Great Company
for a Great Country

Annual report 2012

Joint Stock Company
“Russian Railways”
Last year, the railway service in Russia celebrated its 175\textsuperscript{th} anniversary.

Peering into a long way, laid by our predecessors, we understand the enormous responsibility for the present and future of the Company. This responsibility has never confined to short-term goals, or narrow objectives of the industry. The railways were and still are the largest component of the Russian transport system, one of the main mechanisms for the development of its economy and the welfare of its citizens.

Our country is changing, and Joint Stock Company “Russian Railways” is changing along with the country. Infrastructure giant that was focused on mass transportation of cargoes and services to large customers, is now being transformed into a flexible, efficient transport and logistics operator, which is providing to various clients a set of qualitative and modern services. Changing the business model is programmed by the new long-term development strategy of “Russian Railways”, adopted in 2012. The implementation of this strategy will allow Russian Railways to follow major challenges of the time being, while maintaining the competitive advantages gained through the history of the railways industry in Russia.

In this report, not only activities of the company in 2012 are presented. We would like to show how the company implements its long-term objectives of development, as long as objectives for the development of Russia.
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A state-based approach has always been a characteristic of Russian Railways. This is evidenced by 175 years of their history starting from the day when Emperor Alexander II signed the Imperial Decree for the creation of the first railway system. The very first five years after the Decree saw the construction of nearly three thousand kilometers of railways in Russia. They connected St. Petersburg with Moscow, Kiev and Black Sea ports, Brest and, via these, European capitals and the Atlantic. In 1880 the extremely challenging construction of the Caspian railway that ran through a sandy desert started. In 1891, a megaproject for the construction of the Great Siberian Route was launched. The press of the day compared it to the discovery of America and the construction of Suez Canal in terms of its importance and implications.

Today one would say that railways were the technological breakthrough of the day as they quickly and dramatically transformed markets, industries, territories and society. The accelerated pace of railway construction led to a surge in demand for products of all backbone industries – metallurgy, machine building, coal production – and resulted in a notable increase in Russia’s output and GDP.

Railroad construction had driven the development of natural and technical sciences: from geology to material science. Railroad workers conducted social and economic research that would have far-reaching effects. An example of such a decision was the construction in 1893 of the trans-Siberian line bypassing freethinking Tomsk that resulted in the establishment of a new powerful regional center – today’s Novosibirsk. Later on, the trans-Siberian line connected Novosibirsk and the whole of Siberia with Kazakhstan and Central Asia.

The development of transport – and, particularly when it comes to Russia, the development of railways – taking into consideration the multiplier effect strongly fosters growth across a wide range of industries and businesses. The new strategy of JSC “RZD” has been developed with the understanding of this paramount task.
Many advanced managerial decisions were also related to railways. Construction was financed by the state and private partners (both Russian and foreign) and their interests needed to be coordinated given the impact of this development on the Russian state. As a result, it was at this time when basic approaches to arrange private-public partnerships were test run for the first time. For example, S.Yu. Vitte, the author of the first common charter of the Russian railways, underlined the need “to develop economic activities in vast territories to increase the wellbeing of people”.

Railways connected and condensed huge spaces of Russia, preserved the integrity of the country and ensured its economic and political security in time of peace, but specifically in the years of war and revolution. Over four years of World War II, railways transported 20 mln cars with machinery, weapons, ammunition and equipment. The length of a train made of these cars would circle the Equator four times. Victories in war were accompanied by the rattle of wheels. It is no wonder that the country did not stop developing railways even in the hardest years. For example, the Transpolar mainline was laid in 1947, when the country was still suffering from post-war famine. It is difficult to overestimate the feat of people who built a road in the permafrost region knowing that in 1966 the discovery of the Urengoy gas field near the mainline would be made.

Today, as always, JSC “RZD” is not just one of Russia’s largest companies. The importance of the role of the railways in today’s economy is evidenced by the traffic density indicator that describes the intensity of their use: in Russia, it is 17 times higher than in the European Union.

Nearly 1 million of JSC “RZD” employees manage transportation on the world’s third largest railway network ensuring safe and coordinated freight and passenger traffic. Today, the successful operation of this huge transport and infrastructure complex is key to the social and economic development and competitive power of the entire country.
2 May 1937
Smaller Moscow Railway commenced operation

7 February 1943
The first train arrived to blockade Leningrad from the continent

19 February 1955
Moscow – Berlin regular railway service was launched

27 October 1984
Through traffic along the Baikal-Amur mainline was officially launched

10 January 1998
Transport Charter of the Railways of the Russian Federation was adopted

30 September 1966
The first trip of the Rossiya train: travel from Moscow to Vladivostok takes 143 hours 20 minutes

8 January 1998
The first train arrived to blockade Leningrad from the continent

17 December 2009
The first trip of Sapsan high-speed train between St. Petersburg and Moscow (travel time – 3 hours 45 minutes)

10 June 1931
The first Soviet express Red Arrow and first sleeping coaches in the USSR were launched

17 December 2009
GT1-001 gas turbine locomotive used for the first time to pull a freight train with a weight of 15 th. tonnes

12 December 2010
The first trip of the Allegro high-speed train along the St. Petersburg – Helsinki route

23 January 2009
The first trip of the Allegro high-speed train along the St. Petersburg – Helsinki route

25 December 2002
Trans-Siberian line electrification was completed

18 September 2003
JSC “RZD” was incorporated

10 January 2003
Federal Law “On rail transport in the Russian Federation” was passed
Opening address of Kirill Androsov, Chairman of the Board of Directors of JSC “RZD”

This decision was driven by the necessity to respond to processes that dynamically change the external environment. First of all, they include:

- evolution of the standpoint of the government – the only shareholder of the Company and, at the same time, the regulator that sets the rules for the development and operation of the rail transport – on the target state of the sector and, particularly, JSC “RZD” expressed through the following decisions:
  - to approve the acquisition of GEFCO, one of the global logistic leaders, by JSC “RZD”. This is the shareholder’s decision to expand the scope of the company’s businesses and, consequently, to transform it from a railway carrier into a global transport and logistic company;
  - to grant JSC “RZD” the right to change its tariffs for freight transportation by rail within certain price limits (a tariff corridor). This is the regulator’s decision to change the pricing principles with respect to the base transportation service, the key regulation method for railway transportation. The changes aim at creation of the conditions enabling to correlate financial and economic interests of the infrastructure owner – JSC “RZD” as a carrier, consigners and owners of rolling stock (operators). This resulted in the company’s ability to attract additional freight volumes due to immediate correlation of prices with changes in the market situation.

The above processes also include changes in the macroeconomic environment and
intensification of interspecific competition in the transport and logistic services market.

The time of consigners has come. Various modes of transport, owners and operators of rolling stock, transport and logistics companies are experiencing tough competition for customers and the freight base.

Competition has accelerated the process of globalization and integration of the transport market, with the most successful railway companies becoming global providers of comprehensive transport and logistics services and increasingly offering “door-to-door” transportation using all available means of transport, which meet the respective client needs to the maximum.

The government regulation that currently exists in respect of railway transportation considerably limits the competitive advantages of JSC “RZD” in comparison with other means of transportation. Acting as a natural monopoly and having the status of a “public carrier”, the company has to offer all customers the same freight transportation services in terms of their form, quality and price. However, individual requests of the customers are quite specific – transportation for the minimum cost, transportation in the shortest possible time, freight delivery at the exact time, the ability to guarantee freight transportation despite of infrastructure shortfalls. Meeting these requirements implies different efforts and, therefore, various costs on the part of the company. But the existing regulating system restricts the customer-oriented approach in the industry.

The company should change the existing business model of a “network-wide railway carrier” and transit to the model of a “transport and logistics operator”. However, integration of transport and logistic activities with ownership and managements of the railway infrastructure should remain the natural competitive advantage of the company.

Working out and effective implementation of the company’s long-term development strategy determining its strategic goals and priorities, as well as practical plans for the achievement of such goals are the best way to respond to external challenges and the guarantee of success in future.

The last year was the 175th anniversary of the establishment of the Russian railways. This decision made ages ago cannot be overestimated. The history of our state, lives of many citizens of our country have been inseparably associated with the history of establishment and development of the Russian railways for about two centuries.

I am confident that “Russian Railways” has every reason to be optimistic about the future.

ANDROSOV
Kiril Gennadievich
Opening address of the President of JSC “RZD”
V. I. Yakunin

Last year, freight turnover using the JSC “RZD” infrastructure was 2.783 trn ton-kilometers and the loading volume increased to 1.272 bln tons. Both indicators demonstrated growth compared to 2011 of 2.9 and 2.4 percent, respectively, and JSC “RZD” held its strong lead in both indicators globally.

Growth in passenger transportation was 6.6 percent with 1.059 bln passengers choosing to travel by railway. High-speed passenger transportation is growing at an even higher pace; last year, more than 3 mln people traveled on Sapsan trains. Railways remain one of the most affordable means of transport for Russian residents. We expect than the ticket purchase microcredit and loyalty programs launched by us are expected to increase further the appeal of railway services to individuals. In less than half a year, some 100 th. people joined our loyalty program “RZD-Bonus”.

JSC “RZD” RESTRUCTURING

In 2012, we completed most of the structural transformation related to our transition from a conventional and mainly territory-based system of Company management to an advanced matrix structure of the Holding Company. A key role in operations management is now carried out by network-wide specialized directorates; their activities are coordinated at both a regional and federal level; chains of command have been created for all major lines of the Holding Company’s activities. The JSC “RZD” administration has been converted into a strategic management body called Corporate Center and railways are being transformed into regional centers of

Dear colleagues and partners,

2012 was special for us, as it was an anniversary year. 175 years ago, Russia embarked upon the mass construction of railways, thereby laying the foundation for strong industrial growth, creation of the common economic space, and the development of domestic and foreign trade.

Today, just as many years ago, railways remain at the heart of Russia’s transport complex and continue to meet the increasing needs of its economy and residents.
In the course of its history, Russian railways have seen more dramatic reforms than this: privatization in the 1860s, the nationalization of roads in 1880s, the Soviet nationalization of 1917, and the war years.

During our recent reform, 85 subsidiaries and affiliates were removed from the Holding Company’s structure; the aggregate net assets of the companies whose shares and stakes are owned by JSC “RZD” are now valued at around RUR 500 bln. JSC “RZD” has fully attained its targets regarding the increase in income from the sale and lease of marginal and unused property, which amounts to some RUR 7.3 bln.

LARGEST PROJECTS

In Vladivostok, the launch of an intermodal passenger service along the Vladivostok – Knevichi airport route was completed as a part of the preparation for the APEC summit. Brand new hubs were set up in Kazan for the start of the 27th World Summer Student Games in Adler during the preparation for the winter Olympics in Sochi. Intermodal systems ensure complementary services of various other forms of transport. This approach is characteristic of the next generation of transport systems and it significantly enhances the appeal of railways, which is particularly important in the context of growing interspecific competition for transport.

A significant part of the investment projects implemented by the Company is aimed to eliminate “bottlenecks” on the sections where infrastructure restrictions prevent an increase in railway capacity. Specifically, we have intensified efforts at the Moscow rail junction and, with financial support from the Investment Fund of the Russian Federation, we have completed the largest construction of the new Kuznetsovsky tunnel at the Far Eastern Railway. Its capacity on this section will nearly triple in the long term.

I would like to stress that during large-scale construction, for example, the Olympic railway facilities in Sochi, we seek to minimize environmental impact.

A regulatory “network contract” will help accelerate railroad construction and reconstruction and optimize the Holding Company’s investment costs. It is being prepared by JSC “RZD” in co-operation with the Russian Government and we hope that it will set a state standard with regard to the level of railway capacity, which is currently absent today and which will determine a required volume of budgetary investments in infrastructure development.

The results of the year are set out in this report as facts and figures, but each of them is supported by the huge efforts of our people. I would like to thank everyone who has contributed to the stable and progressive development of Russian Railways.

YAKUNIN
Vladimir Ivanovich

A MORE EFFECTIVE INDUSTRY

In late December 2012 the Common Network Process of Railway Freight Transportation developed by JSC “RZD” was adopted. The document regulates interaction between all transportation participants, ensures the stability of transportation and their more efficient use of the rail transport infrastructure and, eventually, will lead to a reduction in transport costs for the economy.

Taking into account the transportation tariff regulation and the significant increase in prices of resources consumed by JSC “RZD”, the financial stability of the Company remains at the same level as in recent years. Nevertheless, we continue to take efforts to make cost-savings in resources and to increase labor productivity in order to keep transportation costs down: today, their growth rate is below the inflation level.

JSC “RZD” remains one of the largest taxpayers in Russia. In 2012, payments to budgets of all levels exceeded RUR 256 bln.

BRAND NEW LEVEL OF CUSTOMER SERVICE

A major event of last year was the completion of the acquisition by JSC “RZD” of a 75% share of Gefco, an international logistics operator. Once this company is fully integrated into the Holding Company's structure we expect this acquisition to help us significantly accelerate the development of comprehensive transport and logistics services and, in the longer run, move Russian railways to a new global level.
Corporate profile of Open Joint Stock Company “Russian Railways”

JSC “RUSSIAN RAILWAYS”

• is among the world’s largest freight carriers (ranking third in terms of cargo turnover globally);
• ranks fourth in passenger railway transportation globally;
• is one of Russia’s largest companies in terms of assets: RUR 4.3 trn as of 31 December 2012 according to RAS;
• is one of the leaders in terms of contribution to the Russian economy (1.74% of GDP at the end of 2012);
• enjoys the support of the Russian government.


MISSION OF JSC “RZD”:
WE SEEK TO EFFECTIVELY DEVELOP A TRANSPORTATION BUSINESS THAT IS ABLE TO COMPETE ON THE RUSSIAN AND INTERNATIONAL MARKETS, WHILST RESPECTING OUR RESPONSIBILITY AS A NATIONAL CARRIER AND RAIL INFRASTRUCTURE OWNER

Main objectives of the joint stock company:

- Meeting demand of the state, individuals and entities for rail transportation, work and services provided by rail transport
- Running the business profitably

Strategic objectives of the Company:

- Increase in the scale of transport business
- Increase in production and economic performance
- Increase in performance quality and safety of transportation
- Strengthening the integration with the Eurasian transport system
- Increase in financial stability and performance
The Company is a 100% state-owned natural monopoly

85.2 th. km
length of railways in operation

JSC “RZD” owns the third longest railway network in the world

43.3 th. km
length of electrified railways

JSC “RZD” railway network is the second longest electrified one in the world

85.4%
railways share of the total transported cargo turnover (excluding pipeline transport)

JSC “RZD” is one of the world leaders in terms of cargo turnover transportation (2,782.6 billion tkm via the JSC “RZD” infrastructure)

30.5%
share of total passenger turnover in the Russian Federation

One of the world leaders in the passenger transportation sector

935.7 th. people
employed by JSC “RZD”

Major commercial employer in Russia

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JSC "RZD" vs. World Leading Railway Companies1 (2011)

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<th>LENGTH OF RAILWAYS IN OPERATION, TH. KM</th>
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<td>European Union</td>
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<td>USA (incl)</td>
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<td>China</td>
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<td>Japan (Japanese National Railways)</td>
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<th>CARGO TURNOVER, BILLION TKM</th>
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<th>PASSENGER TURNOVER, BILLION PASSENGER-KM</th>
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<th>LENGTH OF ELECTRIFIED LINES, TH. KM 2</th>
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<td>Russia</td>
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<td>Japan (Japanese National Railways)</td>
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1 RZD Holding Company includes JSC “RZD” and its subsidiaries
2 Data related to China are given for 2012
Cooperation with Public Authorities

Key areas of cooperation between JSC “RZD” and public authorities in 2012:

- Elaboration of JSC “RZD” long-term development strategy
- Determination of JSC “RZD” investment project priorities
- Funding of investment projects related to the development of public railway infrastructure, transportation safety, renovation of the rolling stock fleet
- Development of a long-term tariff regulation model for freight and passenger transportation
- Participation in the preparation of documents related to the railway transport reform

GOVERNMENT SUPPORT OF INVESTMENT PROJECTS

In 2012 the Government provided JSC “RZD” with special purpose funds to construct facilities for the XXII Olympic Games 2014 in Sochi and to implement the project “Development of the Transport System of Moscow and Moscow Region”. The government is financing the ongoing construction of railway tracks and the electrification of the Vyborg-Primorsk-Ermilovo section, which will be used for cargo transportation following the creation of the high speed connection between Saint-Petersburg and Helsinki. Funds are also allocated to develop the infrastructure of the Gremyachaya Station, which forms part of the Azov-Chernomorsky transportation hub.

JSC “RZD” also received subsidies for the overhaul of public railway infrastructure facilities.

Projects “Organization of High Speed Traffic of Passenger Trains at the Saint-Petersburg – Buslovskaya Section of the Oktyabrskaya Railway” and “Reconstruction of Oune – Vysokogornaya Section, Including Construction of a new Kuznetsovsky Tunnel at the Komsomolsk-on-Amur – Sovetskaya Gavan Section” initiated by JSC “RZD” are funded by the Investment Fund of the Russian Federation.
TARIFF REGULATION

Following the meeting in Kemerovo on 5 August 2012, Chairman of the Russian Government, D. A. Medvedev, instructed the respective Ministries to develop, in cooperation with JSC “RZD”, proposals to introduce long-term railway tariff regulation methods.

The Ministry of Economic Development of the Russian Federation was instructed to assume a 7% tariff adjustment in 2013 and a tariff adjustment, not exceeding the inflation rate, in 2014 for the 2013-2015 forecast of social and economic development of the country.

OTHER TYPES OF DIRECT GOVERNMENT SUPPORT

Funds, according to the Decree of the Government of the Russian Federation No 844 dated 17 October 2011 on the compensation of revenue losses resulting from government regulation of tariffs for the use of public railway infrastructure services in passenger suburban transportation, remained at the same level. As in 2011, RUR 25 bln were provided from the federal budget for those purposes in 2012.

The Federal Law on Budget provides for the funding of new motor vehicles transportation via railroads as part of its support of Russian motor vehicle manufacturers. In 2012, these funds amounted to RUR 2,774.6 mln.

Furthermore, government funds (totalling RUR 1 bln are allocated:
• to help protect railway infrastructure against illegal interference;
• to compensate revenue losses resulting from the establishment of an exclusive tariff for the transportation of grain, flour and cereal products;
• to compensate revenue losses resulting from tariff regulation of passenger long distance transportation (open-plan and sitting cars);
• to compensate revenue losses resulting from the social service transportation of pupils and students.

BUILD-UP OF THE FUNDING BASE

In order to build up a funding base, government guarantees, bond loans, financial facilities of the Pension Fund of the Russian Federation and the Fund of National Prosperity and issue of infrastructure bonds are now under consideration.

The main funding principles for the long term:
• renovation of the Company’s fixed assets at the cost of the depreciation charge;
• implementation of commercially effective projects with the payback period of 10 years – at the cost of of borrowed funds;
• implementation of commercially ineffective projects – at the cost of revenue-yielding bonds.
• implementation of commercially ineffective projects – at the level of government support.

Following the meeting presided by V.V. Putin, held in the Rizhsky Station in April 2012 with the participation of and key ministries and departments, it was decided to shift to long-term tariff planning and fund the railway infrastructure at the cost of the RF Pension Fund and the National Wealth Fund.

DETERMINATION OF PRIORITY PROJECTS

The construction of a high speed railway line Moscow – Saint-Petersburg (HSRL) and the modernization of the Baykalo-Amurskaya railway were named among the priority projects at the meeting on the prospects of railway infrastructure development held at the Rizhsky railway station on 26 April 2012. President V.V. Putin reiterated that the funding issue with respect to these projects needed be resolved urgently.

The decision was taken to set up an interagency railway transport development working group in order to discuss, among other topics, JSC “RZD”’s priority investment projects up to 2020 and the build-up of an investment funding base.

In the medium term the Company will continue to focus on projects related to transportation safety, as well as railway infrastructure and rolling stock modernization.

The development of the United Transport Logistics Company (UTLC) and the development of the transportation system between the countries of the Custom Union and the Common Economic Space of Russia, Belarus and Kazakhstan are among the important long-term projects.
DRAFT LAWS AND REGULATIONS


A draft of the Concept of Suburban Passenger Railway Transportation Development was developed in cooperation with the Ministry of Economic Development. It was examined at the session of the Governmental Transport and Communications Commission (chairman: deputy chairman of the Government of the Russian Federation, Mr. A. Dvorkovitch) and was supported by the Civic Chamber of the Russian Federation. According to the Concept, a government order is a mechanism for funding suburban passenger transportation services and public railway infrastructure services. The Concept imposes on the constituents of the Russian Federation absolute obligations for the determination of economically sound tariffs for passenger transportation and for the compensation of revenue losses of suburban passenger services companies resulting from government tariff regulation. Furthermore, the Concept provides for improvement in laws regulating fare evasion on the suburban railway transport. Implementation of the Concept will lead to a significant increase in the quality of suburban passenger railway services used by more than 10 million people.

CHANGES IN STATUTORY ACTIVITIES

The authorized capital of JSC “RZD” amounted to RUR 1,826,877 mln at the end of 2012.

In addition, in Q4 of 2012 JSC “RZD” placed shares with a total value of RUR 60,832.676 mln in favor of the Russian Federation in accordance with the Decree of the Government No 2427-p dated 19 December 2012. However, those amendments in the Company’s Charter will not be registered by the tax authorities until 2013.

The funds mentioned above are to be used as follows:
- RUR 34,925.94 mln on the construction of transport infrastructure facilities as part of the preparation for the XXII Winter Olympic Games and XI Winter Paralympic Games 2014 in Sochi;
- RUR 25,906.736 mln to implement measures to develop the Moscow Region transportation system.

The funds are to be used as follows:
- RUR 14,497 mln on the creation of transport infrastructure facilities as part of the preparation for the XXII Winter Olympic Games and XI Winter Paralympic Games 2014 in Sochi;
- RUR 7,500 mln on comprehensive reconstruction, construction of second tracks and electrification of Vyborg-Primorsk-Ermilovo section;
- RUR 825 mln on Gremyachaya Station Infrastructure Development;
- RUR 17,338 mln on implementation of measures to develop the Moscow Region transportation system.

JSC “RZD” achieved all targets related to projects connected with the instructions of the Russian Government.

RUR 152.1 bn
Government financial support received by JSC “RZD” in 2012

of which RUR 25 bn is for the compensation of revenue losses resulting from government tariff regulation of suburban passenger transportation

RUR 73.4 billion
JSC “RZD”’s investments in projects instructed by the Russian Government
Organizational structure of JSC “RZD”

Consolidated organizational structure of JSC “RZD” as of 31 December 31 2012: 1 the parent company and its branches and affiliated companies, established by geography and function

1 The current organizational structure of the JSC “RZD” Holding Company includes all amendments adopted at the meetings of JSC “RZD” Board of Directors in 2012 as of 31 December 2012. It may differ from the list of Branches and Representative Offices of JSC “RZD” according to the Appendix to the Charter of JSC “RZD” for the respective date.
Year in Review and Key Corporate Events

Structural Transformations

TASKS:
Establish a competitive corporate structure, ensure administration and maintenance of the common railroad infrastructure and central supervisory control.

IN RAIL TRANSPORT:
• rail transport restructuring Program has been mainly implemented;
• the state has determined principles for the long-term financing of the industry’s infrastructure projects;
• the Holding Company has developed a model for regulatory (network) contracts and a concept for a reform of passenger transportation.

AT JSC “RUSSIAN RAILWAYS”:
• a large part of the management reform has been completed; it affects 1,000 units and 360 th. employees – the Central Infrastructure Directorate started operating in full on 1 October 2012;
• chains of command have been created for all core activities;
• railways are now operating as regional centers of corporate management.

Infrastructure projects

TASKS:
Within the budget constraints, as a minimum, ensure elimination of bottlenecks, develop high-speed passenger transportation technologies and improve freight transportation performance.

22 Group enterprises and more than 500 allied suppliers manufacture rolling stock. Within the machine construction industry, rail machine construction is experiencing high growth rates.

ELIMINATION OF BOTTLENECKS:
• approaches to harbors have been extended at the ports of Novorossiysk (Black Sea), Ust-Luga (Gulf of Finland), Vanino and Sovetskaya Gavan (Tatar Strait of the Sea of Japan);
• activities to extend approach roads to China via Zabaikalsk continue;
• the reconstruction of the Kuznetsovsky tunnel at the Baikal-Amur mainline has been completed; the capacity of the section will triple;
• work has started to upgrade Russia’s largest Moscow Rail Junction.

PASSENGER TRANSPORTATION:
• intermodal hubs have been set up in Vladivostok and Sochi;
• The Holding Company is building the transport infrastructure for the winter Olympic Games in Sochi.
• High-speed transportation:
  – Since their launch, Sapsan trains have transported 7 mln passengers, and Allegro trains, more than 70 th. people;
  – by order of JSC “RZD”, localized production of Lastochka electric trains (Siemens Desiro RUS) has started;
  – by order of JSC “RZD”, production of EP20 high-speed passenger electric locomotives has started.

JSC “RZD” has purchased Granit electric locomotives able to haul superheavy trains.
Year in Review and
Key Corporate Events (continued)

International co-operation

**TASKS:**
Development of Russia’s transit potential, integration of the national railway network into the Eurasian transport system.

- JSC “RZD”, JSC “NC ”Kazakhstan Temir Zholy” and SA “Byelorussian Railways” set up the United Transport and Logistic Company (UTLC).
- A project for a new Eurasian transport corridor with 1,520 mm gauge railway extension to Bratislava and Vienna and the building of an international logistics center in the Vienna/Bratislava area is being developed with the railway authorities of Austria, Slovakia and Ukraine.
- Reconstruction of the Khasan (Russian Federation) – Rajin (DPRK) railway section continues.
- Service along the Tabriz – Azar Shahr (Iran) railway line has started.
- JSC “RZD” is implementing projects to develop and upgrade the railway infrastructure of Serbia and Armenia. Possibilities to implement projects in Nicaragua, Ecuador, Namibia, Kuwait, Ethiopia, Kenya, India, Vietnam, Indonesia are being considered.

Innovation

**TASKS:**
Upgrading the technological base for the development of the Company’s core activities.

- More than RUR 7 bln were allocated for R&D (0.53% of the revenue of JSC “RZD”).
- JSC “RZD” is one of few companies in Russia where the R&D expenditure level matches the expenditure of global companies.
- In 2012, innovative solutions were used in:
  - the development of intelligent transportation control systems;
  - service quality management;
  - the monitoring of the state of fixed assets and processes.
- the Common Network Process was developed to ensure transportation in market conditions.
- by order of JSC “RZD”, the production of advanced high-speed passenger trains and new mainline electric locomotives was localized. By 2016, the company will purchase 625 electric trains.
Social responsibility

**TASKS:**
The level of corporate social responsibility must match the scope and geography of JSC “RZD” activities, its status as the national carrier and as one of Russia’s largest companies.

**ECONOMICAL:**
- retained its position as one of the global transport market leaders;
- financed key investment projects in Russia and abroad to the benefit of Russia and JSC “RZD”;
- accounted for 1.71% of the Russian Federation’s GDP;
- transferred taxes to budgets of all levels amounting to RUR 256 bln;
- paid dividends based on the results of 2011 amounting to RUR 4,205 mln.

**ENVIRONMENTAL:**
- continued to favour green technologies and undertake new construction in an environmentally responsible way;
- has invested RUR 2.4 bln in projects with an environmental component and allocated RUR 2.9 bln to nature protection and resource saving activities;
- achieved its targets to reduce environmental impact.

**SOCIAL:**
- was the largest commercial employer in Russia;
- fulfilled its obligations under the Bargaining Agreement and Industrial Agreement of rail transport organizations;
- from 2005 to 2012, allocated RUR 623 bln to fulfill its obligations under the Bargaining Agreement;
- increased payments to employees in line with labor efficiency and inflation rates;
- provided relevant employees with housing and granted housing subsidies;
- ensured supplementary medical and pension insurance;
- promoted a healthy lifestyle and fostered mass and children sports;
- financed one of the country’s best football teams – Locomotive FC.

In 2012, JSC “Russian Railways” improved its results against its most important performance indicators and implemented all investment programs whilst preserving financial stability.

**RUR 1,366.0 bln**
Operating income of JSC “RZD” in 2012

Annual increase in operating income was RUR 77.7 bln (+6.0% versus last year).

**RUR 272.0 bln**
Earnings before interest, depreciation, taxes and amortization (EBITDA)

In 2011, this figure was lower (RUR 271.4 bln). However, the net profit of JSC “RZD” at the end of 2012 reduced by RUR 2.7 bln, compared with the previous year, mainly due to tariff regulation activities in the rail transport industry.

**RUR 3,488.9 bln**
Net asset value of JSC “RZD” as of 31 December 2012

Annual increase in net asset value was RUR 121.3 bln (+3.5%). The total value of net assets of the companies whose shares and stocks are owned by “RZD” Holding Company is close to RUR 500 bln.
KEY PERFORMANCE INDICATORS OF JSC “RZD” IN 2010-2012.

1.3% of employees are engaged in cost-saving activities at JSC “RZD”

The company is the largest commercial employer in Russia

4.5% increase in labour efficiency in 2012

Economically sustainable relationship between the growth rate in labour efficiency and wages is retained

2.4% increase in employees’ real earnings

Real increase in average monthly wages is 7.6% (up to RUR 36,124)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Units of measurement</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<tr>
<td><strong>VOLUMETRIC AND QUALITATIVE INDICATORS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loading</td>
<td>mln tons</td>
<td>1,205.8</td>
<td>1,241.5</td>
<td>1,271.9</td>
</tr>
<tr>
<td>Freight turnover</td>
<td>bln ton-km</td>
<td>2,501.8</td>
<td>2,704.8</td>
<td>2,782.6</td>
</tr>
<tr>
<td>– excluding empty cars owned by third parties and empty leased cars</td>
<td>bln ton-km</td>
<td>2,011.3</td>
<td>2,127.8</td>
<td>2,222.4</td>
</tr>
<tr>
<td>– including empty cars owned by third parties and empty leased cars</td>
<td>bln ton-km</td>
<td>490.5</td>
<td>576.9</td>
<td>560.2</td>
</tr>
<tr>
<td>Passenger turnover</td>
<td>bln pass-km</td>
<td>138.9</td>
<td>139.8</td>
<td>144.6</td>
</tr>
<tr>
<td>Infrastructure services, including</td>
<td>mln car-km</td>
<td>5,576.2</td>
<td>5,637.2</td>
<td>5,588.8</td>
</tr>
<tr>
<td>– long distance</td>
<td>mln car-km</td>
<td>4,262.4</td>
<td>4,323.0</td>
<td>4,252.1</td>
</tr>
<tr>
<td>– suburban</td>
<td>mln car-km</td>
<td>1,313.8</td>
<td>1,314.2</td>
<td>1,306.7</td>
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<tr>
<td><strong>OPERATING EFFICIENCY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service speed</td>
<td>km/h</td>
<td>41.2</td>
<td>37.1</td>
<td>36.0</td>
</tr>
<tr>
<td>Freight car turnover</td>
<td>days</td>
<td>13.441</td>
<td>14.40</td>
<td>15.49</td>
</tr>
<tr>
<td>Average weight of a freight train</td>
<td>tons</td>
<td>3,867</td>
<td>3,868</td>
<td>3,891</td>
</tr>
<tr>
<td>Efficiency growth rate</td>
<td>%</td>
<td>+17.4</td>
<td>+17.5</td>
<td>+4.5</td>
</tr>
<tr>
<td><strong>EQUITY, ASSETS AND LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance sheet total</td>
<td>RUR bln</td>
<td>3,798.0</td>
<td>4,135.6</td>
<td>4,330.8</td>
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<tr>
<td>Capital assets</td>
<td>RUR bln</td>
<td>3,542.2</td>
<td>3,765.2</td>
<td>4,031.7</td>
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<tr>
<td>Current assets</td>
<td>RUR bln</td>
<td>255.8</td>
<td>370.4</td>
<td>299.1</td>
</tr>
<tr>
<td>Capital and reserves</td>
<td>RUR bln</td>
<td>3,164.4</td>
<td>3,361.5</td>
<td>3,481.8</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>RUR bln</td>
<td>303.3</td>
<td>316.9</td>
<td>427.8</td>
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<tr>
<td>Short-term liabilities</td>
<td>RUR bln</td>
<td>330.3</td>
<td>457.2</td>
<td>421.2</td>
</tr>
<tr>
<td>Net assets</td>
<td>RUR bln</td>
<td>3,169.1</td>
<td>3,367.6</td>
<td>3,488.9</td>
</tr>
<tr>
<td><strong>INVESTMENTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment budget amount</td>
<td>RUR bln</td>
<td>317.4</td>
<td>395.4</td>
<td>480.1</td>
</tr>
</tbody>
</table>

1 Figures for 2010 do not match the financial statements for 2010 as they contain adjustments specified in detail in the appendix
### FINANCIAL PERFORMANCE

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Units of measurement</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income</td>
<td>RUR bln</td>
<td>1,195.1</td>
<td>1,288.3</td>
<td>1,366.0</td>
</tr>
<tr>
<td>Income from transportation, infrastructure and locomotive hauling services</td>
<td>RUR bln</td>
<td>1,079.3</td>
<td>1,109.1</td>
<td>1,083.3</td>
</tr>
<tr>
<td>– Freight transportation</td>
<td>RUR bln</td>
<td>936.2</td>
<td>1,003.1</td>
<td>1,089.3</td>
</tr>
<tr>
<td>– Infrastructure services¹</td>
<td>RUR bln</td>
<td>88.4</td>
<td>87.2</td>
<td>96.7</td>
</tr>
<tr>
<td>– Locomotive hauling services¹</td>
<td>RUR bln</td>
<td>11.8</td>
<td>11.4</td>
<td>12.4</td>
</tr>
<tr>
<td>– Passenger transportation</td>
<td>RUR bln</td>
<td>42.9</td>
<td>7.4</td>
<td>8.1</td>
</tr>
<tr>
<td>Income from other activities</td>
<td>RUR bln</td>
<td>115.8</td>
<td>179.2</td>
<td>159.5</td>
</tr>
<tr>
<td>Total expenditure</td>
<td>RUR bln</td>
<td>1,084.2</td>
<td>1,215.6</td>
<td>1,298.6</td>
</tr>
<tr>
<td>Expenditure on transportation, infrastructure and locomotive hauling services</td>
<td>RUR bln</td>
<td>986.4</td>
<td>1,050.8</td>
<td>1,151.5</td>
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<tr>
<td>– Freight transportation</td>
<td>RUR bln</td>
<td>796.1</td>
<td>933.2</td>
<td>1,017.4</td>
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<tr>
<td>– Infrastructure services¹</td>
<td>RUR bln</td>
<td>86.2</td>
<td>102.2</td>
<td>118.8</td>
</tr>
<tr>
<td>– Locomotive hauling services¹</td>
<td>RUR bln</td>
<td>8.8</td>
<td>8.4</td>
<td>9.1</td>
</tr>
<tr>
<td>– Passenger transportation</td>
<td>RUR bln</td>
<td>95.3</td>
<td>7.0</td>
<td>6.2</td>
</tr>
<tr>
<td>Expenditure on other activities</td>
<td>RUR bln</td>
<td>97.8</td>
<td>164.7</td>
<td>147.1</td>
</tr>
<tr>
<td>Total profit</td>
<td>RUR bln</td>
<td>110.9</td>
<td>72.8</td>
<td>67.4</td>
</tr>
<tr>
<td>Profit from transportation, infrastructure and locomotive hauling services</td>
<td>RUR bln</td>
<td>92.9</td>
<td>58.3</td>
<td>54.9</td>
</tr>
<tr>
<td>– Freight transportation</td>
<td>RUR bln</td>
<td>140.1</td>
<td>69.9</td>
<td>71.9</td>
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<tr>
<td>– Infrastructure services</td>
<td>RUR bln</td>
<td>2.2</td>
<td>-15.0</td>
<td>-22.1</td>
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<tr>
<td>– Locomotive hauling services</td>
<td>RUR bln</td>
<td>3.0</td>
<td>3.0</td>
<td>3.2</td>
</tr>
<tr>
<td>– Passenger transportation</td>
<td>RUR bln</td>
<td>-52.4</td>
<td>0.4</td>
<td>1.9</td>
</tr>
<tr>
<td>Profit from other activities</td>
<td>RUR bln</td>
<td>18.0</td>
<td>14.5</td>
<td>12.5</td>
</tr>
<tr>
<td>Profit from other income and expenditures</td>
<td>RUR bln</td>
<td>15.0</td>
<td>3.8</td>
<td>-1.3</td>
</tr>
<tr>
<td>Profit from sale of shares of subsidiaries and affiliates</td>
<td>RUR bln</td>
<td>6.9</td>
<td>66.3</td>
<td>33.9</td>
</tr>
<tr>
<td>– Subsidies</td>
<td>RUR bln</td>
<td>54.2</td>
<td>1.9</td>
<td>23.2</td>
</tr>
<tr>
<td>EBITDA²</td>
<td>RUR bln</td>
<td>324.2</td>
<td>271.4</td>
<td>272.0</td>
</tr>
<tr>
<td>Profit (loss) before tax</td>
<td>RUR bln</td>
<td>125.9</td>
<td>76.6</td>
<td>66.2</td>
</tr>
<tr>
<td>Net profit</td>
<td>RUR bln</td>
<td>74.8</td>
<td>16.8</td>
<td>14.1</td>
</tr>
<tr>
<td>Net profit margin</td>
<td>%</td>
<td>6.6</td>
<td>1.3</td>
<td>1.0</td>
</tr>
</tbody>
</table>

¹ Income and expenditures with regard to the provision of infrastructure and locomotive hauling services related to passenger transportation and locomotive switchyard operations
² EBITDA – earnings before interest, depreciation, taxes and amortization

**RUR 14.1 bln**
Net profit in 2012

**RUR 4.2 bln**
Dividend distributed at the end of 2011

**RUR 256 bln**
taxes paid to budgets at all levels in 2012

100% of JSC “RZD” shares are owned by the state

JSC “RZD” is the largest corporate taxpayer in Russia

Net profit decreased by RUR 2.7 bln compared to 2011

1 RUR 14.1 bln
Net profit in 2012

2 RUR 4.2 bln
Dividend distributed at the end of 2011

3 RUR 256 bln
taxes paid to budgets at all levels in 2012

JSC “RZD” is the largest corporate taxpayer in Russia

100% of JSC “RZD” shares are owned by the state
In 2012, JSC “RZD” is engaged in freight handling operations, freight transportation by public and private railways and freight storage services, including freight customs clearance. JSC “RZD” provides locomotive hauling services to private transport companies who own or lease cars.

- With regard to freight handling, 1,440 mln tons of freight were transported, up 3.2% versus 2011;
- Net freight turnover exceeded the level in 2011 by +4.4% amounting to 2,222.4 bln tr-km;
- The volume of export freight loading amounted to 1,123 th. tons a day (representing 32% of the total volume of transportation); compared to 2011, export loading increased by 2.8%, (and compared to the pre-crisis year 2007 by 5.3%).
- The average daily running distance of a locomotive is 585.4 km (-1.4%). The decrease is due to the optimization of the operator’s freight car fleet turnover;
- The increase in income from locomotive hauling services versus the previous year is +8.6%;
- Many locomotives supplied are state-of-the-art, fitted with an asynchronous traction engine: 2ES10 Granit, 2ES5 electric locomotives, 2TE25A Vityaz diesel unit and EP20 passenger two-system electric locomotive.

