agency, Head of Directorate Corporate Technologies of the Federal Property Management Agency.
- From 2013– Member of the Audit Committee of Russian Railways.

**Lyubov Borisovna Rudnitskaya**

Born in 1955.
Education: Leningrad State University, Faculty of Economics; Financial-Economic Institute, Faculty of Foreign Economic Activity. PhD in Economics, MBA.

**Professional career:**

- 2002-2008 – Member of the Board, Chief Accountant of JSC MegaFon.
- 2008-2012 – Adviser to the Cheif Executive Officer for economic, finance, taxation and corporate governance of the state corporation Agency for Deposit Insurance.
- Since 2012 – Teacher at the Banking Institute of the Higher School of Economics – the National Research University.
- From 2013 – Member of the Audit Committee of Russian Railways.

**Yevgeniy Mikhaylovich Stolyarov**

Born in 1985.
Education: Faculty of Economics of the Lomonosov Moscow State University.

**Professional career:**

- 2009-2010 – Specialist in the share-dealing department at JSC IC Troika Dialog.
- 2010-2012 – Specialist in the share-dealing department at Renaissance Broker LLC.
- Since 2012 – Head of the Department of the Federal Property Management Agency.
- From 2013 – Member of the Audit Committee of Russian Railways.

Any remuneration and reimbursement for expenses associated with the performance of duties as members of the Audit Committee of the Company were not paid to members of the Audit Committee of Russian Railways during the accomplishment of their duties.

## Internal control and audit

In accordance with the concept of organisational development at Russian Railways for the period up to 2015 and the action plan for the functional strategy implementation to create a single system of internal audit and control at the Russian Railways, approved by the president of Russian Railways, V.I. Yakunin, in a new edition in October 2013, systematic and consistent work towards improvement and the development of the internal audit and control functions has been carried out.

The appointment of an internal control and audit director at Russian Railways was included in the new executive office structure. At the Centre for Control and Internal Audit ("Zheldorcontrol"), there are now two independent, but interconnected structural units – the Internal Audit Centre ("Zheldoraudit") and the Internal Control Centre ("Zheldorcontrol").

The implementation of these structural changes will faciltate the execution of the intended tasks for control vertical buildup during the transition to the target system management of the Russian Railways and the construction of a risk-oriented internal control system, with the development and improvement of forms, methods and trails of the internal audit and control function at Russian Railways.

The main tasks of the "Zheldoraudit" and "Zheldorcontrol" centres are the following:

- Organisation and execution of the internal audit, aimed at achieving greater efficiency and performance of business processes for Russian Railways, including soundness of assets, compliance with the requirements of legislation of the Russian Federation and internal documents of the Company;
- System effectiveness evaluation of internal control and risk management in the units of the Russian Railways, according to the established procedures in the SAF;
- Performance evaluation of business processes in the units of the Russian Railways and in accordance with the established procedures in the SAF;
- Organisation and execution of the internal audit, aimed at achieving economic stability and financial transparency in the units of the Russian Railways and in accordance with the established procedures in the SAF;
- Timely provision to the executive management of the Russian Railways of information about the Company's financial and economic activities, problems detected, tax and financial risks, business process efficiency and the reliability of internal control procedures and risk management in the units of the Russian Railways in accordance with the established procedures in the SAF.

New forms and methods of work in the field of internal audit and control of the Russian Railways are based on leading global practices and international standards, ensuring the timely identification of systemic problems in order to formulate appropriate recommendations for cost savings, income loss enhancement and more effective business processes.

## Auditor of statements in accordance with international standards

Russian Railways draws consolidated financial statements according to the International Financial Reporting Standards (IFRS) and conducts its audit twice a year: in the first half of the reporting year – in the format of the review engagement, and for the reporting year – in the format of the audit. Since 2009 the preparation and audit period of the consolidated statements has been decreased by 5 months. The auditor of the consolidated financial statements of Russian Railways, according to the IFRS, is Ernst and Young", ranked among the top 4 of the internationally accepted audit companies.

## Auditor of statements in accordance with Russian standards for financial statements

The Close Joint Stock Company "BDO" carries out independent checking of the financial statements of Russian Railways in accordance with Russian standards. The selection of an auditor is carried out on a competitive basis according to legislative requirements. The Board of Directors recommends a candidate for auditor, chosen by the contest committee, on approval for the shareholder's general meeting. The Close Joint Stock Company "BDO" was approved as the auditor of the Russian Railways for the year 2013, according to the Government edict of the Russian Federation dd. November 08, 2013. The auditor's level of service payment is determined by the Russian Railways Board of Directors. For the year 2012, it was 31.65 million roubles (exclusive of VAT).

## Information disclosure

The Board of Directors of Russian Railways approved regulations on the Company's information policy. Russian Railways discloses its financial statements according to the Russian (RAP) and international (IFRS) standards. The Company's annual report contains a number of relevant facts for interested persons and meets the requirements of standard regulations for the structure and content of the annual report represented to shareholders during preparations for the shareholders' general meeting. The Company's internal documents are available on its website. The Part of the relevant information about the Company's activity is disclosed in English. Russian Railways is the issuer of securities traded on the MICEX stock exchange and it discloses relevant information online in accordance with the legislation of the Russian Federation in the field of securities.

Russian Railways website for investors www.ir.rzd.ru

## Russian Railways website for investors

The Board of Directors of Russian Railways has approved the Code of Business Conduct, which is a set of rules and norms of behaviour, and the Company adheres to it in relations with shareholders, investors, customers, suppliers, subsidiaries and affiliates. All employees and officials of Russian Railways must follow it. The Code contains a list of measures aimed at growth of the corporate spirit and addressing the corporate conflict management. The Code shows the values of the Company to all employees; directs them to uniform corporate objectives and thereby enhancing their corporate identity.

The Russian Railways Code of Business Conduct is available on the Company website at www.doc.rzd.ru

## Social responsibility

Russian Railways actively implements its corporate strategy of social responsibility. Comprehensive assistance in the areas of regional development, growth of social mobility, activity transparency, ongoing efforts to improve the quality of provided services and the implementation in full of all government social programmes are the criteria for the fulfillment of the Company's obligations to both society and to the national economy. The Company has approved a Code of Corporate Social Responsibility. Adoption of the Code confirms the Company's commitment to the implementation of economic activity, which takes into account the concerns of all interested parties and promotes balanced, sustainable development. The Company introduced the practice of a regular social reporting and presentation of its results to the public.

The Russian Railways Code of Corporate Social Responsibility is available on the Company website at www.doc.rzd.ru

# Russian Railways approaches to and principles of corporate management

Restructuring is carried out by Russian Railways on a phased basis, including the terms by which the reorganization of corporate management is implemented.

Restructuring is carried out by Russian Railways on a phased basis, including the terms by which the reorganization of corporate management is implemented.

The Company aims to create strategic change in the operational management activities of SAF, with the implementation of best corporate practice. The system of corporate management established by Russian Railways, allows for:

- Implementation of Company policy, including dividend policy in respect of SAF;
- The creation of governance bodies and control of SAF;
- Management of the business planning process and of the financial and economic activity of SAF;
- Cooperation with shareholders and investors with observance of the minority shareholders' rules when dealing with organisations connected to the purchase and sale of SAF shares.

Within the frameworks established by the Russian Railways corporate management system, best practices are used, namely:

- Involvement of independent directors in the Boards of Directors of subsidiaries (at the end of the annual shareholders' general meetings held in 2013, the participation of independent directors in the Boards of Directors was provided to 20 major subsidiaries);
- Preliminary consideration of items by the committees affiliated with the Board of Directors (committees affiliated with the Board of Directors in 2013 were operating in the 33 largest subsidiaries).

In addition, the following activities are held by Russian Railways:

- Creation of collegial executive bodies (managing boards) in the largest SAF;
- Development of the Board of Directors and members of the Board of Directors effectiveness evaluation system, to improve the quality of decision-making by the SAF governance bodies;

The high-quality management of subsidiaries, carried out by the corporate centre of the Company, allows for the implementation of the following principles and approaches in the management system:

- Direct links between the Group strategy and SAF strategies, with coordination and balancing of strategies for Group companies in order to maximise overall effect and minimise intercompany competition and the possible resource-sharing of the Group in order to increase SAF efficiency (for example, central purchasing in the order of Group, maintenance, general services of Group units for SAF in the field of HR management, accounting, and IT);
- Clear and rational procedures for strategic goal-setting and management, transmitting the strategic business objectives of the Group through corporate procedures, in specific measurable objectives for SAF authorities. This introduces clear lines of subjection/supervisory control of each strategic SAF to a member of the Company's senior management team, with the management team taking responsibility for activity results;
- Providing a sufficient level of operating and commercial freedom of SAF managers within the approved business objectives and specific business segment;
- Introducing corporate control mechanisms for SAF activity, sufficient for meeting the strategic objectives (through the Board of Directors and the relevant committees affiliated with the Board of Directors, as well as through the development and implementation of common management standards, which allow the implementation of the general strategic objectives of the Group and operational comfort for the governance bodies of the parent company and SAF).

## Direct management system building

In 2013 the development strategy for the Russian Railways Group was approved for the period up to 2030. This also defined the long-term objectives and tasks of Russian Railways in the field of organisational development.

The Group's target organisational model consists of the following elements:

- The Board of Directors of Russian Railways and its committees;
- The administration of Russian Railways headed by the president of Russian Railways;
- Consultative bodies;
- Corporate centre;
- Railways (RCCG);
- Business blocks, including their governance bodies;
- Business units.

The Board of Directors carries out general management of the Group activity within its competence, and facilitates the implementation of policy aimed at rapid development and improved stability and profitability.