Income from freight transportation

1,089.3 RUR bln

Expenditure on freight transportation

1,017.4 RUR bln

Income from locomotive hauling services

12.4 RUR bln

Expenditure on locomotive hauling services

9.1 RUR bln

For more details on operational performance, see p. 28

For more details, see p. 36

For more details, see p. 62
Infrastructure services

Provision of the public rail transport infrastructure and other services to clients; provision of private tracks owned by the Company; infrastructure operations, maintenance and repair.

- income from infrastructure services increased by RUR 9.5 bln compared to 2011 (+10.9%);
- the total volume of repairs amounted to 10.4 th. km;
- 7.3 th. km of track were overhauled and upgraded;
- the length of sections in operation with excessive tonnage and beyond their serviceable life reduced by 426 km and, by early 2013, amounted to 20.54 th. km (representing 16.5% of the total length of the main track).

Income from infrastructure provision services
96.7 RUR bln

Expenditure on infrastructure provision services
118.8 RUR bln

FOR MORE DETAILS, SEE P. 82

Passenger transportation

JSC “RZD” is engaged in passenger transportation on suburban and long-distance trains along a number of international routes; in Moscow, Sochi and Vladivostok, it provides passenger transport services to the main airports on aeroexpress trains.

- passenger turnover increased to 144.6 bln pass-km (+3.4%), including:
  - long-distance – 113 bln pass-km (+2.3%),
  - suburban – 31.6 bln pass-km (+7.8%);
- infrastructure of JSC “RZD” railways was used to transport 1,058.8 mln passengers, including:
  - long-distance – 116.6 mln passengers;
  - suburban – 942.2 mln passengers.

Income from passenger transportation
8.1 RUR bln

Expenditure on passenger transportation
6.2 RUR bln

FOR MORE DETAILS, SEE P. 64

Other activities

The Company provides the following other services: repair of rolling stock, construction of infrastructure facilities, forwarding and social services, energy transmission and lease of movable and immovable property.

- The Company’s income from other activities increased by RUR 5.9 bln (+4.0% year-on-year on a like for like basis);
- The Company seeks to improve its performance in the provision of social services. By 2011, the Company’s losses from the provision of these services decreased by RUR 0.4 bln (-14.1%).

Income from other activities
159.5 RUR bln

Expenditure on other activities
147.1 RUR bln

FOR MORE DETAILS, SEE P. 87
Interspecific competition: benefits of JSC “RZD”

Air transport is the main competitor of railways in the passenger transportation segment. However, the passenger transportation market remains attractive to JSC “RZD”: we believe that high-speed passenger trains will take share from air travel for a number of destinations. The main competitor in the freight transportation segment is road transport, but even here railways have distinct advantages.

Increases in passenger transportation by air have been seen since October 2009. Although only 0.4% of passenger transportation is made by air, its share in the Russian passenger turnover is significant – 41.3% in 2012, and it grows rapidly: +13.6 p.p. for the last three years.

The growth of passenger turnover by air is the fastest for international journeys, which is due to an increased distance of flights and the number of Russian participants serving international destinations: tourist traffic is growing and new tourist destinations are opening.

<table>
<thead>
<tr>
<th>Benefits of railways</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low comparative cost of freight transportation</td>
</tr>
<tr>
<td>Large share of the freight transportation market at present</td>
</tr>
<tr>
<td>Well-developed railway network in country’s large business centers</td>
</tr>
<tr>
<td>The safest means of transport</td>
</tr>
<tr>
<td>Distinct advantages over air travel for passenger transportation for distances less than 700 km</td>
</tr>
<tr>
<td>Potential benefits for freight transportation subject to the development of logistics competences</td>
</tr>
<tr>
<td>Transportation of bulk goods</td>
</tr>
<tr>
<td>Transit freight transportation between the East and the West</td>
</tr>
</tbody>
</table>

473.7 bln pass-km

Public transport passenger turnover in 2012

1,058.8 persons

Number of passengers who used rail transport services in 2012
In 2012, the share of long-distance transportation by air increased by 3.8 p.p. reaching 41.3%, while the rail transport share decreased slightly, by 0.9 p.p. to 30.5%.

This dynamics is caused not only by people’s income growth, but also by flexible fares of airlines and the public policy. Flights from East Siberia and the Far East, as well as lease payments of airlines are subsidized from the federal budget. Moreover, constituents of the Russian Federation receive subsidies to support regional and local transportation by air.

As a result, in the segment of transportation for distances over 1.5 km the share of air transportation is steadily growing at the expense of railways, and the accumulated gap is rather significant for a number the destinations. For example, along the Moscow – Novosibirsk route (2,891 km), the decrease in railway passenger turnover over 11 years has fallen to 73.8% with an average fare of a little less than RUR 10.5 th. (in 2011, for a sleeping car), while the share of air transportation has increased from 58% to 89% with a fare of only RUR 7 th. (in 2011, economy class).

According to the Russian Ministry of Transport, rail transport has distinct advantages to passengers for journey distances less than 700 km. Long-distance passenger transportation remains competitive for distances under 1.5 th. km mainly because of the price factor. For distances over 2 th. km, the competitive advantages of rail transportation decrease because of significant travel time.
The creation of hub airports to increase transportation volume by 30–40%, acquisitions of small-capacity airplane fleets for regional services and high-capacity airplanes for international transportation, and other measures, could decrease the zone of rail transport leadership for distances between 1,000–2,000 km. However, in this case, rail transport will gain new opportunities related to the development of intermodal passenger service.

In 2012, the Federal Passenger Company, a subsidiary of JSC “RZD” launched direct trains to Nice and Paris, which increased the passenger traffic on these routes by 2.5 times. Thus, the railways have a fairly good development potential in the international passenger transportation segment as well. With a quality service, railways remain an attractive mode of transportation even in Europe, where aviation and road service are well developed.

INTERNATIONAL PASSENGER TRAFFIC

JSC Russian Railways is one of the leading carriers in the “1520 area”. In addition, Russian railways carry passengers on 39 international routes (both direct and transit) in 19 European and Asian countries that are outside the “1520 area”. They include: European countries – Austria, Bulgaria, Hungary, Germany, Italy, Monaco, Poland, Romania, Serbia, Slovakia, Finland, France, Croatia, the Czech Republic, Montenegro and Switzerland; and Asian countries – China, Mongolia and North Korea.

International trains and through passenger cars are maintained by Russian railways, as well as by the railways of Poland, Finland, Mongolia, China, and North Korea.

In 2012, at the initiative of the Federal Passenger Company (a subsidiary of JSC Russian Railways), a new international passenger route was opened: Petrozavodsk – Joensuu (Finland).

In March 2012, at the suggestion of the UK Guild of Travel and Tourism, the Federal Passenger Company presented the long-term projects of JSC Russian Railways’ international routes in the Chamber of Lords of the British Parliament.
Subject to the development of its logistics competences and its ability to use the unique opportunities of its monopolistic position, JSC “RZD” may be in a strong position to compete in the high-income freight transportation segment.

JSC “RZD” holds a unique monopolistic position for a number of destinations, freight and distances. These are Russian peculiarities. There is no another country in the world, including the US and China comparable in terms of size, where railways are so dominant compared to other means of transport. This is a totally objective factor that reduces interspecific competition in the freight transportation segment.

As such, the share of rail transport for freight turnover in the overall Russian transport system is large and has increased considerably in recent years – from 39.5% in 2004 to 44.5% in 2012.

Nevertheless, railways are facing increasing pressure from other means of transport – pipeline, water, road – that operate on an arm’s length basis and are less controlled by the state. This competitive pressure is specifically notable in the high-income freight transportation segment.

Competition between rail and road transport intensified in 2012: there is a growing fleet of heavy goods vehicles used to deliver heavy cargo over long distances, for example, from St. Petersburg to Krasnoyarsk.

In particular, the share of road transport is increasing because it can provide “door-to-door” delivery, which is the most convenient service for consumers.

It should be noted that the rules and laws that regulate rail transport operations, passenger safety and freight traffic are incommensurably more stringent compared to those for road traffic. Therefore, increasing the competitive power of rail transport is not just an industry-specific task, but also a nationwide one.

For JSC “RZD”, freight delivery from the vendor’s door to the consumer’s door is a new model. This transition requires, first of all, competences in logistics and supply chain management. The acquisition of the logistics company, Gefco, will speed up JSC “RZD”’s progress in this direction.

In 2012, JSC “RZD” specialists developed the Concept for distriport management in Russia; its implementation will allow regular freight services between terminals and large cities to be organized.

The Company has set up a committee for transport and logistic business development headed by President of JSC “RZD”, V.I. Yakunin. The concept to establish a transport and logistic business unit is under development.

The transition to a regular freight service requires the integration of railroad transport into the public transportation system for the first and last mile. Not only will this secure a competitive advantage for railway transport over other transport means, but it will also help optimize key transportation resources: locomotives, locomotive crews, number of cars in use, etc.

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The share of rail transport for freight turnover in the overall Russian transport system has increased 4.5 p.p. since 2004.

44%

Share of rail transport for freight turnover in the overall Russian transport system
PERFORMANCE OVERVIEW

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Scope of activities

**Infrastructure provision**
“RZD” is the only owner of the public railway infrastructure

**Locomotive hauling services**
“RZD” is a monopoly provider of locomotive hauling services

**Freight transportation**
“RZD” is a network-wide public freight carrier

**Passenger transportation**
The Group provides long-distance (above 200 km) passenger transportation and, via its affiliates, suburban passenger railway transportation services

**Logistics activities**
A combination of unique assets and technologies that ensures a full cycle of logistics services with:
- GEFCO
- TransContainer
- RZD Logistika
- RailTransAvto

**Additional services**
- Rolling stock maintenance and repair
- Railway machinery building
- Telecom and IT services
- Social services
Review of macroeconomic market indicators

Scope of JSC “RZD” activities traditionally depend on macroeconomic trends in Russia and, in the context of intensified integration, the state of the global economy.

According to estimates of the IMF, in 2012, the global economy grew by 3.1%. The global economy growth rate has significantly slowed down even compared to the poor performance seen in 2011 (+3.9%).

Global GDP growth forecasts gradually decreased during 2012 in line with worsening expectations. In April 2012, the IMF predicted annual growth of 3.5%; by October 2012 this had fallen to 3.3%.

The OECD also reduced its GDP growth forecasts – from 3.4% in May 2012 to 2.9% in November 2012. Both developed and developing economies are expected to slow down. The Eurozone has not yet successfully addressed its debt situation. China, whose economy has grown for nearly two decades in a row, has built up a number of unresolved issues and faced a decline in demand from developed countries. A wave of economic problems has swept across India, Central and Eastern Europe.

+3.1%
Global economy growth in 2012 estimated by the IMF

+2.5%
Global trade growth in 2012 estimated by the IMF
The decrease in the global trade rate was even more notable – from 6.0% in 2011 to 2.5% at the end of 2012, mainly due to the worsening of the debt crisis in Eurozone and the deceleration in China’s GDP growth.

The most problematic region in terms of economic development was the Eurozone which was in recession, with many of its member countries facing a national debt crisis. In 2012, the Eurozone GDP decreased 0.6% with the decline intensifying each quarter. Industrial output year-on-year also decreased throughout the year with the worst decline recorded in Q4. At the year-end, industrial output in the Eurozone decreased by 2.4% (versus 2011) with the unemployment rate increasing 1 p.p. to reach 11.8%.

In China, the rate of economic growth at the year-end decreased to +7.8% (versus +9.3% in 2011) – the lowest rate in 13 years. This was accompanied by deteriorating trends for China’s foreign trade and a decelerated growth for both imports and exports, which adversely affected the economies of many countries around the world, including Russia, which is China’s largest trade partner. In 2012, Chinese exports grew 7.9% year-on-year versus 20.3% in 2011 and imports grew 4.3% versus 24.9%.

The global economic structure is gradually evolving: the direction of global commodity flows is changing and traditional “centers of power” are being displaced.
In the first half of 2012, the Russian economy was relatively stable, but in the second half, the trend towards decelerated growth against the most critical macroeconomic indicators became significantly stronger.

At the end of 2012, GDP increased 3.4% (versus 4.3% in 2011). GDP annual growth on a current basis amounted to RUR 62.6 trn. According to experts, increase in domestic demand was the main economic growth driver in Russia in 2012.

Despite the decelerated growth rate of the global economy, Russian exports and imports reached record levels in 2012. However their growth rate decreased considerably: exports increased 2.4% (versus 31.3% in 2011) and imports increased 5.4% (versus 29.7% in 2011).

The rate of economic growth was adversely affected by poor harvests: in particular, drought conditions led to a much lower grain yield against a very favorable yield in 2011. Overall, the volume of agricultural produce decreased by 4.7% against an increase of 23% in 2011.

Gain in industrial output amounted to only 2.6% versus 4.7% in the previous year. In December 2012, this figure was at its lowest (+1.4% year-on-year). Independent experts also spoke about the exacerbation of negative trends in industrial production. The Institute of Natural Monopolies (INM) noted an increased gap between demand and production: INM-production ratio increased 3% during the year, while INM-demand ratio increased by just 0.4%.

With demand for industrial products slowing down, businesses were reluctant to increase investments in production capacity. Increases in capital investment in 2012 amounted to 6.6% versus 1.8% in 2011. In December 2012, capital investments decreased by 0.4% year-on-year having reached an annual low. Conversely, in early 2012, the growth rate had exceeded 16%.

In 2013, Russian Ministry of Economic Development expects a relatively low rate of economic growth: +2.4% (according to a forecast made in April 2013).

Risks of significant deceleration of economic growth are predicted by renowned international organizations. In June 2013, the IMF downscaled Russian GDP growth forecast for the current year – from 3.4% to 2.5%. The World Bank also downscaled its forecast to a new GDP growth level of 2.3%. Decline in the Russian GDP growth rate is expected due to decreased external demand and a fall in global oil prices, Russia’s main export commodity.

According to the Central Dispatching Department of Fuel Energy Complex, oil exports from Russia to “far-abroad” countries decreased by 2% year-on-year in physical terms between January–May 2013, while the average price of Russian Urals oil decreased by 7% to USD 107.2 per barrel. Risks of further falls in global oil prices remain.

Decreased exports from Russia reduced foreign currency earnings of exporters, which brings about an elevated inflation risk because of the rise in costs of imports, which may adversely affect the stability of financial markets.

| Performance Against Russian Macroeconomic Indicators in 2011-2012, % Versus Previous Year |
|-----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| GDP                               | 4.3   | 3.4   | 10.8  | 12.0  | 23.0  | 31.3  | 27.7  | 12.0  | -4.7  | -5.1  | -5.1  | -8.4  |
| Industrial output                 | 4.3   | 0.4   | 10.8  | 12.0  | 23.0  | 31.3  | 27.7  | 12.0  | -4.7  | -5.1  | -5.1  | -8.4  |
| Capital investments               | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     |
| Agricultural produce              | -6.6  | -6.6  | -6.6  | -6.6  | -6.6  | -6.6  | -6.6  | -6.6  | -6.6  | -6.6  | -6.6  | -6.6  |
| Retail turnover                   | -7.0  | -7.0  | -7.0  | -7.0  | -7.0  | -7.0  | -7.0  | -7.0  | -7.0  | -7.0  | -7.0  | -7.0  |
| Export                            | 2.4   | 5.4   | 6.1   | 6.6   | 7.0   | 7.0   | 7.0   | 7.0   | 7.0   | 7.0   | 7.0   | 7.0   |
| Import                            | -4.3  | -4.3  | -4.3  | -4.3  | -4.3  | -4.3  | -4.3  | -4.3  | -4.3  | -4.3  | -4.3  | -4.3  |
| Consumer inflation                | 12.0  | 12.0  | 12.0  | 12.0  | 12.0  | 12.0  | 12.0  | 12.0  | 12.0  | 12.0  | 12.0  | 12.0  |
| Actual disposable income          | 5.1   | 5.1   | 5.1   | 5.1   | 5.1   | 5.1   | 5.1   | 5.1   | 5.1   | 5.1   | 5.1   | 5.1   |
| Actual export income              | 4.4   | 4.4   | 4.4   | 4.4   | 4.4   | 4.4   | 4.4   | 4.4   | 4.4   | 4.4   | 4.4   | 4.4   |
| Source: International Monetary Fund |       |       |       |       |       |       |       |       |       |       |       |       |
State tariff policy: new rules with regard to JSC “RZD”

Major changes in the freight transportation tariff regulation will take place in 2013 with regard to the unification of the tariff policy of Common Economic Space member states. In 2013, JSC “RZD” was vested with a right to use a flexible tariff regulation mechanism.

On 1 November 2012 a decree of the Russian FST came into force on the unification of tariffs for the empty running of all-purpose open cars and platforms and special-purpose platforms for timber transportation less than 19.6 meter long irrespective of earlier transported freight. The stopping of the previous practice (when empty car transportation cost was dependent on the class and type of the transported cargo) has enabled the improvement of track process conditions: the number of empty open cars and occupied platforms after unloading high-income freight has nearly halved, which is evidence of a decrease in empty backhaul.

**TARIFF UNIFICATION OF CES MEMBER STATES**

The Russian Federation, Republic of Belarus and Republic of Kazakhstan continued their work as a part of the Agreement on the regulation of access to rail transport services, including basic principles of the tariff policy.

The Agreement was signed in December 2010; it provides for the unification of the countries’ tariffs by service types (exports, imports and domestic tariffs for freight railway transportation services). A country’s tariff applies to internal transportation, and unified tariffs of each country apply to transportation between Agreement member states or transit through their territory to third countries. The Regulation came into force on 1 January 2013.

Tariff unification was completed in 2012. The Russian Federation has implemented the international arrangements and, since January 2013, freight transportation has been conducted in accordance with the common tariff calculation methods (section 2 of Pricelist No. 10-01).

In December 2012, the Eurasian Economic Committee approved the Rules of access to infrastructure services and the Rules of provision of infrastructure services as a part of the Common Economic Space. These Rules must now be coordinated with the public authorities of Agreement member states.

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**DYNAMICS OF PRICE INDICES AND TARIFFS FROM 1991 TO 2012, GROWTH VERSUS DECEMBER 1990, TIMES**

According to the Federal State Statistics Service, the industrial manufacturing price index was 105.1 (December 2012 versus December 2011).
In December 2012, Russian FST also issued decrees to approve the Guidelines for the determination of price limits (maximum and minimum) with regard to rail transport service tariffs, procedures and terms of use (determination, revision) of the rail transport service tariff level for freight transportation within price limits (maximum and minimum) and price limits for average network conditions.

In 2013, JSC “RZD”, may use a flexible tariff regulation mechanism – from 0.872 to 1.134 (decree No. 423-t/3 dated 21 December 2012).

Pricelist No. 10-01 was supplemented with long-term exceptional tariffs to prevent any imbalance of the JSC “RZD” revenue base as a result of tariff unification by service types.

Restrictive measures of tariff regulation still apply to federal rail transport. This has effectively led to a subsidy of other industries at the expense of railways and a shortage of investment resources in the rail transport industry. By way of comparison, from 1991 to 2012, the railway tariffs index was 106. Over the same period, industry prices increased:
- overall, by 162 times;
- in the fuel industry, by 561 times;
- in the coal industry, by 320 times;
- in the iron and steel industry, by 215 times;
- in the power generation industry, by 176 times.

Shortage of investment resources required for the replacement and development of railway fixed assets has resulted in significant overload in many areas, resulting in difficulties for businesses.

### Changes in Freight and Passenger Transportation Tariffs in 2012

During 2012, the following tariffs were increased:
- freight railway transportation (annual average increase of 6%);
- long-distance passenger transportation in the regulated segment (couchette and general cars) +10%;
- in the deregulated segment (saloon and sleeping cars) +5%.

For reference: in 2012, the consumer price index increased 5.1% (annual average).

Currently, the car component of third party-owned rolling stock use is not subject to regulation and is determined by them at their discretion. Current market prices resulted in an excess of the cost of freight transportation by third-party owned cars over the tariffs set out in Pricelist No. 10-01 for the public park.
Transport component cost of finished products is decreasing

Price inflation in most industries is rising more quickly than the railway price tariffs, which results in a decrease in the cost of the transport in the overall price of products transported by rail transport.

At the same time, the share of logistic costs in Russia’s GDP remains excessively high: about 20–24% against 10% in Western countries, which is, first of all, due to the out-of-date and inefficient organization of the internal logistics in companies and the whole transport and logistics system of Russia, large distances, irrational use of production facilities.

TRANSPORT COMPONENT DECREASE IN TRANSPORTED FREIGHT PRICE FROM 2003 TO 2012:

<table>
<thead>
<tr>
<th>Commodity</th>
<th>2003</th>
<th>2012</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Round timber</td>
<td>19.3%</td>
<td>18.0%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Sawn wood</td>
<td>10.8%</td>
<td>8.6%</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Grain</td>
<td>24.0%</td>
<td>21.5%</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>14.9%</td>
<td>13.1%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Phosphate fertilizers</td>
<td>10.8%</td>
<td>9.2%</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Oil fuel</td>
<td>34.0%</td>
<td>32.3%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Gasoline</td>
<td>14.9%</td>
<td>13.1%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Crude oil</td>
<td>12.7%</td>
<td>11.9%</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Nitrogen fertilizers</td>
<td>5.5%</td>
<td>4.6%</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Phosphate fertilizers</td>
<td>10.8%</td>
<td>9.2%</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Power station coal</td>
<td>22.1%</td>
<td>20.8%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Baking coal</td>
<td>19.3%</td>
<td>17.1%</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Crude oil</td>
<td>18.5%</td>
<td>16.3%</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>8.0%</td>
<td>5.9%</td>
<td>-2.1%</td>
</tr>
<tr>
<td>Oil fuel</td>
<td>25.5%</td>
<td>23.4%</td>
<td>-2.1%</td>
</tr>
<tr>
<td>Cast iron</td>
<td>9.2%</td>
<td>8.3%</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Aluminium</td>
<td>3.5%</td>
<td>3.1%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Round timber</td>
<td>29.7%</td>
<td>28.0%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Cement</td>
<td>12.7%</td>
<td>11.9%</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Nitrogen fertilizers</td>
<td>10.8%</td>
<td>10.0%</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Grain</td>
<td>25.6%</td>
<td>23.1%</td>
<td>-2.5%</td>
</tr>
</tbody>
</table>

1 Change in the transport cost component level in December 2012 versus 2003
Freight transportation

In 2012, rail transport freight turnover in Russia increased 2.9%, reaching 2,782.6 bln tr-km. Growth gradually slowed down over the year: from +12% in January 2012 to a decrease of 2.5% in December 2012, as a result of a slow down in industrial output growth and a curtailment of capital investment. Both macroeconomic indicators strongly affect the volume of freight railway transportation.

5,055.4 bln
Total freight turnover in Russia in 2012

According to the Federal State Statistics Service, in 2012, freight passenger turnover in Russia increased 2.9% compared to 2011.

85.4%
Rail transport share (excluding pipeline transport)

This is one of the highest indicators globally
JSC “RZD” increased its level of transportation against volumetric indicators. Against a national industrial output growth of 2.6% in 2012, loading increased 2.4%, reaching some 1,271.9 mln tons.

The main driver of loading growth has recently been due to exports via Russian ports with domestic transportation trends falling dramatically lower than even before the pre-crisis level. Consequently, in certain regions of export transportation, the railway network operated at full capacity, while in the Far East, network loading beat the highest figure ever recorded in the entire history of Russian railways by 30%.

Against this relatively significant increase in its transportation performance against volumetric indicators in 2012, JSC “RZD”’s contribution to GDP was slightly lower – 1.71% versus 1.77% in 2011 – a clear indication of the influence on the economy of a dramatic decline in transportation, the creation of conditions to develop other industries at the expense of railway price increases and, an underfunding of investment in the railway infrastructure.

### CHANGES OF FREIGHT TURNOVER BY TRANSPORT MEANS, 2012 VERSUS 2011,%

- **Road** 11.3
- **Rail** 4.4
- **Air** 2.2
- **Pipeline** –1.0
- **Water** –8.1

---

**Freight turnover structure by transport means, BLN Tons**

*Source: Federal State Statistics Service*

<table>
<thead>
<tr>
<th>Year</th>
<th>Rail</th>
<th>Pipeline</th>
<th>Road</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>39.5%</td>
<td>100.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>39.7%</td>
<td>(84.0)*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>40.6%</td>
<td>(84.0)*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>42.5%</td>
<td>(85.3)*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>42.8%</td>
<td>(85.2)*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>42.0%</td>
<td>(84.8)*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>42.3%</td>
<td>(84.9)*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>42.1%</td>
<td>(85.4)*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>44.0%</td>
<td>(85.4)*</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Rail transport share (excluding pipeline transport)

**44%**

**Rail transport share**

Rail transport share of freight turnover in the country’s transport system increased 0.7 p.p. YoY.
### Dynamics of freight transportation volumes of JSC “RZD”

#### FREIGHT TRANSPORTATION VOLUME TRENDS, PRODUCTION INDICATORS

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Units of measurement</th>
<th>2011</th>
<th>2012</th>
<th>Change in 2012 versus 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loading</td>
<td>mln tons</td>
<td>1,241.5</td>
<td>1,271.9</td>
<td>+30.40 (2.4%)</td>
</tr>
<tr>
<td>average daily loading</td>
<td>th. tons</td>
<td>3,401.5</td>
<td>3,475.0</td>
<td>+73.5 (2.2%)</td>
</tr>
<tr>
<td>Gross tkm, including:</td>
<td>gross mln tkm</td>
<td>4,066,311</td>
<td>4,210,447</td>
<td>+144,136 (3.5%)</td>
</tr>
<tr>
<td>– electric haulage</td>
<td></td>
<td>3,469,882</td>
<td>3,594,259</td>
<td>+124,377 (3.6%)</td>
</tr>
<tr>
<td>– heat haulage</td>
<td></td>
<td>596,429</td>
<td>616,187</td>
<td>+19,758 (3.3%)</td>
</tr>
<tr>
<td>Work performed</td>
<td>bln tkm</td>
<td>2,844.6</td>
<td>2,927.2</td>
<td>+82.62 (2.9%)</td>
</tr>
<tr>
<td>Freight turnover:</td>
<td>bln tkm</td>
<td>2,704.8</td>
<td>2,782.6</td>
<td>+77.85 (2.9%)</td>
</tr>
<tr>
<td>– excluding empty cars owned by third parties</td>
<td>bln tkm</td>
<td>2,127.8</td>
<td>2,222.4</td>
<td>+94.55 (4.4%)</td>
</tr>
<tr>
<td>– including empty cars owned by third parties</td>
<td>bln tkm</td>
<td>576.9</td>
<td>560.2</td>
<td>–16.71 (2.9%)</td>
</tr>
<tr>
<td>Static load</td>
<td>t/car</td>
<td>60.42</td>
<td>60.77</td>
<td>+0.36 (0.6%)</td>
</tr>
<tr>
<td>Service speed of a freight train</td>
<td>km/h</td>
<td>37.1</td>
<td>36.0</td>
<td>–1.10 (–3.0%)</td>
</tr>
<tr>
<td>Operating speed</td>
<td>km/h</td>
<td>46.5</td>
<td>45.2</td>
<td>–1.30 (–2.8%)</td>
</tr>
<tr>
<td>Freight car standby at a train station</td>
<td>Hour</td>
<td>8.31</td>
<td>9.18</td>
<td>+0.87 (10.5%)</td>
</tr>
<tr>
<td>Daily average performance of a freight locomotive</td>
<td>th. t-km</td>
<td>1,812</td>
<td>1,791</td>
<td>–21.00 (–1.2%)</td>
</tr>
<tr>
<td>Daily average distance of a locomotive</td>
<td>km</td>
<td>593.6</td>
<td>585.4</td>
<td>–8.20 (–1.4%)</td>
</tr>
<tr>
<td>Average weight of a freight train</td>
<td>tons</td>
<td>3,868</td>
<td>3,891</td>
<td>+23.00 (0.6%)</td>
</tr>
<tr>
<td>Freight car turnover</td>
<td>day</td>
<td>14.40</td>
<td>15.49</td>
<td>–1.09 (–7.0%)</td>
</tr>
</tbody>
</table>
Freight turnover and railway loading volumes are growing and have exceeded the pre-crisis level.

Freight traffic destinations remain focused on Russian ports.

Freight turnover growth rate outperforms loading growth rate.

State tariff regulation remains in place.

Freight turnover is the most accurate indicator of infrastructure load and Company performance. In 2012, the indicator increased by 4.4%, reaching its highest peak in the entire history of the Russian Federation.

In 2012, freight turnover of JSC “RZD” (excluding empty cars of other owners and leased cars) exceeded the indicator of the pre-crisis year of 2007 by 6.3% and exceeded the level of 1992 by 13%.

In 1992, loading volumes exceeded the volumes of 2012 by 21%. Today, JSC “RZD” is operating in the areas of peak processing loads. Freight turnover on electrified lines (by 1992) increased 26%, and on diesel lines (which
normally run latitudinally), halved, which is evidence of the extremely high load imbalance of the infrastructure.

The highest gain in freight turnover has typically been seen in eastern railways – from Krasnoyarsk to the Far East. Here, freight turnover has increased 5.7% versus 2011 and 32% versus 2007.

Recently, freight turnover growth rate has overtaken the loading growth rate. These trends are first and foremost determined by the freight transportation distance, which has reached its historical peak: 1,546 kilometers (1.5 times higher than in 1992), which is due to changes in economic conditions and growth in export transportation.

Freight traffic destinations continue to focus on Russian ports. Consequently, the load factor of a number of sections has reached its peak and the management of an unhindered train service will require large-scale infrastructure investments.

Since 2003, when JSC “RZD” was incorporated, transportation to the ports of the Azov and Black Sea basin has increased by 41%, and to North West and Far East ports 2.1 times. This positive trend in transportation has not been affected at all by a decline in economic growth.

Increase in freight turnover in the domestic market in 2012 was lower (+2.3%) than in the international market (+6.2%).
The structure of freight turnover has undergone minor changes. The share of transportation within Russia decreased from 45% to 44.1%; correspondingly, the share of international transportation increased to 55.9%.

Changes in the freight turnover structure are related both to an increased volume of export transportation and its distance: the share of export transportation in the total freight transportation volume increased to 48.4% (+0.8 p.p.).
In 2012, the average haul increased 18.5 km (+1.2%) and reached its peak: 1,546 km.

The average haul increased by 6.1 km due to a change in the type of service and by 12.4 km more due to a change in the type of freight. Exports via ports accounted for the biggest impact on the increase in the average haul by type of service (+31.5 km). Increase in the average haul by freight types was mainly due to coal (+15.2 km) and oil cargo (+8.5 km).

Decreased distances of mineral and construction cargo transportation reduced the average haul (-13.5 km).

### FACTOR ANALYSIS OF FREIGHT TRANSPORTATION IN 2011-2012 BY TYPE OF FREIGHT

<table>
<thead>
<tr>
<th>Service type</th>
<th>Average distance, km</th>
<th>Absolute change in the average haul, km</th>
<th>Average haul increase rate, %</th>
<th>Structure of transportation volumes by type of service, %</th>
<th>Impact of change in the transportation structure by type of service, km</th>
<th>Impact of a change in the average haul by type of service, km</th>
<th>Net effect of each freight type, km</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1,527.0</td>
<td>+18.5</td>
<td>101.2</td>
<td>100.0</td>
<td>+6.1</td>
<td>+12.4</td>
<td>+18.5</td>
</tr>
<tr>
<td>Coal</td>
<td>2,157.4</td>
<td>+61.8</td>
<td>24.2</td>
<td>24.2</td>
<td>-</td>
<td>+14.9</td>
<td>+0.3</td>
</tr>
<tr>
<td>Oil cargo</td>
<td>1,534.7</td>
<td>+43.9</td>
<td>19.5</td>
<td>19.4</td>
<td>-0.1</td>
<td>+8.5</td>
<td>-</td>
</tr>
<tr>
<td>Other freight</td>
<td>1,918.3</td>
<td>+80.0</td>
<td>9.9</td>
<td>9.2</td>
<td>-0.7</td>
<td>+7.6</td>
<td>-3.0</td>
</tr>
<tr>
<td>Various ores</td>
<td>1,043.8</td>
<td>+9.6</td>
<td>11.2</td>
<td>10.7</td>
<td>-0.5</td>
<td>+1.1</td>
<td>+2.4</td>
</tr>
<tr>
<td>Timber cargo</td>
<td>1,510.9</td>
<td>+33.3</td>
<td>3.1</td>
<td>2.7</td>
<td>-0.4</td>
<td>+1.0</td>
<td>-</td>
</tr>
<tr>
<td>Coke</td>
<td>2,343.4</td>
<td>+103.5</td>
<td>0.9</td>
<td>0.9</td>
<td>-</td>
<td>+0.9</td>
<td>-0.1</td>
</tr>
<tr>
<td>Cereal</td>
<td>1,554.5</td>
<td>+49.0</td>
<td>1.6</td>
<td>1.9</td>
<td>+0.3</td>
<td>+0.9</td>
<td>+0.1</td>
</tr>
<tr>
<td>Chemical and mineral fertilizers</td>
<td>1,657.1</td>
<td>-7.0</td>
<td>3.5</td>
<td>3.3</td>
<td>-0.2</td>
<td>-0.2</td>
<td>-0.3</td>
</tr>
<tr>
<td>Ferrous metals</td>
<td>1,543.1</td>
<td>-30.7</td>
<td>6.6</td>
<td>6.4</td>
<td>-0.2</td>
<td>-2.0</td>
<td>-</td>
</tr>
<tr>
<td>Mineral and construction materials</td>
<td>750.6</td>
<td>+2.6</td>
<td>19.5</td>
<td>21.3</td>
<td>+1.8</td>
<td>+0.5</td>
<td>-14.0</td>
</tr>
</tbody>
</table>
Major trends

Exports via Russian ports are traditionally a main contributor to an increase in loading

The main growth drivers are construction cargo, coal, oil and oil products

The pre-crisis level of coke, cake and container freight loading was exceeded

A slower growth rate of loading in late 2012 is evidence of a declining trend in demand for industrial products

JSC “RZD”’s increase in loading was largely due to low-income freight

3,475 th. t/day

Daily average loading of JSC “RZD”

Growth of indicator versus 2011 is 2.2%

1,271.9 mln t

Total loading of JSC “RZD”

Growth in 2012 of 30.3 mln tons, or 2.4% versus 2011

LOADING VOLUME TRENDS 2004-2012

Source: Company data
The daily average loading indicator increased 2.2% versus 2011 (+2.4% in absolute terms) and 14.8% versus 2009. However, it is still below the pre-crisis level (the difference between 2007 is 5.6%) and approximately matches the level of 2005.

Increase in loading and freight turnover is mainly accounted for by exports via Russian ports.

The main growth drivers among commodity groups are construction cargo (+14.4%), coal (+3.9%), oil and oil products (+3.3%). Against a generally positive background, loading volumes of timber cargo (-10.8%), non-ferrous ore and sulfur raw materials (-6.4% in both cases) and fertilizers (-3.1%) declined significantly.

The trend in transportation decline was manifested to its full extent in December 2012: loading volume amounted to 95.6 mln tons or -3.8% versus December 2011. Negative trends were seen for the first time since late 2009; they reflect a decline in demand for industrial products in the economy.
LOADING STRUCTURE BY MAIN FREIGHT TYPES

The economic activities of JSC “RZD” as a bulk cargo carrier largely depend on the market situation and trends in key freight-generating Russian and global industries, such as oil, coal and wood, ferrous industry, construction materials and production of mineral fertilizers.

A characteristic trend in recent years is the active growth in coal and oil cargo loading – freight which has the longest transportation distance.

In 2012, 1,271.9 mln tons of freight (3,475.0 th. tons a day) were loaded on the railway network, which is 30.3 mln tons or 2.4% higher than in 2011.
LOADING STRUCTURE

<table>
<thead>
<tr>
<th>Low-income</th>
<th>Mid-income</th>
<th>High-income</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Coal</td>
<td>– Oil and oil products</td>
<td>– Non-ferrous metals</td>
</tr>
<tr>
<td>– Mineral construction materials</td>
<td>– Chemical and mineral fertilizers</td>
<td>– Acids and oxides</td>
</tr>
<tr>
<td>– Timber cargo</td>
<td>– Grain and ground products</td>
<td>– Machinery and equipment (apart from agricultural)</td>
</tr>
<tr>
<td>– Iron ores</td>
<td>– Sugar</td>
<td>– Vehicles and their parts</td>
</tr>
<tr>
<td></td>
<td>– Cast iron</td>
<td>– Alcoholic beverages</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Ferrous rolled stock</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Iron-and-steel scrap</td>
</tr>
</tbody>
</table>

Increase in the loading of first class freight amounted to 28.3 mln tons or 3.9%. Construction cargo (+14.4%), industrial commodities and moulding materials (+5.2% for both freight types) and coal (+3.9%) accounted for the largest increases in loading volumes.

Loading of second class freight exceeded the level of 2011 by 5.7 mln tons or 1.7%.

Loading of oil and oil products (+3.3%) and grain (+6.0%) also increased. At the same time, loading of sugar (-24.2%), ground products (-20.2%), chemical and mineral fertilizers (-3.1%) decreased.

Pre-crisis volumes of loading for oil and oil products and cakes were achieved.

Third class freight loading decreased: -3.7 mln tons or -2.3% year-on-year.

This negative trend is mainly due to a reduction in the loading of iron-and-steel scrap (-10.7%).

At the same time, container freight loading increased (+2.7%). Containers in the network load account for 1.6%, and in third class freight loading for 13.0%.

The pre-crisis level was exceeded only with regard to container freight loading.
Low-income freight accounted for the largest contribution to the loading increase in 2012.

The highest loading increase in 2012 was seen in:
• construction cargo;
• coal;
• oil and oil products.

As a whole, loading grew dynamically in Q1 of 2012, but this growth slowed down in Q2-3, due to a stagnation in industrial production. Loading declined in Q4.
FREIGHT WITH HIGH LOAD INCREASE: CONSTRUCTION MATERIALS

The increase in construction freight loading compared to 2011 was 14.4% or +22.6 mln tons.

This high figure is due to increased financial support received by the construction industry, specifically, road construction, and the implementation of large infrastructure projects (2014 Olympics, 2013 Student Games, etc.).

Inert and construction materials are characterized by a regional distribution of supply. In addition, in 2012 industrial production and supply volumes grew at a high pace, as a result of a growth in demand on the Russian market, decreased exports and increased imports of non-ore materials, cement and finishing materials. Cement production and consumption volume last year was at its highest since the post-crisis period. Future market trends will depend on the implementation of federal and regional target programs and the development of house building.

The ferrous industry is extremely sensitive to the performance of external markets and, in 2012, global demand from major metal consuming industries decreased. On the home market, signs of a slow down in growth became clear by the end of Q3 of 2012.

At the year-end, an increase in supply from direct orders (i.e. bypassing the metal wholesale chain) to the construction industry, fuel and energy complex and railway machine building enterprises became evident. The situation in one of the critical industry segments of the domestic ferrous industry – steel pipe manufacture – significantly improved in Q4 of 2012 (following a slump in the first half of 2012).

At the same time, there was a dramatic decline in supplies to the Russian ship, agricultural machine building and automotive industries. The decrease in domestic supplies of ferrous metals was partially made up for by increased imports of building metal products.

Uncertain outlooks for the Russian and global ferrous metal markets resulted in a decline in demand for raw metals: commercial-grade iron ore, iron-ore concentrate, open-hearth pig iron, ferrous scrap, coke and a number of large industry-wide investment projects were either suspended or delayed. This resulted in a decelerated growth rate in freight railway transportation of ferrous metal. The transportation of metal products and raw materials was also exposed to stronger interspecific competition from water and road transport.

Nevertheless, a resumption of positive growth rates for metal freight railway transportation will be supported by:

1. Increase in the domestic consumption of ferrous metals by pipeline transport. Considering that Gazprom is increasing its purchase of large-diameter pipes (LDP) threefold in 2013, the volume of domestic consumption of LDP is likely to return to the level of 2011 after a sharp decline in 2012.

2. Further implementation of large construction projects mainly funded by the federal budget and driving demand for metal products inside the country, including construction projects for the Olympics, Student Games and the World Football Cup in 2018.

FREIGHT WITH HIGH LOADING INCREASE: COAL

In 2012, the increase in coal loading was 3.9% or 11.4 mln tons. Transportation volume in the domestic market decreased by 1.9%. Export loading increased by 13.3%, destined mainly to Japan, Great Britain, Turkey, Korea and China. Coal export growth rates significantly exceeded its production performance. In 2012, the share of exports of the total volume of coal produced in Russia reached 36% (+4 p.p.).

The decline in the volume of domestic Russian supply of coal products is the result of a lower demand for baking coal and coke from Russian ironworks and a relatively low demand for power station coal from domestic housing and communal businesses and utilities due to significant volumes of solid fuel stock in storage accumulated by them in late 2011.

A stronger focus on exports by the coal industry brings about additional risks for coal production in Russia and, correspondingly, railway transportation of these products:

1. Due to the significant increase in coal exports from the US, Columbia, Mongolia, Indonesia;

2. Possible slow down in growth rate of coal consumption in Europe and China in the mid term;

3. High capital intensity and long periods of development of new coal deposits in inaccessible regions of Eastern Siberia and the Far East with a deteriorating investment climate in Russia and globally;

4. Enhanced coal benefication capacities.
FREIGHT WITH HIGH LOADING INCREASE:
OIL AND OIL PRODUCTS

In 2012, the increase in oil cargo loading was 8.2 mln tons (+3.3% in 2011). The increase in the domestic Russian market was 3.6%, and in exports +3.0%.

Increase in the transportation volume is due to the commissioning of new capacity. In 2012 a new oil refinery of JSC “TANECO” at Kuibyshev Railway was launched; the volume of transportation associated with this business amounted to 4.5 mln tons. Following the commissioning of new capacity for oil cargo transshipment in the port of Ust-Luga, port loading also increased (+5.9 mln tons).

Major risks to JSC “RZD” as an oil cargo carrier are related to a significant deceleration of oil production in Russia and the fast growth of competing means of transport, such as main oil pipelines.

In December 2012, two years ahead of the schedule, the second phase of the “Eastern Siberia – Pacific” (ESP) oil pipeline construction was completed and in 2013, JSC “Transneft” intends to stop using rail transport on this route.

Oil supplies by rail transport due to ESP commissioning are expected to decrease by some 10-12 mln tons a year.

Additional risks include the increasing complexities faced by the oil industry. New large oil production project decisions have been delayed and existing fields have been largely depleted. Drilling site equipment, main oil pipelines and oil refineries need upgrading. Development of new fields in inaccessible areas (including on the continental shelf) require significant funds that often exceed current investment and processing capacities of the industry.

The ongoing upgrading of oil refining capacities is mainly aimed to bring fuel quality improvements in line with new technical regulations. Therefore, this will not result in a considerable growth in the supply of oil products, although their product mix may change with an increased output of light fuels.

At the same time, positive factors and trends that contributed to an increase in the railway transportation of oil cargo in 2012 are expected to provide growth in the medium term:

1. In 2012, trends of railway supplies were positively affected by the steady growth in production and shipment of oil products, which account for a significant portion in the oil cargo loading structure of the Russian railways. Increase in motor fuel supplies to the home market is also expected this year: programs for state support of the Russian rural sector will provide agricultural producers with fuels and lubricants at affordable prices.

2. Production of the so-called “viscous oil” that used to be in a low demand by the market is now increasing in Russia. Gas and petrochemical businesses are also developing actively.

Given the overall decrease in oil stock freight carriage, the transportation of gas and petrochemical products, superviscous oil and heavy bitumens as well as high-quality motor fuel are the most promising segments of the oil cargo railway transportation market.
In 2012, the daily average volume of export freight loading reached its peak: 1,123 th. tons a day. Export freight accounts for nearly a third (32%) of the total volume of loading; it is redirected to Russian ports.

Meanwhile, transportation of Russian export freight to ports in the Ukraine has significantly declined (-43% versus 2007). There are opportunities to increase loading for this destination.

Loading to ports of CIS and Baltic states also decreased, accounting for only 5% of the total loading and 16% of export freight loading. However, considerable volumes of export freight transportation – 93 th. tons a day (+44% versus 2007) are directed to Latvian ports. This freight traffic that runs in transit through Byelorussia contributes considerably to the Moscow Railway load. However, there is virtually no possibility to send it via the Rudnya border crossing. Neither are there opportunities for this destination via Posin and Skangali junctions.

Loading outside Russian railways towards border crossings with other countries amounted to 488 th. tons a day (-2.4% versus 2011 and -16% versus 2007).

These include Russian railways border crossings with other countries amounting to 105 th. tons a day (3% of the network loading). In the latter instance, there are opportunities to increase loads: this indicator is 19% lower than in 2007, but 4.3% higher than in 2011.

Overall, the share of transportation to Russian ports, the most challenging in operational terms, is growing at an important rate. Apart from train traffic organization, the ability to operate in this area depends on the development of logistics technologies, estimated capacity and equipment of unloading platforms, ship approaches, weather and other conditions. Targets regarding the implementation of potential transportation to Russian ports were determined in 2012 at meetings of the JSC “RZD” Scientific and Technical Council in Ust-Luga and Gelendzhik.

### EXPORT FREIGHT LOADING TO PORTS AND BULK PLANTS, BORDER CROSSINGS

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Loading volume in 2012, th. t a day</th>
<th>Change versus 2011</th>
<th>Change versus 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loading to Russian ports, total</td>
<td>635</td>
<td>+7%</td>
<td>+31%</td>
</tr>
<tr>
<td>Far East of Russia</td>
<td>206</td>
<td>+ 6.0%</td>
<td>+100%</td>
</tr>
<tr>
<td>North-West of Russia</td>
<td>273</td>
<td>+12%</td>
<td>+21%</td>
</tr>
<tr>
<td>Azov and Black Sea ports of Russia</td>
<td>150</td>
<td>4.6%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Ports of Ukraine</td>
<td>49</td>
<td>-19%</td>
<td>-43%</td>
</tr>
<tr>
<td>Ports of CIS and Baltic countries</td>
<td>187</td>
<td>-12%</td>
<td>-15%</td>
</tr>
</tbody>
</table>
Freight transportation volumes inside Russia grew more slowly than international transportation (+2.4% versus +4.4%, correspondingly). Transportation volumes outside Russia grew 4.1% and their share of transportation accounted for 28.9%. Exports to ports increased 8.7% with decreases at border crossings (-1.3%). Volumes of transit cargo transportation grew strongly (+10.1%).
TRANSIT AND IMPORT TRANSPORTATION

Import and transit transportation is a concentrated flow that mainly comes across the borders with Ukraine and Kazakhstan. They account for a considerable load on the Moscow and South-Ural Railways.

The share of import and transit transportation in the network-wide volume of transportation is quite small. In 2012, JSC “RZD” received 365 th. tons of freight a day from external railways, which is 10% higher compared to the last year and 31% (87 th. tons) higher than the pre-crisis level.

However, this freight comes via a limited number of border crossing points, mainly at borders between Russia and the Ukraine and Kazakhstan; cargo flows are mainly destined straight to or via export borders.

Transportation from Kazakhstan (208 th. tons a day) increased 3% versus 2011 and 24% versus 2007. In the main this is imported coal destined for the Sverdlovsk and South Ural Railways.

JSC “RZD” received 110 th. tons of cargo daily from the Ukrainian railways, which is 22% higher versus 2011 and 45% higher versus 2007. These are mainly construction cargoes heading for the Moscow Railway.

The fast growth of import and transit transportation and the increase in the transportation distance as a whole has led to an increase in growth of freight turnover at Russian railways.
In 2012, the Russian freight car fleet grew 6.1% and reached its maximum level by the end of the year: 1,158.6 th. cars, including:
- 899.3 th. cars from fleets owned by third parties;
- 259.3 th. cars owned by “RZD” Holding Company.

The car fleet of “RZD” Holding Company decreased by 33.4%; the fleet of subsidiaries and affiliates of JSC “RZD” also decreased by 50.2%. These changes are due to the withdrawal of JSC “FFC” from the “RZD” Holding Company (car fleet – 191,191 pcs.) and CJSC “Rusagrotrans” (car fleet – 22,789 pcs.).

The car fleet of independent private companies grew 50.2% over the year; growth is reported for all car types, except for platforms.

However, the overall trends governing the Russian freight car fleet determine the growth rate of the fleet of third-party owners. Their priorities have remained unchanged: the fleet of open and oil cars is growing, while the number of covered cars is declining.

<table>
<thead>
<tr>
<th>1,158.6 th. pcs.</th>
<th>22.4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian freight car fleet in 2012</td>
<td>Share of the freight car fleet of RZD Holding Company in 2012</td>
</tr>
</tbody>
</table>
RENEWAL OF THE JSC “RZD” FREIGHT CAR FLEET

Since 2009, cars in the Holding Company have been predominantly purchased by the Company’s affiliates, to which the rolling stock was transferred.

In 2012, JSC “RZD” subsidiaries and affiliates purchased 14,955 freight cars, including:

### 9,200
- Open cars

### 3,060
- Oil cars

### 1,250
- Container platforms

### 1,050
- Covered cars

### 639
- Hopper cars

### 290
- All-purpose platforms

### 105
- Other types of cars

---

STRUCTURE OF THE RUSSIAN FREIGHT CAR HANDLING MARKET IN TERMS OF TRANSPORTATION VOLUME, BLN T-KM

<table>
<thead>
<tr>
<th>Year</th>
<th>JSC “RZD”</th>
<th>Subsidiaries and affiliates of JSC “RZD”</th>
<th>Other owners</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>22.4%</td>
<td>43.3%</td>
<td>34.3%</td>
</tr>
<tr>
<td>2010</td>
<td>27.0%</td>
<td>46.7%</td>
<td>26.3%</td>
</tr>
<tr>
<td>2009</td>
<td>50.5%</td>
<td>30.0%</td>
<td>19.5%</td>
</tr>
</tbody>
</table>

---

STRUCTURE OF THE FREIGHT CAR FLEET, TH. UNITS

<table>
<thead>
<tr>
<th>Year</th>
<th>JSC “RZD” (excluding affiliates)</th>
<th>Subsidiaries and affiliates of JSC “RZD”</th>
<th>Other owners</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>1158.6</td>
<td>1025.4</td>
<td>991.9</td>
</tr>
<tr>
<td>2011</td>
<td>1091.6</td>
<td>1021.4</td>
<td>944.1</td>
</tr>
<tr>
<td>2010</td>
<td>1021.4</td>
<td>991.9</td>
<td>922.1</td>
</tr>
<tr>
<td>2009</td>
<td>991.9</td>
<td>922.1</td>
<td>833.1</td>
</tr>
</tbody>
</table>

---

CHANGES IN THE RUSSIAN FREIGHT CAR FLEET, TH. UNITS

<table>
<thead>
<tr>
<th>Year</th>
<th>Open cars</th>
<th>Oil cars</th>
<th>Platforms</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>388</td>
<td>410</td>
<td>200</td>
<td>28</td>
</tr>
<tr>
<td>2010</td>
<td>388</td>
<td>410</td>
<td>200</td>
<td>28</td>
</tr>
<tr>
<td>2011</td>
<td>290</td>
<td>266</td>
<td>278</td>
<td>266</td>
</tr>
<tr>
<td>2012</td>
<td>290</td>
<td>266</td>
<td>278</td>
<td>266</td>
</tr>
</tbody>
</table>

Source: Company data
Improvement in transportation process performance

Car fleet management in the context of multiple rolling stock owners

Transition from the model of state monopoly of the freight transportation market to a market model was not backed up by relevant changes in the regulatory framework that sets out the rules of private car fleet management.

Major regulatory legal acts in rail transport services were published before 2003, i.e. before the incorporation of JSC “RZD” and in conditions when the entire freight car fleet was mainly inventoried. The applicable legislation offers no clear definition of a rolling stock operator and does not regulate its roles related to transportation, rights and liabilities.

The actions of multiple rolling stock owners are not coordinated and the empty car flow planning techniques used by them are often ineffective.

The absence of required regulations has had other negative impacts on the transportation market, which eventually resulted in a slower turnover of freight cars, an increased share of running empty cars, a considerable decline in the number of double freight operations and a reduced speed of car freight movement. This brought about an increase in an unnecessary load on the public infrastructure, unmet demand for freight transportation and considerable price inflation with regard to car provision to consignors.

Poor performance of the current system of empty car use became particularly evident following the market demand from the Asia Pacific market: an increase in freight traffic to the East occurred against a backdrop of restricted railway infrastructure capacity in this direction.

According to JSC “RZD” estimates, the oversupply of fleet freight cars in the network resulted in considerable process losses:

- car turnaround time increased by 2.7 days or 21%;
- service speed decreased by 5.2 kilometer per hour or 12%;
- delivery speed decreased by 65 km per day or 23%;
- the share of late deliveries increased by 17 p.p.;
- demand for train locomotives increased by 600 units and for shunting locomotives increased by 300 units per day.

Car fleet growth rate exceeds the transportation growth rate by 3.5 times. The optimal level of required cars has already been exceeded by 28%, which amounts to an oversupply of 258.6 th. cars.
COMMON NETWORK PROCESS OF RAILWAY FREIGHT TRANSPORTATION

The aim of CNP is to ensure a systemic interaction of all market players: JSC “RZD”, consigners, operators, rolling stock owners, consignees, private track owners and engineering support for transportation organization and management by JSC “RZD”. The document was developed by JSC “RZD” and adopted in December 2012.

Basic principles of car fleet use optimization set out in the CNP provide for counterwork by JSC “RZD”: (bringing transportation techniques in balance with the objective needs of the transport market) and by the rolling stock operators (regulation of empty car traffic logistics in line with public infrastructure capabilities).

The Company is updating a number of internal processes and automated systems to enable their adaptation to new conditions for the freight transportation market:
• train makeup plan is regularly adjusted with regard to monthly transportation forecasts, changes in car flow directions, and arrangement of empty car technical routes;
• programs for aggregate loading scheduling based on consigners’ requisitions and empty car traffic plans of rolling stock operators for a next month have been prepared;
• simulation of a resource-based model of infrastructure used in the eastern part of the network ensures the prompt assessment of technological and economic capabilities of car flow handling;
• a number of special-purpose schedules for through-running train handling in heavy-traffic directions is gradually increasing.

Based on accurate details of routes, scopes, frequency of freight car traffic for a scheduling period provided for in the CNP and given by operators and consigners, JSC “RZD” will be able to effectively plan transportation, distribute hauling resources, repair operations, and regulate the use of infrastructure capacities.

One of the key elements of the new system will be a transition to monthly transportation planning not only with regard to freight, but also empty cars (requisitions used to be received in a steady flow). The stable presentation of freight for transportation under a schedule which guarantees the operators an appropriate provision of empty cars will enable the synchronization of processes between enterprises and railways, determine optimal train paths, enhance the rolling stock performance along the route in general and, consequently, reduce the demand in the number of cars to handle available freight volumes.

It needs to be understood that the progressive principles of the Common Network Process will not be able to be fully implemented without changes in transport laws. In 2012, JSC “RZD” submitted relevant proposals to federal authorities with regard to:
• determination of a rational number of car fleets in the public infrastructure;
• state-level development of the requirements for rolling stock owners and operators: they must have sufficient capacity to deploy car fleets on private tracks;
• revision of the car allocation procedure established by the Russian Ministry of Transport, prohibiting the allocation of newly received rolling stock to public tracks only;
• vesting JSC “RZD” with a right to move cars not used in transportation to paid standby lots or their allocation to private tracks at the expense of the car owner of operator;
• allocation of responsibility to rolling stock owners and operators if they fail to accept unclaimed empty cars on private tracks, delay these cars on public tracks waiting for provision and if cars are delayed en route through no fault of the carrier. Responsibility shall be equal to a charge for a car on standby on public tracks.

Improvement in transportation process performance (continued)
In order to overcome any negative market effects and ensure social transportation to the fullest extent, JSC “RZD” has proposed to the government to generate a fleet of leased and borrowed cars and the government accepted this proposal.

In late December 2011, the resolution of the government was accepted; it regulates a procedure for rolling stock borrowing by “Russian Railways” and special pricing procedure with regard to borrowed car fleet transportation (No. 1051). In pursuance of this document, JSC “RZD” and JSC “FFC” entered into a contract for the lease of 105 th. open cars (private borrowed car fleet, PBC) on 26 January 2012. The legal status of the PBC fleet is similar to that of a carrier’s fleet (common park), but subject to tariff regulation peculiarities established by decree No. 444-t/4 of the Russian FTS dated 27 December 2011. Therefore, the cost of services related to the use of borrowed cars is determined based on standard indicators for all-purpose open cars, with a borrowing cost and adjusting factor (from 0.7 to 1.1).

In 2012, the PBC fleet accounted for 22% of the total open car fleet across various forms of ownership. Its share of freight loading onto open cars in the railway network was a little larger: 24.2%. In 2012, open cars of the PBC fleet transported more than 140 mln tons of freight (2,139.2 th. car deliveries).

The PBC fleet filled a problematic niche of the transport market as it undertook service of consigners with small transportation volumes (car freight) and well as low-profit and socially significant transportation to housing and communal enterprises, utilities, Ministry of Defense – transportation segments unattractive to other freight car owners. The share of specified transportation in the PBC fleet freight turnover is around 60%.

In the commodity mix of PBC’s fleet transportation, coal (51.4% of the volume of transportation) and construction freight have a large share (32.4%).

Work scheduling using borrowed open cars from a pool of locomotives controlled by JSC “RZD” eliminated a local shortage of rolling stock. The Company also managed to dramatically improve transportation procurement for small and medium-size consigners of single cars and small car groups (i.e. in the segment of deliveries that have no steady logistics schemes). The creation of the PBC fleet that operates at rates approved by the Russian Government has helped keep down prices in the transport service market.

However, car borrowing is considered to be a temporary stabilizing measure. In pursuance of the governmental decree, PBC fleet operation is extended until the end of 2013 and open cars may only be borrowed from JSC “FFC” up to a maximum of 88 th. units (No. 1467). To ensure steady rail transport operations, a set of measures is required as a part of the Common Network Process (CNP).
Increase in the transport service quality

JSC “RZD” is setting an objective to increase freight delivery reliability by at least 5% in 2013 compared to 2012

The current poor quality of transport service is largely due to external factors – forced transition to operation with a private car fleet, redundancy of this fleet, infrastructure load imbalance, and lack of regulatory framework. Over a number of years, the Company has been trying to introduce a systematic approach to transportation quality; however, the rate of external changes has overtaken these efforts.

Freight delivery quality claims are lodged by both consigners and consignees. In 2012, 759 th. claims were lodged for a total amount of RUR 13.5 bln. Among these, 616 th. claims (81.1%) totalling RUR 6.7 bln (49.5%) were lodged for missed delivery times by empty private cars. 154 th. claims for RUR 2.4 bln were approved. Compared to 2011, the number of claims lodged increased by 5.6 times and the claimed amount by 1.9 times.

The following activities were carried out in 2012 to improve transport service quality:

Automated systems to monitor delivery delays were commissioned; this will ensure a faster response time.

The Program “Development of terminal and warehouse activities of JSC “RZD” is being coordinated.

Proposals were submitted to the Russian Ministry of Transport to revise normative documents with regard to the delivery period to protect the Company’s interests and promote equal conditions for all means of transport.

There is a special focus on contract logistics development and the market launch of integrated client-centered logistics services.
An overload on freight and distributing stations and the road network resulted in a decreased capacity of the railway network and, consequently, a significant increase in a number of freight delivery delays.

- In 2012, deliveries via the public road network amounted to 16,895.2 th. Of deliveries that arrived at their destination, 4,648.2 th. arrived late (27.5% or + 9.1% versus 2011);
- the average delivery rate in 2012 decreased by 28 km/day (in 2012 its was 219 km/day and in 2011, 247 km/day);
- the volume of delayed deliveries of both empty and loaded cars increased. By the end of the year, the share of delayed loaded deliveries amounted to 20.8% (in early 2012 this was 19.8%);
- empty cars accounted for 55% of all delayed deliveries (in 2011 this was 48%);
- delivery reliability was 73%.

The innovative use of technology to manage freight train traffic implemented by JSC “RZD” will ensure that freight delivery matches fixed schedules agreed with the customer.

In 2012, the Corporate Transport Service Center (CTSC) of JSC “RZD” entered into contracts with 13 companies for freight train transportation. According to the schedule more than 4.8 th. freight trains and more than 14.7 mln tons of freight were transported amounting to an additional income of RUR 401.2 mln. Since the start of the project, more than 6 th. freight trains and more than 18 mln tons of freight were transported with an additional income of RUR 535.7 mln.

The new scheme was tested at 24 railway destinations (three destinations of the Sverdlovsk Railway, 17 of October, and four of the West Siberian Railway). Demand for the service came from, in particular, LLC “TC “EvrazHolding” (seven destinations) and JSC “Severstal” (three destinations).

In mid-November 2012 the launch of the transportation of ferrous metals according to customer schedules started from Smychka and Novokuznetsk-Severny stations to Mys Astafieva station. During the implementation of the pilot project, the freight delivery time decreased by 30% (from 15-17 days to 10-12). On the West Siberian Railway, an experimental coal delivery was arranged according to a fixed schedule from Eranukovo station to Obnorskaya, Novokuznetsk-Severny, Biryulinskaya stations and from Obnorskaya station to Nakhodka-Eksportnaya station.

Railways have developed rules of interaction regarding the management of train traffic “according to the schedule”, which, in particular, will help consolidate fleets of different owners and reduce empty return car flows.
Improvement in transport service quality (continued)

JSC “RZD” TAKES MEASURES TO ENHANCE ROAD CAPACITY:

• Heavy-weight traffic helps improve capacity use, specifically, on busy sections. In 2012 over 117 th. freight trains weighing above 6 th. t were delivered; deliveries will grow in 2013. As a result, track infrastructure, power supply, automatic systems and telemechanics will also be need to be brought in line with compliance.
• Introduction of job orders involving co-operation across JSC “RZD” production functions will improve key quality indicators of transportation. The “customer – contractor” principle helps determine the cross responsibility of units for specific elements of business processes. Provisional rules have been approved; they set out the procedure, liability of directorates and their units related to the generation, performance, summation of mutual obligations and job orders in transportation.

PROMISING SERVICES: LONG-TERM CONTRACT FOR GUARANTEED FREIGHT PRESENTATION AND PICKUP

The contract guarantees the carrier’s performance in respect of freight acceptance and delivery in an agreed volume, including during the seasonal routine maintenance of production capacities and infrastructure of JSC “RZD”.

In 2012, the total transportation volume of key customers under long-term contracts amounted to 313.1 mln tons. JSC “RZD” operations under long-term contracts represented 97% (of the volume).


Long-term contracts are being developed with JSC “MCC Eurochem” (JSC “NAK Azot” and JSC “Nevinnomyssk Azot”), LLC “MC Metalloinvest”, JSC “Severstal”, JSC “Gazpromneft”.

PROMISING SERVICES: “TAKE-OR-PAY” AGREEMENT

This agreement covers client co-financing of railway infrastructure development subject to certain freight transportation volumes secured for the long term; it also guarantees the pickup of all finished products. In March 2012, JSC “RZD” and JSC “NOVATEK” signed a strategic partnership agreement until 2020. As agreed by the parties, JSC “NOVATEK” will partially finance work to enhance the capacity of the Lim bey – Surgut – Tobolsk section (RUR 30.5 bln). JSC “RZD” will provide guarantees for the pickup of all finished products of the gas company from Purovsky plant (up to 12 mln tons by 2020).
In 2012, JSC “RZD” launched a pilot project for the comprehensive transport service of “terminal-to-terminal” container transportation. The Holding Company is testing the transportation of liquid chemicals in special-purpose containers for chemical companies and expects to see an increase in the share of railway transportation in this segment.

Last April, the Board of JSC “RZD” approved the Concept for creation of distriports within the Russian Federation. It covers distriport networking, infrastructure upgrading and the improvement of transport service techniques. These complexes are planned to be set up jointly with strategic partners. Project companies will be incorporated for each terminal with the participation of JSC “RZD”, its affiliates and corporate partners.
Traction rolling stock renewal

The supply of a new series of locomotives allowed the redeployment of the released fleet to areas with increased freight turnovers and replaced locomotives whose serviceable life had expired. The use of new locomotives will enable a significant increase in the applicable tonnage rating in relevant areas of operation, reduce the consumption of fuel and energy resources, and save maintenance costs. The released fleet was redeployed to areas with increased freight turnover and used to replace locomotives with whose serviceable life had expired. Last year saw the redeployment of 573 locomotives, which enabled, in particular, the replacement of 3TE10 diesel units with outdated 10D100 diesel engines with new and more fuel-efficient D49 engines.

In 2012, the following significant purchases were made:

30 DC electric freight locomotives of 2ES10 Granit series with an asynchronous traction engine – these are one of the most powerful freight two-system 16-wheel mainline electric locomotives in Russia and Europe;

six new Russian mainline diesel freight locomotives of 2TE25A (AM) series that can operate in the most challenging conditions of the north;

two energy-efficient shunting locomotives with a two-diesel power plant of TEM14 series and two light-weight shunting locomotives of TEM18V series with diesel by Finnish company Wartsila. All machines are made in Russia.

For more details, see "Innovation and technological development of JSC "RZD", p. 92
AT THE YEAR END, 532 UNITS OF TRACTION ROLLING STOCK (+17.4% VERSUS 2011) AT A COST OF RUR 51.7 BLN WERE SUPPLIED TO JSC “RZD”, INCLUDING:

### Electric locomotives

<table>
<thead>
<tr>
<th>Type</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger</td>
<td>393</td>
<td>453</td>
</tr>
<tr>
<td>Freight</td>
<td>2,056</td>
<td>2,125</td>
</tr>
</tbody>
</table>

#### Passenger locomotives

#### Freight locomotives

### Diesel locomotives

<table>
<thead>
<tr>
<th>Type</th>
<th>2011</th>
<th>2010</th>
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<tr>
<td>Mainline</td>
<td>101</td>
<td>76</td>
</tr>
<tr>
<td>Freight</td>
<td>2,056</td>
<td>2,125</td>
</tr>
</tbody>
</table>

#### Mainline locomotives

#### Freight locomotives

### Traction rolling stock renewal, pcs.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td>2012</td>
<td>532</td>
</tr>
<tr>
<td>2011</td>
<td>453</td>
</tr>
<tr>
<td>2010</td>
<td>393</td>
</tr>
</tbody>
</table>

### Traction rolling stock structure, pcs.

<table>
<thead>
<tr>
<th>Year</th>
<th>Passenger electric</th>
<th>Passenger diesel</th>
<th>Freight electric</th>
<th>Diesel freight</th>
<th>Shunting</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>5,506</td>
<td>578</td>
<td>7,337</td>
<td>3,554</td>
<td>6,184</td>
</tr>
<tr>
<td>2011</td>
<td>5,463</td>
<td>562</td>
<td>7,081</td>
<td>3,520</td>
<td>6,106</td>
</tr>
<tr>
<td>2010</td>
<td>5,473</td>
<td>547</td>
<td>7,005</td>
<td>3,016</td>
<td>6,016</td>
</tr>
<tr>
<td>2009</td>
<td>5,469</td>
<td>536</td>
<td>7,610</td>
<td>3,718</td>
<td>5,488</td>
</tr>
</tbody>
</table>

### Locomotives repaired, pcs.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2,056</td>
</tr>
<tr>
<td>2011</td>
<td>2,125</td>
</tr>
<tr>
<td>2010</td>
<td>1,928</td>
</tr>
</tbody>
</table>
Passenger transportation

The number of passengers transported across all means of transport has been in decline over the last few years. In 2012, this trend continued: Russian transport transported 21.3 bln passengers, which is 0.5 bln fewer passengers than in 2011. However, the total passenger turnover increased 6.4% amounting to 473.7 bln passenger-kilometers.

Major efforts were made to improve the quality of services provided to passengers together with an increase in transport availability, people’s mobility and sales, which were supported by the government. Summing up the results of 2012, first of all, we should note overall positive dynamics in all passenger transportation segments achieved due to the coordinated efforts of the passenger complex and the entire Holding Company. In January 2011, JSC “RZD” began to carry out long-distance passenger transportation only by high-speed trains and stopped performing suburban transportation. Suburban transportation in Russia is carried out by suburban passenger companies (SPC) established with the participation of regions.

It should be noted that the number of rail transport passengers has increased for the third year in a row. Last year, a significant threshold was reached: in one year alone, railways transported more than 1 bln passengers.
In order to increase the overall availability of transport services for its citizens, the government subsidizes a number of passenger transportation journeys, the transportation of certain population categories (e.g. students) as well as transportation on long-distance trains in passenger cars with reserved seats and in seating carriages. In addition to this, the federal budget compensates railway companies for revenue losses resulting from the regulation of tariffs for the railway infrastructure and services usage. Moreover, regional governments reimburse the shortfall in income resulting from the regulation of tariffs for passenger transportation. However, the amount of compensation received does not cover even half of the losses of railroad transportation.

### PASSENGER TURNOVER BY PUBLIC TRANSPORT MEANS, BLN PASS-KM

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger turnover of public transport</td>
<td>445.2</td>
<td>473.7</td>
<td>6.4</td>
<td>4.4</td>
<td>100, 100</td>
</tr>
<tr>
<td>including</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>by rail</td>
<td>139.8</td>
<td>144.6</td>
<td>3.4</td>
<td>0.7</td>
<td>31.4, 30.5</td>
</tr>
<tr>
<td>by road (buses)</td>
<td>138.6</td>
<td>133.3</td>
<td>-3.8</td>
<td>-1.4</td>
<td>31.1, 28.2</td>
</tr>
<tr>
<td>by air (transport aviation)</td>
<td>166.8</td>
<td>195.8</td>
<td>17.4</td>
<td>13.4</td>
<td>37.5, 41.3</td>
</tr>
</tbody>
</table>

1 Excluding the urban and water means of transport.
Passenger turnover

Key trends:

Long-distance railway transportation remains competitive at distances up to 1.5 th. km. At the same time over 70% of all passengers choose railway services for distances up to 700 km.

The number of railway passengers has been growing for the third consecutive year and exceeded a significant milestone in 2012: 1 billion people.

Passenger turnover within «Russian Railways» network is growing in both long-distance traffic and suburban traffic.

The declining trend in the railroad transport share of total passenger traffic remains unchanged (~9.2 p.p. in the last 12 years)

Work with the constituents of the Russian Federation, aimed to compensate the shortfall in income connected with suburban traffic, is continuing.

144.6
Passenger turnover by railroad transport in 2012 in Russia

1,058.8
million passengers

+3.4% compared with 2011

+6.6% compared with 2011

PASSENGER TURNOVER WITHIN RAILROAD TRANSPORT, BILLIONS PASSENGER-KILOMETERS

<table>
<thead>
<tr>
<th>Year</th>
<th>Long-distance Traffic</th>
<th>Suburban Traffic</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>78.2%</td>
<td>21.8%</td>
<td>144.6</td>
</tr>
<tr>
<td>2011</td>
<td>79.0%</td>
<td>21.0%</td>
<td>139.8</td>
</tr>
<tr>
<td>2010</td>
<td>79.8%</td>
<td>20.2%</td>
<td>138.9</td>
</tr>
<tr>
<td>2009</td>
<td>74.8%</td>
<td>25.2%</td>
<td>151.5</td>
</tr>
<tr>
<td>2008</td>
<td>73.5%</td>
<td>26.5%</td>
<td>175.9</td>
</tr>
</tbody>
</table>
Long-distance passenger transportation

Passenger turnover

113.0 bln passenger-kilometers (+2.3% versus 2011)

31.6 bln passenger-kilometers (+7.8% versus 2011)

1.8 bln passenger-kilometers (+8.4% versus 2011)

116.6 mln passengers (+1.6% versus 2011)

942.2 mln passengers (+7.3% versus 2011)

3.2 mln passengers (+9.5% versus 2011)

4,252.1 mln wagon-kilometers (-1.6% versus 2011)

1,306.7 mln wagon-kilometers (-0.6% versus 2011)

2,845.4 mln wagon-kilometers (+0.3% versus 2011)

ACTIVITIES OF SUBURBAN PASSENGER COMPANIES (SPC) IN 2012

Suburban passenger transportation

Passenger turnover

662.4 mln business passengers

942.2 mln passengers

were transported by suburban passenger companies in total

were transported by suburban passenger companies in total

+10.6% versus 2011

+7.3% versus 2011

OF 26 ACTIVE SUBURBAN PASSENGER COMPANIES:

17 SPCs

increased the growth of business passengers

13 SPCs

increased the total volume of passenger transportation

High-speed passenger service

Passenger turnover

1.8 bln passenger-kilometers (+8.4% versus 2011)

3.2 mln passengers (+9.5% versus 2011)

32.8 mln wagon-kilometers (+0.3% versus 2011)
Suburban Passenger Traffic

Key Trends

Suburban traffic volumes have been increasing for several years.

Revenues from suburban passenger companies (SPC) grew by 8.4% in 2012.

In 2012, 100 agreements were entered into with 73 constituent entities of the Russian Federation to provide a certain volume of services at fixed tariffs.

SPCs are not required to be compensated for losses in just five constituent entities of the Russian Federation.

JSC Russian Railways is developing express and accelerated commuting services in the Moscow Transport Hub.

Profitability of suburban trains in Russia remains one of the main objectives of industry reform. Current measures to support suburban trains through budgets are insufficient. As such, the methods of interaction between carriers and regional authorities also require change.

Since 2011, JSC Russian Railways has only been managing long-distance express passenger trains.

Suburban services are provided to the population by 26 suburban passenger companies (SPCs) established with the participation of the regions, LLC Aeroexpress, LLC Interregional Passenger Company, and LLC Permksy Express.

53% of losses incurred by SPCs remained uncompensated in 2012. 18 of 25 SPCs are unprofitable.

JSC Russian Railways provides services related to the public railway infrastructure used for passenger traffic.

Suburban traffic volumes have been increasing for the past two years. This organic growth is driven by the carriers’ flexible marketing policy, improved passenger services in some regions, and the governmental decision to subsidize infrastructure services and reduce JSC Russian Railways’ tariffs for the provision of rolling stock to carriers.

In 2011, 16 SPCs were unprofitable, 64% of losses were not compensated.

1 Except for JSC PK Sakhalin
At year-end 2012 revenues of all suburban companies from passenger transportation increased by RUR 46.4 bln in total. During this time, on total SPCs generated a shortfall in income amounting to RUR 15.2 bln (net of profit received in a number of regions and subsidies for state tariff regulation). The shortfall in income increased by RUR 0.9 bln during the year. The bulk of the shortfall in income is attributed to unprofitable SPCs (RUR 13.1 bln).

The shortfall in income is due to the fact that suburban tariffs are regulated by constituent entities of the Russian Federation, therefore, only a full compensation of shortfall in income will make suburban trains profitable for SPCs. However, at the beginning of 2012 regional budgets provided only RUR 6.4 bln for the compensation of a shortfall in income.

During the year, 34 constituent entities of the Russian Federation adjusted their budgets to pay suburban passenger companies additional subsidies amounting to RUR 2.1 bln. Of these, RUR 640.3 mln were subsidized to cover losses from the previous year (2011). Thus, in 2012 the actual compensation received was only RUR 7.8 bln, less than half of the amount required.

In 2014 the situation may deteriorate. The three-year Russian budget for 2014 allows for only RUR 12.5 bln to cover JSC Russian Railways’ shortfall in losses from infrastructure services provided to suburban trains, which is half the amount of subsidies allocated for this purpose in 2012.