The Russian Railways administration, consisting of Russian Railways management acting in the interests of the Russian Federation and considering the SAF shareholders' position, provides offer elaboration within the meaning of the Group business priorities and prospective plans for its development, determines the single corporate policies, regulations, rules and standards developed by the corporate centre, monitors its compliance and meets the strategic objectives of the business units.

Consultative bodies consisting of Russian Railways management and the main SAF, provide offer elaboration in the main business lines of the Group for presentation to the Russian Railways administration.

The corporate centre studies strategic decisions and develops consolidated corporate policy, rules, regulations and standards on the basis of strategic decisions being made and in the interests of achieving them; provides control and analysis of the execution of strategic decisions and meeting objectives, organises the current distribution of the most important and scarce resources, provides cooperation of branches and SAF with each other and with "the environment" at all management levels and monitoring system capacity as well. The corporate centre also organises corporative management and subsidiaries' and affiliated companies' control.

The Russian Railways branches are included in the corporate centre and implement part of its functions at the regional level.

Due to the commonality of tasks, technologies and additional synergies of coordinated activity, business blocks are combined into 5 business units – Traffic and Logistics, Passenger Traffic and Services, Infrastructure, International Engineering and Transport Construction, and Social.

## Advantages of the Group's new organisation model

- Separation of authority and responsibility for the Group's general results and for the results of specific activities and business, with an opportunity to evaluate the activity of management on key indicators related to strategic aims and operational objectives;
- Management level optimisation, with the location of territorial regulatory bodies of created business units;
- Improvement of the quality of strategic decision-making thanks to corporate centre guidance on problem-solving;
- Improvement of the efficiency of current decision-making by means of the delegating responsibility and authority to the heads of business units.

## Direct management system buildup

# Corporate centre

**President**
Chairman of the Board

**Members of Board**
First Vice-Presidents, Senior Vice-Presidents, Vice-Presidents,
Main Branches and Affiliate Heads

| Passenger Traffic | Traffic and Logistics | Infrastructure |
|---|---|---|
| **Unit management bodies** | **Unit management bodies** | **Unit management bodies** |
| Economics | Economics | Economics |
| Staff | Staff | Staff |
| Development | Development | Development |

| | | | | | |
|---|---|---|---|---|---|
| JSC Federal Passenger Company | Suburban passenger companies | JSC Federal Freight Company | Centre for corporate transport service | Infrastructure central directorate | Traffic control central directora |
| Branches and SAF, providing fast speed and high speed railings | SAF of transportations repair and service | Central directorate of terminal and warehouse complex management | Other branches and SAF | Traction directorate, Directorate of maintenance of traction equipment | Other branches and SAF |
| Railway stations directorate | Other branches and SAF | | | | |

**LIABILITY FOR OVERALL PERFORMANCE:**
Strategic management, coordination, unified representation

**CONSULTATIVE BODIES**
Committees, commissions, workshops

| Social | International Engineering and Transport Construction | Departments, administrations, structural units |
|---|---|---|
| **Unit management bodies** | **Unit management bodies** | |
| Economics | Economics | Corporate procedures |
| Staff | Staff | Transport safaty |
| Development | Development | Technical policy |
| | | Corporate services |
| | | Innovations |
| | | Finances and economics |
| | | Staff and social process |
| | | Information technology and processes |
| | | Interaction with the outside environment |
| | | Safety and National Security Information |
| | | Corporate control |
| | | Other |

| | | | |
|---|---|---|---|
| Directorate of medical support<br><br>Non-government educational institution<br><br>Non-government health care institution | RZD-Zdorovye, ZTK, Zheldoripoteka, Arena-2000 | "RZD International" +JV "RasonConTrans" (Trading House "RZD") | Zarubezhstroy-technology |
| | Other branches and SAF | | Other branches |

**RAILWAYS (RCCG)**
Branches of Russian Railways, implementing functions of the corporate centre, delegated to them, at the regional level



# Social Section

# The will to win

As a great domestic employer the main key priority of Russian Railways is to implement a policy of social responsibility to employees, society and the Russian Federation

Russian Railways follows international principles of social responsibility and implements 10 corporate social responsibility principles of the UN Global Compact, which the company joined in December 2007.

# Corporate and social responsibility

Corporate social responsibility plays a fundamental role at all stages of executive decision planning and making and is an important factor in the dynamic development of the Company. Today, no key decision in the Company is taken without consideration of the State, customers, investors and personnel interests.

Since 2006 the Company has published annual corporate social responsibility reports, which include the analysis of substantial influence on economic, ecological and social spheres, as well as information regarding our non-financial risk management system and sustainable development performance. All non-financial reports of Russian Railways are available to interested persons on the www.rzd.ru corporate site.

United Nations Global Compact

The Company follows the international rules of corporate social responsibility and sustainable development and shares the 10 principles of corporate social responsibility of the United Nations Global Compact, which the Company joined in December, 2007.

## The Ten Principles of the Global Compact

- Businesses should support and respect the protection of internationally proclaimed human rights
- Businesses should make sure that they are not complicit in human rights abuses
- Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
- Businesses should uphold the elimination of all forms of forced and compulsory labour
- Businesses should uphold the effective abolition of child labour
- Businesses should uphold the elimination of discrimination in employment and occupation
- Businesses should support a precautionary approach to environmental challenges
- Businesses should undertake initiatives to promote environmental responsibility
- Businesses should encourage the development and diffusion of environmentally friendly technologies
- Businesses should work against corruption in all its forms, including extortion and bribery.

# Industrial safety

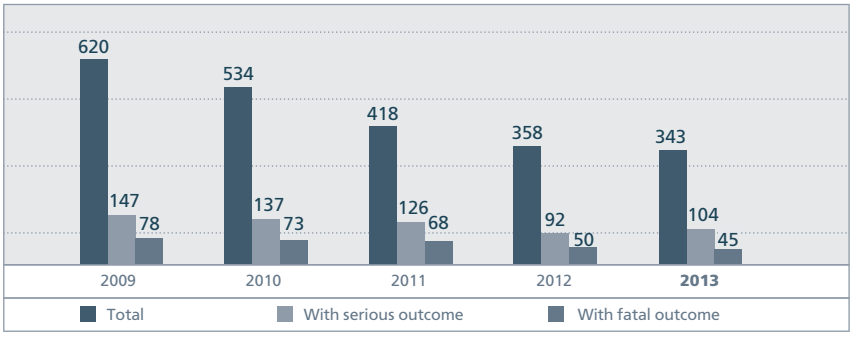
In 2013 Russian Railways revised its existing policy in the work safety, environmental protection and industrial safety field. This was due to the expansion of the Group's distribution area and the undertaking of obligations regarding compliance with the requirements of international and national standards in the work safety and environmental protection field.

The Company has approved a long-term comprehensive programme regarding improving the conditions and work safety within Russian Railways for 2013-2015.

The list of the main activities, improving the conditions and work safety in Russian Railways as well as recommendations for charging the subdivision units expenses of Russian Railways to work safety accounts, was revised in 2013.

By introducing a revised work safety and safe workplaces arrangement, Russian Railways saw a decrease in injury cases among process workers in 2013. Compared to 2012, the number of workplace injuries in Russian Railways as a whole fell by 5% and the number of cases with a fatal outcome by 10%. In 2013, Russian Railways aligned with the norms required for all workplaces with resolvable harmful factors and improved the working conditions of 46 thousand workplaces with irresolvable harmful factors.

**Workplace injury dynamics**




**Process safety key indicators dynamics**

| Indicators | 2009 | 2010 | 2011 | 2012 | **2013** |
|---|---|---|---|---|---|
| Work safety expenses (conditions and work safety improvement activities), bn RUB | 7.761 | 9.562 | 11.117 | 12.676 | **16.030** |
| Process injuries frequency rate (number of injured per thousand workers) | 0.59 | 0.55 | 0.45 | 0.39 | **0.39** |
| Brought into compliance, thousand workplaces | 12.5 | 13.0 | 10.8 | 19.7 | **7.5** |
| Improved working conditions, thousand workplaces | 42.3 | 48.5 | 49.0 | 55.7 | **46.0** |

# Environmental protection and the efficient use of resources

As an environmentally driven company, Russian Railways carries out activities aimed at increased responsibility for environment conditions, introduces environment-friendly and effective technologies and supports “don’t harm nature” principles.


The Company has determined an ecological strategy for the period until 2015 and for the future prospect till 2030. The strategy is designed to decrease the environmental load from all types of economic activities of the Company by half by 2030, with green innovation technology introduced as a priority.

At the instruction of Russian Railways president Mr. V.I. Yakunin, the year 2013 was proclaimed as The Year of Environmental Protection. A key activities plan, based on a funding increase of more than 30% compared to 2012, has been developed and executed.

As a result of environmental activities in 2013, compared to 2012:

- Emissions of pollutants into the atmospheric air from static sources decreased by 3.1 thousand tonnes, or 3.6% compared to the level of 2012;
- Discharge of polluted wastewaters to surface water bodies decreased by 0.5 million m³, or 4.1%;
- Processing and neutralisation of wastes increased by 259 thousand tonnes, or 36.6%.

In addition, environment protection education and training activities for railway passengers were executed.