### INDICATORS OF THE SUBURBAN COMPLEX, RUR BLN

<table>
<thead>
<tr>
<th>Item</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>42.8</td>
<td>46.4</td>
</tr>
<tr>
<td>Total expenditure at the infrastructure rate of 1%</td>
<td>–48.9</td>
<td>–53.9</td>
</tr>
<tr>
<td>Consolidated losses for the Russian Federation given a reduction in the infrastructure rate of 99%</td>
<td>–6.1</td>
<td>–7.5</td>
</tr>
<tr>
<td>Total demand for subsidies in regions of the Russian Federation, excluding profitable constituent entities</td>
<td>–14.3</td>
<td>–15.2</td>
</tr>
<tr>
<td>Subsidies received from regional budgets, including:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>subsidies received by regions, excluding profitable regions</td>
<td>5.2</td>
<td>7.2</td>
</tr>
<tr>
<td><strong>Total losses, including subsidies and excluding profitable regions</strong></td>
<td>–9.1</td>
<td>–8.0</td>
</tr>
</tbody>
</table>
26 suburban passenger companies operate suburban traffic services in 73 constituent entities of the Russian Federation (on “common”, so called 6000 number suburban trains). Of them:

<table>
<thead>
<tr>
<th>2 SPCs</th>
<th>4 SPCs</th>
<th>14 SPCs</th>
<th>5 SPCs</th>
<th>1 SPCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;25% private investors</td>
<td>100% minus 1 share of JSC Russian Railways, 1 share of Zheldorreform</td>
<td>&gt;50% shares of JSC Russian Railways, with the rest of shares owned by the constituent entities of the Russian Federation</td>
<td>&gt;50% shares of constituent entities of the Russian Federation, JSC Russian Railways, with the rest of shares owned by JSC Russian Railways</td>
<td>100% private investors</td>
</tr>
<tr>
<td>OJSC Moskovsko-Tverskaya Suburban Passenger Company (JSC Russian Railways owns 50% (2 shares), with 25% (1 share) belong to the Tver Region, 25% +1 share belongs to Delta-Transinvest)</td>
<td>OJSC Bashkortostanskaya Suburban Passenger Company</td>
<td>OJSC Altai-prigorod</td>
<td>OJSC Baikalskaya Suburban Passenger Company</td>
<td>LLC Perm Express</td>
</tr>
<tr>
<td>OJSC Bashkortostanskaya Suburban Passenger Company</td>
<td>OJSC Kaliningradskaya Suburban Passenger Company</td>
<td>OJSC Volgograd-prigorod</td>
<td>OJSC Volgo-Vyatskaya Suburban Passenger Company</td>
<td></td>
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<tr>
<td>OJSC Sakhalin Passenger Company</td>
<td>OJSC Zabaikalskaya Suburban Passenger Company</td>
<td>OJSC Krasprigorod</td>
<td>OJSC Kuban Express-prigorod</td>
<td></td>
</tr>
<tr>
<td>OJSC Northern Suburban Passenger Company</td>
<td>OJSC Kuzbass-prigorod</td>
<td>OJSC Sodruzhestvo</td>
<td>OJSC Samarskaya Suburban Passenger Company</td>
<td></td>
</tr>
<tr>
<td>OJSC Tsentralnaya Suburban Passenger Company (JSC Russian Railways owns 25% + share, 25%+1 share belong to the Moscow Region, 50% minus 2 shares belong to LLC Moscow Passenger Company)</td>
<td>OJSC Perm Suburban Company</td>
<td>OJSC Omsk-prigorod</td>
<td>OJSC Saratovskaya Suburban Passenger Company</td>
<td></td>
</tr>
<tr>
<td></td>
<td>OJSC Saratovskaya Suburban Passenger Company</td>
<td>OJSC Perm Suburban Company</td>
<td>OJSC Sverdlovskaya Suburban Passenger Company</td>
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<tr>
<td></td>
<td>OJSC North-Western Suburban Passenger Company</td>
<td>OJSC Sverdlovskaya Suburban Passenger Company</td>
<td>OJSC North-Caucasian Suburban Passenger Company</td>
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<tr>
<td></td>
<td>OJSC North-Caucasian Suburban Passenger Company</td>
<td>OJSC Suburban Passenger Company</td>
<td>OJSC Suburban Passenger Company Chernozemie</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>OJSC Express Primorlya</td>
<td>OJSC Express-prigorod</td>
<td></td>
</tr>
</tbody>
</table>

In addition, the complex includes companies that provide express passenger transportation services with luxury trains:

- LLC Aeroexpress (an operator of suburban express trains linking Moscow, Sochi and Vladivostok with airports)
- LLC Moscow Passenger Company (express transportation in the Saratov and Volgograd Regions)
In November 2012, the Government Commission on Transport and Communication approved the suburban passenger service development concept for the period up to 2025 proposed by JSC Russian Railways and the Russian Ministry of Economic Development.

The concept had been developed at the request of the Russian Government (No. P9-43077 dated 17 September 2011), and the draft has been submitted for the final approval at the Government’s meeting.

Underlying principles of the new organizational model of suburban passenger service outlined in the concept:

• use of the state order mechanism for public railway infrastructure services (constituent entities of the Russian Federation should place orders for transportation services). The state order mechanism should be envisaged by the Federal Law “On the Organization of Regular Passenger Train Service in the Russian Federation”;

• constituent entities of the Russian Federation should be required by law to:
  – draw up mid-term transport service development plans (for 3-5 years);
  – determine cost-base tariffs for suburban passenger services and compensate revenue losses incurred by suburban passenger companies as a result of tariff regulation;
  – approve a realistic mechanism for subsidizing carriers from regional budgets and fully compensate shortfalls in income;

• the federal budget should fully compensate carriers’ shortfalls in income from the transportation of passengers entitled to federal-level benefits;

• a penalty fare system, a penalty collection procedure and regulations governing the responsibility for train fare evasion are under development.
Four constituent entities of the Russian Federation did not provide compensation for shortfalls in income incurred by carriers in 2012 (Vologda, Kurgan, Vladimir and Leningrad Regions).

In 2012, agreements for the organization of public transportation services were entered into with all 73 constituent entities of the Russian Federation (all territories where railway services are available). A standard contract provides for the full compensation of shortfalls in income and the approval procedure for the volume of fixed tariff transportation services by the ordering party (a constituent entity of the Russian Federation).

However, 57 of 100 contracts (including 43 constituent entities of the Russian Federation) do not specify any financial compensation rates for shortfalls in income.

Shortfalls in income were fully compensated to carriers in 21 regions. However, in the following five constituent entities of the Russian Federation there was no need for subsidies: Moscow, Moscow Region, Saint Petersburg, the Republic of Adygea, and the Astrakhan Region.

Carriers were fully compensated for revenue losses in just 16 regions: Nizhny Novgorod, Kaluga, Orenburg, Omsk, Kirov, Novosibirsk and Ryazan Regions, the Karachay-Cherkess Republic, the Republic of Tatarstan, the Khanty-Mansi Autonomous Territory, Altai, Krasnoyarsk and Perm Territories, the Udmurt Republic, Volgograd Region and the Republic of Bashkortostan.

OJSC Bashkortostanskaya PPK failed to make an agreement with the Samara Region for 2012.

At year-end 2012 positive financial results in suburban services were achieved by the following eight suburban companies: OJSC Central Suburban Passenger Company, OJSC Moscow-Tver Suburban Passenger Company, OJSC Kuban Express-Prigorod, OJSC Suburban Passenger Company, OJSC VTP, OJSC Express-Prigorod, OJSC Omsk-Prigorod, OJSC Altai-Prigorod

<table>
<thead>
<tr>
<th>Compensation rates to constituent entities of the Russian Federation</th>
<th>Number of constituent entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation is not required</td>
<td>6</td>
</tr>
<tr>
<td>100% compensation</td>
<td>16</td>
</tr>
<tr>
<td>&gt; 50% compensation</td>
<td>13</td>
</tr>
<tr>
<td>&lt; 50% compensation</td>
<td>34</td>
</tr>
<tr>
<td>not provided</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>73</strong></td>
</tr>
</tbody>
</table>
### PROFITABLE AND UNPROFITABLE SUBURBAN PASSENGER COMPANIES IN 2011-2012 TAKING INTO ACCOUNT SUBSIDIES FROM REGIONS

<table>
<thead>
<tr>
<th>SPCs</th>
<th>2011, RUR mln</th>
<th>2012, RUR mln</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Financial result net of subsidies</td>
<td>Volume of subsidies</td>
</tr>
<tr>
<td>Altai-Prigorod</td>
<td>–157</td>
<td>157</td>
</tr>
<tr>
<td>Omsk-Prigorod</td>
<td>–118</td>
<td>118</td>
</tr>
<tr>
<td>Express-Prigorod</td>
<td>–140</td>
<td>140</td>
</tr>
<tr>
<td>Kuzbass-Prigorod</td>
<td>–249</td>
<td>62</td>
</tr>
<tr>
<td>Sverdlovsk Suburban Company</td>
<td>–2,092</td>
<td>1,313</td>
</tr>
<tr>
<td>Perm Suburban Company</td>
<td>–526</td>
<td>222</td>
</tr>
<tr>
<td>Sodruzhestvo</td>
<td>–507</td>
<td>357</td>
</tr>
<tr>
<td>Volgogradtrans-Prigorod</td>
<td>–161</td>
<td>174</td>
</tr>
<tr>
<td>Krasprigorod</td>
<td>–1,070</td>
<td>313</td>
</tr>
<tr>
<td>Express Primoriya</td>
<td>–737</td>
<td>161</td>
</tr>
<tr>
<td>Chernozemie Suburban Passenger Company</td>
<td>–707</td>
<td>51</td>
</tr>
<tr>
<td>Northern Suburban Passenger Company</td>
<td>–1,594</td>
<td>246</td>
</tr>
<tr>
<td>North-Caucasian Suburban Passenger Company</td>
<td>–1,192</td>
<td>156</td>
</tr>
<tr>
<td>North-Western Suburban Passenger Company</td>
<td>–54</td>
<td>45</td>
</tr>
<tr>
<td>Moscow-Tver Suburban Passenger Company</td>
<td>97</td>
<td>–</td>
</tr>
<tr>
<td>Central Suburban Passenger Company</td>
<td>5,678</td>
<td>215</td>
</tr>
<tr>
<td>Kuban Express-Prigorod</td>
<td>–38</td>
<td>126</td>
</tr>
<tr>
<td>Zabaikalskaya Suburban Passenger Company</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Sakhalin Suburban Company</td>
<td>–70</td>
<td>79</td>
</tr>
<tr>
<td>Perm Express</td>
<td>–51</td>
<td>61</td>
</tr>
<tr>
<td><strong>TOTAL (CONSOLIDATED)</strong></td>
<td>–6,064</td>
<td>5,154</td>
</tr>
<tr>
<td><strong>TOTAL NET OF PROFITABLE COMPANIES</strong></td>
<td>–11,840</td>
<td>–</td>
</tr>
<tr>
<td><strong>TOTAL NET OF PROFITABLE REGIONS</strong></td>
<td>–14,274</td>
<td>–</td>
</tr>
</tbody>
</table>
Station Facilities: Improved Service Quality for all Categories of Passengers

Major railway stations and commuting hubs not only provide functional services, but also are important in terms of the image of the railways.

Railway station modernization and construction projects of JSC Russian Railways address special needs of disabled people and environmental management principles.

In 2012, a large amount of reconstruction and restoration work was carried out in Moscow railway stations (listed buildings). The first stage of work was launched at the Paveletsky, Leningradsky and Kazansky railway stations, and the final commissioning of assets has been scheduled for 2013. At the Rizhsky and Savelovsky railway stations modernization plans are being implemented: they will not only be reconstructed, but the use of the transport centers will also change.

In addition, reconstruction works were carried out at 14 railway stations in different regions of the Russian Federation in 2012 (excluding Moscow).

In 2012, major projects included new multimodal commuting hubs in Sochi (planned to be launched in 2013) and in Kazan. Increased passenger comfort and improved quality of railway station services are a way to reduce the decrease in passenger numbers and to facilitate profitable passenger services.
MOSCOW: JSC RUSSIAN RAILWAYS IS BUILDING COMMUTING HUBS WITH PARKING FACILITIES AT RAILWAY AND SUBWAY STATIONS

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>57</td>
<td>Site improvement and construction of outdoor single level parking areas. In 2012, 18 hubs were equipped with required facilities, and parking lots for 1,000 cars were built.</td>
</tr>
<tr>
<td>44</td>
<td>Development of urban planning documentation, architectural plans, working documentation, construction (period: 2014–2020)</td>
</tr>
</tbody>
</table>

BARRIER-FREE ENVIRONMENT FOR DISABLED PEOPLE

The creation of a new quality railway station environment for disabled people is a widespread project. All components of the railway station infrastructure should be made accessible and be interconnected: “railway station area – railway station building – railway gates – railway platforms”. In addition, all components of the railway station environment should be linked with the technological process of the unified passenger service, which means that carrier operators should also be involved in the process.

Currently, a set of standard measures and solutions is being tested at the Rizhsky railway station and subsequently may be implemented at all Moscow stations. A project to adapt railway buildings and areas to the needs of disabled people was developed with the participation of the Available Environment and Universal Design Foundation; the project construction and installation works have been completed.

In 2012, a service for disabled passengers – the Mobility Facilitation Center (MFC) – was launched at the Leningrad station (Moscow), at the Moscow station (St. Petersburg) and in Sapsan trains. For the convenience of passengers a call-center has been established in the MTC; the toll-free number is 8-800-510-11-11.

The creation of a barrier-free environment in transport is envisaged by the state federal program “Accessible Environment for 2011-2015”, the executor of which is the Russian Ministry of Labor and the co-executors of which are the Ministry of Transport and the Ministry of Regional Development. The investment program of JSC Russian Railways approved by the Government of the Russian Federation does not allow for enough funds to create a barrier-free environment for disabled people in all railway facilities. However, work to adapt railway station facilities to the needs of disabled people will be immediately deployed once additional funds have been allocated.
Development of the Express and High-Speed Rail Network in Russia

Express rail projects (up to 200 km/h) have been implemented on the routes Saint Petersburg – Moscow – Nizhny Novgorod and Saint Petersburg – Boguslovskaya (and onwards to Helsinki).

The service is popular with passengers: for example, 7.8 mln of 8.9 mln seats on the Sapsan train have been sold (87.6%).

Given the high demand for express passenger services, JSC Russian Railways has taken the decision to double the fleet of Sapsan trains servicing the Moscow – Saint Petersburg line.

On 3 December 2012, the production of a batch of Sapsan high-speed trains was officially launched by Siemens AG in Krefeld (Germany). Each of the eight new trains consists of 10 cars, and they can be doubled in height, which increases the carrying capacity of express tracks without increasing the number of trains.

The decision taken in 2012 to create a dedicated express and high-speed rail infrastructure has opened up new areas of innovative development for the industry.

The Lastochka train is one of the major technology transfer projects and is localized in Russia.

Production of 5th generation electric locomotives has started.

Renovation of the rolling stock and locomotive fleet will reduce costs of maintenance and repair of rolling stock.

Express transport increases the mobility of the population, aligning labor, goods and services markets.

Significance of the Project:

Express services are in demand and on average, 80-90% of train seats are filled.

Faster services between the largest agglomerations are important to maintain the competitiveness of railways.

Dedicated high-speed rail infrastructure will free up capacity for freight lines.

The Lastochka train is one of the major technology transfer projects and is localized in Russia.

Production of 5th generation electric locomotives has started.

Renovation of the rolling stock and locomotive fleet will reduce costs of maintenance and repair of rolling stock.

Express transport increases the mobility of the population, aligning labor, goods and services markets.
DEVELOPMENT OF THE EXPRESS AND HIGH-SPEED RAIL NETWORK IN RUSSIA

THE DEMAND FOR EXPRESS SERVICES REMAINS HIGH

<table>
<thead>
<tr>
<th>Route</th>
<th>number of trips, total</th>
<th>occupancy rate, %</th>
<th>tickets sold in 2012, th. (versus 2011, %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sapsan (8 trains)</td>
<td>15,619</td>
<td>85.4</td>
<td>3,000 (+8.2%)</td>
</tr>
<tr>
<td>Moscow — Saint Petersburg (since 17.12.09)</td>
<td></td>
<td>89.9</td>
<td>2,300</td>
</tr>
<tr>
<td>Moscow — Nizhny Novgorod (since 30.06.10)</td>
<td></td>
<td>79.1</td>
<td>700</td>
</tr>
<tr>
<td>Allegro (4 trains)</td>
<td>5,312</td>
<td>36.9</td>
<td>350 (+13.0%)</td>
</tr>
<tr>
<td>Saint Petersburg — Buslovskaya — Helsinki (since 12.12.10)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The development of the express and high-speed services is determined by the National High-Speed and Express Rail Network Development Program for the Period up to 2020 and the Strategy of Development of the Railway Transport in the Russian Federation for the Period up to 2030.

The forthcoming global sports events – 2014 Olympic Games and 2018 FIFA World Cup – have triggered the development of the relevant National Program.

In April 2012, at the initiative of JSC Russian Railways, the Public Council of the President of JSC Russian Railways was established to address issues of the development of express and high-speed railway services. This advisory and consultative body includes representatives of the management of federal executive authorities, administrations of constituent entities of the Russian Federation, businesses, financial institutions and scientific organizations, including RAS institutes. In addition, prospects for the development of high-speed railway services in Russia were considered at the joint meeting of the Public Chamber of the Russian Federation and the Public Council at the President of JSC Russian Railways.

At the Government’s request, an interagency working group was created to develop a long-term state target program.

In May 2012, the Russian Ministry of Transport introduced agreed propositions concerning the development of the National High-Speed and Express Passenger Service Development Program for the Period up to 2020 for consideration by the Government.
The financial model for the development of express services was considered at a meeting with the Deputy Prime Minister of the Russian Federation, A.V. Dvorkovich, in October 2012. Taking into account the cities where 2018 FIFA World Cup events will be held, it was decided to establish a rationale for investment in the construction of high-speed railway lines serving Moscow – Yekaterinburg and Moscow – Adler. These decisions were recorded in the minutes of the final meeting of the Executive Board of JSC Russian Railways for 2012.

In November 2012 the provision of transport services required during the 2018 FIFA World Cup were considered at a meeting with the First Deputy Prime Minister, I.I. Shuvalov.

According to the request of the Minister, V.V. Putin, the Transport Strategy of the Russian Federation for the Period up to 2030 was updated.

In 2012 a principally new regulation was adopted to create a dedicated express and high-speed railway infrastructure. The dedicated lines will allow super high-speed traffic (up to 400 km/h) and will free up lines for freight trains that are currently occupied. High-speed rail services will trigger the innovative development of the industry, regions and markets in Russia.

In 2030 the length of high-speed and express railway lines in JSC Russian Railways’ network will reach 11.2 th. km, and they will be used by 44 mln people each year.
DEVELOPMENT OF EXPRESS AND HIGH-SPEED PASSENGER SERVICE

By 2020 the total length of express and high-speed lines in JSC Russian Railways’ network will have increased by 3.5 times to 4.5 th. km. Express and high-speed trains will be used by 18.8 mln people each year.

High-speed services (up to 300-400 km/h) on dedicated railway lines:
- Moscow – Saint Petersburg,
- Moscow – Nizhny Novgorod – Kazan.

Express services (160-200 km/h) using existing infrastructure between major regional centers on the following routes:
- Moscow – Tula – Oryol – Kursk,
- Moscow – Yaroslav,
- Moscow – Suzemka (with a further extension to Kiev),
- Moscow – Krasnoye (with a further extension to Minsk and subsequently to Europe).

BY 2030:

Additional high-speed services on dedicated railway lines will be provided on the following routes:
- Moscow – Rostov – Adler,
- Kazan – Yekaterinburg, with a Kazan – Samara branch and a potential branch to Perm and Ufa.

The following additional high-speed routes will be opened:
- to the Volga Region (Moscow – Saratov, Samara – Saransk, Samara – Penza, Samara – Saratov, Saratov – Volgograd),
- in the Urals (Yekaterinburg – Chelyabinsk),
- in Siberia (Omsk – Novosibirsk – Krasnoyarsk and links between Novosibirsk, Barnaul, Kemerovo and Novokuznetsk),
- in the Far East (Khabarovsk – Vladivostok).

11.2 th. km
the total length of express and high-speed lines in JSC Russian Railways’ network by 2030.

44 mln people each year
passenger flows serviced by express and high-speed lines in 2030

3.35 mln passengers used express railways in 2012

RENovation of EXPRESS ROLLING STOCK

The railway development strategy for the period up to 2030 provides for the renovation of JSC Russian Railways’ obsolete locomotive and rolling stock fleet for suburban services, replacing it with brand new electric trains. Siemens AG has become the key partner of the Holding Company in this area.

The first contract with the German company was entered into on 17 December 2009 for the design and supply of 38 electric five-car trains of the ES1 Lastochka series (Siemens Desiro RUS) with a maximum speed of 160 km/h. The trains will carry passengers during the 2014 Olympic and Paralympic Games in Sochi.

The optimal traction characteristics (power, acceleration, maximum speed) allow the ES1 electric train to reach its maximum speed within a short time (acceleration 0.7 m/s²) and manage gradients up to a maximum of 40% to ensure a high service for the “Olympic” traffic.

By the end of 2012, 17 Lastochka electric trains had been supplied to Russia. Preliminary, acceptance and certification tests were conducted in the TCh-10 Metallostroy Electric Multiple Unit Depot of the Oktyabrskaya Railway. On 7 December 2012 the acceptance commission signed the Certificate of Compliance of the Electric Trains with the Design Specification.

On 17 December, at the final meeting of the Executive Board of JSC Russian Railways, the Russian Minister of Transport, M.Yu. Sokolov, presented the compliance certificate of the Lastochka trains.

The trains will be maintained in a new electric multiple unit depot at the Adler Station that was commissioned in 2012.
The second contract between JSC Russian Railways and Siemens AG signed in 2010 provides for the supply of an additional batch of 16 electric trains of the same design, but with a production localization rate in Russia of not less than 20% of the cost of the trains. JSC Russian Railways will start accepting the trains in the first half of 2014.

On 7 September 2011, JSC Russian Railways and LLC Ural Locomotives signed an agreement for the supply of 1,200 cars for Lastochka trains. The company will receive the design and technological documentation under a license agreement with Siemens AG.

Under the terms of the agreement, the production localization rate at the Ural Locomotives will have reached at least 80% of the cost of the electric train by the end of 2017. The technology transfer and support of the launch of the production of electric train components in Russian companies will be provided by the engineering center created at the basis of the company.

The first Lastochka train produced in Russia will be supplied to the customer – JSC Russian Railways – in the first half of 2015. All models of the electric trains will be designed to operate at speeds up to 160 km/h.

In 2012, LLC Ural Locomotives constructed new production facilities for the manufacture of the trains. The Electric Train Draft Design was approved and the Electric Train Contract Design was submitted for approval by JSC Russian Railways.

High-speed passenger services require brand new locomotives. Their production has been started at the Novocherkassk Electric Locomotive Plant (a group company of CJSC Transmashholding). The EP20 Olympus electric locomotive, capable of hauling passenger trains at speeds up to 200 km/h, was developed by specialists of TRTrans Engineering Center, established by Transmashholding (TMH) and the French engineering company Alstom on a pari passu basis.

A contract for the supply of 200 EP20 electric locomotives during 2010–2020 was signed by the President of JSC Russian Railways, V.I. Yakunin, and the Chairman of the Board of Directors of CJSC Transmashholding, A.R. Bokarev, on 27 May 2010 in Sochi at the V International Business Forum Strategic Partnership 1520.

On 30 November 2012, the first EP20 electric locomotive was handed over to JSC Russian Railways at a formal ceremony in the presence of the Prime Minister, Dmitry Medvedev.

On 14 December 2012, the locomotive made its first trip with the Nevsky Express train.

JSC Russian Railways is planning to receive 36 of these locomotives during 2012–2013 to manage passenger services on the route Moscow – Sochi, including during the Winter Olympic Games.
Description and maintenance of JSC Russian Railways’ infrastructure

“Railway transport helps to condense large distances, integrate domestic markets and provide necessary links with international markets. Developed railway infrastructure promotes trade, particularly export, and has a positive effect on economic growth.

Integration processes that have been developing in recent years in the “1520 area” and the European Union need a smoothly operating international transport system, and railways are an integral part.”

V. I. YAKUNIN
President of JSC Russian Railways

The monitoring of capital construction, the repair of infrastructure facilities (315 th. different facilities) and the operation of JSC Russian Railways’ own rolling stock are the responsibility of the Infrastructure Directorate of JSC Russian Railways. This is the largest division of the Holding Company (more than 360 th. people).
85,248 km
the length of railway tracks
5,680 km, or 6.7%, of them are registered as defective

82,837
man-made structures are used in the railway network of JSC Russian Railways
8,132, or 9.8%, of them are defective

Track Infrastructure Fixed Assets

In 2012, the total length of repaired railway track amounted to 10.4 th. km, with major repair and modernization carried out on 7.3 th. km of railway track, which reduced the length of sections with excessive tonnage and expired serviceable life by more than 426 km to 20.54 th. km (or 16.5% of the total length of main tracks).

Nonetheless, the results of the inventory of track infrastructure fixed assets raise cause for concern: the number of defective structures is growing, with many facilities still in operation after their serviceable life has expired.

As of 1 January 2013:
- 82,837 man-made structures (e.g. bridges, etc.) are used in the railway network of JSC Russian Railways, 9.8% of them are defective;
- 6.7% of 85,248 km of the registered railway tracks are defective.

In the pre-crisis year of 2008 the number of defective engineering structures was lower: 8.3% for man-made structures and 6.1% for the roadbed.

The increase in the number of defective engineering structures is largely associated with the aging of the facilities: 28% of bridges have been in service for more than 100 years. Another reason is the lack of funding for repair work.

The inability to replace deteriorating engineering structures with like-for-like replacements is also high – on average 76.2%; About 31% (25.4 th. items) of all currently operated engineering structures were built before 1913.

If current trends continue, by the year 2015 the serviceable life of 38% of the structures (31.3 th. items) will have expired (for supports the serviceable life is 80-100 years, for pipe culverts 100 years, and for metal spans 60 years).

Insufficient carrying capacity of railway hauls is often a reason for the limited capacity of the whole track. In 2012, the following sections had limited capacity hauls:
- 3 sections of the Far Eastern Railway;
- 2 sections of the East Siberian Railway;
- 1 section of the Krasnoyarsk Railway;
- 2 sections of the West Siberian Railway;
- 6 sections of the Sverdlovsk Railway;
- 1 section of the Gorkovskaya Railway;
- 1 section of the Kuybyshevskaya Railway;
- 1 section of the Privolzhskaya Railway;
- 6 sections of the North Caucasus Railway;
- 2 sections of the Moscow Railway;
- 3 sections of the Oktyabrskaya Railway.
The total length of such sections of the railway network is 4,065.5 km, and 2,728.5 km of them are single-track hauls. Compared with the previous year, the growth in length is 514 km, with all of them being single-track sections.

The second most important reason for the limited carrying capacity of the railways is insufficient capacity of traction power supply devices. In 2012, the length of sections with insufficient traction power supply capacity increased against the previous year by 1,067 km and made up 2,876.1 km, or 37.9% of the total length of all “bottlenecks”.

Insufficient capacity of the traction power supply system restricts the carrying capacity of the following sections:
- 5 sections of the Trans-Baikal Railway;
- 2 sections of the West Siberian Railway;
- 4 sections of the Sverdlovsk Railway;
- 1 section of the Kuybyshhevskaya Railway;
- 1 section of the Privolzhskaya Railway;
- 1 sections of the North Caucasus Railway;
- 4 sections of the Moscow Railway;
- 3 sections of the Northern Railway.

Service stations restrict the carrying capacity of adjacent sections totaling a length of 1,058 km, which is 14% of the length of all “bottlenecks”. The estimated carrying and processing capacity was exceeded on the following sections:
- 3 sections of the North Caucasus Railway;
- 1 section of the South Eastern Railway;
- 1 section of the Privolzhskaya Railway;
- 2 sections of the South Ural’s Railway;
- 1 section of the Krasnoyarsk Railway;
- 3 sections of the East Siberian Railway;
- 1 sections of the Far Eastern Railway.

The estimated length of “bottlenecks” in the network of JSC Russian Railways is more than 8,100 km as of 1 January 2013.

**INFRASTRUCTURE DEVELOPMENT PROJECTS:**

The following major projects should be implemented before 2020:
- Comprehensive reconstruction of the Mga – Gatchina – Vaimarn – Ivangorod section and railway approaches to the southern coast of the Gulf of Finland;
- increase in the carrying capacity of the Volkhovstrov – Murmansk route;
- development of the Konosha – Labytnangi section (with construction of the Nadim – Salekhard line);
- comprehensive reconstruction of the Trubnaya – V.Baskunchak – Aksaraiskaya section;
- comprehensive reconstruction of the Gorkogo – Kotelnikovo – Tikhoretskaya – Korenovsk – Timashevskaya – Krymskaya section, bypassing the Krasnodar hub;
- development of the railway infrastructure of the Baikal-Amur Mainline with a section of the Trans-Siberian Railway;
- development of the Tayshet – Mezhdurechensk section;
- comprehensive reconstruction of the Karymskaya – Zabaikalsk section;
- reconstruction of the Tobolsk – Korotchaevo section.

Moreover, plans are in place to build additional main tracks, electrify some sections, equip some sections with an automatic block signaling system, construct bypasses of the Krasnodar, Saratov, Omsk and Prm railway hubs and lay new lines, including Salekhard – Nadym, Kyzyl – Kuragino, Biysk – Gornoaltaysk, Shimanovskaya – Gar, Khani – Tarynakhskoye deposit, Mogzon – Ozernoye, Pravaya Lena – Yakutsk and others.
In 2012, the number of failures of infrastructure components declined by 10% compared with 2011. The overhaul life was increased on 2,600 km of track. Railway sections with speed restrictions of 40 km/h and less reduced by 3,566.0 km for passenger traffic and by 5,123.7 km for freight traffic.

Railway automation and remote control equipment in the Russian railway network are used in 203 signaling, centralized and blocking devices and two Automation and Remote Control Maintenance Centers employ a total of 36.4 th. people.

At present, the JSC Russian Railways’ Automation and Remote Control Division is validating a new methodology of resource, risk and reliability management at different stages of the life cycle of equipment (URRAN), which will form the underlying basis of operational work management throughout the Holding Company.

Innovative railway automation and remote control equipment will improve the safety of railway traffic, and help achieve targets for the carrying and processing capacity of the railways.

### Length of Lines Equipped with Automatic Block Signal Systems and Centralized Traffic Control

- **2011**: 61,896 km (72.8%)
- **2010**: 62,295 km (73.1%)
- **2012**: 60,922 km (71.7%)

### Analysis of Electric Interlocking Systems by Their Serviceable Life in the Rail Network, TH. Items

- **2011**
  - Less than 15 years: 14.7%
  - 16-20 years: 15.3%
  - 21-25 years: 14.9%
  - 26-30 years: 13.4%
  - More than 40 years: 14.3%
- **2012**
  - Less than 15 years: 15.6%
  - 16-20 years: 15.2%
  - 21-25 years: 14.9%
  - 26-30 years: 13.4%
  - More than 40 years: 14.7%
During the project implementation:
• equipment reliability indicators and failure rate recalculation coefficients have been defined depending on the technical equipment, climatic conditions and categories (loading) of lines;
• values of the indicators and coefficients of operational reliability of automation and remote control equipment have been calculated and the calculation methods have been developed;
• the procedure for setting permissible values of failure rate for hauls and stations has been defined on the basis of prescribed values of the average recovery period and limitations of the line availability factor.

In addition, technical audit and commission investigations of railway automation and remote control equipment were organized with the involvement of manufacturer representatives. Annual organizational and technical measures help reduce the number of signaling and interlocking equipment failures, improve the culture to use technical equipment and increase the number of services provided to JSC Russian Railways’ customers.

In future a unified multilevel system is planned for the automated monitoring of the state of technical equipment and the automated accounting system for technological operations. The Infrastructure Directorate will set up diagnostic and monitoring centers to control the technical state of automation equipment.

### SCIENTIFIC AND DEVELOPMENT PROGRAM OF JSC RUSSIAN RAILWAYS FOR THE PERIOD UP TO 2015

The program provides for the implementation of innovative railway automation and remote control systems and equipment:
• a phased transition to microprocessor-based automatic arrow and traffic light blocking and electric interlocking devices;
• application of microprocessor-based train traffic and safety control systems with the use of a radio interlocking center;
• use of integrated train traffic control systems, data transfer to locomotive safety devices through a digital radio channel;
• introduction of a multilevel automated system for the diagnosis and monitoring of the state of signaling, centralization and blocking devices;
• introduction of low-maintenance floor-mounted signaling, centralization and interlocking equipment, new generation mechanical equipment with redundancy and diagnosis elements.

### NUMBER OF RAILWAY TRAFFIC SAFETY INCIDENTS AND EMERGENCIES

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>19</td>
</tr>
<tr>
<td>2011</td>
<td>19</td>
</tr>
<tr>
<td>2010</td>
<td>26</td>
</tr>
</tbody>
</table>

### 2012 Results

- Innovative track alignment technologies have been introduced using the current integrated system of spatial data of railway infrastructure
- Dynamic laboratories for testing infrastructure with an axle load of 27 ton-force and at a speed of 200 km/h have been developed.
- Advanced design of infrastructure facilities has been introduced.
Administration of Assets of JSC Russian Railways

Upon the formation of the registered capital of JSC Russian Railways 356,800 of 420,200 real estate items (about 85%) were registered under the ownership of JSC Russian Railways as part of 8,622 structures (production and processing facilities, hereinafter referred to as “PPF”).

**SPECIFIC ASPECTS OF REGISTRATION OF JSC RUSSIAN RAILWAYS’ PROPERTY**

Registration of real estate items included in the PPF prevents their disposal, which delays the registration of the items in the registered capital of the Company’s subsidiaries and affiliates and its ability to transfer non-core items into civil ownership.

To enter into transactions with real estate items registered as part of the PPF, the PPF needs to be dissolved, which requires a technical inventory and state registration of all real estate items.

The decision to dissolve all PPF according to a schedule was adopted by JSC Russian Railways on 29 June 2007.

3,462 PPFs have since been dissolved (40.2% of their total number). 134,966 real estate items have been removed from the PPFs.

**CONTRIBUTION OF PROPERTY IN SUBSIDIARIES’ REGISTERED CAPITALS**

Since its existence, the Company has transferred 23.4 real estate items to the registered capital of JSC Russian Railways’ subsidiaries established in the course of the sectoral reform.

As of 1 January 2013, the total registered capital of JSC Russian Railways’ subsidiaries exceeded RUR 234 bln.

JSC Russian Railways transferred a significant amount of real estate to logistics and trade companies (5.3 th. items to OJSC Railway Trade Company), construction companies (4 th. items to OJSC Roszheldorstroy), rolling stock repair and maintenance companies (1.4 th. items to OJSC Zheldorremmash).

2.7 th. real estate items were transferred to OJSC Federal Passenger Company, established in 2010.
LAND MANAGEMENT

JSC Russian Railways uses right-of-way land with a total area of 969 th. ha.

More than 6.9 land plots with a total area of more than 35 th. ha have been registered as JSC Russian Railways’ property.

Federal property rights have been registered in respect of 7,240 land plots with a total area of 959 th. ha (98.9% of the total area of such land plots). Lease agreements have been entered into with regional offices of the Federal Agency for State Property Management in respect of 7,054 land plots (with a total area of 956 th. ha).

At year-end 2012 JSC Russian Railways’ revenues from the sub-lease of the land plots was RUR 463.1 mln.

RECEIPTS FROM ADMINISTRATION OF THE COMPANY’S PROPERTY

In 2012, the Holding Company began to form a bank of leasable land plots. Primarily, the focus is on non-core and/or unused leasable items that may be put into civil circulation. The Company monitors the real estate market in order to ensure rents are maintained at market levels.

As of the end of 2012, almost 2 mln sq. m. of non-core and/or unused real property items were leased.

By virtue of law, transport companies are obliged to accommodate employees of some state bodies free of charge (for example, the transport police, customs authorities). In this case JSC Russian Railways is reimbursed for the cost of the maintenance of the leased premises, which is taken into account in determining the tax base (for income tax). In addition, the tenants undertake the obligation to maintain and repair the premises.

In 2012, JSC Russian Railways started to agree with interested parties a compensation scheme for the Holding Company’s shortfalls in income from the use of its property to carry out state functions.
PROPERTY ASPECTS OF INTERNATIONAL PROJECTS

A number of railway infrastructure facilities are located in foreign countries. The property rights of the Russian Federation should be protected in respect of such facilities.

In 2012, JSC Russian Railways facilitated the signature of a lease agreement in respect of land occupied by Russian transit railway lines passing through the territory of Kazakhstan. The agreement has been signed by Kazakhstan.

After approval by the Federal Agency for State Property Management, the rights of the Russian Federation to the property of the Russian transit railway lines located in Kazakhstan will be registered.

The transit line agreement was provided for by the Agreement between the Government of the Russian Federation and the Government of the Republic of Kazakhstan on the legal regulation of railway companies, institutions and organizations.

The Holding Company intends to intensify negotiations and developments of a similar mutually accepted intergovernmental agreement between the Russian Federation and the Ukraine.

Rights to the railway property located in Lugansk and Sumny Regions of Ukraine should be divided.

CREATION OF THE REGULATORY PROPERTY MANAGEMENT SYSTEM


The proposed amendments to the law will remove limitations to the circulation of property readily investable by the market and to property that needs external investment.

Regulatory framework for JSC Russian Railways’ property management (key documents):

- The Civil Code of the Russian Federation;
- the Company’s by-laws, including the Regulation on the Management Procedure for the Property of JSC Russian Railways approved by Order No. 150 dated 17 November 2008 of JSC Russian Railways.
Great Future of a Great Company

“By 2015, we should implement the Russian Railways’ Innovation Development Program aimed at the technological breakthrough in railway transportation. This means the use of nanotechnologies, introduction of intelligent transportation systems, development of conceptually new rolling stock, hydrogen-powered engines, etc. Immense motivation and appetite for innovations contribute to the existing demand from customers who want to receive quality transportation services. So, we set rather ambitious tasks: not only to overcome the technology gap between us and foreign railway companies, but even to move ahead of the curve.”

From V.I. Yakunin’s blog
Key Events of 2010-2012

The information and planning mode of the automatic train control system was implemented on the Saint Petersburg – Moscow route. The level of implementation of the scheduled freight traffic was extended (499 developed schedules for 2012/2013). The automated system to generate expected daily energy-optimized schedules – APK ELBRUS – was put into permanent operation (for 2012/2013). The automated system was implemented during 2010-2015.

A draft of the integrated rail traffic and infrastructure safety system was developed for the 2014 Winter Olympic Games. Integrated microprocessor-based systems have been implemented for marshaling yards, including locomotive radio remote control were introduced. Specifications for the locomotive with a gas-fueled reciprocating engine and the GT1I natural-gas-powered engine and for the 2TE116UD diesel locomotive with a General Electric engine and for the LTE2AM diesel locomotive with a MTU engine were approved. The certificate of compliance was issued by FBO “RC FRT” for ES3 Lastochka electric trains manufactured by Siemens AG (Germany). 15 electric locomotives, a 2ES5 electric locomotive and a piggy-container platform was approved. The acceptance tests of the TEM9N hybrid locomotive with a gas-fueled reciprocating engine and the GT1I natural-gas-powered locomotive were developed. The SCO for the development of a 4-axle piggy-back container platform was approved. The acceptance tests of a covered goods wagon with sliding walls and an axle load of 27 ton-force at a speed of 200 km/h were developed; advanced design of infrastructure facilities were introduced.

Technical specifications for the LTE116UD diesel locomotive with a General Electric engine and for the LTE2AM diesel locomotive with a MTU engine were approved. Acceptance tests of the TEM14 double diesel locomotive and LTE20 electric locomotive with asynchronous traction motors were carried out. Qualification tests of the LTE10 electric locomotive were conducted. Specifications for the locomotive with a gas-fueled reciprocating engine and the GT1I natural-gas-powered locomotive were developed. The SCO for the development of a 4-axle piggy-back container platform was approved. The acceptance tests of a covered goods wagon with sliding walls and an axle load of 27 ton-force were carried out.

The number of failures of infrastructure elements had been reduced by more than 10% by 2011. The track overall life was increased on 2,600 km of track. Railway sections with speed restrictions of 40 km/h and less were reduced by 3,596.0 km for passenger traffic and by 5,123.7 km for freight traffic. Methods for risk assessment and calculation of reliability and safety parameters were developed for infrastructure business entities. Innovative track alignment technologies were introduced using the current-integrated system of spatial data of railway infrastructure. Dynamic laboratories for testing infrastructure with an axle load of 27 ton-force at a speed of 200 km/h were developed; advanced design of infrastructure facilities were introduced.
Innovation and Technological Development of JSC Russian Railways

In 2012, we successfully progressed a number of projects from the Innovative Development Program. First of all, we would like to highlight the advanced technology transfer projects: the creation of a world-class rolling stock, the introduction of new transportation control technologies, and the development of energy saving technologies.

JSC Russian Railways’ Global Advanced Technology Priorities:

- Gas turbine locomotive fueled by compressed natural gas
- Digital train operational and technological communication system
- Large-scale traffic management technologies based on intelligent systems using passenger and freight traffic forecasts and technological process integration
- Decision support system for life cycle management (URRAN)
- Station safety technology based on digital models and satellite navigation (MALS)
- Train separation control system based on the integrated use of track circuits, satellite navigation, local and distributed digital channel

0.4% of revenues

Russian Railways’ annual costs for R&D

JSC “Russian Railways” is one of few Russian Companies, whose R&D expenditures are comparable to those of its foreign competitors.

Innovation and Technological Development

Implementation of the Innovative Development Strategy and Program of JSC Russian Railways for the period up to 2015

Development of technical means and technologies that meet global standards and can improve the Holding Company’s performance

Achievement of energy efficiency targets in the Holding Company’s activities

Introduction of lean manufacturing principles in the Company’s production processes

Development of a decision support system to manage risks, reliability, operating costs and investments in railway transport facilities at different stages of the life cycle based on the URRAN methodology.

Development and implementation of technological discipline control tools in the organization of the unified transportation process
INNOVATIONS IN TRANSPORTATION CONTROL

It is impossible to increase the required freight rates using the standard information schemes on established routes. JSC Russian Railways is moving to dynamic traffic management schemes that can change the freight flow direction and regulate the track carrying capacity at any time.

The basis of JSC Russian Railways’ freight and passenger management is its traffic control centers (TCC), which incorporate unique technologies to control trains, rolling stock and locomotive fleets, train operation, etc., developed by the Research and Design Institute of Information, Communication and Automation in Rail Transport. The systems are designed to use modern, primarily satellite, means of identification to control the rolling stock and state of the railway infrastructure.

In 2012:
• the information and planning mode of the automatic train control system was implemented on the Saint Petersburg – Moscow; route
• the range of implementation of scheduled freight traffic was extended (499 developed schedules for 2012/2013);
• the automated system for generating expected daily energy-optimized schedules – APK Elbrus – was put into permanent operation at the Chelyabinsk – Inskaya pilot test site;
• five Traction Resources Management Centers were created;
• at the Yaroslavl-Glavny station of the North Traffic Management Directorate an innovative integrated station automation system (ITAUR) was implemented: the dynamic station model is based on satellite navigation systems; the automatic wagon number recognition technologies were fine-tuned, the station operation schedule was automated;
• in collaboration with Italian specialists, a draft of a brand new high-speed suburban traffic was developed; it will be used, in particular, for the organization of transportation on the Adler – Krasnaya Polyana – Alpika-Service route during the 2014 Sochi Winter Olympic Games and afterwards for the organization of high-speed passenger rail;
• integrated microprocessor-based systems were implemented at marshal yards, including locomotive radio remote control;
• extended functions and increased reliability of the train separation control systems were provided.

INNOVATIVE TECHNOLOGIES IN THE TRANSPORTATION PROCESS

The scheduled freight traffic organization process using daily energy-optimized schedules has been deployed in railways of the Urals and Western Siberia.

The project is a logical continuation of the development of automated train flow control in areas where traction resources have been integrated with the operation of service stations. It is important that the daily train schedule is generated based on the algorithms using the carrying capacities of limiting hauls and railway sections to the greatest possible extent.

In 2012, pilot operation results confirmed the effectiveness of this technology: the specific energy consumption for the traction of a loaded train in comparable conditions reduced by -4.7%.

The economic benefits of the introduction of this technology form part of the cost saving program of JSC Russian Railways. In 2013, the technology implementation site will be extended from 2,100 km to 6,700 km.

DEVELOPMENT OF THE RANGE OF TRAFFIC CONTROL TECHNOLOGIES

<table>
<thead>
<tr>
<th>Year</th>
<th>Site</th>
<th>Distance, km</th>
<th>Freight Locomotives</th>
<th>Freight cars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>Chelyabinsk – Isilkul</td>
<td>660</td>
<td>341</td>
<td>10,500</td>
</tr>
<tr>
<td>2012</td>
<td>Chelyabinsk – Inskaya</td>
<td>1,440</td>
<td>580</td>
<td>26,000</td>
</tr>
<tr>
<td>2013</td>
<td>Balezino – Altaiskaya</td>
<td>2,406</td>
<td>950</td>
<td>37,000</td>
</tr>
<tr>
<td></td>
<td>Kustarevka – Inskaya</td>
<td>2,180</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
In 2012, with the support of JSC Russian Railways, joint projects between Russian manufacturers and their foreign partners were successfully implemented in the development and production of innovative rolling stock – Sinara Group with Siemens AG and CJSC Transmashholding with Alstom. Both foreign companies are world leaders in their fields of activity.

Advantages of the asynchronous traction drive:

- Increased power with the same dimensions as a DC motor
- Longer life cycle
- Improved reliability
- Reduced life cycle cost
- Possibility of electric regenerative/dynamic braking to stop
- Increased tonnage rating

Moreover, in 2012:

- The technical specification for the 2TE116UD diesel locomotive with a General Electric engine and for the 2TE25AM diesel locomotive with a MTU engine were approved.
- Acceptance tests of the TEM 14 double diesel locomotive and EP20 electric locomotive with asynchronous traction motors were carried out.
- Qualification tests of 2ES10 electric locomotive were carried out.
- Technical requirements for a locomotive with a gas-fueled reciprocating engine and GT11 natural-gas-powered locomotive were developed.
- The technical specification for the development of a 4-axle piggyback-container platform was approved.
- The acceptance tests of a covered goods wagon with sliding walls and an axle load of 25 ton-force were carried out.
- The draft design of the ES2G electric train was completed (LLC Ural Locomotives).
PRODUCTION OF LOCOMOTIVES WITH ASYNCHRONOUS TRACTION DRIVE (CONTINUED)

EP20 Olymp Passenger Electric Train

6
in operation since 2012

SUPPLY IN 2013-2015

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>30</td>
<td>25</td>
<td>24</td>
</tr>
</tbody>
</table>

The two-system EP20 locomotive with asynchronous traction motors was developed by the engineering center Rail Transport Technologies, a joint venture of CJSC Transmashholding and Alstom Transport. The locomotives are produced by Novocherkassk Electric Locomotive Plant (part of the CJSC Transmashholding Group).

This is a pilot project aimed to develop a single platform of 5th generation Russian electric trains. Certification testing of the new EP20 passenger electric train has been successfully completed (see details in the Section “Development of the Express and High-Speed Rail Network”).

EP20 is designed for express passenger traffic (up to 200 km/h) and has the following characteristics: it does not have any equivalents in the “1520 area” and is very competitive with foreign trains; its life cycle costs are 15% lower than existing models.

2ES10 Granit Freight Locomotive

41
in operation since 2012

SUPPLY IN 2013-2015

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>40</td>
<td>50</td>
<td>55</td>
</tr>
</tbody>
</table>

The 2ES10 Granit locomotive with asynchronous traction motors was developed by LLC Ural Locomotives in collaboration with Siemens AG. About 60% of the engineering solutions used in its design have been deployed in the Russian mechanical engineering industry for the first time. The performance of the 2ES10 locomotive is over three times higher compared to the currently used 1.5 VL11 locomotives. In addition, it is much more energy efficient: the specific energy consumption is 30% lower and the specific recovery is over 2.2 times higher.

In 2012 two pilot models of the 2ES5 two-unit freight AC electric locomotive were produced and commercial tests were carried out.

The microprocessor control system and the automated radio control system of the new electric locomotive enables simultaneous operation of two, three and four sections of the locomotive in the head, middle and tail of the train. This allows the hauling of several connected trains with distributed traction.

The locomotive can be operated by one locomotive driver.

In addition, the electric locomotive is equipped with a radio control system to be used for the pushing engine.

2ES5 Freight AC Electric Locomotive

Q4 2012
started in production

In 2013 two locomotives will be produced.

The new generation of electric freight locomotives will be one of the main factors behind the increasing efficiency of the transportation process: they provide the possibility to manage heavy freight train traffic on complex routes without the re-formation of trains or the use of pushing engines. In 2012, the Granit hauled a train weighing 9,000 tons from the West Siberian Railway to the Ust-Luga port through the Ural Mountains over a distance of 4,000 kilometers.
In order to eliminate the technological gap in the new generation of production of locomotive diesel engines, JSC Russian Railways made the decision to involve leading foreign companies in their development.

In 2012 CJSC Transmashholding produced and certified pilot models of the 2TE25A Vityaz main line two-unit diesel freight locomotive motorized with diesel engines of Tognum (MTU trade mark), Series 4000, with power of 2,700 kW (in the section).

The diesel locomotives are being tested in the locomotive depot Bryansk-Lgovsky.

An innovative project to develop the first Russian shunting locomotive with a hybrid drive was implemented by the engineering company STM Center of Innovation Development of OJSC Simara – Transport Machines, a mechanical-engineering holding company. Its development was approved by the NGO Foundation for Development of the Center of Research and Commercializing of New Technologies (Skolkovo innovation center). JSC Russian Railways is the main scientific and technical partner in the development of the new locomotive.

The prototype of the TEM9H shuttling locomotive, produced by the Lyudinovo Diesel Locomotive Plant, is equipped with an intelligent hybrid power unit with a capacity of 882 kW, which combines eco-friendly internal combustion diesel engine (630 kW) and lithium-ion batteries and super capacitors (252 kW).

The diesel locomotive can be used for shunting operations, including indoors, as its noise levels have been reduced. The new locomotive complies with high environment and energy efficiency foreign standards: compared to the previous model (TEM9) diesel consumption has been reduced by 30% and exhaust emissions into the environment have been reduced by up to 55%. In line with current trends in transport engineering, the locomotive was designed with a modular structure: the frame contains a diesel generator, cabin, sanitary and other modules, with each control unit is fitted with a self-diagnostic system that helps to quickly identify and fix the problem. In 2012 the locomotive was tested and the results were used to improve the construction of its components and assemblies.
Innovative technical methods and train brake systems have been implemented and are under trial operation.

The mobile brake integrity control system with automatic registration of measurements prevents the departure of trains with blocked end taps (which caused a collapse of freight trains on the Kuybyshhevskaya Railway in 2010). In 2013, a pilot batch of devices will be delivered to the Northern Railway for trials under controlled conditions.

In cooperation with Knorr-Bremse (Germany) a new generation of brake control valve has been developed. Their production will be localized in Russia. In February 2013, the Federal Freight Company (a subsidiary of JSC Russian Railways) and Knorr-Bremse established a joint venture, Knorr-Bremse 1520, for the production of brake equipment for railway rolling stock with a gauge of 1520 mm.

**TRACK REPAIR QUALITY IMPROVEMENT**

In November 2012, at the Reshetnikovo station of the Oktayabskaya Railway, an automatic tamping and leveling machine based on the precision coordinate system of the Moscow – Saint Petersburg – Buslovskaya route, built using satellite technologies and integrated spatial data infrastructure, was demonstrated in operation for the first time. This breakthrough technology will be required for the transition to year-round repair and modernization of the infrastructure. It will improve the quality of repair and, therefore, reduce the life cycle cost of the railway track.

New technical solutions to improve traffic safety and develop seamless planning form the foundation of the development of a new high-yield segment of the transportation business, in particular, piggyback transportation (rail transportation of loaded trucks).

Universal platforms for the transport of containers and trailers without restrictions throughout the “1520 area” have been designed and constructed in Russia for the first time. A pilot platform produced by OJSC Ruzkhimmash, at the request of JSC Russian Railways to transport containers and trailers, was launched in December 2012 at the Rizhsky station. In 2013, certification tests of the platforms will be conducted and the preparation for their mass production will begin.

Piggyback transportation has great potential for heavy traffic routes: due to faster border crossing and goods delivery, it is possible to reduce logistics costs. Moreover, piggyback transportation reduces the impact on the environment and improves transport safety.

In the European Union piggyback transportation is growing at a fast pace, representing 30% of all rail freight traffic. Development of piggyback traffic transportation is one of the priority areas of Russia’s transport policy.
Improving Energy Efficiency

JSC Russian Railways has achieved its highest ever level of energy efficiency in its transportation process based on a number of parameters.

In 2012, JSC Russian Railways completed the mandatory energy audit. The energy certificate of JSC Russian Railways has been registered with the self-regulatory energy audit organization, SoyuzEnergoAudit, under number CPO-4-19122012-00807.

In 2012, energy saving and energy efficiency programs were implemented at 42 branches of JSC Russian Railways.

In comparison with the year 2011:
- specific consumption of fuel and energy was reduced for electric traction (by -0.1%) and for diesel traction (by -0.9%);
- the level of energy recovery increased by 18.6%.

An example in 2012 of an integrated approach to addressing environmental development, energy efficiency and reducing the energy intensity of the transport infrastructure was the implementation of the Smart Station concept during the modernization of the Anapa railway station. 560 solar modules with a total capacity of 70 kW were installed in the station building. Now it is independent of the public electricity supply.

71.8 kg

of standard fuel / 103 virtual ton-km net was the energy intensity of the production activities of JSC Russian Railways in 2012

Compared with 2011, the energy intensity decreased by -1.1 kg of standard fuel / 103 virtual ton-km net (-1.5%)
## ENERGY SAVING AND ENERGY EFFICIENCY MEASURES OF JSC RUSSIAN RAILWAYS

<table>
<thead>
<tr>
<th>Cost, RUR th.</th>
<th>Annual savings of fuel and energy resources</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
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<td>2</td>
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<td>165,573.19</td>
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<td>6</td>
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<td></td>
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</tr>
<tr>
<td>10</td>
<td>2,790,177.98</td>
</tr>
<tr>
<td><strong>Total, in real terms,</strong></td>
<td><strong>10,679,630.18</strong></td>
</tr>
</tbody>
</table>

Including:
- electricity
- thermal fuel
- natural gas
- Petrol
- fuel oil
- Coal
- Water

Including:
- electricity
- thermal fuel
- natural gas
- Petrol
- fuel oil
- Coal
- Water
Lean Manufacturing Technologies at JSC Russian Railways

The Lean Production Project is one of the key ways to increase the efficiency of JSC Russian Railways by streamlining processes, increasing productivity and reducing overheads.

The scope of the implementation of the Lean Manufacturing Project was expanded by over five times in 2012 and now covers 553 business units throughout the railways and across all areas of economic activity of JSC Russian Railways.

In 2012, 1,628 improvement projects were implemented, and 1,640 standards and technological processes were revised. The increase in economic benefit from the project implementation exceeded RUR 260 mln, but a key achievement is that a core of employees has been created which is now engaged and interested in efficiency improvements. Our work was highly praised at the VIII Russian Lin-Forum.

MAIN AREAS OF LEAN MANUFACTURING IN JSC RUSSIAN RAILWAYS’ FACILITIES

<table>
<thead>
<tr>
<th>No</th>
<th>Principle of the production system</th>
<th>Examples of rolling stock benefits</th>
<th>Examples of track facilities benefits</th>
<th>Examples of traffic management benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Load balancing</td>
<td>Timely repair of locomotives</td>
<td>Gap scheduling to reduce as much time as possible when sending track machines</td>
<td>Seamless planning of locomotives and crews at the point of departure</td>
</tr>
<tr>
<td>2</td>
<td>Flow alignment</td>
<td>Removal of counterflows</td>
<td>One-stop shop principle for all business entities</td>
<td>Managing planning streams, route dispatch</td>
</tr>
<tr>
<td>3</td>
<td>Organization of pulling</td>
<td>Replenishment of material and technical resources as required</td>
<td>Just-in-time supply of materials for the track superstructure</td>
<td>Destination station pulls the train from the formation station</td>
</tr>
<tr>
<td>4</td>
<td>Autonomy</td>
<td>Automatic operation of test stations without human intervention</td>
<td>Automatic adjustment of station-to-station travel time and train parameter charts when setting restrictions</td>
<td>Alternatives to the formation plan are provided in the technical process of the station and do not require a decision from the Railway Traffic Control Center</td>
</tr>
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<td>5</td>
<td>5S methodology</td>
<td>Maintaining order in the workplace</td>
<td>Maintaining order in the workplace</td>
<td>Dispatcher workplace ergonomics</td>
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<td>6</td>
<td>Visual control</td>
<td>Job boards and labels</td>
<td>Network repair diagrams</td>
<td>Electronic displays and color indicators</td>
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<td>7</td>
<td>Prevention of human error</td>
<td>Devices and equipment</td>
<td>Work scheduling</td>
<td>Automatic control</td>
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<td>8</td>
<td>Common equipment maintenance</td>
<td>Preventive maintenance and scheduled maintenance cards</td>
<td>Maintenance and repair of track machines</td>
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</tr>
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<td>9</td>
<td>Standardization of technological processes</td>
<td>Monitoring of compliance with flow diagrams</td>
<td>Regulation of scheduling and approval of gaps</td>
<td>Agreed time for the transfer of working plans between dispatchers</td>
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</tbody>
</table>
Traffic Safety

Strategy of guaranteed safe and secure transportation

JSC Russian Railways is moving to a proactive traffic safety policy. The updated Strategy for Guaranteed Security and Reliability of the Transport Process of JSC Russian Railways developed in 2012 and approved in early 2013 provides for the establishment of an effective technological failure prevention system. The safety management system of JSC Russian Railways also aims to foster the culture of safety by involving as many workers of the Holding Company as possible.

The priority of safety for railway transportation is becoming increasingly important. This trend is clearly apparent both at a global level and in the requirements of the Russian governing authorities.

JSC Russian Railways is paying an increasing level of attention to the safety of transport due to changes in the structure of the Holding Company, its transition to management by type of business and the development of new areas (express and high-speed passenger traffic, intensive urban and suburban passenger and heavy freight traffic), as well as due to the significant deterioration of the technical and technological base of rail transport and the reduction of the state’s control over compliance of products and services.
The use of assessment methodologies and risk management, methods of factor analysis, valuation techniques to measure the influence of the reliability of technical facilities on traffic safety systems, and management decisions support systems are expanding. An effective tool to improve the reliability of the transport process is the URRAN implemented in 2012 (the Resources, Risk and Reliability Management System at different stages of the life cycle), which provides an analysis of the reliability and functional safety of technical facilities, railway infrastructure facilities and rolling stock.

The greatest attention is paid to the effectiveness of the safety management systems (SMBD), harmonized with international safety standards in force on the railways in the European Union.

The SMBD ensures a unified approach and coordinated interaction between all branches, subdivisions, subsidiaries and affiliated companies of the Holding Company, participating in or providing transportation. Among the other important innovations of the Strategy are the introduction of the internal audit of the SMBD audit and, in time, the external audit of the safety management system and its certification.

At the core of the safety management systems is the Situation Center for Emergency Monitoring and Management of JSC Russian Railways, which is responsible for operational safety, transportation and fire protection, and the monitoring of weather conditions. In 2012, documents regulating the activities of the Situation Center in the normal mode or in the emergency response mode, as well as its operational cooperation with federal authorities and third parties, were approved.

The updated Strategy for Guaranteed Security and Reliability of the Transport Process of JSC Russian Railways was adopted as an extension to the relevant Functional Strategy effective from 2007 to 2013 and is based on an up-to-date understanding of the systemic causes of traffic safety violations. The prevailing principle of the updated Strategy is “to anticipate and prevent”.

The strategy provides for additional measures, not only in respect of the supervision of compliance with safety regulations and elimination of violations, but above all, measures to prevent violations and improve the reliability of the transportation process.

### Target (Benchmark) Traffic Safety Indicators

As traffic safety indicators, traffic reliability and acceptable risk levels have not been developed at a state level, since 2010 such indicators and their values and targets are set out in the corporate documents of JSC Russian Railways and have been approved by the Board of the Holding Company.

In 2012, the most important measure – the ratio of the absolute number of safety incidents versus the total train turnover in mln train-kilometers – was updated and calculated taking into account the accident rate specified in the Transport Strategy and Railway Development Strategy. For 2015 the target is 66% of the 2007 baseline level and in 2030 43-51% of the baseline level. For the period from 2011 to 2015 the indicators are calculated on an annual basis, and also in 2016, 2020 and 2030, taking into account the innovation and energy resource development in relation to the rail transport strategy. The indicators are specified for the whole of JSC Russian Railways and for all branches, divisions and subsidiaries of the Holding Company, whose activities are related to traffic safety. The objective of the Holding Company and its structural units is not exceed the maximum target values.
FORMATION OF THE SAFETY CULTURE

On 1 September 2012, new rules for technical operation of the railways, train traffic instructions, shunting operations and railway signaling came into effect. JSC Russian Railways has organized the study and knowledge assessment of the new document for over 600 thousand employees of the Holding company and over 20 thousand employees of third party organizations whose activities are related to train traffic, shunting operations and construction works on the infrastructure facilities of JSC Russian Railways.

The transition to a positive safety culture and staff training are an important part of the Strategy since an emphasis on administration and the punishment of those responsible for a particular incident (whether a railway, a business entity or an individual) neither increases motivation nor staff initiatives and, ultimately, minimizes the influence of the human factor on traffic safety.

The Strategy involves, in particular, the introduction of an assessment of employee competencies with regard to their willingness to comply with safety requirements, to adapt quickly to new requirements, their increased access to security information, up to the unrestricted dissemination of information on violations and measures to address them. This is supplemented by internal investigation of events and incidents with procedures to identify the cause-and-effect relationships before they occur, and an analysis of these relationships.

STRATEGY FOR GUARANTEED SECURITY AND RELIABILITY OF THE TRANSPORT PROCESS OF JSC RUSSIAN RAILWAYS

<table>
<thead>
<tr>
<th>Objective</th>
<th>Underlying principles</th>
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<tbody>
<tr>
<td>To ensure a guaranteed level of safety of human life and health, nature, wealth and hardware systems when carrying out the transport process at all stages, and a target level of reliability of the transportation process</td>
<td>1. Defining acceptable levels of risk and standards for traffic safety indicators;</td>
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<td></td>
<td>2. Situational security monitoring, implementing management decision support systems to forecast the traffic reliability and prevent security breaches;</td>
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<td></td>
<td>3. Upgrading the technical and technological base, improving the reliability of hardware, and enhancing information technologies in the field of traffic safety;</td>
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<td></td>
<td>4. Evaluating the economic efficiency of investment projects in areas of safety and security of the transportation process, taking into account the probability of incidents and events, and any possible direct or consequential losses or loss of profits;</td>
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<td></td>
<td>5. Two-way exchange of security information, both vertically and horizontally – with employees involved in related activities and employees of related organizations;</td>
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<tr>
<td></td>
<td>6. Building a culture of safety, involving employees in solving the problems of traffic safety, monitoring professional knowledge in the field of security;</td>
</tr>
<tr>
<td></td>
<td>7. Improving the procedures for investigating accidents, audit and management audit of traffic safety.</td>
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</tbody>
</table>
In 2012, the number of traffic accidents and other events related to the violation of safety rules and the operation of the railway transport infrastructure at JSC Russian Railways increased by 3% (against 2011) and amounted to 9,185 cases. In 2011, the total number of traffic accidents and other events related to the violation of safety rules and the operation of the railway was lower than in the previous year by 2% and amounted to 8,878 cases.

There were no accidents or emergencies at railway crossings, during the transportation of dangerous goods relating to unauthorized traffic on public railway tracks or non-public automotive equipment.

There were no cases of train arrivals or departures on unprepared routes, departures of trains to an occupied haul, wheel malfunctions, breaks in the center sills of the rolling stock, wrong signaling, or decoupling of cars from trains due to violations of loading procedures.

In general, the statistics of JSC Russian Railways show a significant decrease in the number of security breaches over the long term, from 2003 to 2008. However, in 2009-2011, performance improvements against main indicators slowed down given the significant geographical changes and increasing pressures on traffic, the new model of the transport market and an increasing number of independent participants in the transportation process, whose activities affect the train safety, but who are poorly regulated or standardized. In 2010 and 2011, the integral target value set by the functional security strategy was exceeded (as amended in 2007): the frequency of accidents and other incidents of any kind per one million train-km.

In order to reduce the costs of damages caused by accidents, JSC Russian Railways, under its own initiative, insures its civil liability and property. Experience has shown the effectiveness of these insurance mechanisms in protecting the property interests of the Company: the average period of reimbursement of expenses to the Company incurred due to a traffic accident is less than 70 days, and up to 99% of costs claimed are refunded. The Holding Company has submitted a proposal to the Federal Agency for State Property Management to extend this practice to all participants of the transport process.

Train Safety Statistics

In 2012, the reduced frequency of events:

- Derailing of rolling stock: 11%
- Collisions of rolling stock at maneuvers: 30%
- Broken automatic coupling of rolling stock: 38%
- Trailing of a point: 38%
- Derailing of rolling stock at maneuvers: 21%
Prevention of Illegal Interference with the Activities of the Railway Transport

In 2012, the number of reported cases of illegal interference with the activities of railway facilities decreased by 20% (1,702 cases versus 2,111 cases in 2011), and the number of thefts of Company property fell by 18%.

The Federal Law On Transport Safety, Orders of the President and the Security Council of the Russian Federation require JSC Russian Railways to take measures to ensure the safety of the most important and vulnerable facilities of the transport infrastructure and vehicles, as well as crowded places at railway stations.

In 2012, over RUR 14.9 bln were allocated from the budget of JSC Russian Railways to safeguard 6,001 facilities, which exceeds the amount allocated for this purpose in 2011 by more than RUR 2.2 bln. In particular, 1,828 security posts were organized at 349 stations.

In addition, a reevaluation of safety levels for relevant categories of facilities was carried out in 2012.

Preventive measures were carried out to practice the interaction between railway workers, employees of the Ministry of Internal Affairs and private security organizations under the code name “Passenger”.

In total, 410 trainings and practices with the involvement of 4,844 railway employees were held across the railway network in 2012 according to the schedules of law enforcement bodies. According to the plans of the regional safety centers, 1,169 training courses were held at a facility level, with the involvement of 4,473 employees of JSC Russian Railways.

As a result of joint activities with the Ministry of Internal Affairs, 543 people were detained for various illegal actions and 213 criminal cases were initiated.

To help prevent unlawful interference with the activities of railway transport 332 videos were made for TV, 266 programs were broadcast on the radio, and 1,754 announcements were published in the mass media.
TRANSPORT SECURITY PROJECT

This project equips the most important railway infrastructure facilities with security equipment systems and updates previously installed ones. Activities are provided as part of the comprehensive program to ensure public safety in transport, approved by the Decree of the Government of the Russian Federation.

To date, stationary multi-zone metal detectors for incoming inspection of passengers and visitors are in place at 345 railway stations. In accordance with the recommendations of the Federal Security Service of Russia, 35 stations have been equipped with non-contact zones for the inspection of passenger and their luggage – these include stations of the North Caucasus, Privolzhskaya, Moscow, North Western, Gorkovskaya and Far Eastern Railways.

The gates to Sapsan high-speed trains are equipped with up-to-date technology for inspection zones. New security technologies, controls and surveillance means have also been introduced at railway tracks as part of the project.

In 2012, four sections were equipped with engineering safeguard systems, through the establishment of guard stations and transport safety monitoring centers. Design and survey works were conducted and construction and installation works were initiated in three sections.

22 railway infrastructure facilities, including the high-speed Kolpino – Torfyaneye section of the Oktyabrskaya Railway, were equipped with security equipment at the Holding Company’s cost.

Design and survey works for the equipment (modernization) of security equipment were carried out at 23 railway infrastructure facilities and on some sections of the Oktyabrskaya and North Caucasus Railways. The works cost RUR 864.3 mln.

Security equipment installed at the Company’s facilities helped the law enforcement authorities and security organizations to identify 497 and prevent 426 violations and accidents, detain 14,465 persons for administrative violations including 16 people who were on the wanted list, and detect 218 abandoned suspicious items.

RUR 2,4 bln
allocated for the Transport Security Project from the Federal Budget in 2012
Russian Railways has a leading global position, along with the railways of China and the United States, in terms of traffic volume and the length of railway lines. They are part of the integrated 1520 mm gauge railway network. Globally recognized routes, many of which are part of the international transport corridors (ITC), cross Russia. The strategic development of the Company aims to improve the global competitiveness of the Russian railways and their deep integration into the Eurasian transport system.
IMPLEMENTATION OF THE STRATEGY FOR INTERNATIONAL ACTIVITY
2010–2015

Key events of 2010–2012

With the acquisition of the logistics operator GEFCO JSC “Russian Railways” became the largest Russian investor in France. The Company has an agreement with the National society of French railways (SNCF) to renovate and develop railway stations. We are cooperating closely with Alstom to create advanced traction rolling stock. We gained a backlog of projects with French partners related to the BCM projects in Russia and the development of direct passenger traffic between our countries.

With the launch of the direct “Russian Railways” trains to Nice and Paris, trains, the passenger turnover on these routes has increased 2.5 times. It shows that even with the availability of aviation and automotive transport services the desire of people to move around Europe by train has not decreased. We have projects underway in freight transportation, in particular the launch of regular container trains.

JSC “Russian Railways” takes an active part in the development of the Ust-Luga – Batilly (Belgium)– Sassnitz/ Mukran (Germany) ferry services. In June 2012 in the presence of the German Federal Chancellor Angela Merkel the regular rail ferry route Sassnitz – Ust-Luga was launched. With this route a new transport corridor was created which allows intermodal transportation between the Asia-Pacific region and Europe by Russia and CIS countries transit.

In 2012 the “Russian Railway-International” to supervise the Company’s projects abroad. In 2012, the Holding Company approved the infrastructure management concept for the Company’s projects abroad. The concept is focused on improving efficiency of infrastructure management projects and increasing revenues due to implementation of high-margin infrastructure projects; expansion into new foreign markets and enhancement of the global competitiveness of “RZD” Holding Company.

At the 81st UIC General Assembly Session in December 2012 Vladimir Yakunin, President of “Russian Railways” was elected as UIC Chairman up to 2014. For the first time in the 90-year history of the UIC a Head of the Russian railways has became the Chairman of this global organization. As part of the JSC “Russian Railways” President’s UIC chairmanship special attention will be paid to the issues of standardization and legal harmonization, and UIC’s increased participation in designing the global transport policy and cooperation in the field of security.

In October 2012 in Tabriz (Iran) celebrations were held to mark the completion of the project of the electrification of the Tabriz–Azarshahr railway road as well as construction of five railroad stations in Iran. The Iranian side praised the results of the project and has put forward a proposal to consider the possibility for JSC “Russian Railways” to participate in a number of other projects on the electrification and construction of railroads in the country.

The main objectives for the period 2013–2015

1. Increase Russian railways’ share in the international transport market (primarily Eurasian)
2. Strengthen the competitive position of JSC “Russian Railways” in relation to alternative means of transport and foreign carriers
3. Attract transit freight traffic to the Russian railway network.
4. Develop strategic cooperation with partners in the Asia-Pacific Region in the field of railway transport, logistics and implementation of joint investment projects
5. Develop container traffic as a backbone of transit flows in the key international transport corridors, particularly in the transcontinental “East – West” direction, using the Trans-Siberian trunk railway
6. Implement the program “Transsib for 7 days”. By 2015 when achieving the traffic speed of 1,500 km / day the distance from the Far East to the European Union will be covered in 7 days.
7. Develop rail – ferry services in certain lines of the international railway transportation
8. Strengthen the leading role of the Holding Company “Russian Railways” in international intergovernmental and non-governmental organizations
STRATEGY FOR INTERNATIONAL ACTIVITY

Creating conditions for the sustainable, safe and efficient operation of the railway transport as an element of the country’s transport system to meet the basic geo-political and geo-economic goals of Russia

Integration of the main railway network lines into the international transport corridors (East-West, North-South)

Cooperation with neighboring foreign railways in the area of freight traffic on the basis of joint activities to create through transport products; development of logistics and terminal capacities; definition of mutually beneficial tariff decisions stimulating the growth of transportation and profits; creation of international, specialized freight carriers

Development of freight transport activities in neighboring countries, carrying out relevant investment projects (setting up subsidiary freight companies, cargo terminals, freight forwarding and logistics entities and enterprises)

THE JSC “RUSSIAN RAILWAYS” STRATEGIC OBJECTIVE:
DEVELOPMENT OF THE TRANSIT POTENTIAL OF RUSSIA AND INTEGRATION OF THE NATIONAL RAIL NETWORK INTO THE EUROASIAN TRANSPORT AND LOGISTICS SYSTEM
In 2012, including through the cooperation with international organizations we have moved forward on a number of projects which, in the future, will significantly increase the freight turnover and accelerate goods distribution between Europe, Russia, CIS countries and the Asia-Pacific region.

The balanced expansion of the infrastructure throughput capacity, development of advanced logistics technologies and legal harmonization of the transportation process are the main guidelines of our joint work with foreign railways and relevant international organizations.
Cooperation with railways in the “1520 SPACE”

In 2012 some important agreements were reached with railways of the countries which are members of the Common Economic Space (CES) formed by the Russian Federation, Republic of Kazakhstan and the Republic of Belarus. In particular, the Memorandum to establish the Joint Transport and Logistics Company (JTLC) was signed. The decision of JSC “Russian Railways”, JSC “NC” Kazakhstan Temir Zholi” and State Company “Belarusian Railway” to develop the transport and logistics system of the CES was supported by the heads of government of the three countries.

The VII International Business forum “Strategic Partnership 1520” held from 30 May 30 to 1 June 2012 in Sochi for the first time included representatives of the European Commission headed by the Vice-President, Siim Kallas, and the Ministers of Transport of Germany Ramsauer and of the Latvian Republic Aivis Ronis.

At the forum a number of major contracts and long term agreements worth more than 120 billion rubles were signed. The participants of the III International Business Forum “Strategic Partnership 1520: Central Asia” held on 12-14 November 2012 in Astana (Kazakhstan) addressed the best possible guidelines for the development of economic centers of Eurasia and their impact on railway transport.
Since 2012, JSC “Russian Railways” will be directly involved in the work of the Eurasian Economic Commission. Representatives of the Holding Company joined its Advisory Committee on Transport and Infrastructure and subcommittees on rail transport, infrastructure and logistics.

In 2012 “Russian Railways” and the Finnish company VR-Group transported more than 96% of empty cars between Russia and Finland using electronic documentation. The success of this project created preconditions at the start of 2013 to test paper-free technology transportation of loaded cars and to spread this technology to other international rail lines.

Companies from Latvia, Belarus and the Ukraine may possibly become partners of JSC “Russian Railways”. A gradual increase in the share capital of JSC “Ulan Bator Railway” has been agreed with the Mongolian shareholder. Within one year the Russian and Mongolian shareholder, on an equal basis, have increased the authorized capital of JSC “Ulan Bator Railway” in general by US $250 m. JSC “Russian Railways” is engaged in work to develop JSC “Ulan Bator Railway” and construct a new railway infrastructure in Mongolia.

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JSC “Russian Railways” considers logistics as one of the most promising new types of business. The year 2012 saw a breakthrough in this direction. The acquisition of 75% of the French logistics operator Gefco S.A. from PSA Peugeot Citroën will build up Russian Railways’ position in the European logistics market and accelerate the introduction of advanced logistics technologies. The experience and infrastructure of Gefco will intensively develop the JTLC and advance the formation of the East-West transit corridor across CES countries.

The projects to develop rail and intermodal freight transport implemented in cooperation with the partners from Kazakhstan, the Ukraine, Belarus, Finland, Slovakia, Germany, China and other countries will also contribute to the effective development of the new business areas of “Russian Railways”.

In 2012, the regular rail-ferry line Ust-Luga – Baltiysk (Russia) – Sassnitz – Mukran (Germany) started operations. This led to the creation of a new transport corridor for intermodal transportation between Asia-Pacific countries and Europe by transit through Russia and the CIS countries. Two other rail-ferry hubs may be launched on the Black Sea and the Baltic Sea. These projects are being led by BlackSeaFerries (BSF), a subsidiary group of companies belonging to JSC “Russian Railways”.

Another promising area of logistics activities is container traffic. “Russian Railways” is carrying out developments in this area jointly with the Finnish company VR Group Ltd. In September 2012 a plan was signed for regular piggyback traffic on the Russian-Finnish direct railway service, and a joint working group was set up to design the operational process and business model for piggyback transportation.

At the same time JSC “Russian Railways” subsidiaries (“Trans Eurasia Logistics”, JSC “TransContainer” and others) have developed and partially put into operation some new container freight traffic lines from the Asia Pacific region to Europe and back on the Chongqing – Duisburg, Duisburg – Moscow, Shanghai – Duisburg) routes. The idea of launching regular container trains to Europe is being worked on.

In 2012, good results were achieved in international passenger traffic. For example, direct trains to Nice and Paris led to a 2.5 fold increase in passenger turnover on these routes despite the development of aviation and automotive road links.

The network of the Holding Company’s representatives and missions abroad contributes to the performance of its new promising projects. In 2012, the tenth “Russian Railways” overseas representatives office was opened in the French Republic.

JSC “Russian Railways” was awarded the right to acquire the controlling stock of Gefco, winning a competitive bid organized by PSA Peugeot Citroën.

On 5 November 2012 the contract for the sale of 75% of the company’s shares was signed. The transaction value amounted to Euro 800 m.

On 27 November 2012 JSC “Russian Railways” and Peugeot SA reached an agreement governing their interaction as shareholders of the company Gefco.

On 20 December 2012 JSC “Russian Railways” bought 75% shares of Gefco S.A. from the French carmaker PSA Peugeot Citroen.
Cooperation with Western rolling stock manufacturers

New agreements were achieved with the world’s largest train and rail machinery producers: Siemens, Alstom, Bombardier, Talgo, Tatravagonka, Knorr-Bremse, including the acquisition of fundamentally new types of rolling stock and traction rolling stock and the localization of their production in Russia.

In March 2012, the first Lastochka passenger train, Siemens Desiro Rus, adapted for operation in Russia arrived in the Baltic Sea port Ust-Luga from the Mukran port of the German city Sassnitz on the Baltic Sea. JSC “Russian Railways” plans to buy 54 trains of this type in total, of which 16 trains, according to the agreement with Siemens, will be assembled in Russia.

Given the strong demand for high-speed passenger transportation, JSC “Russian Railways” has signed an agreement with Siemens to acquire eight additional Velaro RUS Sapsan high speed trains. They will be operated on the Moscow – St. Petersburg route in 2015.

High-speed trains from the Spanish manufacturer Talgo are expected to be operated on the Moscow – Kiev and Moscow – Berlin routes.

In January 2012 in Madrid the JSC “Railway Transport Research Institute” and Patents Talgo signed a framework contract to adapt passenger rolling stock to be operated on the 1520 mm gauge railway line.

The contract with Patentes Talgo was signed with the assistance of JSC “Russian Railways” and the Spanish state railways operator ADIF.

Cooperation with West European companies helps speed up the modernization of the JSC “Russian Railways” rolling stock, and eliminate the accumulated technological lag in this area.

Projects related to technology transfer bring the whole of the Russian mechanical engineering industry to a new level.