**Decrease of pollutants emission**

**3.1 thousand tonnes**

(-3.6% comparing to 2012)

**Increase of processing and neutralisation of wastes by**

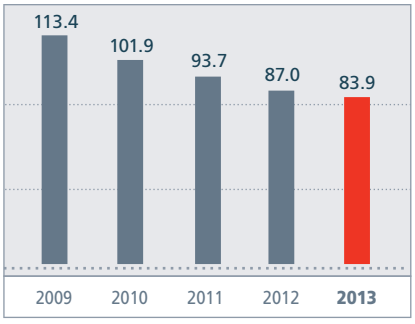
**259 thousand tonnes**

(+36.6% compared to 2012)

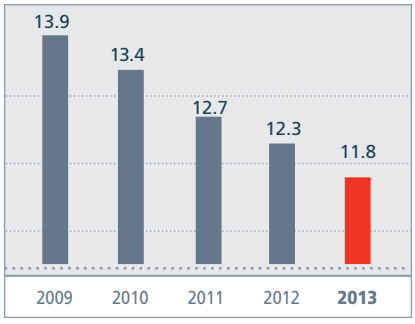
## Environmental activities undertaken in 2013:

- Arrangement of one “green train” for each operating domain of 16 railways with visual information regarding environment protection;
- Organising “subbotnik” (volunteer work) within the scope of the “Green Russia” all-Russian action. 164 thousand people participated in “subbotnik” and as a result, 895 unauthorised landfills were eliminated within the right of way, 18 thousand tonnes of wastes were moved out to operating domains, and more than 500 trees were planted;
- On passenger service trains, biodegradable was introduced;
- Preparatory works aimed at the separate collection of wastes in railroad complexes and in the office buildings of Russian Railways began in 2014;
- Monthly environmental actions have been carried out in the Company’s subsidiaries, aimed at creating fuel and power economy, decreasing the emission of pollutants into the atmosphere, decreasing the volume of waste disposal, and offering environmental culture training.

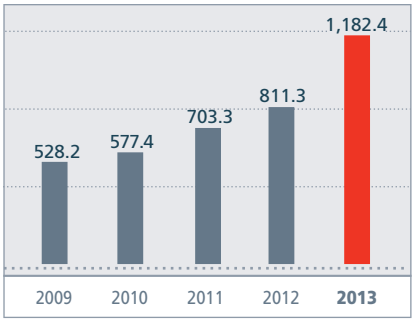
**Emission of pollutants into the atmospheric air from Russian Railways static sources,**
thousand tonnes




**Discharge of polluted wastewaters to water bodies by Russian Railways subsidiaries,** mln m³




**Processing and neutralisation of wastes by Russian Railways subsidiaries,**
thousand tonnes




In terms of environmental pollution, Russian Railways contributes less than 1% by way of emissions from static sources, discharge of polluted wastewaters to surface water bodies and production and consumption waste generation.

## Investment projects

The construction and revamp of 38 environmental facilities, as well as the development of construction documentation for 32 environmental facilities in 2014 was carried out in 2013 under the "Environment safety maintenance" investment project and the environmental component of the investment project of central directorates.

In total, 650 million RUB was directed to the realisation of the "Environment safety maintenance" project in 2013.

The "Implementation of resource-saving technologies in the railroad transport" project, with a strong environmental component, achieved 916.86 million RUB in financing in 2013.

**Realisation of the "Environment safety maintenance" project comes to**

RUB 650 mln

**"Implementation of resource-saving technologies in the railroad transport" project volume of financing is**

RUB 916.86 mln

**Number of reconstructed environmental facilities is**

38 objects

## Environmental monitoring system

The Company's effective environmental activities have received great appreciation from the federal executive authorities and public organisations and were acknowledged with prestigious national and international awards and certificates from environmental protection contests

On October 23, 2013, within the scope of the Company's environmental policy Russian Railways and the United Nations Industrial Development Organisation (UNIDO) signed a mutual declaration for the support and development of environmentally sustainable solutions in the Russian Federation.

The company has created an effective monitoring system for the corporate users of economic activities. In 2013, railway environment safety centers carried out the following industrial environmental monitoring tests for emissions and discharges to the atmospheric air, water bodies as well as soils pollution:

- From static objects by 56 ecological laboratories, as well as 11 test cars with an on-board complex of analytical equipment and 69 vehicle laboratories;
- From mobile sources (locomotives) – at 81 posts of environmental monitoring. Following service all locomotives underwent obligatory testing on the above indicated posts according to ecological indicators.

## Technical modernisation with environmental component

**Decrease of railway lines on timber sleepers comparing to 2012**

**3.8** thousand km

**ТЭ10 locomotives modernisation**

**120** units

**Innovative ТЭМ14 locomotives implementation**

**13** units

In 2013 the Company continued technical modernisation based on environmental requirements:

- ТЭ10 locomotives underwent modernisation works, with the replacement Д100 diesel with Д49 (120 units total), which allowed to provide decrease of pollutants emission into the atmosphere by 6%;
- 13 innovative double-diesel locomotive shunters were introduced ТЭМ14;
- All purchased timber sleepers were steeped in eco-friendly aseptic of 4th hazard rating. Comparing to 2012, the length of railway lines on timber sleepers has decreased by 3.8 thousand km;

# Human resources


## Personnel is a key factor for the achievement of the Company's strategic objectives.

The Company has set a human resources development strategy that runs until 2015.

The main strategic objectives in the human resources management policy of Russian Railways are the increased effectiveness and the department's involvement in the implementation of corporate goals.

An important indicator of the effectiveness of the Company's social and human resources policy is that in 2013 Russian Railways was added to the top 5 of the most attractive employers in the country among social welfare companies with public ownership (based on a survey conducted by the All-Russia Public Opinion Research Centre).

In 2013 the Company was performing methodical work for headcount optimisation based on business process excellence, work technology and time-consuming production process automation. By December 31, 2013, the staff strength of Russian Railways was 902.7 thousand people. For one year, the Company terminated the employment of 126.6 thousand people, and 91.6 thousand people were recruited. The release of personnel was mainly due to the natural flow-out and retirement of people who had reached retirement age.

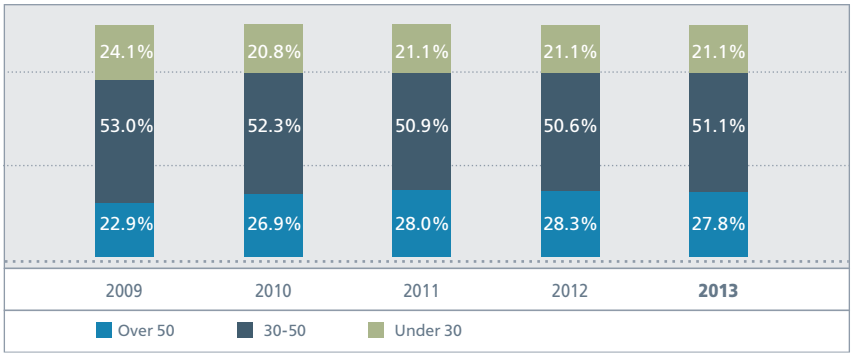
The staffing level in the Company was 97.6% according to the personnel chart, with a staff turnover level of 8.8%.

Over the past few years, the Company has "got younger" from a demographic perspective – the average age of employees decreased from 40 to 39.3 years. Of this, almost a third (27.8%) are under 30 years old, which is the result of a targeted corporate youth policy.

**The average age of employees got younger and is now**

**39.3 years old**

**Age structure of employees on the payroll list, %**



In the last decade, there has been significant growth in the number of employees with higher and secondary professional education.

**Employee share with higher education is**

**24.8%**

From total staff, 1.4% increase by the beginning of the year (growth since 2003 is 11.4%)

**Employees share with secondary professional education is**

**26.1%**

0.2% increase by the beginning of the year (growth since 2003 is 8.4%)

**Employee numbers at Russian Railways according to personnel categories, %**


| | |
|---|---|
| Workers | 67.0 % |
| Specialists | 22.6 % |
| Management | 7.1 % |
| Employees | 3.3 % |

## Labour compensation

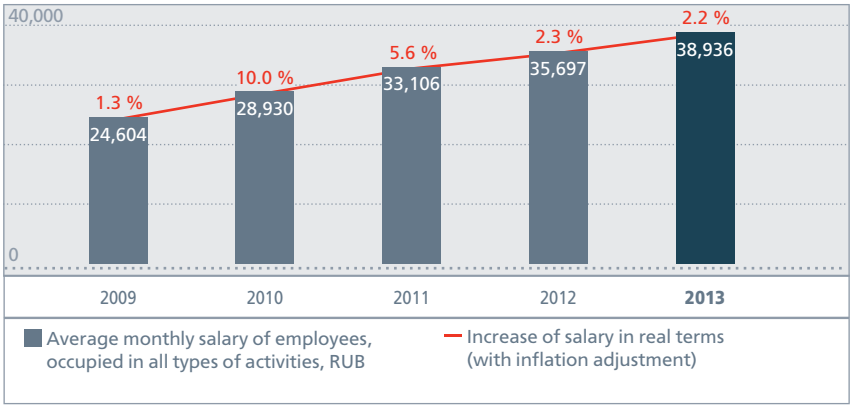
The key priority of social and human resources policy at Russian Railways is providing a competitive salary to the Company's personnel.

**The key priority of social and human resources policy at Russian Railways is providing a competitive salary to the Company's personnel.**

**9.1%**

The average monthly salary of Russian Railways employees in 2013 has grown by 9.1% and made up of 38,936 RUB (2012 – 35,697 RUB), including carrying categories – 39,384 RUB (+9.0% comparing to 2012). In real terms (with inflation adjustment), salaries have increased by 2.2% (including carrying categories, by 2.1%)

**Salary dynamics**



## Personnel motivation system development

The Company is performing constant and targeted work aimed at improve personnel salaries and its motivation system.

Staff receive a bonus for implementing transport safaty control. In 2013, based on work results in 2012, over 107 thousand employees of leading positions and professions, who were directly providing safe operations, were rewarded.

Subsidiaries actively apply various types of additional motivation. For instance, employees introducing technologies of lean production that save fuel and energy resources receive a 50% bonus of the declared project benefit and the costs of the saved resources respectively.