INTERNATIONAL SCIENTIFIC AND TECHNICAL COOPERATION OF JSC “RUSSIAN RAILWAYS”

1. USA
   Amsted railway, Standard Car Truck, Wabtec. Bearings and trolleys

2. FRANCE
   Alstom. Pendolino sm6 “Allegro”, production of passenger cars locomotive traction, passenger and freight locomotives
   SNCF. Development of station complexes
   Projects BCM (including GSM-R), training in the field of BCM
   Geismar. Production of smaller technical equipment

3. GERMANY
   Siemens. Velaro RUS “Sapsan”, Desiro Rus “Lastochka”; Electric 2ES10 “Granite”
   Knorr-Bremse. Supply of train equipment (certified GOST)
   Deutsche Bahn. St. Petersburg State University-based Center for International Logistics and Supply Chain Management

4. SPAIN
   Talgo. Trains with variable track width and tilting body

5. NETHERLANDS
   Philips, Pintsch Aben. Resource-saving technologies
   ITALY
   Finmeccanica. Information systems

6. FINLAND
   EKE-Electronics. Unified information infrastructure of passenger trains

7. CHINA
   ZTE. Digital system technology of radio communications standard GSM-R
Cooperation with international transport organizations

In 2012 JSC "Russian Railways" actively worked with major international intergovernmental and non-governmental organizations that define the long-term global transport development strategy. The Holding Company also participated in both the European and Asian Regional Assembly of the International Railway Union, which are involved in activities in European and Eurasian projects.

VLADIMIR YAKUNIN, THE FIRST RUSSIAN CHAIRMAN OF THE INTERNATIONAL RAILWAY UNION

At the 81st Session of the International Union of Railways General Assembly held on 12 December 2012 in Paris, Vladimir Yakunin, President of "Russian Railways", was unanimously elected as Chairman of the UIC for the period of 2013-2014 with the possibility of renewing his term of office for another two years. For the first time in the 90-year history of this global organization the Head of Russian Railways has become its Chairman.

The Holding Company participates in nearly all the working bodies of the UIC. In addition, “Russian Railways” plays an advisory role for the most important issues such as the development of international transport corridors, development of quality standards and certification, and interaction with international organizations, which deal with quality and security issues.

In 2012, under the chairmanship of JSC "Russian Railways" the UIC Global group of experts on international transport corridors (ITC) resumed its work. It is expected that the Group will develop coherent proposals to increase ITC competitiveness primarily in the Euro-Asian operating region.
In cooperation with the Organization for Cooperation between Railways (OSJD), "Russian Railways" addresses issues of updating and designing documents, which regulate various aspects of the railway transport operation.

In particular, JSC "Russian Railways" prepares proposals to revise the Agreement on International Goods Transport by Rail and the Agreement on direct International Transport of Passengers as well as basic sections of the draft Convention on International Railway Transport and all of its applications.

In 2012, with the support of the ORC, JSC "Russian Railways" used a standardized consignment notification for the first time in Eurasian rail transport.

In 2012 a significant development regarding the cooperation of the European Union’s structures on railway transport issues took place. In May 2012, as part of the Business Forum "Strategic Partnership 1520", the Declaration on Cooperation between JSC "Russian Railways" and the European Commission was signed. One line of work which is gaining ground is the cooperation with the European Railway Agency.

In July 2012 at the initiative of JSC "Russian Railways" in Moscow, the XII annual meeting of the heads of administrations and railway companies, and the Conference "European Railways today and tomorrow: from national networks to a pan-European transport space" were held. They were attended by representatives from over 20 countries. The participants of the conference discussed, in particular, the issue of harmonization of tariffs and railway traffic systems, and the development of the rail transport strategy in the context of the globalization.

JSC "Russian Railways" was honored to present an exhibition in the European Parliament. The exhibition "Eurasian bridge, cooperation with the United Europe" was dedicated to the development of international projects promoting the integration of Russian railways with the Eurasian and international transport networks.

In addition, specialists of JSC "Russian Railways" participated in the main working bodies of the UN European Economic Commission for Europe. JSC "Russian Railways" is the only company authorized by the Government of the Russian Federation to represent the interests of the state in the UNECE and its subsidiary bodies. An important area of cooperation between "Russian Railways" and UNESCAP is the preparation of the Intergovernmental Agreement on "dry ports" transport and logistics complexes.
Implementation of international projects on infrastructure construction

JSC "Russian Railways" has considerable experience in implementing major infrastructure projects in Russia and intends to participate actively in international tenders related to the development of the railway system. In 2012 the specialized company "Russian Railways-International" was set up to manage such projects.

MAJOR INFRASTRUCTURE PROJECTS OF "RUSSIAN RAILWAYS" OUTSIDE RUSSIA

1. **AUSTRIA, SLOVAKIA, UKRAINE**
   - Project to build the Eurasian transport corridor

2. **SERBIA**
   - Infrastructure projects

3. **ARMENIA**
   - CJSC "SCR" Opening of the Zamanlinsky bridge

4. **LIBYA**
   - The possible renewal of this project is under consideration

5. **MONGOLIA**
   - Investment in the development of the JSC "Ulan Bator Railway," construction of a new rail infrastructure

6. **DPRK**
   - Reconstruction of the Hasan – Rajin railway line is being carried out.

7. **IRAN**
   - Project on the electrification of the Tabriz – Azarshahr railway line was carried out

8. **JORDAN, KUWAIT, NAMIBIA, NICARAGUA, ECUADOR, VIETNAM**
   - Nicaragua, Ecuador, Vietnam Possibilities to implement joint projects are under consideration

9. **ETHIOPIA, INDIA, INDONESIA**
   - Infrastructure development projects are being studied

**IRAN. ELECTRIFICATION OF THE TABRIZ – AZARSHAHR RAILWAY LINE**

Projects to electrify the Tabriz – Azarshahr railway line (about 46 km in length) and to construct five railway stations were carried out. The Iranian project partners highly appreciated the results of the work on this project.

JSC "Russian Railways" has put forward proposals to consider its participation in new projects on electrification and railway station construction in Iran.

**AUSTRIA, SLOVAKIA, UKRAINE. PROJECT TO CREATE A NEW EURASIAN TRANSPORT CORRIDOR.**

The project to create a new Eurasian transport corridor would extend the "1520" gauge railroad from Kosice (Slovakia Republic) to the city of Bratislava, with access to the city of Vienna, as well as establish an international logistics center in the Vienna-Bratislava area. The project is implemented by JSC "Russian Railways" in cooperation with the railway administrations of the Ukraine, Slovakia and Austria.
COOPERATION WITH JSC “RAILWAYS SERBIA”
In March 2012 JSC “Russian Railways” and JSC “Railways Serbia” signed the “General agreement on the implementation of the projects in the field of railway transport”. In addition to participation of “Russian Railways” in infrastructure projects, the Holding Company will supply “Metrovagonmash” diesel trains for the needs of “Serbian Railways”. The projects are implemented on the basis of export credit in the amount of US $ 800 m provided to Serbia by the Russian Federation.

The single contract for the projects has been agreed and initiated by the parties.

DPRK. RECONSTRUCTION OF RAILWAY ROAD AND SETTING UP OF TERMINAL
At the end of 2012 the reconstruction of the Hasan (RF) – Tuman (DPRK) – Rajin (DPRK) – Rajin (portside) line was completed, and work to set up a terminal in the port of Rajin started.

PARTICIPATION IN THE REFORM OF THE GREEK RAILWAYS
A number of business meetings and negotiations have been held to consider the reform and to increase the efficiency of railway transport in Greece.

THE REPUBLIC OF ARMENIA. IMPLEMENTATION OF CONCESSION AGREEMENT
The concession agreement between the Ministry of Transport and Communications of the Republic of Armenia, “South Caucasian Railways” and JSC “Russian Railways” was signed on 13 February 2008. As part of the agreement in 2012 JSC “Russian Railways” carried out the construction of the Zamanlinsky bridge.

LIBYA. RENEWAL OF PROJECTS UNDER CONSIDERATION
In collaboration with the relevant Russian agencies and the Government of the Russian Federation the restarting of the project to construct the Sirte – Benghazi railway line is being considered. Corresponding proposals to start negotiations to develop a coherent action plan have been sent to the Ministry of Railway Transport of Libya.

PROMISING PROJECTS
JSC “Russian Railways” is considering projects to build railway infrastructures in Indonesia, India, and Ethiopia. Corresponding Memorandums of Understanding have been signed with representatives of these countries. An interest in working with the Holding Company on the development and reconstruction of national railway infrastructures was presented by Nicaragua, Ecuador, Namibia, Kuwait, Jordan and Vietnam.

THE REPUBLIC OF ABKHAZIA
JSC “Russian Railways” is contracted to carry out repair works on Abkhaz railroads and to supply equipment.

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Great prospects of the great reform

The reforms aim at upgrading the transportation system, realizing the country’s transit potential and creating necessary conditions for the growth of key sectors of the economy. This will lead to increased efficiency of the railway transport.
IMPLEMENTATION OF THE STRATEGY FOR REFORMING THE RAILWAY SECTOR for the period 2010–2015

Key events of 2010–2012

The accepted model of the freight transportation market has created significant incentives for the development of private operators’ business activities to provide freight cars for the carriage of goods and products. Private investment in this operator segment will stop the rapid ageing of the cargo car fleet. During the years of reform more than 400 thousand cars were purchased with an investment of about RUR 600 bn. By the beginning of 2011 the share of the car fleet owned by independent operators was 45%.

By 2012, the formation of a competitive market of freight cars and containers operation was completed, including through the transfer of the car fleet inventory of JSC “Russian Railways” to subsidiaries and the subsequent sales of the shares of some of these companies. The inflow of private investment has led to significant growth in the freight car fleet. By the end of 2012 it had grown to over 1,158.6 thousand units, of which 77.6% were cars of private operators independent of “Russian Railways”.

By 2011, JSC “Russian Railways” made a commitment to eliminate competitive and potentially competitive activities as envisaged in the Program on the structural reform of the railway transport in the field of long distance passenger transport as well as suburban ones, universal and specialized and rolling stock operation, repair of freight cars, repair services for technical equipment and manufacture of spare parts and other activities not related to railway transportation.

In 2011, the sale of the controlling stock of shares (75% minus 2 shares) of JSC “First Freight Company” took place, and in 2012 the remaining part of its shares was also sold. As a result, by 2013, over 78% of the freight turnover was achieved through the use of freight cars of independent operators.

In 2011, JSC “Russian Railways” made a commitment to eliminate competitive and potentially competitive activities as envisaged in the Program on the structural reform of the railway transport in the field of long distance passenger transport as well as suburban ones, universal and specialized and rolling stock operation, repair of freight cars, repair services for technical equipment and manufacture of spare parts and other activities not related to railway transportation.

In 2012, major organizational and legal activities in the field of passenger transport were completed. A mechanism was set up to encourage rail companies to run their operations more efficiently. Conditions for the financial mechanism of subsidies were worked out.

In accordance with the Resolution of the Government of the Russian Federation from 20.12.2011 № 1091 on the procedures for involving rolling stock between JSC “Russian Railways” and the “Freight Company”, on 26 January 2012 the agreement to use gondola cars which constitute the property of the “Freight Company” and their transfer to the private fleet of borrowed cars was made. In connection with this market change, the demand for this type of cars has substantially declined. A new mechanism for involving “Russian Railways” rolling stock is under consideration.

Main objectives for the period 2013-2015

1. Improving the technologies of car fleet management given the increasing prevalence of rolling stock operators
2. Making the necessary changes to the regulatory framework of railway transport, including optimizing the conditions for the use of infrastructure and regulation of the operator’s activity
3. Harmonization of procedures and conditions for a test to establish an institute of local carriers and the preparation of an appropriate legal and regulatory environment
4. Interaction with authorities at all levels and the optimization of railway passenger companies to achieve break even for passenger railway transport
5. Agreement on a mechanism to implement a “Network contract” in pilot areas, as well as the preparation of the necessary regulatory and methodological information base for the introduction of network contracts in full
6. Further improvement of the tariff regulation
STRATEGIC REFORM OF THE RAILWAY SECTOR UP TO 2030

KEY STRATEGIC PRIORITIES

Maintain “Russian Railways” as the network-wide freight carrier and owner of the infrastructure

Development of the market cargo trains operation

Development of competition in the railway freight transport “in test mode” by creating regulatory and economic conditions to create an institution for local freight carriers

Improvement of the state tariff regulation

Introduction of a regulatory model contract for the maintenance and modernization of the infrastructure as enshrined in the legal contract system between the owner of the infrastructure and the State

DEVELOPMENT STRATEGY

12 Structural reform of the railway industry
14 The Federal railway transport development strategy
16 Key trends of the Holding Company’s development strategy
17 Development prospects
18 Investment activity
Structural reform of the railway industry

Objectives of the current stage of the reform: to develop the railway transportation services market, to ensure global competitiveness of the railway transport, to work out effective investment vehicles for a sustainable development of the industry. The basic document defining trends of the reform is the Program for Structural Reform in the Railway Transport approved by the Russian Government in 2001. The main objectives of the fourth stage are defined in the Target Freight Railway Transportation Model for the period until 2015 approved by the Russian Government in 2011.

THE PROGRAM OF STRUCTURAL REFORMS ON THE RAILWAY TRANSPORT

<table>
<thead>
<tr>
<th>The first stage</th>
<th>The second stage</th>
<th>The third stage</th>
<th>The fourth stage</th>
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<tr>
<td>At the first (preparatory) stage, an action plan on the division of state regulation of the industry and economic management was developed; basic law and regulatory acts were adopted.</td>
<td>At the second stage, JSC “Russian Railways” was established, ensuring its financial transparency. Separation of subsidiaries and associates able to operate in competitive market segments began on the basis of JSC “RZD”. Basic conditions were created to develop competition in the market of operators.</td>
<td>At the third stage of the reform, competitive and potentially competitive businesses were separated from JSC “RZD” by establishing subsidiaries and affiliates. The competitive market segment was created in the sphere of operating freight cars. Basic conditions were created to avoid cross-subsidization of passenger services at the expense of freight transportation. The Government in general approved the progress of the reform and decided to continue the structural reformation of the industry.</td>
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<td>At the fourth stage, the Objectives of the current are defined in the Target Model of the railway freight market for the period up to 2015 approved by the Government:</td>
<td>In accordance with the Target Model, the railway infrastructure and general network traffic at least up to 2015 will remain within the scope of responsibility of JSC “Russian Railways”. The industry, with JSC “Russian Railways” as its main company, has the following targets:</td>
<td>• implementation of pilot projects to create local carriers; • integration of the national transport systems of Russia, Belarus and Kazakhstan in light of the Common • improvement in the tariff system</td>
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<td>• ensuring global competitiveness of Russia’s railway transport; • developing efficient investment mechanisms in the industry; • creating incentives to increase the efficiency of market participants; • developing the market for railway transport services on the basis of liberalization of the state regulation of the industry.</td>
<td>• development of a competitive market for freight car operation;</td>
<td>• liberalization of the state regulation of the industry.</td>
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REFORMS IN THE PASSENGER TRAFFIC SEGMENT

By 2012, the main activities in the passenger traffic segment relating to the organizational and legal division of the passenger complex were carried out. Currently all commuter passenger transportation is carried out by suburban passenger companies created with the participation of the Russian regions. "Russian Railways" is only liable for long distance and high speed train passenger services. In the course of the reform, conditions to improve efficiency rates of the suburban passenger companies business are being created.

It should be noted that this type of activity, while providing significant social benefits, remains unprofitable. Therefore, the service and the level of development of this segment are largely determined by the size of budget subsidies.

The legislation of the Russian Federation states that the regulation of passenger railway operations, as a natural monopoly, is performed by imposing tariffs. The tariffs should allow for break-even traffic operations otherwise the carrier’s lost income must be compensated in full by subsidies from the budgets at the respective levels: federal budget for long distance transport and regional budgets for commuter passenger traffic.

In 2012, within the railway system there were 100 agreements signed with 73 constituents of the Russian Federation relating to the organization of public transport services. 51 agreements with 37 constituents do not specify a level of financial compensation for the carrier’s lost income while (bearing in mind the legislation) subsidies are not required to be provided in just five regions: Moscow, the Moscow region, St. Petersburg, the Republic of Adygea and the Astrakhan region. In 2012 the shortfall of budget subsidies exceeded RUR 6 bln for long distance passenger traffic and reached RUR 9 bln in total for commuter traffic.

JSC "Russian Railways" proposed a mechanism to resolve this problem on the basis of the federal (regional) government contractual work system. This provision has been included in the Concept of the development of commuter railway passenger transport, as well as an unconditional obligation of the federal subjects of Russia to compensate the carrier’s lost income in relation to the tariff regulation of their activities.

The concept has been already considered and generally approved by the Commission of Transport and Communications of the Government.

DEVELOPMENT OF THE RAILWAY INFRASTRUCTURE FOR GENERAL USE

In 2012, JSC “Russian Railways” presented to the Government of the Russian Federation a report on proposed parameters of a network contract to regulate the relationship between the State and “Russian Railways” for the maintenance, operation and development of the railway infrastructure of pilot railroad sites.

The regulatory (network) contract is a new mechanism for Russia aimed at developing the railway infrastructure for general use. It formalizes the relationship between JSC “Russian Railways” as its owner and the state as the customer of a required level of throughput capacities of the national railway system. Importantly, this is a long term interaction mechanism. The customer order is formed based on indicators of the target state of the infrastructure complex, composition of costs, calculations of the planned amounts and sources of funding costs as well as subsidies to perform works to maintain, operate and develop the infrastructure complex.

The Russian government has instructed relevant executive agencies, together with JSC “Russian Railways”, to develop and adopt in 2013 regulations that would facilitate the introduction of the network contract. Moreover, the Ministry of Transport of Russia and JSC “Russian Railways” have been instructed to negotiate a pilot network contract.

JSC “Russian Railways”, in cooperation with the involved ministries and supported by the Government, is working on other opportunities to attract investment for the development of the railway infrastructure. In particular, the Company is examining the prospects of developing long term tariffs, taking into account the method of return on invested capital (RAB method), and also forming a regulatory base for the release of infrastructure bonds.
SALES OF SHARES OF JSC “RUSSIAN RAILWAYS” SUBSIDIARIES AND AFFILIATED COMPANIES

Major deals included: the sale of the remaining shares following JSC “Russian Railways” disposal of 25% shares of “First Freight Company” in favor of “Independent transport company” (gaining an entry into UCL Rail) for RUR 50 bln and the sale of 21.8% shares of Transkreditbank to the VTB Bank for RUR 22.1 bln.

At the end of 2012 JSC “Russian Railways” concluded the sale of 75% minus two shares of “Zheldorremmash” to “TMH Service” (a subsidiary of “TransMashHolding”) for RUR 7.9 bln.

Sales of shares of the subsidiaries and affiliates of JSC “Russian Railways” create conditions to develop competition in various segments of the railway traffic market and attract private capital.

Although such transactions reduce the revenue base of the Company, they increase funds to finance the investment program. All transactions are made in accordance with the instructions of the Government of Russia and its guidelines.

In 2012 the dividend income from the subsidiaries and affiliated companies amounted to RUR 9.8 bln. In 2012, RUR 9.1 bln were transferred from the account of “Russian Railways”. The remaining cash funds, amounting to RUR 0.7 bln, were transferred from the account in January 2013.

The amount of dividends received in 2012 is 40.6% of the actual income of the previous year due to the sale of shares of JSC “First Freight Company”. In 2011 the dividends received from the Company amounted to RUR 20.3 bln, and from the subsidiaries and affiliated companies RUR 2.1 bln.

With the sale of shares of JSC “First Freight Company”, the total amount of dividends from the subsidiaries and affiliates of JSC “Russian Railways” has increased by over four times compared with the previous year.

> RUR **80** bln

Received from share sales of subsidiaries and affiliates in 2012

RUR **239.6** bln

Received from share sales of subsidiaries and affiliates over the last three years
The Federal railway transport development strategy

The State’s main objective for transport operation and development is to create conditions for economic growth, to increase the competitiveness of the national economy and living standards ensuring availability to safe and quality transportation services and turning Russia’s geographic peculiarities into its competitive advantage. The strategic goal of the development of the transportation system is to satisfy the needs of the socially oriented economic development for competitive and quality transportation services. This strategic goal will be achieved through effective development of the competitive environment, creation of adequate reserves for the infrastructure development, achievement of the advanced level of technological development, focus on social and environmental factors, improvement of the country’s transport-depending national security and economic safety.

The reform’s objective is a qualitative upgrade of the transport system, the development of the transit potential of the country and the creation of necessary conditions for growth in key sectors of the national economy.

The main objectives of the Strategy:

- To create an integral transport space in Russia on the basis of well-balanced priority development of the effective transport infrastructure
- To ensure availability and quality of transport and logistics services in freight transportation to satisfy the need of the country’s economic development
- To ensure availability and quality of public transportation services in line with social standards
- To integrate into the global transport space, to realize the country’s transit potential
- To improve the safety of the transportation system
- To reduce the negative impact of the transportation system on the environment
Key trends of the Holding Company’s development strategy

TARGETS FOR JSC “RZD”

The Holding Company JSC “Russian Railways” should lead its sector in Russia and be among the top three major companies in the pan-Eurasian space.

The scope of the Company will grow on the basis of increasing internal efficiency, entering high margin segments of the freight and passenger transport markets, developing new services, and the geographic diversification of its activities.

The integration of the Holding Company “Russian Railways” as a network-wide freight carrier integrated with the infrastructure will increase its competitiveness in various segments of the transport market.

The Holding Company will be a leading national passenger carrier, including through the creation of a core network of rapid and high-speed railway lines, and will fully ensure its obligations to the state for transportation.

The Holding Company “Russian Railways” will remain the principal owner of the Russian public railway transport infrastructure. Transportation and other related services will be provided to other companies on a non-discriminatory basis.

The level of corporate social responsibility of the Holding Company must match its status as one of Russia’s major national companies.

In this case, “Russian Railways” must secure a balance between corporate, government and public interests in the economic, environmental and social spheres.

In the long term, the Holding Company must become the leader of a consortium of companies offering integrated services, including consulting, design, material, machinery and equipment supply, transport complex management, in the international market of infrastructure projects.
The Holding Company JSC "Russian Railways" will focus on four key areas of development: transportation and logistics, passenger traffic and services, building up the infrastructure of the railway transport, international activities and social policy.

**STRATEGIC PRIORITIES: TRANSPORTATION AND LOGISTICS**

The transformation of JSC "Russian Railways" from a major carrier company to the major provider of transport and logistics services will create a basis to attract additional customers and develop new services.

By targeting new market segments to complement and enhance the traditional transportation business, it will be possible to create growth points in related, highly profitable segments. Increased profits resulting from these developments can be used for other purposes such as the financing of investment in the railways, and in the infrastructure development.

**Our expectations:**
- strengthening the influence of the Holding Company "Russian Railways" in the global market of transport and logistics services due to growth of transit freight transportation, including along the East-West transcontinental corridor and container transit. Containerization of railway transportation in the country should increase from 1.9% to 8%;
- expanding its presence in Europe, Asia and Latin America the Holding Company "Russian Railways" will be able to provide transport and logistics services for Russian companies around the world;
- successfully developing its own business in Russia and abroad, given the unique combination of the infrastructure opportunities of the Holding Company and the GEFCO modern IT-platform.

The logistics business is synergistic with other target businesses of the Holding Company JSC "Russian Railways" – freight transportation and services.
JSC “RZD” has unique competencies in design and construction of railway facilities, organization of complex systems for infrastructure and transportation management, traffic management, economic and financial management of railways.

Infrastructure development is a priority is due to its character of natural monopoly.

The more developed the network is, the more effectively railway traffic expands, the more possibilities the railways have to reduce their costs for infrastructure, to implement new transport and logistics products. At the same time, as the experience of other countries show, division of infrastructure and transportation with artificial stimulation of competition does not guarantee an increase in efficiency of the railway system as a whole.

To optimize investments and identify long-term priorities of infrastructure development JSC “RZD” updates the Master Plan of development of the railway network using the intersectoral balance mathematical scheme. However, the current tariff model does not allow JSC “RZD” to completely satisfy the need for the infrastructure development.

“RZD” Holding Company is focused on market segments where it has the greatest competitive advantages. First of all, they are express and high-speed daytime routes between agglomerations, suburban transportation for distances less than 200 km and accelerated suburban and intercity transportation.

The scope of the Holding Company’s expansion in the passenger transportation segment is consistent with the State’s strategy of the transport development in terms of increase in population mobility, transportation of persons entitled to social welfare benefits, government order for publicly important passenger transportation and regulation of inter-sectoral competition.

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We expect:

- Investment growth in accelerated suburban and intercity passenger transportation in Russia’s agglomerations;
- Introduction of cost-based tariffs and government order for publicly important passenger transportation;
- Implementation of major projects related to the development of the Moscow Transport Hub, the Small and Big Rings of the Moscow Railway;
- Implementation of promising high-speed railway projects (up to 400 km/h) from Moscow to Saint Petersburg, Nizhny Novgorod, Yekaterinburg, Rostov, Adler and express trains (up to 200 km/h) to Russia’s largest cities;
- Development of new electronic services for passengers, bonus and loyalty programs;
- Development of the station infrastructure and growth of its profitability.

We expect:

- Significant growth of investment in the infrastructure development at the expense of different sources of project funding;
- Implementation of the regulatory network contract consistent with long-term goals of the infrastructure development according to the return on invested capital method;
- Expansion of the railway network by 2030: up to 20.7 th. km of new railway lines, 1.5 th. km of high-speed lines, 10.9 th. km of express lines (a backbone network);
- Increase in availability of railway transport, covering new regions by the network: the Republic of Altay and Tyva, the Magadan Region, the Nenets Autonomous District;
- Increase in the density of the railway network by 24% to eliminate its capacity restrictions;
- Participation of JSC “RZD” in international infrastructure projects in target markets of Eastern Europe, the CIS, Africa, Asia, the Middle East.
Development prospects

Priorities

The priority consists in taking a new trajectory for the development of JSC "Russian Railways". The following measures should ensure greater efficiency and competitiveness in the segments of freight and passenger transport:

**KEY ASSETS:**

- railways infrastructure;
- station facilities arrangement;
- fleet of mainline and shunting locomotives.

**TASKS:**

- update and develop the loading and unloading equipment fleet and warehousing facilities of freight yards; set up new terminal and logistics facilities;
- modernize and develop station sales offices and other commercial infrastructures;
- extend the functionality of electronic systems for customer services;
- acquire assets of logistics and freight forwarding services;
- implement projects to develop the freight business abroad, develop terminals in ports, expand railway ferry transportation etc.

The performance of these tasks requires an increase in investment opportunities of the Holding Company.

**TASKS IN THE FREIGHT SEGMENT:**

- offer integrated transport and logistics services in "door to door" transportation while building up cooperation with automotive transport enterprises and updating the truck fleet of the Holding Company;
- expand the network of terminals, freight yards, and warehouse complexes of A and B classes at major commercial sites;
- develop the business of operating access roads for major enterprises in order to optimize a single technological process to develop a core network;
- develop a railway ferry service in certain areas of international transport;
- ensure the growth of containerization, testing the introduction of a piggyback transportation service.

**TASKS IN THE PASSENGER TRAFFIC SEGMENT:**

- ensure the comprehensive development of passenger traffic on the basis of the state obligation for socially important passenger transport and in the view of the strengthening interspecific competition;
- develop fast and high-speed passenger traffic for passengers between major urban agglomerations in Russia.

Increase in the quality of service for customers and improvement of their satisfaction with the level of services; development of new products to meet demand for the geographic and product diversification of the business.
Developing the transit potential of Russia and the deep integration of Russian railways into the global transport system

**TASKS:**
- use the opportunities of the Common Economic Space, Customs Union and Eurasian Union, Railway Transport Council of the CIS;
- expand the geographic presence of the "Russian Railways" Group in international infrastructure markets;
- develop competencies in the field of design and construction of railway transport facilities, and promote these type of services abroad;
- expand strategic cooperation with partners in the Asia-Pacific region in the field of railway transport, logistics and implementation of joint investment projects;
- strengthen the role of the Holding Company "Russian Railways" in the activities of international intergovernmental and non-governmental organizations using the chairmanship of the International Union of Railways.

Increase the efficiency of the Holding Company: improving the strategic management system and building up profitability

**MANAGEMENT TASKS:**
- improve the strategic management of the Holding Company as a vertically integrated system;
- create the best possible interaction between the Holding Company’s integrated components.

**TASK OF BUILDING THE PROFITABILITY OF THE BUSINESS:**
- increase the efficiency of infrastructure usage through the introduction of a single network technological process;
- optimize the work of all departments and entities of the Holding Company and transportation technologies;
- increase profitability and reduce transportation costs in strict compliance with the parameters to reduce the accident rate;
- use lean manufacturing and quality management tools to optimize the utilization of resources;
- introduce innovative technical and technological solutions, optimize and automate processes;
- seek to optimize the tariff policy and switch to the long-term tariff regulation for railway transportation.

**TASKS OF THE HUMAN RELATIONS POLICY:**
- introduce a competence-based approach;
- offer a competitive salary and develop social programs to attract the best talent from the human resources market.
Development of logistics activities

The objectives for the period 2015:

1. Deploy network terminals and logistics complexes across the whole of Russia’s railways system.

2. Increase the efficiency of the existing terminal and warehouse infrastructure (complexes and freight yards).

3. Continue with the development of the (3PL) logistics contract.

4. Create conditions for growth in container traffic.

5. Improve the quality of information services for cargo owners.

The common railway space in the economic sense, which is formed by Russia, Belarus and Kazakhstan, extends from the Asia-Pacific region to the borders of the European Union. The Holding Company aims to become the logistics market leader in the “Space 1520”.

JSC “Russian Railways” already has strategic advantages for such a transformation, including its control of significant assets of JSC “First Freight Company”, JSC “TransContainer”, and JSC “Russian Railways Logistics.” The GEFCO integration into the Holding Company “Russian Railways” will also ensure the competitiveness of the Holding Company compared with the logistics divisions of the largest carriers along the East – West transcontinental corridor. In addition to the significant experience and technological developments in the field of design, building and management of terminal complexes, as well as supply chain and commodity stocks, the operator also owns a sales network spanning both ends of the transit corridor in Europe and China.

Establishment of the Customs Union (CU) and the formation of the Common Economic Space (CES) between the Russian Federation and the Republic of Belarus and the Republic of Kazakhstan opens new opportunities for the development of transit traffic services and will contribute to the growth of competitiveness of transit transportation across Russia.
Customs control is now transferred to the external border of the Customs Union (CU). As a result, the number of customs operations has decreased and delivery time of goods across CU member states has reduced by one to two days. Accordingly, logistics costs have decreased. Further simplification of customs inspection procedures and the definition of the rules of electronic interaction between the participants of foreign economic activity will attract additional transit freight flows.

The organization of non-stop rail transit through the Customs Union will increase the efficiency of the use of the existing transport infrastructure and reduce the burden on businesses by increasing the share of outsourcing and the creation of additional integrated value-added services.

The Joint Transport and Logistics Company created by the railways of three countries (see page 134) is expected to become a strong player across all Common Economic Space (CES) territories of Russia, Belarus, Kazakhstan, and adjacent countries.

To realize the potential of the transit corridor a number of systemic problems need to be solved, at the very least the elimination of differences in the regulatory framework applied to the transport activities in the participating countries and the reaching of an agreement on transportation tariff regulation.

JSC "Russian Railways takes an active part in the development process of a coherent transport policy based on the common understanding of the CES member states on the objectives and tasks of the transport complexes, and mechanisms for their performance.

JSC “RUSSIAN RAILWAYS” CONTRIBUTES TO THE DEVELOPMENT OF THE TRANSIT POTENTIAL OF RUSSIA

The key transit route through the Russian Federation runs East-West. Its potential is determined by many factors, but above all by the rapid development of the Chinese economy:

• in the Central and North-Western provinces of China, which are linked to the railway infrastructure of the CU countries, industrial growth from complex production exceeds 13% per year;

• the share of high added value products which are time-sensitive in respect of delivery dates is increasing in relation to the total transit from China (currently 15-20%);

• China’s export infrastructure is overloaded; the ports of Shanghai and Guangdong are currently working at 20-25% above their planned capacity level while the workload of the railway infrastructure in China is 7-8 times higher than the average European level.

JSC "Russian Railways" is involved in a project to create the transit East-West corridor through its subsidiary company "Russian Railways Logistics."

In April 2012, in order to organize regular train container traffic on the Chongqing (China) – Duisburg (Germany) route, the joint venture YuXinOu (Chongqing) Logistics was established. Among its founders, (excluding “Russian Railways Logistics”) are transportation and logistics companies from Germany (Schenker China Ltd.), China (Transport Holding city of Chongqing - CQCT, China Railway company on International Multimodal Transport - CRIMT) and Kazakhstan (“Kaztransservice”).

The joint venture will enable the development of 3 PL format services. "Russian Railways Logistics" will provide support in Russia, including knowledge sharing in relation to the Russian market of freight transportation, as well as helping to solve certain technical issues.

In Q4 of 2012, as part of this project and in cooperation with the Organization for Cooperation between Railways (OSJD), two container trains using the unified CIM / SMGS consignment note (a single document which has significant benefits for transcontinental freight when crossing border points during) successfully cleared customs.

600 thousand TEU

The potential transit of goods by 2015 through Russia from China to Europe (excluding import flows from Europe and Korea)

By 2020, the potential volume of freight transit could reach 1 million TEU, according to experts.
Acquisition of a major European logistic operator.

On 20 December 2012 JSC "Russian Railways" closed a deal with PSA Peugeot Citroën to buy a 75% share of the logistics operator Gefco. The transaction value is Euro 800 million.

The acquisition of Gefco is an important step for Holding Company JSC "Russian Railways" to form a competitive global transport and logistics company. In the future, the Company intends to optimize its existing business model by providing customers with a full range of services in transportation, logistics, supply chain management and product stocks.

Gefco is planning to offer to Russian industrial businesses a comprehensive range of outsourced logistics services, including the organization of the work of other logistics companies. For example, car manufacturers may have instructed logistics operators to deliver both parts and spares, and finished products to customers. The Gefco experience will help JSC "Russian Railways" to build its own extensive logistics system and expand its range of services. The key one among these will be the provision of "door to door" delivery.
As a result of changes related to the acquisition of Gefco SA, the capitalization of JSC "Russian Railways" will increase by RUR 100 bn by the year 2017.

The increase in revenue from freight by that time is expected to have reached RUR 40 bn per year. Optimization of the supply and inventory management system in accordance with the Company’s needs will lead to reduction of RZD’s costs as late as in 2013.

As a result of the acquisition of the unique Gefco IT-platform, the Company expects to develop its logistics business successfully in Russia and abroad, as well as to expand its presence in Europe, Asia and Latin America.

These changes will have a positive impact on the global competitiveness of the Russian economy, contribute to its modernization and generally strengthen the development of high level logistics technology in Russia.

The optimization of the "Russian Railways" business model will improve the efficient use of the transport infrastructure and reduce transport burden on domestic enterprises. Overall, this creates the best conditions for the development of high-tech industries in the Russian economy, and the growth of the competitiveness of Russian goods in foreign markets.
Establishment of the Joint Transport and Logistics Company

JTLC is the joint venture of the railway companies of Russia, Belarus and Kazakhstan with equal shares (each party owning 33.3%) in the company’s management.

The authorized capital of the joint venture is formed from stocks of the profile companies, contributed by all three parties, and cash resources. The size of the initial contribution of each participant will be considered on the basis of an independent assessment of the value of assets. Dividends are to be distributed by the amount of the respective contributions.

Within a few years, the parties are obliged to pay the difference in the value of the contributed assets, until parity is reached. According to preliminary estimates, the initial share of JSC “Russian Railways” will be the largest due to the contributed stock of JSC “TransContainer” and “Railways Logistics.”

The JTLC business model involves the vertical integration of the rail operator’s assets of the three countries and the integrated transportation services within the CES.
The Joint Transport and Logistics Company (J TLC) will be an important element of the integrated transport system of the Common Economic Space (CES). The Company will specialize in the provision of integrated transport and logistics services (3PL), and container and intermodal transportation in the CES.

The Company will focus on international container traffic.

For JSC “Russian Railways”, the creation of the JTLC, with its powerful logistics capacities and transport assets, is regarded as a logical complementary step to the Gefco acquisition. The latter will bring updated logistics technologies to the CES.
Investment activity

JSC "Russian Railways" budget investment activity outcomes:

- Increased range of speed: increase in passenger trains up to 120 km/h of 5.0%; increase in freight trains from 90 km/h upwards of 9.0%;
- 430 km of rail road reconstructed;
- The length of railroad sections beyond their serviceable life decreased to 20,540 km, 0.4% of the total length of the railroad;
- The length of sections with excess tonnage and operating beyond their serviceable life decreased to 16.5% of the total length of the railroad (-0.4%);
- The number of technical malfunctions of I and II categories decreased by -7.2%;
- The level of pre-refusal status determination for signaling, blocking and centralization devices increased;
- The number of car fleet failures decreased by 21%;
- The length of non-stop train operations increased by +21 km;
- The number of failures in electrification and power supply decreased by 8.3%;
- Reconstruction of the network to accommodate high-speed movements: the total length of the network under 160 km/h is 398.2 km and below 200 km/h is 46.1 km;
- Seven limiting inter-substations with a total zone length of 342.3 km have been removed from service.

The "Russian Railways" investment program plan has changed dramatically. In 2012, the Company and the government revised their views on how to identify financing sources for the investment program of "Russian Railways" and the selection of priority guidelines for the development of the railway infrastructure.

Decisions determining the direction of the long-term investment policy of JSC "Russian Railways" were made at meetings with the participation of the Head of the State and Prime Minister of the Russian Federation.

The agreement on investments in railway infrastructure linked to long-term commitments of consigners was signed at the first meeting in Kemerovo. The outcomes of the meeting in Moscow in Riga railway station included the following decisions: firstly, priority is given to the government to determine the allocation of investments; and secondly, agreement on the basic principles for financing investment projects in the long term. The corresponding order of the Prime Minister was also issued.

In light of these decisions and the predicted transportation volumes, the General scheme of JSC "Russian Railways" railway network development for the period up to 2020 (hereinafter, the general scheme) was established. It was subsequently adopted at the meeting of the Scientific and Technical Board of JSC "Russian Railways". A forecast for the transportation volume of certain types of freight was made on the basis of intra-and interindustrial balances of industry branches requiring large scale transportation. The data were used to determine the needs for infrastructure development and to forecast the long-term investment budget for JSC "Russian Railways".

In accordance with the principles of financing long-term investment projects the criteria for dividing the projects into groups has been determined:

- provide commercial effectiveness for JSC "Russian Railways";
- do not provide commercial effectiveness for JSC "Russian Railways", but their implementation is reasonable in view of the multiplier effect for the country’s economy;
- do not provide commercial effectiveness for JSC "Russian Railways", but have an economic value for a limited range of areas of economic activity.

The proposals of "Russian Railways" to fund sources for railway infrastructure development projects have been presented to the Government of the Russian Federation and the respective ministries.

Investment program and projects have been consistently considered at the meetings of collegial bodies related to investment activities: the Working Group Board of experts on investment projects, Expert counsel on investment projects, and the JSC "Russian Railways" Investment Committee.

The JSC "Russian Railways" investment program for the medium and long term has been approved by the Government.

Internal procedures are being worked on to improve the transparency of planning, the development of the investment program and the budgeting of the JSC "Russian Railways", and to improve the control of the implementation of the investment budget.
JSC “Russian Railways” investment program in 2012: new approaches to budgeting and major projects

JSC “Russian Railways” and the Government of the Russian Federation have reached a mutual understanding regarding the sources of financing for the development of the railways infrastructure.