In addition, the Company is developing a system of personnel motivation via corporate awards, as well as singling out its employees for national and departmental rewards on a regular basis. In 2013, the Company recognised 10,381 employee and people, who are not employed by Russian Railways directly, but who made a valuable contribution to its development, with all types of rewards.

**For safe operations employees rewarded**

**107** thousand people

## Human resources development in Russian Railways

As part of a programme for the retraining and professional development of Russian Railways management and specialists, in 2013, through railway transport higher education institutions and other educational establishments, 83.3 thousand executives and specialists at Russian Railways upgraded their qualifications.

ПThe goal is to provide highly qualified personnel for the new business activities of Russian Railways, primarily to the transportation and logistics business.

**In 2013 qualifications upgrades were undertaken by**

**83.3** thousand executives and employees

## Corporate University

The Company is continuing with its business education development, the key element of which is the Russian Railways Corporate University.

Since 2010, more than 15 thousand Group executives have completed their education in various programmes.

In 2013, Corporate University focused its work on the development and launch of purpose-oriented and specific programmes in order to support the Company's new management system. The university significantly expanded the functionality of its portal Internet solutions in order to ensure educational, methodical and organisational support for remote participants.

**Key results of Russian Railways Corporate University activities in 2013:**

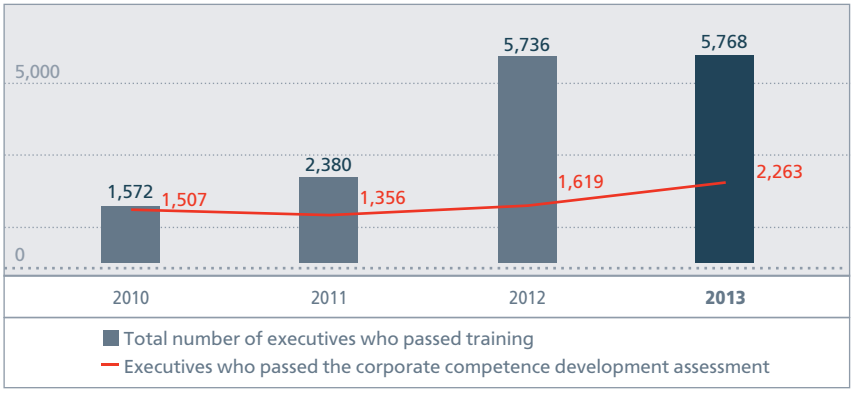
- 2,263 executives passed the corporate competence development assessment;
- 3,870 executives of the Group, including 3,562 executives of Russian Railways subsidiaries and 308 executives of affiliated and associated companies, completed the "Corporate Leadership" training programme;
- 1,233 participants in the "Corporate Leadership" programme launched personal growth plans with an automated control system for personal growth;
- 25 specialised programmes for 1,315 executives were executed;
- 10 onsite training programmes were run for functional and other subsidiary executives of Russian Railways, which included visits to railway transport enterprises in Germany, Great Britain, France, the USA, Spain and Sweden.
- 113 of Russian Railways senior management executives started training in a new purpose-oriented corporate management programme.

**In total, by the end of 2013, 5,768 executives from the Group, including 690 executives of university subsidiaries in St.Petersburg and Samara, had taken purpose-oriented, specific and remote educational programmes via the Corporate University**

**Since 2010, various university training programmes have been undertaken by more than**

**15 thousand executives**

**Executive training**



## Collective agreement implementation

In December 2013, Russian Railways and the Russian Labour Union of Railway and Transport Workers (Rosprofzhel) reached a new collective agreement for 2014-2016.

The basis for the collective agreement was the industrial agreement for railway transport establishments for 2014-2016, signed in August, 2013.

The collective agreement is mainly focused on the engagement, development, retention and motivation of personnel. A principle giving personnel responsibility for production results was launched.

The Company implemented all obligations stated in the collective agreement. Approximately 104 billion RUB was directed in 2013 for these purposes.

**Collective agreement implementation expenses**

RUB 104 bn

## Russian Railways housing policy

Since 2005, Russian Railways has had a housing policy designed to meet two main objectives:

- Financial support for employees in need of housing improvement;
- Arrangement of housing for employees involved in the technical aspects oftransportation.

In 2013, 2,347 employees received subsidised loans for residential property ownership (amounting to 4.3 billion RUB). Specific attention is paid to young and large families, as well as to single parents. For these groups non-repayable subsidies, which cover up to 70% of residential property cost, are provided.

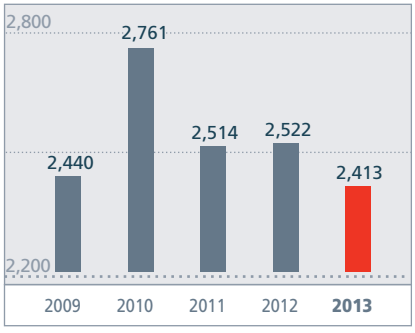
**In the period between 2006-2013 more than 26.6 thousand of the Company's employees have improved their housing conditions with Russian Railways financial support**

26.6 thousand employees

**In 2013 subsidised loans were provided to**

2.3 thousand employees

**The number of the Company's employees who have improved their housing conditions with company corporate support**



# Youth and health programmes

## One of the priority activities of the Company in human resources potential development is a corporate youth policy.

Since 2006, Company has run a purpose-oriented programme called Russian Railways Youth, which offers activities encouraging professional and personal development, linked to creative and active work for the benefit of Russian Railways and the Russian economy.

Within the scope of youth policy implementation, Russian Railways performs systematic works for the development of a student team movement. Beginning in 2009, more than 3,000 students of railway and construction higher education institutions took part in the construction of the 2014 Winter Olympic Games in Sochi transportation infrastructure programme. In 2013, at the final stage of Olympic infrastructure construction in Sochi, Russian Railways recruited student teams including 286 people from 12 educational institutions across Russia. In total, over than 12,000 students worked on Russian Railways infrastructure projects.

The Company pays special attention to fitness and sport, healthy lifestyle promotion and corporate culture and development among its personnel.

Russian Railways sport facilities currently include 1,892 active sport leagues for the most popular types of sports, which involve 41 thousand people. 28 thousand of these are railway workers and their family members, as well as 3.8 thousand children under 14 years old.

In total in 2013, Russian Railways held 1,805 sport events with the participation of 163 thousand railway workers and their families.

Russian Railways cultural facilities have 1.2 thousand clubs running with the participation of over 40 thousand people. 25 thousand of these are railway workers and their families. In 2013, more than 22 thousand cultural and educational events took place.

In 2013, 72 thousand Russian Railways Group employees' children had a holiday, with 12.5 thousand of them spending it on the Black Sea coast.

In 2013 Russian Railways arranged holidays for 48.8 thousand children in 63 children's recreational institutions

**In 2013 Russian Railways involved for work on its facilities**

**12** thousand students

**Russian Railways sport facilities involved in sport leagues more than**

**41** thousand people

**Holidays arranged in 2013 for**

**72** thousand children

# Corporate pension system

The increased lifespan of current and future retired employees has key importance in the Group's social policy.

**The amount of participants-depositors of the Russian Railways corporate pension system is**

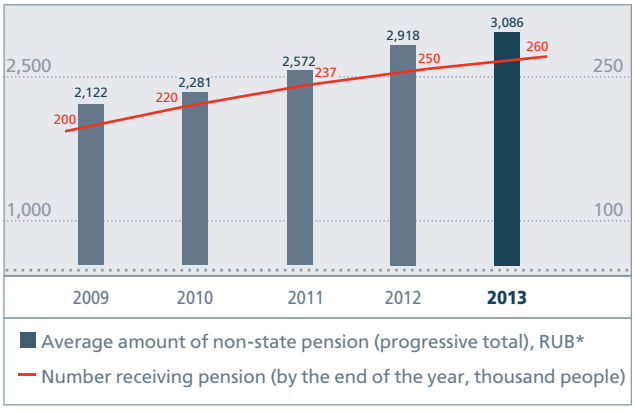
**644.6** thousand people

Non-state pension provision, which is adminstered by the non-state pension fund "Blagosostoyanie" provides Russian Railways personnel with the opportunity for a desirable lifestyle after retirement.

Total amount of the Russian Railways corporate pension system participants-depositors is 644.6 thousand people (71.5% from overall number of company personnel), 260.5 thousand of whom are currently receiving their pension.

Non-state corporate pension is provided to 260.5 thousand people. The average pension awarded in 2013 was 5,595 RUB.

**Key indicators of non-state pension provision to Russian Railways**




* - Calculation is based on payments given to all participants-depositors since corporate pension system operation began

# Charity

One of the ways in which Russian Railways contributes to society is through charity activities. These are carried out by the Company both autonomously – via acting commissions for providing assistance to various non-profit organisations and individuals – and through special funds

**Amount of charity financing in 2013 was**

**RUB 730 mln**

A wide range of funds to various population groups and charitable organisations is distributed via these funds.

Every year, the Company approves a plan of yearly charity activities.

The amount of finance committed for this purpose was 730 million RUB in 2013.

The Transsoyuz charity fund has been established to ensure a more effective organisation of charity activities and raising of additional funding sources, and in order to consolidate the financial capacity and charitable efforts of Russian Railways and its subsidiaries, as well as to undertake charity projects which have Russia-wide importance or are recognised as major industrial projects.

In 2013 the Company, together with the Transsoyuz charity fund, took part in such wide-ranging, purpose-oriented charity projects as:

- Recreation of the Agate rooms in Tsarskoye Selo State Museum-Preserve. The total amount of financing was more than 270 million RUB, Russian Railways share in 2013 – 31.2 million RUB;
- Conducting and financing expensive medical treatment, hardship child care, child hospice support and support of the social childcare charity fund Rasprav Krylya! The total amount of financing was more than 100 million RUB. The Russian Railways share in 2013 was 40.2 million RUB.