Initially, the JSC “Russian Railways” Board of Directors approved the investment budget of JSC “Russian Railways” for 2012 for the amount of RUR 428.4 bln. Based on the outcome of the first half 2012 the investment budget of the Company in 2012 was increased by RUR 63.8 bln, and in December 2012 was optimized at RUR 10.6 bln with federal budget funds.

Therefore, with the adjustments carried out, the investment budget of JSC “Russian Railways” amounted to RUR 481.6 bln.

In general, due to annual costs increases, as well as through the redeployment of limits within the investment budget for 2012 without changing the overall parameters, additional resources have been allocated to the major investment projects:

- implementation of projects related to the orders of the Government of the Russian Federation: RUR 9.0 bln;
- reconstruction of the railway: RUR 6.6 bln;
- acquisition of shares of the international logistics operator Gefco: over RUR 30.0 bln;
- modernization of the traction rolling stock (planned acquisition of 532 units): RUR 18.4 bln.

JSC “Russian Railways” met all the targets of the investment program specified for 2012, including those by order of the Government of the Russian Federation.
**JSC “RUSSIAN RAILWAYS” INVESTMENT PROJECTS**

For further information on investment see p.82
The following projects costs have been increased:

- Overall reconstruction of the Mga-Gatchina-Weimar-Ivangorod section and rail road approaches to ports on the southern shore of the Gulf of Finland *(RUR 4.3 bln)*;
- «Infrastructure of the suburban passenger complex» *(RUR 4.8 bln)*;
- «Track complex structure renovation (RUR 1.3 bln);»
- «Construction and reconstruction of artificial facilities» *(RUR 0.7 bln);»
- «The development of the Tobolsk, Surgut line section» *(RUR 0.5 bln)*.

On 8 November 2012 the Government of the Russian Federation considered and generally endorsed the investment program and financial plan of JSC "Russian Railways" in 2013 and for the period up to 2015.

The investment budget for 2013 exceeds RUR 400 bln, and for the next three years it exceeds RUR 1 trillion. The funds will be allocated to develop the railway infrastructure, improve traffic safety, increase transport accessibility for the country’s population and modernize rolling stock.

### IMPLEMENTATION OF THE INVESTMENT PROGRAM FOR 2004–2012, IN RUR BLN

<table>
<thead>
<tr>
<th>Year</th>
<th>Increase in transport accessibility to the citizens of the country</th>
<th>Projects in relation to the orders of the Government</th>
<th>Traffic safety</th>
<th>Other projects</th>
<th>Rolling stock update</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>127.6</td>
<td>72.6</td>
<td>172.4</td>
<td>255.5</td>
<td>381.7</td>
</tr>
<tr>
<td>2005</td>
<td>151.1</td>
<td>73.2</td>
<td>172.4</td>
<td>255.5</td>
<td>381.7</td>
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<td>2006</td>
<td>172.4</td>
<td>73.2</td>
<td>255.5</td>
<td>381.7</td>
<td>265.6</td>
</tr>
<tr>
<td>2007</td>
<td>255.5</td>
<td>381.7</td>
<td>265.6</td>
<td>317.4</td>
<td>480.1</td>
</tr>
<tr>
<td>2008</td>
<td>381.7</td>
<td>265.6</td>
<td>317.4</td>
<td>395.4</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>265.6</td>
<td>317.4</td>
<td>395.4</td>
<td></td>
<td></td>
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<td>2011</td>
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<tr>
<td>2012</td>
<td>480.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### IMPLEMENTATION OF THE JSC "RUSSIAN RAILWAYS" INVESTMENT BUDGET IN 2012, RUR BLN

<table>
<thead>
<tr>
<th>Section</th>
<th>2011</th>
<th>Plan</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL, INCLUDING</td>
<td>395.04</td>
<td>481.6</td>
<td>480.1</td>
</tr>
<tr>
<td>Projects related to the implementation of the orders of the Government of the Russian Federation</td>
<td>72.6</td>
<td>73.2</td>
<td>73.4</td>
</tr>
<tr>
<td>Safety of lives and the technological stability of the production process</td>
<td>75.6</td>
<td>67.9</td>
<td>66.9</td>
</tr>
<tr>
<td>Removal of infrastructure constraints</td>
<td>143.0</td>
<td>178.5</td>
<td>178.1</td>
</tr>
<tr>
<td>Increase in transport accessibility to the citizens of the country</td>
<td>18.8</td>
<td>36.5</td>
<td>36.3</td>
</tr>
<tr>
<td>Rolling stock update</td>
<td>66.4</td>
<td>75.6</td>
<td>75.5</td>
</tr>
<tr>
<td>Others</td>
<td>19.0</td>
<td>49.8</td>
<td>49.8</td>
</tr>
</tbody>
</table>
## INVESTMENT PROJECTS RELATED TO THE IMPLEMENTATION OF THE ORDERS OF THE GOVERNMENT OF THE RUSSIAN FEDERATION

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Task</th>
<th>Costs in 2012</th>
<th>Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Organization of intermodal passenger transportation at Vladivostok – Knevichi</strong></td>
<td>Transport support for the APEC Summit in Vladivostok</td>
<td>RUR 1.5 bln</td>
<td>“Aeroexpress” trains launched; journey time of 48 min including three intermediate stops</td>
</tr>
<tr>
<td><strong>2. Creation of a fundamentally new Intermodal transport interchange node in</strong></td>
<td>Transport support for the XXVII World Summer Universiade in Kazan</td>
<td>RUR 7.5 bln</td>
<td>Station complex launched; completed reconstruction of the Kazan – Tikhoretskaya – Airport section; built the &quot;Aeroexpress&quot; terminal with train approaches at the Kazan international airport.</td>
</tr>
<tr>
<td><strong>3. Combined (road and rail) road Adler – mountain resort “Alpika-Service”</strong></td>
<td>Transport support for the XXII Winter Olympic Games</td>
<td>RUR 57.9 bln</td>
<td>Excavation of tunnels is complete (27.3 km). The second railway track along the Matsesta – Khosta and Khosta – Adler routes has been put into operation. Construction trains started moving to the Alpika-Service station (48.2 km). The roadbed is partly completed. The passenger terminal in Esto-Sadok has been built. Equipment of the Alpika-Service station has been transferred for installation.</td>
</tr>
<tr>
<td><strong>4. Facilities and infrastructure safety measures</strong></td>
<td>Preparation for the XXII Winter Olympic Games</td>
<td>RUR 1.3 bln</td>
<td>Design work completed; specialized equipment partially purchased; construction work started.</td>
</tr>
<tr>
<td><strong>5. Launch of intermodal transportation on the Sochi – Adler – Sochi Airport route</strong></td>
<td>Transport support for the XXII Winter Olympic Games</td>
<td>RUR 0.9 bln</td>
<td>Electric trains traffic open on the Sochi – Adler – Sochi Airport route. Project completed.</td>
</tr>
</tbody>
</table>
### Strengthening the infrastructure of the Tuapse-Adler Line railway

**Goal**
Gradual increase in line capacity

**RUR 1.4 bln**
Costs in 2012

**Implementation:**
The project is completed. The total length of the second track is 30.3 km.

### Organization of freight yards

**Goal**
Ensuring the construction of the Olympic Games

**RUR 2.0 bln**
Costs in 2012

**Achieved:**
"Sochi" and "Russian Agricultural Academy" freight yards put into operation, equipped with appliances and staff.

### Reconstruction of railway terminals in Sochi, Dagomys Macesta, Hosta

**Goal**
Transport support for the XXII Winter Olympic Games

**RUR 0.7 bln**
Costs in 2012

**Achieved:**
Four terminal and hospitality areas at the Dagomis, Sochi, Macesta, Hosta stations adapted for use by disabled persons; created "barrier-free" Wednesday.

### Organization of transport junctions

**Goal**
Transport support for the XXII Winter Olympic Games

**RUR 0.2 bln**
Costs in 2012

**Achieved:**
The development of design estimates for TPU "Sochi", "Host", "Macesta." Ongoing.

In 2012, JSC "Russian Railways" invested RUR 66.9 bln in projects related to the security of human life and the technological stability of the production process.

These projects improve transport, fire and traffic safety. Moreover, on the basis of these resources of JSC "Russian Railways" civil defense facilities are built, and the throughput capacity of the railways is maintained or improved.

Costs of projects to remove infrastructure constraints amounted to RUR 178.1 bln

The main part of projects related to the increase in throughput capacity of railways is in the areas of the major Russian ports. This category also includes projects to construct additional main lines, lengthen station receiving-departure tracks and develop railway hubs, and pre-works. The same category included a significant amount of work performed in relation to projects to reconstruct railways in five regions of Russia.
1. **Comprehensive reconstruction of the Mga – Gatchina – Weimar – Ivangorod line section and approaches to ports on the southern shore of the Gulf of Finland**

   - **Goal**: Expand the access to the port of Ust-Luga in accordance with the forecasted increase in traffic volume.

   - **Achieved:** The connecting railroads in the Luga Node (11.5 km) become operational. The reconstruction of the port stations (with the exception of Art. Mga) was completed. A new route to Art. Oil-Luga and Luga-South (total length 27.2 km) was added. 32.1 km of permanent routes were reconstructed. Four platforms were built. Mini technical checkup point for locomotives at the station Luzhskaya-Neftyanaya were introduced, etc.

   - **Costs in 2012**: RUR 19.4 bln

2. **Reconstruction of the freight track on the Ruchyi – Petyayarvi – Kamennogorsk – Vyborg line section**

   - **Goal**: Organization of fast passenger traffic on the St. Petersburg – Buslovskaya (the border with Finland) line section

   - **Achieved:** The reconstruction of the Vyborg – Kamenogorsk, Sosnovo – Petyayarvi sections; the reconstruction of the Vyborg junction with an extension of receiving departure routes, and the Kamennogorsk station.

   - **Costs in 2012**: RUR 5.5 bln

3. **Comprehensive reconstruction of the Trubnaya – V. Baskunchak – Aksaraiskaya line section**

   - **Goal**: Expanding the capabilities to deliver freight to ports on the Caspian Sea, the southern regions of Russia and Kazakhstan.

   - **Achieved:** The fourth stage of the construction of Trubnaya – Zaplavnoe and the third stage of Zaplavnoe – Lenin’s was put into operation. The second main track (excluding the continuous welded rail device) on the Pipe – Zaplavnoe section was completed.

   - **Costs in 2012**: RUR 1.0 bln

4. **Comprehensive reconstruction of the Gorky – Kotelnikovo - Tikhoretskaya – Crimean line section, bypassing the Krasnodar hub**

   - **Goal**: Expanding the approaches to the ports of the Azov-Black Sea transport hub, optimizing the Krasnodar transport hub

   - **Achieved:** 28.2 km of the second track on the railroad hauls Polivyansky – Razvilnaya (10.9 km), Angelymskaya – Poltava (17.3 km) and the traction substation Remontnaya were put into operation.

   - **Costs in 2012**: RUR 6.5 bln
14 Development of the Tobolsk – Surgut line section

**Goal**
Increasing the throughput and carrying capacity of the line section.

**Achieved:**
Continuous welded device on the Karmishev – Chumbulut (12.96 km) railway haul and the second railroad of the Tugun – Nelym (13.16 km) were put into operation.

<table>
<thead>
<tr>
<th>Cost</th>
<th>4.0 bln</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs in 2012</td>
<td><strong>RUR</strong></td>
</tr>
</tbody>
</table>

15 Comprehensive reconstruction of the Krimskaya – Zabaikalsk line section

**Goal**
Expanding the approaches to the Zabaykalsk border station due to the expected increase in freight traffic.

**Achieved:**
The Tin – Borza section (99.3 km) was electrified; the first major railroad hauls Sherlovaya – Zun-Torey, Tin – Jasngorsk, Peace – Bezrechnaya were reconstructed; a part of art. Yasnaya was rebuilt; art. Karymskaya (stage two, fire safety arrangements) were developed.

<table>
<thead>
<tr>
<th>Cost</th>
<th>9.5 bln</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs in 2012</td>
<td><strong>RUR</strong></td>
</tr>
</tbody>
</table>

16 Construction of the new Kuznetsk tunnel

**Goal**
Increasing the capacity of the BAM section.

**Achieved:**
The Kuznetsovsky tunnel was put into operation, work on the track road and railway track was carried out, electric power transmission line was put into operation.

<table>
<thead>
<tr>
<th>Cost</th>
<th>4.7 bln</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs in 2012</td>
<td><strong>RUR</strong></td>
</tr>
</tbody>
</table>

17 Comprehensive development of the Mezhdurechensk – Tayshet line section of the Krasnoyarsk railway

**Goal**
Improving transport links between the Krasnoyarsk region and Khakassia, and the conditions for freight transit from the Kemerovo region to the East of the country and to the ports of the Far East due to the expected increase in freight traffic.

**Achieved:**
Documentation for the facilities designed and estimated.

<table>
<thead>
<tr>
<th>Cost</th>
<th>2.2 bln</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs in 2012</td>
<td><strong>RUR</strong></td>
</tr>
</tbody>
</table>
INVESTMENT PROJECTS TO INCREASE THE TRANSPORT ACCESSIBILITY FOR THE COUNTRY'S POPULATION

The organization of passenger traffic on the Moscow Railway Smaller Ring (MRSR) is one of the major projects of JSC “Russian Railways” to develop the infrastructure of the Moscow railway hub. By 2015, the 54 km of interurban railway will be adapted for high-speed passenger traffic. The MRSR will have 31 stops, including 19 transport connection junctions (on the subway and radial railroads). The scope of mobility is estimated at 100 pairs of trains per day at intervals during “peak times” of up to five minutes.

It is expected that the carrying capacity of the MRSR will reach about 280 million passengers by 2015.

At the same time, in order to support this flow, JSC “Russian Railroads” is investing in the throughput capacity of the radial railways and implementing projects to provide transport support for the “Skolkovo” innovation center, Domodedovo airport, the “Russia” park in the urban district of Domodedovo, and the project of the Moscow Railroad Greater Ring.

Financial support for the projects comes from the Ministry of Transport (federal budget), the Government of Moscow (city budget) and “Russian Railways”. Since a significant portion of the MRSR infrastructure is already built, its investment efficiency is four times higher than for the construction of a new metro line with comparable passenger flow.
Goal
By 2020, the new passenger system of the Moscow railway hub must ensure the transportation of 1 billion passengers per year and improve the transport accessibility to the airports of the Moscow aviation hub. Accelerated traffic of electric trains between Moscow and its satellite cities will significantly reduce the burden on the suburban railway system. Travel time will be decreased, and the conditions for the passengers will become more comfortable.

Achieved:
— the Domodedovo – Airport line section has been reconstructed and additional main railways built;
— work on the MRSR (the project);
— work on the organization of high-speed trains on the Moscow – Novoperedelkino line section (draft);
— accelerated traffic on the Moscow – Usovo route has been organized;
— the comprehensive reconstruction of 81 km of the Dmitrov – Iksha-Povarovo section of the Moscow railway has been carried out;
— additional main railway tracks on the Worker’s village – Odintsovo line section have been built;
— a correction to the project on the Khimki – Sheremetyevo railway line has been made;
— the fourth main track of the Moscow-Passenger – Paveletskaya – Domodedovo line section is under construction.

Project works: development of design and estimates documentation, basic data collection, and construction and installation works.
Great Results
of the Great Company

Railway transport is an economic activity with the same economic categories as any other economic activities. If transport is not treated as a business, it will not be able to reduce costs and improve the quality of services, timely respond to customers’ demands and introduce innovations. So, the most important aspect of the current reform is the organization of activities, the economic model of which can ensure economic efficiency of our railways.
IMPLEMENTATION OF THE COMPANY’S FINANCIAL AND ECONOMIC DEVELOPMENT STRATEGY during 2010–2015

Key Events of 2010–2012

Development of the corporate management will allow the “RZD” Holding Company to obtain an additional competitive advantage due to increased profitability and rate of mobilization of own capital for promising and capital-intensive projects, a wider access to the global market of borrowed capital to ensure its stable economic growth and reduce the cost of raised investments.

In 2012, financial sustainability of JSC “RZD” was provided. In total, operating income for 2012 exceeded RUR 1,366 bln, expenses amounted to RUR 1,298.6 bln, the net profit was RUR 14.1 bln. Under the condition of state regulation of freight railway transportation tariffs the company proved its profitability at the end of the year and received net income.

The total net assets of companies, in which JSC “RZD” participates, amount to more than RUR 450 bln. For the last three years, the total amount of revenues from sale of shares of its subsidiaries made up RUR 239.6 bln. (including in 2012 – about RUR 80.0 bln.).

JSC “RZD” is one of few companies maintaining the economically reasonable balance between the labor productivity dynamics and actual wages. The labor productivity growth was 4.5% in 2012.

In 2012, the average monthly wages of employees of JSC “RZD” engaged in transportation increased by 7.6% and amounted to RUR 36,124. The actual wage growth was 2.4%.

The unified corporate standard of financial planning and budgeting of the Company was adopted on 31 October 2012 under No. 2182r. It covers the main principles, mechanisms and timelines for the Company’s planning and budgeting. The unified classifier of indicators of budget management and financial planning has been developed. The Company’s automated budget management system has been put in place. At present, it is used by 48 subsidiaries and affiliates.

Main objectives for 2013-2015:

1. To develop the system for long-term financial planning in order to identify the main trends of the company’s strategic growth and long-term prospects for the development of railway infrastructure

2. To decompose the company’s high-level performance indicators by preparing a consolidated financial plan of JSC “RZD” on the basis of financial plans and budgets of each subsidiary of JSC “RZD”

3. To expand the perimeter and functionality of the RZD Holding Company’s internal settlement system to improve the intergroup liquidity and reduce costs of financial services provided to group companies

4. To prepare regulatory documents required for setting up the consolidated cash position of RZD Holding Company, daily monitoring of account balances, allocation of free cash within RZD Holding Company based on cash flow budgets and payment schedules, as well as monitoring financial positions of the main subsidiaries and affiliates

5. To create the model of full cost of services provided by JSC “RZD” in respect of repair and operation of rolling stock of the suburban passenger block and to improve the current method for the determination of cost-efficient freight transportation tariff adjustment and its further practical use

6. To monitor the Company’s financial and economic activities in order to develop and timely implement crisis response measures in the absence of positive dynamics in the growth of transportation volumes associated with adverse development of the global and Russian economies in 2013...
STRATEGY FOR FINANCIAL AND ECONOMIC PERFORMANCE

Key strategic priorities:

- Increasing the profitability of the Group’s “Russian Railways” and the return on assets.
- Preventing the formation of overdue accounts receivable and a corresponding increase in financial risk due to the timely completion of all payment obligations.
- Formation of the effective conditions of borrowing on the basis of financial transparency, reduce financial risk, improve the investment attractiveness and maintain a stable level of cash flows from operating activities.
- Effective use of financial resources and the improvement of financial planning.
- Optimization of capital structure, has been called for the development of the Group “Russian Railways”, targeted management of the Group’s capitalization and financial flows.
- The increase in shareholders’ equity on the basis of cost-efficiency and stability of the investment through profits.
- A stable dividend payout from net profit in accordance with the decisions of the shareholder.
- Fully meet the needs of the Group “RZD” in financial resources in achieving the set parameters, improving the quality of financial management.
- Formation of the required level of own investment resources, balanced attraction of foreign investments (subject to long-term financial stability and the repayment of loans) and the provision on the basis of an effective asset management and social costs.
- Maximizing the effectiveness of long-term investments and stimulate growth of capitalization and return on assets of subsidiaries and affiliates.
- Effective management of financial risks.
- Effective placement of temporarily free funds.

ANALYSIS OF FINANCIAL AND ECONOMIC PERFORMANCE

- General financial results
- Income analysis
- Expenditure analysis
- Purchasing and cost optimization activities
- Leasing
- Other activities
- Taxes and fees payment
- Dividends
General financial results

The financial results of 2012 are in line with the expectations and forecasts of the Company’s management, despite the decline in performance against some key financial indicators on account of a sharp fall in loadings observed in the fourth quarter of 2012.

The increase in revenues of JSC «Russian Railways» is primarily associated with the increase in income received from freight traffic due to a freight turnover growth of 2.9% and to the annual readjustment of tariffs by 6%. At the same time the increase in revenues of the Holding Company partially offset the negative impact on revenues due to the disposal of OJSC «First Freight Company», the share of which accounted for around 7% of the Holding Company’s revenue at the end of 2011.

The increase in operating costs was impacted by growth in traffic volume, as well as price increases in fuel (+19%) and electricity (+5%). The costs of repair and maintenance also rose (+8%). The relative decrease in the net profit of JSC «Russian Railways» in 2012 compared with the previous year can be explained by the high base in 2011, when a one-off profit, gained from the sale of 75% minus 2 shares of OJSC «First Freight Company», had a significant positive impact on the financial results of the Holding Company.

The level of capital investment made by the Holding Company in 2012 was the highest since its formation. Key areas of investment included: investment in the removal of infrastructural “bottlenecks”, the purchase of traction rolling stock, the building of facilities for the 2014 Winter Olympic Games in Sochi, and the acquisition of shares in the logistics company, Gefco.
The Company has adopted the common corporate financial planning and budgeting standard No. 2182r dated 31 October 2012 that sets out the main principles, mechanisms and timelines for the Company’s budgeting and planning. A single set of budget management and financial planning indicators has been developed. The Company’s automated budget management system has been put into commercial operation; currently, it is used by all the main subsidiaries and affiliates.

### FINANCIAL PERFORMANCE

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2011</th>
<th>target</th>
<th>actual</th>
<th>Variations of actual values vs targets for 2012</th>
<th>Variations in 2012 vs 2011</th>
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<tbody>
<tr>
<td><strong>TOTAL INCOME</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from transportation, infrastructure and locomotive hauling services</td>
<td>bln roubles</td>
<td>1,288.3</td>
<td>1,358.4</td>
<td>1,366.0</td>
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<td>freight transportation</td>
<td>bln roubles</td>
<td>1,109.1</td>
<td>1,205.1</td>
<td>1,206.5</td>
<td>1.4</td>
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<td>infrastructure services</td>
<td>bln roubles</td>
<td>1,003.1</td>
<td>1,088.8</td>
<td>1,089.3</td>
<td>0.5</td>
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<td>locomotive hauling services</td>
<td>bln roubles</td>
<td>102.2</td>
<td>113.1</td>
<td>118.8</td>
<td>5.7</td>
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<td>passenger transportation</td>
<td>bln roubles</td>
<td>7.4</td>
<td>7.4</td>
<td>8.1</td>
<td>0.7</td>
</tr>
<tr>
<td>Income from other activities</td>
<td>bln roubles</td>
<td>179.2</td>
<td>153.2</td>
<td>159.5</td>
<td>6.3</td>
</tr>
<tr>
<td><strong>TOTAL EXPENDITURES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditures on transportation, infrastructure and locomotive hauling services</td>
<td>bln roubles</td>
<td>1,215.6</td>
<td>1,298.0</td>
<td>1,298.6</td>
<td>0.6</td>
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<td>freight transportation</td>
<td>bln roubles</td>
<td>1,050.8</td>
<td>1,156.8</td>
<td>1,151.5</td>
<td>-0.3</td>
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<td>bln roubles</td>
<td>933.2</td>
<td>1027.8</td>
<td>1017.4</td>
<td>-10.4</td>
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<tr>
<td>locomotive hauling services</td>
<td>bln roubles</td>
<td>102.2</td>
<td>113.1</td>
<td>118.8</td>
<td>5.7</td>
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<tr>
<td>passenger transportation</td>
<td>bln roubles</td>
<td>7</td>
<td>6.3</td>
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<td>-0.1</td>
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<tr>
<td>Expenditures on other activities</td>
<td>bln roubles</td>
<td>164.7</td>
<td>141.2</td>
<td>147.1</td>
<td>5.9</td>
</tr>
</tbody>
</table>

1 Income and expenditures with regard to provision of infrastructure and locomotive hauling services as related to passenger transportation and locomotive switchyard operations.
4.5%

Labor productivity gain

JSC “RZD” is one of the few companies that for many years has kept an economically feasible ratio between the outstripping labor productivity gain rate and actual wage gain rate.

393.4 kop./10 virt. tkm

The cost of railway operations

up 6.5% on 2011.

36,124 RUR

Average monthly salary of JSC “RZD” employees engaged in transportation

The indicator has accrued 7.6% to have reached 36,124 roubles (2011 – 33,485 roubles). Actual monthly wage grew by 2.4%.

935.7 th. people

the number of JSC “RZD” staff, employed in transportation

In 2012, the number of JSC “RZD” staff decreased by 7.1 th. people or 0.8% year-on-year.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>UoM</th>
<th>2011 target</th>
<th>2012 actual</th>
<th>Variations of actual values vs targets for 2012</th>
<th>Variations in 2012 vs 2011</th>
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</thead>
<tbody>
<tr>
<td>TOTAL PROFIT ON SALES</td>
<td>bln roubles</td>
<td>72.8</td>
<td>60.4</td>
<td>67.4</td>
<td>7.0</td>
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<tr>
<td>Profit from transportation, infrastructure and locomotive hauling services</td>
<td>bln roubles</td>
<td>58.3</td>
<td>48.3</td>
<td>54.9</td>
<td>6.6</td>
</tr>
<tr>
<td>Freight transportation</td>
<td>bln roubles</td>
<td>69.9</td>
<td>60.9</td>
<td>71.9</td>
<td>11</td>
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<tr>
<td>Infrastructure services</td>
<td>bln roubles</td>
<td>-15</td>
<td>-16.9</td>
<td>-22.1</td>
<td>-5.2</td>
</tr>
<tr>
<td>Locomotive hauling services</td>
<td>bln roubles</td>
<td>3</td>
<td>3.2</td>
<td>3.2</td>
<td>X</td>
</tr>
<tr>
<td>Passenger transportation</td>
<td>bln roubles</td>
<td>0.4</td>
<td>1.1</td>
<td>1.9</td>
<td>0.8</td>
</tr>
<tr>
<td>Profit from other activities</td>
<td>bln roubles</td>
<td>14.5</td>
<td>12.0</td>
<td>12.5</td>
<td>0.5</td>
</tr>
<tr>
<td>RESULT OF OTHER INCOME AND EXPENDITURES</td>
<td>bln roubles</td>
<td>3.8</td>
<td>-1.5</td>
<td>-1.3</td>
<td>0.2</td>
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<tr>
<td>Result of sale of shares of subsidiaries and affiliates</td>
<td>bln roubles</td>
<td>66.3</td>
<td>31.6</td>
<td>33.9</td>
<td>2.3</td>
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<tr>
<td>Subsidies</td>
<td>bln roubles</td>
<td>1.9</td>
<td>22.8</td>
<td>23.2</td>
<td>0.4</td>
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<tr>
<td>PROFIT BEFORE TAX</td>
<td>bln roubles</td>
<td>76.6</td>
<td>58.9</td>
<td>66.2</td>
<td>7.3</td>
</tr>
<tr>
<td>NET PROFIT</td>
<td>bln roubles</td>
<td>16.8</td>
<td>5.5</td>
<td>14.1</td>
<td>8.6</td>
</tr>
</tbody>
</table>
Income analysis

Based on results of 2012, income from transportation activities amounted to 1,206.5 bln roubles with 97.4 bln roubles or 8.8% gain vs 2011. Income from freight transportation accounting for 90.3% of the entire transportation income amounted to 1,089.3 bln roubles. Compared to 2011, a share of income from freight transportation decreased by 0.1 p.p. (due to transfer of inventory stock cars to JSC “FPC”).

It should be noted that the structure of income from transportation activities of JSC “RZD” has dramatically changed over the stated period with industry reforms. Procedure for separate accounting of income, expenditures and financial results by activities, tariff components and aggregate activities was developed and adopted by decree No. 311 of the Russian Ministry of Transport dated December 31, 2010 in order to arrange separation of standalone businesses. 2010-2011 saw reforming of the passenger complex and commencement of economic activity as carriers: JSC “FPC” in long-distance passenger transportation and passenger suburban companies in suburban service. 2010-2012 also saw the following structural changes: 2010-2011 – gradual transfer of cars to JSC “Second Freight Company”; 2012 – commencement of operation of the fleet of engaged cars of JSC “RZD”.
FREIGHT TRANSPORTATION

Income of JSC “RZD” from freight transportation in 2012 amounted to 1,089.3 bln roubles (+0.5 bln roubles or 100% on the target and +86.2 bln roubles or +8.6% on 2011).

Additional income year-on-year amounted to:
- 41.6 bln roubles due to an increase in freight turnover (without empty cars of other owners) – 4.4% up year-on-year;
- 44.6 bln roubles due to an increase in the average revenue rate, including:
  - gain in income by 55.7 bln roubles due to tariff adjustment by 6% in 2012;
  - loss of income by 5.5 bln roubles due to a revised procedure of income accounting by activities: 4.6 bln roubles carried over from freight transportation to infrastructure services (hire charge for containers/cars not owned by the carrier) and 0.9 bln roubles carried over to other activities (charge for transshipment, storage, forwarding and other port services);
  - loss of income by 7.6 bln roubles due to aggravation of the freight transportation structure in terms of the range with an increased share of low-income freight such as: mineral coal, construction cargo and decreased share of high-income freight: ferrous metals and other cargo;
  - gain in income by 2.0 bln roubles due to freight structure improvement with regard to transit traffic.

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  - gain in income by 2.0 bln roubles due to freight structure improvement with regard to transit traffic.

LOCOMOTIVE HAULING SERVICES

In 2012, income from locomotive hauling services amounted to 12.4 bln roubles. Year-on-year growth is +8.6%.

INFRASTRUCTURE SERVICES

Income from infrastructure activities at year-end amounted to 96.7 bln roubles with 9.5 bln roubles or 10.9% gain vs 2011.

The main gain was with income from freight transportation (+5 bln roubles), including:
- due to increased traffic volume year-on-year and tariff adjustment, income accrued 0.4 bln roubles;
- due to the revised procedure of income accounting by activities (4.6 bln roubles carried over from freight transportation to provision of infrastructure services as related to hire charge for containers/cars not owned by the carrier).

In 2012, income from infrastructure services for long-distance and suburban passenger transportation accrued 4.5 bln roubles (+5.2%), including:
- due to tariff advance by 6%, income gained amounted to 5.2 bln roubles
- due to a decreased volume of car-kilometer operations (-1.4%), reduced number of cars and cancellation of unprofitable trains by carriers (in the context of shortage of budget outlays), income lost 0.7 bln roubles.

PASSENGER TRANSPORTATION

Income from long-distance passenger transportation1 over the year amounted to 8.1 bln roubles, which is 0.7 bln roubles or +9.3% more than in 2011.

The key income driver was an increase in passenger turnover (+8.4%) on Sapsan and Allegro trains and application of a flexible tariff policy (ticket prices were not adjusted in 2012).

INFRASTRUCTURE SERVICES

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freight</td>
<td>27.3</td>
<td>25.4</td>
</tr>
<tr>
<td>Suburban</td>
<td>63.4</td>
<td>62.0</td>
</tr>
</tbody>
</table>

1 JSC “RZD” is engaged in long-distance passenger transportation on high-speed trains only and does not provide suburban transportation services.
Expenditure analysis

Expenditures on transportation, infrastructure and locomotive hauling services

Expenditures on transportation activities amounted to 1,151.5 bln roubles, which is 9.6% or 100.7 bln roubles more than in 2011 (1,050.8 bln roubles).

**PAYROLL EXPENSES**

Payroll expenses amounted to 366.7 bln roubles (+ 6.9% or + 23.5 bln roubles), including due to:
- increase in the traffic volume by 4.1 bln roubles;
- indexation of wages in line with the bargaining agreement of JSC “RZD” by 18.7 bln roubles;
- increase in estimated liabilities with regard to vacation pay to JSC “RZD” employees by 0.7 bln roubles.

**SOCIAL BENEFIT EXPENSES**

Social benefit expenses amounted to 95.7 bln roubles (+ 0.8% or 0.7 bln roubles). Slower gain increase in social benefit expenses compared to payroll expenses is due to the impact of the regressive insurance contribution scale.

**OTHER MATERIAL COSTS**

Material costs (materials and OMC) amounted to 207.0 bln roubles (+ 1% or + 2.1 bln roubles). Key change factors for other material costs:
- increase in the traffic volume (+ 4.2 bln roubles);
- price advance (+ 14.2 bln roubles);
- change in the overhaul structure and reduced volume of track repairs using new materials (expenses reduced by 7.9 bln roubles);
- Company’s successful activities aimed at cost optimization and check to prices (expenses reduced by 8.4 bln roubles).

**DEPRECIATION COSTS**

Depreciation costs amounted to 171.3 bln roubles (+6.9% or +11.1 bln roubles). This growth is due to commissioning of company’s fixed assets as a part of implementation of the investment program of JSC “RZD”.

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ELECTRICITY COSTS

Electricity costs amounted to 106.7 (+ 4.7% or 4.8 bln roubles). Key growth drivers:
• Increase in train hauling expenses by 4 bln roubles (+ 4.5%) due to:
  – increase in the traffic volume – gross ton-kilometer operation in electric traction by 3.6% or 3.2 bln roubles;
  – decrease in the specific allowance for electric traction hauling of trains by 1%, which allowed to cut costs by 0.9 bln roubles;
  – increase in electric power rates by 1.9%, which resulted in cost escalation by 1.7 bln roubles
• Increase in expenses on non-hauling needs by 0.8 bln roubles (+6.6%), which is due to increased electric power consumption following transition of a number of boiler rooms from solid fuel to electric power and advance on electric power rates.

FUEL COSTS

Fuel costs in 2012 amounted to 77.4 bln roubles (+ 20.8% or 13.3 bln roubles). Major expense growth drivers
• Increase in train hauling expenses by 11.4 bln roubles (+ 22.5%) due to:
  – increase in the traffic volume – gross ton-kilometer operation in electric traction by 3.3% or 1.7 bln roubles;
  – decrease in the specific fuel allowance for heat traction hauling of trains by 0.9%, which allowed to cut costs by 0.5 bln roubles;
  – advance of diesel fuel prices, including due to a rise of diesel fuel excises in accordance with Federal Law No. 306-FZ dated November 27, 2010 “On amendments to the first and second parts of the Russian Tax Code”; cost escalation amounted to 10.2 bln roubles
• Increase of expenses on non-hauling needs by 1.9 bln roubles (+14.3%), which is mainly due to a price advance on the fuel consumed for non-hauling needs.

COST OF RAILWAY TRANSPORTATION

The cost of railway operations in 2012 amounted to 393.4 kop./10 virt. tkm, up 6.5% on 2011. In comparable conditions (without regard to costs on car lease from JSC “SFC” that were absent in 2011), increase in the cost is valued by the Company at 3.2%, which is much lower than the advance of industrial prices (6.8%) over this period.

OVERHAUL OF FIXED ASSETS

In 2012, company’s maintenance costs were spent on overhauls of fixed assets of JSC “RZD” in the amount of 100.7 bln roubles, which accounts for 91.1% of the actual value of 2011. The main reasons for a decrease in overhaul costs in 2012 compared to 2011 are:
• Curtailment of the program for track overhaul using new materials along nearly 1,100 km with the track reconstruction program enhanced by 1,700 km;
• Elimination of inventory park freight cars from the overhaul program in 2012 (in 2011, more than 4,500 cars repaired, in 2012 – 0).

ANALYSIS OF TRANSPORTATION COST DEVELOPMENT, CPI, PPI YEAR-ON-YEAR,%
EXPENDITURES ON INVESTMENT ACTIVITIES

In 2012, the total amount of investment costs was 480.1 bln roubles, which is 21.4% more than in 2011. In 2012, investment activities were mainly performed at the expense of Company’s funds and federal budget and external investors’ raised funds.

2012 saw commissioning of 2.8 km of new lines, 103.9 km of the second track, 99.7 km of the station track, 129.2 km of electrification, 504.6 km of centralized traffic control, 131 sets of pointworks, 53.2 km of automatic block signal systems, 6 traction substations.

532 units of the traction rolling stock were purchased and 2,184 were upgraded, 475 units of the multiple-unit tolling stock were purchased and 519 units of the freight rolling stock were upgraded. The total cost of fixed assets commissioning in 2012 amounted to some 370 bln roubles.

OTHER EXPENDITURES

Other expenditures amounted to 126.8 bln roubles (+ 55.1% or + 45.1 bln roubles). Key expense growth drivers:

- additional costs on handling the car fleet of JSC FPC (JSC “SFC”) (+ 35.4 bln roubles);
- increase in the traffic volume (+ 1.5 bln roubles);
- price advance (+ 4.6 bln roubles);
- increase in property tax costs (+ 1 bln roubles);
- increase in site protection and other costs (+ 2.6 bln roubles).

EVALUATION OF INCREASE IN TRANSPORTATION EXPENDITURES IN 2012, BLN ROUBLES

Transportation expenditures in 2011
Cost escalation due to increase in the traffic volume
Increase in costs and insurance contributions due to indexation of wages in line with the bargaining agreement
Increase in costs, apart from FPR due to price advance and costs on protection of rail transport facilities
Cost savings due to implementation of the optimization program
Increase in FPR costs due to fuel price advance and growth of electric power rates
Cost savings due to decrease in the specific fuel and electric power allowance for train hauling
Increase in depreciation and property tax costs due to implementation of the investment program
Reduced costs due to a change in the overhaul structure and decreased volume of track repairs using new materials
Additional costs on attraction of a freight car fleet
Transportation expenditures in 2012

1,050.8 bln roubles
14.6 bln roubles
20.1 bln roubles
21.3 bln roubles
8.3 bln roubles
14.8 bln roubles
1.4 bln roubles
12.1 bln roubles
7.9 bln roubles
35.4 bln roubles
1,151.5 bln roubles
Purchasing and cost optimization activities

General cost optimization principles

In 2012, JSC “RZD” continued to take consistent measures aimed at cost saving due to enhanced energy efficiency, introduction of resource saving technologies, check to prices and other administrative and technical measures.

Introduction of resource saving technologies at rail transport results in saving of fuel and power resources, integration of LED equipment, reduction in consumption of materials, etc.

Economic benefit is secured by the following activities:

- optimized use of labor resources and reduction in labor intensity of production processes;
- efficient use of materials;
- reduction in fuel and energy costs;
- transfer of a part of transit car traffic volumes from diesel to electric tracks;
- enhanced transit capacity of car traffic volumes due to railway yard operation and increased exit routing.

A set of actions to ensure saving of fuel and energy costs is ensured by the Traction Directorate and the current economic benefit includes:

- assurance of high-quality rating of fuel and energy resources for hauling operations and control over arrangement of line heat engineering operations, introduction of the common automated diesel fuel accounting system in a number of depots;
- equipment of locomotives with:
  - self-contained heating system, which enabled reduced diesel fuel consumption by diesel locomotives for hot detention;
  - more precise diesel fuel consumption accounting system;
  - automated driving systems to reduce specific consumption of fuel and energy resources due to application of energy-optimal train driving modes;
  - restoration of regeneration braking systems on DC locomotives in a number of railways.

A common technology for locomotive delivery to trains and their running to depots by swing locomotive shifts at railway yards was further on improved with regard to local conditions and technical retooling of stations. Efforts were taken to revise the mode and technology of operation of railway stations, consolidate them under common management and close low-intensity stations.

Continuous cost management efforts and implementation of the medium-term cost optimization program secured an increase in the unit cost of transportation of JSC “RZD” in 2012 (in kop./10 virt. tkm) in comparable conditions at a level of 3.2% with an industrial price advance by 6.8%.
### Assurance of stability and financial balance of JSC “RZD” operations through cost reduction measures

The Company takes continuous efforts in cost management to ensure balance of JSC “RZD” financial performance. As a result, JSC “RZD” ensures dynamics of the transportation cost (in kopeks/10 virtual tkm) below a level of price advance in the country. Thus, with an industrial price advance in 2012 at a level of 6.8%, the cost increase in comparable conditions amounted to 3.2%, which is two times lower.

In 2012, the tangible economic benefit of implementation of the cost optimization program aimed at settlement of tasks of the Company’s Development Strategy for 2012 amounted to 7.6 bln roubles.

The strongest economic benefit from activities was secured thanks to improvement of arrangement and technology of production processes – 61%, including efficient use of materials – 79.1%.

Cost saving was also attained due to the introduction of track structure materials recovery activities. Cost effectiveness of this activity was secured by:
- reduced costs on purchase of new materials;
- transportation of new materials;
- reduced time of fixed asset downtime for repairs.

For example, in 2012, due to a reduced traffic volume, efforts were taken to further ensure transition to single-person train operation, consolidate stations under common management, close low-intensity lines.

A special-purpose investment project titled “introduction of resource saving technologies at the rail transport” significantly contributed to the enhancement of transportation efficiency, which enabled improvement of the infrastructure condition. The resource saving program not only ensures project payback accounting, but also enables application of the railway budget adjustment mechanism based on implementation results.

### Purchasing

Decrease in prices with regard to major product groups supplied by the branch of JSC “RZD” Roszheldorsnab in 2012 in reference to the price level in 2011 was as follows:

- ferrous rolled metal products (sheet and rolled iron, cast iron, tubular goods (apart from cold-deformed tubes)) – 8%;
- spare parts for locomotives, cars, maintenance vehicles – 17.7-24.4%;
- engineering products, electrical goods – 3.8%;
- other – 10%;
- fuel and energy resources – 2.7%;
- products purchased under the investment program – 12.5%

<table>
<thead>
<tr>
<th></th>
<th>Quality claims</th>
<th>Quantity claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>410</td>
<td>552</td>
</tr>
<tr>
<td>2011</td>
<td>509</td>
<td>552</td>
</tr>
</tbody>
</table>
As related to pricing, JSC “RZD” conducts analysis of the export parity level, Russian market situation, geopolitical factors, etc. Optimization of supplies under the “transport task” algorithm helps minimize aggregate costs and purchase fuel at prices below market ones.

JSC “RZD” takes systematic efforts aimed at forecast of the pricing environment, purchases larger lots of oil products during the price reduction period with a relevant decrease in the scope of supply in the future period.

More than 70% of oil products are purchased under direct contracts concluded with the largest vertically-integrated oil companies.

Supply contract terms provide for suppliers’ liability for the assurance of quality conformance of goods supplied to the requirements claimed throughout the warranty period.

JSC “RZD” exercises continuous control over purchased product quality and is engaged in claim administration.

The company elaborated and put an automated claim administration system (EASAPR RZDS) into experimental operation. This system takes account of claims with regard to centralized and regional supplies of MTR in terms of the range, quality, quantity and completeness of goods. The company plans to design a system for accounting of claim materials coming from S&A and interaction of EASAPR with “Law” ACS.

Efforts taken in 2012 enabled a decrease in a total number of claims by 26%, and a number of product quality claims – by 41% year-on-year.

In order to enhance effectiveness of the measures intended to identify a product nonconformity at acceptance, incoming inspection, assembly and its non-admission for operation, in 2012, the company worked to train employees and to ensure their knowledge of the group of standards approved by resolution No. 444 dated March 4, 2008 “On approval of standards of the “supply efficiency management system” (STO RZD 1.05.509.18-2008 “Procedure for interaction with suppliers and manufacturers in identification of nonconforming products and services”).

In order to provide enterprises of JSC “RZD” with material and technical resources within the scheduled period and with the guaranteed quality, efforts are being taken for transition to long-term contracts (up to 5 years) for delivery of material and technical resources for the needs of JSC “RZD”.

Product purchase under long-term contracts has a significant advantage compared to short-term ones; firstly, as related to strategic and industrial products.
2012 saw the following activities related to transition to long-term contracts:

- clear identification of the range and scope of products for the entire term of a contract and broken down by years subject to assurance of steady operation of JSC “RZD”. The scope of supply may be quarterly adjusted in monthly signed specifications.
- unambiguous interpretation of the pricing and price adjustment mechanism.
- payment period – standard, adopted in JSC “RZD”, with grace.

Thus, 2012 saw centralized supply of products under 55 long-term supply contracts, including:

- wrought wheels produced by LLC “Vyksa Ironworks”;
- rails and rail fastenings produced by LLC “EvrazHolding”;
- bearings and bearing rings by LLC “EPK TH”;
- spare parts for locomotives and cars (including CJSC “Roslokomotiv”, JSC “Petukhovo Mechanical Plant”, JSC “Ishimsky Mechanical Plant”, JSC “Vagonremmash”);
- spare parts for maintenance vehicles (including JSC “Kaluga Plant (Remputmash));
- rail fastenings produced by JSC “MMK-Metiz” and JSC “Severstal-Metiz”;
- concrete goods produced by JSC “BetElTrans” and JSC “RZDstroy”;
- wooden sleeper products manufactured by JSC “TransWoodService”;
- copper wires by CJSC “Transkat”;
- accumulators and accumulator batteries;
- fuel and energy resources, oils, lubricants, etc.

Activities aimed at conclusion of long-term contracts will continue in 2013.

Leasing

As of January 01, 2012, leasing obligations of JSC “RZD” amounted to 5.9 bln roubles with VAT.

In 2012, JSC “RZD” had under leasing passenger cars, multiple-unit rolling stock, freight cars, maintenance vehicles acquired in 2003-2008 from home manufacturers of rolling stock and railway machinery.

In March 2012, based on results of an open competitive tender, JSC “RZD” entered into a leasing contract with JSC “VEB-leasing” for supply of a set of maintenance vehicles to cover needs of the infrastructure complex in 2012-2016 in the amount of up to 89 bln roubles with VAT. JSC “Remputmash Kaluga Plant” is a supplier under the leasing contract. The leasing period is up to 15 years, leasing financing rate is 11.4%. In 2012, maintenance vehicles were supplied for a total amount of 7.2 bln roubles.

In 2012, the Company allocated 5.2 bln roubles for lease payments. As of December 31, 2012, leasing obligations of JSC “RZD” amounted to 9.6 bln roubles.

In the second half of 2012, the leasing portfolio was restructured through transactions for the assignment of rights and obligations under freight car leasing contracts aimed at budgetary load relief of the end user of leased property – JSC “Federal Freight Company”.

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As of December 31, 2012, leasing obligations of JSC “RZD” amounted to 9.6 bln roubles.
Other activities

In 2012, Company’s income from other activities amounted to 159.5 bln roubles, which is 6.3 bln roubles or 4.1% higher than the target approved for 2012. Profit from other activities amounted to 12.5 bln roubles, which is 0.5 bln roubles or 4.2% higher than the target approved for 2012.

Under the conditions of comparability of other activities, company’s income accrued 10.4 bln roubles or 7.0% year-on-year. Profit from other activities amounted to 12.5 bln roubles, which is 2.1 bln roubles or 20.2% higher year-on-year in comparable conditions.

At the same time, it should be noted that 50% of gainful proceeds from other sales are from low-margin services that restrict profit growth opportunities in other activities:
• provision of traction rolling stock leasing services to JSC “FPC”;
• provision of rolling stock leasing services to suburban passenger companies;
• provision of social services;

Besides, profit markup is restricted by imbalance of regulated service tariffs in Russian constituents: electric power transmission to outside consumers, housing and communal services.

In this regard, the company is engaged in assurance of operating efficiency as related to other activities in two directions:
• reduction of expenditures on low-margin businesses whose income growth is restricted by peculiarities of the passenger transportation market;
• use of additional reserves to enhance effectiveness of high-yield business segments.

Positive dynamics of other activities based on the results of 2012 is conditioned by the measures taken by the Company to increase gainful receipts from other activities.

Thanks to an effective tariff policy, income from provision of services to suburban passenger companies accrued 1.5 bln roubles or 5%, which, along with the measures taken to optimize car-repair capacities and effective management of the rolling stock fleet, enabled decrease of company’s losses by 0.7 bln roubles or 16.5% year-on-year.
Further decrease of the Company’s loss from provision of services to suburban passenger companies will be ensured by further efficiency upgrading of the rolling stock maintenance and current repair organization structure.

In the context of reconstruction activities at railway stations of the Moscow hub and 14 regional railway stations, the company in general managed to increase income from real estate rental year-on-year (see the section “Management of the JSC “RZD” property”).

In order to prevent escalation of long-distance passenger transportation costs, the Company is implementing a well-balanced tariff policy that implies lease and management of long-distance passenger locomotives based on the activities aimed at:

- application of the volumetric indicator “locomotives in operation of the fleet in use” in settlements for locomotive lease;
- change in rolling stock service processes, transition to the model of comprehensive service maintenance of the JSC “RZD” locomotive fleet;

Company’s management has taken active measures to enhance effectiveness of social services of the company and housing and communal enterprises, which enabled reduction of company’s losses from this service by 0.5 bln roubles or 12.6% year-on-year.

A number of events aimed at assurance of effectiveness of power transmission to outside consumers, including with implementation of the project for introduction of electric power fiscal metering systems (EPFMS) and increase in the volume of power transmission to outside consumers ensured an increase in gainful proceeds by 0.5 bln roubles or 6% year-on-year (2011 – 8 bln roubles, 2012 – 8.5 bln roubles) and profit markup by 0.3 bln roubles or 99% (2011 – 0.3 bln roubles, 2012 – 0.6 bln roubles).

Growth of the private fleet of freight cars and resulting increase in the volume of current uncoupling repair by 17.5% enabled receipt of additional income from freight car repair by 3.8 bln roubles (2011 – 7.3 bln roubles, 2012 – 11.1 bln roubles).

Performance of comprehensive work with consignors as related to the engagement of construction cargo in railway transportation, including for the implementation of large infrastructure projects such as construction of pipeline systems across the Far East region and preparation of Olympic facilities that contributed to an increase of the volume of handling operations for clients ensured income gain by 0.7 bln roubles year-on-year as a part of provision of forwarding services to clients. Development of comprehensive transport and logistic services in ports and attraction of new clients secured further income of 1.3 bln roubles year-on-year with the increment in profit amounting to 0.2 bln roubles.

Additional sales of scrap metal resulted in income growth by 0.5 bln roubles or 7.1% (2011 – 7.4 bln roubles, 2012 – 7.9 bln roubles).

Thus, in order to further enhance financial and economic stability of company’s operation, it will continue taking active efforts to extend a range of bundled services, including improvement of technological and management processes to secure target performance of other activities.

### CONDITIONS OF COMPARABILITY OF OTHER ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>Income</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 (returns)</td>
<td>179.2</td>
<td>14.5</td>
</tr>
<tr>
<td>split-off of JSC “RZD” car repair business to affiliates of JSC “CRC-1,2,3” on July 1, 2011</td>
<td>-15.3</td>
<td>-0.5</td>
</tr>
<tr>
<td>implementation of a transaction for sale of passenger cars that earlier were under leasing to JSC “FPC in 2011</td>
<td>-11.3</td>
<td>-2.4</td>
</tr>
<tr>
<td>dissolution of branches due to incorporation of S&amp;A (FPD, Lyublinsky CMP)</td>
<td>-1.7</td>
<td>-0.3</td>
</tr>
<tr>
<td>other single transactions</td>
<td>-1.9</td>
<td>-0.9</td>
</tr>
<tr>
<td>2011 (in comparable conditions)</td>
<td>149.1</td>
<td>10.4</td>
</tr>
<tr>
<td>2012</td>
<td>159.5</td>
<td>12.5</td>
</tr>
<tr>
<td>2012/2011 variation (in comparable conditions), +/-</td>
<td>10.4</td>
<td>2.1</td>
</tr>
<tr>
<td>2012/2011 variation (in comparable conditions), %</td>
<td>107.0%</td>
<td>120.2%</td>
</tr>
</tbody>
</table>
Other income and expenditures

In 2012, result of other income and expenditures amounted to 1.3 bln roubles, which is a 0.2 bln roubles improvement of the targets approved by the JSC “RZD” Board of Directors.

1. Proceeds from sale of affiliates’ equity stakes
The total income from sale of shares in 2012 amounted to 80.1 bln roubles; company’s profit on sale of shares amounted to 33.9 bln roubles. The profit accrued 2.2 bln roubles with regard to the targets approved by the company’s Board of Directors (see the section “On sale of S&A equity stakes”).

In 2011, income from sales of affiliates’ equity stakes amounted to 147.6 bln roubles. The total profit on sale of securities amounted to 66.3 bln roubles.

In 2010, income from sale amounted to 12.0 bln roubles, profit on sale of securities amounted to 6.9 bln roubles.

2. Profit from introduction of property into the charter capital of affiliates incorporated
2012 saw receipt of the profit not secured by a cash flow from the transactions related to introduction of property into the charter capital of CJSC “Company TTK”, Remputmash Kaluga Plant amounting to 1.5 bln roubles, which matches the targets approved by the company’s Board of Directors.

In 2011, introduction of property into the charter capital of three car-repair companies and introduction of freight cars into the charter capital of JSC “SFC” brought 26.4 bln roubles.

In 2010, the Company received a profit amounting to 14.1 bln roubles as a result of introduction of property into charter capitals of JSC “FPC”, JSC “RZD-ZDOROVYE” and JSC “SFC”.

### PROFIT FROM SALE OF SHARES, BLN ROUBLES

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>33.9</td>
</tr>
<tr>
<td>2011</td>
<td>66.3</td>
</tr>
<tr>
<td>2010</td>
<td>6.9</td>
</tr>
</tbody>
</table>

### PROFIT FROM PROPERTY INTRODUCTION, BLN ROUBLES

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>1.5</td>
</tr>
<tr>
<td>2011</td>
<td>26.4</td>
</tr>
<tr>
<td>2010</td>
<td>14.1</td>
</tr>
</tbody>
</table>
3. Dividend receipts from JSC “RZD” affiliates
Based on S&A performance in 2012, dividend receipts from the companies whose shares and stocks are owned by JSC “RZD” amounted to a total of 9.8 bln roubles; increase with regard to the targets approved by the company’s Board of Directors amounted to 0.7 bln roubles.

In 2011, dividend receipts amounted to 21.3 bln roubles; in 2010, dividend receipts amounted to 2.1 bln roubles (see the section “On sale of S&A equity stakes”).

4. Budget financing as related to state subsidies
In 2012, state subsidies from the federal budget amounted to 23.2 bln roubles, including track overhaul subsidies of 22.2 bln roubles, which enabled repair of 3,980 km and replacement of 1,624 pointwork sets. Increase in budget financing with regard to the targets approved by the Board of Directors amounted to 0.4 bln roubles due to regional subsidies.

In 2011, budget financing in the form of subsidies was granted in the amount of 1.9 bln roubles, in 2010 – 54.2 bln roubles.

5. Exchange differences
The favorable situation with the rouble exchange rate in late 2012 resulted in foreign exchange gains amounting to 4.5 bln roubles vs the targets approved by the company’s Board of Directors. Exchange differences forecast improved by 6.3 bln roubles.

In 2011, foreign exchange losses amounted to 6.4 bln roubles. In 2010, foreign exchange gains amounted to 0.9 bln roubles.

6. Debt service costs
In 2012, interest payable amounted to 17.2 bln roubles (without regard to capitalized interest), in 2011, interest payable amounted to 17.6 bln roubles, and in 2010 – 20.1 bln roubles.

Work aimed at enhancement of operating and financial performance as related to loan debt optimization conducted by the company’s management enabled reduction of debt service costs by 0.4 bln roubles year-on-year.

It should be noted that in 2012, other expenses decreased by 0.6 bln roubles year-on-year due to internal efficiency activities.
PROFITABILITY OF ACTIVITIES

The main reason for reduced return on equity was non-operating gains in equity amounting to some 120 bln roubles (i.e. without increase in financial performance) – receipt of charter capital contributions amounting to 101 bln roubles and revaluation of individual financial investments (including JSC “TransContainer” – some 10 bln roubles).

Considering an increased need for reproduction of fixed assets of JSC “RZD” in 2012, borrowed capital that ensures funding of a minimal required scope of the investment program was increased. Thus, the ratio gross debt/EBITDA increased, but is also within the limits of financial covenants.

Financial leverage in 2012 remained unchanged year-on-year, which is generally due to the financial policy implemented aimed at minimization of interest and credit risks.

LIQUIDITY

The liquidity situation in 2012 is characterized by stable finance indicators.

Decrease in liquidity figures year-on-year is mainly related to receipt of sale proceeds of 75% shares of JSC “FFC” at the end of Q4 of 2011 amounting to 125 bln roubles and resulting cash balance gain.

Besides, liquidity figures of balance sheet assets were influenced by allowances for accounts receivable and financial investments.
Financial ratios

Profitability of sales and return on net profit remain at the level close to that of the previous year. Absence of a long-term tariff policy with regard to freight transportation based on return on invested capital prevents the company from consistent increase in its operating efficiency.

1.0%  
Return on net profit  
(Net profit / income)  
(2011: 1.3%)

4.9%  
Profitability of sales  
(Profit / income)  
(2011: 5.6%)

4.6%  
Profitability of transportation  
(2011: 5.3%)
State support to JSC “RZD” in 2012: subsidies, additional contributions to charter capital and influence on performance

In 2012, Government of the Russian Federation focused on the implementation of state projects for rail transport infrastructure development; in particular, 101 bln roubles were allocated including 60 bln roubles granted for further implementation of these projects of state importance:

- development of the Moscow region transport complex – 43.3 bln roubles;
- construction of track and electrification of Vyborg – Primorsk – Ermilovo section – 7.5 bln roubles;
- 0.8 bln roubles on Gremyachaya station infrastructure development.
- construction of Olympic facilities in Sochi – 49.4 bln roubles.

Besides, 2012 saw allocation of significant funds amounting to 22.2 bln roubles for upgrading of the JSC “RZD” infrastructure.

There is the same amount of financing in pursuance of Resolution No. 844 of the Russian Government dated October 17, 2011 to make up for income losses resulting from state regulation of tariffs for public rail transport infrastructure use services provided during suburban passenger transportation. In 2012, as in 2011, 25 bln roubles were allocated from the federal budget to these ends.

In accordance with Federal Law No. 371-FZ “On federal budget” dated November 30, 2011, 2,774.6 mln roubles were budgeted and used for transportation of new cars.

In 2012, state support funds amounting to 1 bln roubles were also allocated for:

- rail transport infrastructure protection against unlawful interference;
- compensation of the give up resulting from the establishment of exceptional tariffs for the transportation of grain and flour-cereals industry products;
- compensation of the give up resulting from regulation of long-distance passenger transportation (in third-class sleepers and regular cars);
- compensation of the give up resulting from schoolchildren’s and students’ transportation

<table>
<thead>
<tr>
<th>Item</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>State support to consigners and individuals entitled via the JSC “RZD” budget</td>
<td>3.136</td>
</tr>
<tr>
<td>Railway transportation of the new vehicles manufactured in the Russian Federation to (c) the Far East Federal District</td>
<td>2.775</td>
</tr>
<tr>
<td>Compensation of schoolchildren’s and students’ long-distance transportation</td>
<td>0.001</td>
</tr>
<tr>
<td>Compensation of the give up resulting from the establishment of exceptional tariffs for grain transportation</td>
<td>0.360</td>
</tr>
<tr>
<td>Implementation of state projects via the JSC “RZD” budget</td>
<td>100.994</td>
</tr>
<tr>
<td>Construction of Olympic facilities</td>
<td>49.423</td>
</tr>
<tr>
<td>Development of the Moscow transport hub</td>
<td>43.245</td>
</tr>
<tr>
<td>Construction of the second track and electrification of Vyborg – Primorsk – Ermilovo section</td>
<td>7.500</td>
</tr>
<tr>
<td>Gremyachaya station infrastructure development</td>
<td>0.826</td>
</tr>
<tr>
<td>Direct support to JSC “RZD”</td>
<td>48.008</td>
</tr>
<tr>
<td>Compensation of the shortfall in income from long-distance passenger transportation</td>
<td>0.191</td>
</tr>
<tr>
<td>Upgrading of infrastructure objects</td>
<td>22.242</td>
</tr>
<tr>
<td>Rail transport infrastructure protection against unlawful interference</td>
<td>0.575</td>
</tr>
<tr>
<td>Provision of public rail transport infrastructure use services provided by JSC “RZD” during suburban passenger operations</td>
<td>25.000</td>
</tr>
</tbody>
</table>

TOTAL STATE SUPPORT | 152.138
Taxes and fees payment

The total amount of taxes accrued for payment for 2012 amounted to RUR 250.8 bln or 93.3% with respect to the same indicator for 2011, including:
- the federal budget – RUR 28.7 bln, an increase of 68.9% versus 2011;
- regional and local budgets – RUR 110.4 bln, an increase of 97.4% versus 2011;
- extrabudgetary funds – RUR 111.8 bln, an increase of 98.3% versus 2011.

 Monetary funds amounting to RUR 256.4 bln to pay current taxes were transferred in 2012, including:
- to the federal budget – RUR 30.9 bln;
- to the budgets of constituents of the Russian Federation and municipal entities – RUR 122.1 bln;
- to extrabudgetary funds – RUR 103.3 bln.

The amount of taxes paid in 2012 increased by RUR 6.9 bln or 3.0% compared with the amount of tax payments made in 2011.

The amount of taxes paid to the federal budget in 2012 decreased by RUR 16.1 bln or 34% compared with payments in 2011; the amount of taxes paid to regional and local budgets increased by RUR 24.3 bln or 25%; the amount of taxes paid to extrabudgetary funds decreased by RUR 1.3 bln or 1.0%.

The share of tax revenues of JSC «Russian Railways» of the Russian Federation’s budget was 1.4%.
Dividends

Report on the payment of the declared dividends

At the end of 2011, JSC «Russian Railways» achieved a net profit amounting to RUR 16.8 bln.

In accordance with paragraph 42 of section 6 of the Charter of JSC «Russian Railways» a reserve fund amounting to 5% of net profit for the reporting period (RUR 841 mln) was established.

The Guideline nr. GN-15/5904 from the Federal Agency for State Property Management of the Russian Federation dated 28 February 2012 recommended the allocation of dividends payment of at least 25% of net income. Taking this fact into account, the amount of dividends payable by JSC «Russian Railways» to the Russian Federation on the basis of the year 2011 amounted to RUR 4,205 mln. In view of the above, it has been agreed:

• to make a dividend payment of RUR 4,205 mln for the common shares of JSC «Russian Railways» on the basis of its performance during 2011;
• to leave RUR 11,456 mln for JSC «Russian Railways» to reinvest, including the financing of infrastructure investment projects.

DISTRIBUTION OF NET PROFIT OF JSC «RUSSIAN RAILWAYS» FOR THE PERIOD OF 2011, RUR MLN

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit for the accounting period</td>
<td>16,822</td>
<td>100</td>
</tr>
<tr>
<td>Allocation of profits, total, including</td>
<td>5,366</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>reserve fund</td>
<td>841</td>
</tr>
<tr>
<td></td>
<td>payment of dividends on the placed shares</td>
<td>4,205</td>
</tr>
<tr>
<td></td>
<td>for Specialized Endowment Fund financing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>support and development of the Skolkovo Institute of Science and Technology</td>
<td>280</td>
</tr>
<tr>
<td></td>
<td>remuneration of the members of the Board of Directors of JSC «Russian Railways» JSC «Russian Railways»</td>
<td>39</td>
</tr>
<tr>
<td>Profit accumulation</td>
<td>11,456</td>
<td>68.1</td>
</tr>
</tbody>
</table>

RUR 4,205 mln

The amount of the dividends paid for common shares of JSC «Russian Railways» on the basis of its performance during 2011

Distribution of 2012 net profit

At the end of 2012, JSC «Russian Railways» made a net profit of RUR 14.1 bln.

In accordance with paragraph 42 of section 6 of the Charter of JSC «Russian Railways» a reserve fund amounting to 5% of net profit for the reporting period (RUR 0.7 bln) was established.

It should be noted that part of the net profit for 2012 – RUR 1.5 bln – was formed due to an increase in the value of the balance sheet, as agreed upon by the founders, as a result of the value of the property transferred to the share capital of the subsidiaries, that was not supported by a corresponding cash flow.

In addition to this, in accordance with the decisions made by the Government of the Russian Federation (the Guideline № 19-02-04/02-63 from the Ministry of Finance of the Russian Federation dated 7 November 2012), and in accordance with the purposes of leveling the cash deficit and improving the financial condition of OJSC «Federal Passenger Company», a transfer of monetary funds in the amount of RUR 5 bln into the charter capital of OJSC «Federal Passenger Company» at JSC «Russian Railways» own expense is scheduled for the year 2013.

In addition to this, an additional allocation of monetary funds amounting to RUR 8 bln to finance key infrastructure projects is scheduled for the year 2013, including the construction of the Moscow – Ekaterinburg and Moscow – Adler high-speed railroad: RUR 2.3 bln; development of the Baikal – Amur Mainline railroad infrastructure (engineering design): RUR 0.7 bln; reconstruction of the Mga – Gatchina – Weimarn – Ivangorod road section complex: RUR 5 bln.

DISTRIBUTION OF NET PROFIT OF JSC «RUSSIAN RAILWAYS» FOR THE PERIOD OF 2012, RUR MLN

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit for the accounting period</td>
<td>14,110.0</td>
<td>100</td>
</tr>
<tr>
<td>Allocation of profits, total, including</td>
<td>705.5</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>reserve fund</td>
<td>705.5</td>
</tr>
<tr>
<td></td>
<td>payment of dividends on the placed shares</td>
<td>0</td>
</tr>
<tr>
<td>Profit accumulation</td>
<td>13,404.5</td>
<td>70</td>
</tr>
</tbody>
</table>
RISK MANAGEMENT

173 Operational threats and risks
176 Financial risk management
178 Insurance
Operational threats and risks

The outlook for JSC “RZD” depends on the macroeconomic trends in Russia and, given the increased programme of integration, the state of the global economy.

Many systemic problems in the world’s most important countries and regions, including the debt crisis in the Eurozone, coordinated measures to decrease the national debt and budget deficit in the US and the low GDP growth rate in China in 2012–2013, have not yet been resolved in full and impose considerable risks to the global rate of economic growth. Assuming no major risks materialise, global GDP growth published in January 2013 by the International Monetary Fund is forecast to reach 3.1%, which is the same as in 2012, which is lower than in the pre-crisis years of 2010–2011.

The global economy uncertainty expected in 2013 and unstable economic trends in Russia are the main reasons for the decelerated rate of growth in the volume of cargo railway transportation or, in the event of a substantial worsening of the economic situation, a decrease in the growth rate, which, in turn, would adversely affect the income of JSC “RZD”.

The structural transformation of rail transport in adverse macroeconomic conditions increases the risks of the Holding Company’s reduced competitiveness in Russian and foreign markets as well as risks regarding the safety of current operations.

For example, any new local market entrants would force JSC “RZD” to thoroughly review the operation of its locomotives and may negatively influence transport safety.

A local carrier, for example, would be likely to use its locomotives within its own local logistical scheme rather than to optimize a unified technological process, and this would most likely reduce locomotive productivity and increase both the demand for locomotives and create inefficient locomotive traffic across the network.

Tariff regulation risks

“Tariff regulation” risks may result in the possibility of a reduction in revenue for reasons unrelated to the business activities of JSC “RZD”. They may occur in the event of:

- a change in the cargo turnover structure with regard to the range of cargo transported and tariff classes;
- insufficient compensation for a shortfall in income of JSC “RZD” if an established railway tariff ceiling is below the economically feasible limit;
- competitive expansion (intra-industry, inter-industry, inter-transport and international) during an accounting period of tariff regulation;
- implementation of international commitments made by the Russian Federation to join the WTO and establish the Eurasian Economic Union;
- a difference between real price increases for material and technical resources consumed by JSC “RZD” versus price inflation during the current tariff regulation period as set out in the forecast of social and economic development of the Russian Federation.

Risks related to a change in the cargo turnover structure and the difference between real price increases for material and technical resources consumed by JSC “RZD” versus price inflation during the current tariff regulation period as set out in the forecast of social and economic development of the Russian Federation may be partially mitigated by exercising JSC “RZD”’s rights of independent tariff setting within the price bands established by the Russian FST.
Economic risks

Economic risks involve the redistribution of cash flows generated by JSC “RZD” to local carriers without any corresponding creation of industry added value as a result of their entry into more profitable segments of the market.

The Holding Company is now also facing a number of other serious threats to its operations, such as:

• cutbacks in government spending to support the development and operation of rail transport resulting in reduced infrastructure capacity in the context of high wear and tear and numerous bottlenecks;
• growing competition from potentially profitable traditional and emerging segments of domestic and foreign transport markets;
• decline in national freight traffic due to structural changes in the economy;
• disintegration of technological relations due to the sale of controlling (blocking) stakes of JSC “RZD” subsidiaries and affiliates;
• tougher regulatory environment, tariff restrictions, inadequate budgets at all levels, and an uncertain tariff policy;
• growing competition from road, pipeline and water transport;
• reduced carrying and processing infrastructure capacity due to an increase in the running of empty private cars along the network’s main lines.

In these conditions, it is essential to have strategic plans in place as there are always two sides to adverse macroeconomic conditions – threats and opportunities.

Through these strategic plans the Company has identified a considerable number of opportunities – for example, lower prices of resources, a growing supply of labor and opportunities to upgrade sections of the infrastructure to reduce bottlenecks (which is hard to do during periods of peak traffic).

The Company has considerable potential to minimize both economic risks (for example, the adverse consequences of a decline in transport) and other risks.

JSC “RZD” has adopted and consistently implements the policy of only increasing real wages if higher growth in labor productivity has been achieved, which necessitates greater responsibility, labor discipline and productivity.

To improve its performance, the Company must introduce innovative technologies to create new transport (and associated) products, new railway machinery and technologies, improve rail transport management, and identify and use new opportunities to improve railway efficiency.

Railway companies need to go beyond their traditional market segments to create and promote innovative transport products and services, enter new markets and develop promising lines of business.

This diversification strategy must focus on the needs of customers who are increasingly interested in purchasing competitively priced, integrated door-to-door transport and logistics packages in Russian and foreign markets.

Changes in organizational, legal, tax and other business trends may impose threats on JSC “RZD” in 2013:

• Russia’s joining of the World Trade Organization in 2012 requires a certain future redistribution of internal and international rail transport cargo flows, which may necessitate an increase in the capacity of individual network sections and intensification of track repair operations;
• amendments to the Russian tax legislation enacted on 1 January 2013 that provide for a repeal of property tax privileges in relation to railway tracks have incurred considerable additional expenditure for JSC “RZD”;
• given the Company’s limited sources to self-finance investments and additional borrowings, an increase in loan debt and debt/EBITDA ratio is expected, which will negatively affect the Company’s financial stability and may adversely affect the credit rating of JSC “RZD”;
• transition to a new railway transportation market model that requires local carriers to enter the market in 2013 may worsen operations in the railway system, which is already complicated by freight car market deregulation, and may cause additional traffic control challenges and decrease the income of JSC “RZD”.

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In order to minimize any adverse consequences of a decline in transport in 2012 and to ensure balanced financial activity, the Company’s economic, strategic and production units worked hard to prepare and develop the Company’s medium-term cost optimization program.

The program’s activities were implemented across the Company by JSC “RZD” branches which are responsible for their performance. In terms of their targets, cost optimization activities are divided into:

- investment (restoration and upgrading of fixed assets currently in use, commissioning of new production facilities and equipment that improve process efficiency);
- technical (optimization of processing equipment operation modes, reduced waste of fuel and energy resources, timely maintenance and repair work);
- process (reconstruction (upgrading) of processing equipment, improvement of processes, introduction of advanced troubleshooting techniques; revision and introduction of a higher use of improved materials and technical resources, alternative fuel and energy resources);
- organizational (decreased costs of purchased goods, works, services through the awarding of orders and contracts on a competitive basis, management structure optimization, improvement of management processes, reduction of costs and storage losses, decreased transportation costs, including through improved logistics).

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**MEDIUM-TERM COST OPTIMIZATION PROGRAM FOR 2013–2015**

| Commissioning of new fixed assets, restoration and upgrading | - acquisition and upgrading of railway machinery (commissioning of new locomotive series); reconstruction and commissioning of new rail infrastructure facilities (improvement of the track structure, traction substations, signals and interlocking systems); replacement of production equipment with advanced high-capacity alternatives |
| Optimized use of labor resources and enhanced labor productivity | - balancing the scope of work performed by employees through increased labor standards, multi-skilling and extension of service areas |
| Optimized consumption of materials and spare parts and other material resources | - implementation of lean manufacturing technologies |
| Lower power consumption | - assurance of effective use of regeneration braking and locomotive automated driving systems |
| Lower fuel consumption | - assurance of effective use of regeneration braking and locomotive automated driving systems |
| Other process activities | - diesel unit upgrading to replace two-stroke diesel with four-stroke units; |

Economic benefit planned for 2013: **RUR 23.9 bln**
The center for decision-making related to financial risk management is the Company’s financial risk management committee – a collective body comprising representatives of a number of Company departments under the guidance of the Senior Vice President for Economy and Finance.

In 2012, a lending ceiling calculation technique for banks, which are not incorporated in the Russian Federation, was implemented as part of the improvements to the financial risk management system.

The Company places great importance on activities related to financial risk management. The Company has set up a financial risk management system which it improves every year. The principal document underpinning this system is the Company’s financial risk management policy.

Risk management approaches used by the Company are based on financial risk management best practice, diversification principles involving the use of various risk management tools and operations with reliable counterparties and approaches to estimate risk and risk appetite ratios.

The risk management policy does not permit the use of speculative risk management instruments or operations with unreliable counterparties.

The Company seeks to improve and develop the risk management system both within JSC “RZD” and “RZD” Holding Company in general, apply a unified approach to financial risk management in relation to its subsidiaries and affiliates, and instil the risk management culture at all management levels.

The financial risk management policy identifies:

Company’s financial risks

Principles of their management

Management process:
- identification;
- analysis and assessment;
- matching of risks to risk appetite;
- decision-making (strategy management);
- direct management, including application of hedging instruments, if necessary;
- monitoring of results;
- assessment of the effectiveness of financial risk management activities (self-diagnostics).

Management tools, including hedging

Concept of using risk appetite to make appropriate risk management decisions

Financial risk management is performed by a team of highly qualified risk managers of JSC “RZD”, who are results-oriented and share the same corporate values and objectives.

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THE COMPANY FOCUSES ON THE MANAGEMENT OF THE FOLLOWING MAIN FINANCIAL RISKS:

<table>
<thead>
<tr>
<th>Financial risks (related to property risks)</th>
<th>Credit risks</th>
<th>Liquidity risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property risks are transferred to large Russian insurance companies and are reinsured with major global insurance companies. The regulatory framework of JSC “RZD” with regard to insurance comprises: insurance coverage policy for JSC “RZD”, regulations, guidelines. A uniform policy and principles of insurance coverage for “RZD” Holding Company are defined in a corporate insurance coverage concept for JSC “RZD” subsidiaries and affiliates. The concept requires a uniform approach to the creation of insurance coverage for companies of “RZD” Holding Company;</td>
<td>For the purpose of credit risk management, the Company has an approved lending ceiling calculation technique, and regulatory documents on operations with bank guarantees and sureties. Based on the above technique, the Company assesses financial institutions and calculates relevant lending ceilings that restrict deposit operations with banks and acceptance of bank guarantees subject to an assessment of the status of the relevant financial institution. When co-operating with real sector companies, in order to insure JSC “RZD” against risks of a counterparty’s default (improper or untimely performance) of its obligations, the Company uses bank guarantees of intent, performance bonds (including a warranty period for supply contracts), return of advance payments and sureties from parent companies. Financial institutions issuing bank guarantees and warrantors are chosen with regard to their credit history and applicable lending ceilings.</td>
<td>The Company manages its operating liquidity through the balance of payments, schedule of payments and payment position based on daily information from business units on expected revenues and expenditures for the calendar month. As required, the Company promptly raises cash on the best terms available. Operating liquidity is managed using the Reuters terminal and other automated systems for electronic confirmation of transactions;</td>
</tr>
</tbody>
</table>
Financial risk management (continued)

THE COMPANY FOCUSES ON THE MANAGEMENT OF THE FOLLOWING MAIN FINANCIAL RISKS:

**Market risks** (currency, interest, commodity)

To evaluate these risks, rules are used to calculate the scope of the risks and to match their values set with risk appetite.

In particular, the evaluation of the Company’s currency risk and the identification of instruments to manage currency risk are based on the analysis of the Company’s open currency position for a horizon of up to four years, which is the difference between incoming and outgoing cash flows by foreign currency. To create a portfolio of currency-denominated requirements and liabilities and subsequently calculate the open currency position, Company transactions are analyzed and classified by investing, operating and financing activities. The amount and structure of the open currency position influences the Company’s borrowing policy and establishes approaches to hedging.

Analysis of floating interest rate volatility and its corresponding influence on the Company’s borrowing policy underlies the interest risk valuation.

Should the currency or interest rate risks exceed the risk appetite, the Company selects a risk management strategy, including hedging.

With regard to price risk, the Company seeks to establish settlement and indexation terms in contracts with counterparties, which help to mitigate this risk as far as possible. The Company also considers the possibility of using hedging instruments for price risk management.

The closing of hedging transactions related to the Company’s Eurobond borrowing in USD was a significant milestone with regard to financial risk management in 2012. Transactions were based on Russian documents and were closed within Russian jurisdiction with major international banks. The closing of hedging transactions not only allowed the Company to mitigate its currency risk but also allowed it to reduce the effective borrowing rate for the Eurobond borrowing through the difference between borrowing currency and hedging currency interest rates.

**Operating risks**

Effective management of the operating component of financial risks is secured by automated financial risk management systems, which, as well as improving the effectiveness of risk management, also limit the risk of “human error” on results of calculations and implemented procedures.
Insurance

JSC “RZD” pays great attention to insurance coverage of the Company’s property risks. The Company has insured the real estate complex, freight rolling stock, passenger car fleet, locomotives, electric trains, and has arranged personal insurance for its employees.

In order to improve the Company’s coverage system, the Directors’, officials’ and companies’ liability insurance contract for the period from 21 February 2012 to 20 February 2014 was concluded for a total insured sum of RUR 3 bln. Those insured are the members of the Board of Directors, President, First Vice president, senior vice presidents, vice presidents, board members, chief accountants, heads of legal services, heads of units, departments, administrations, managers and members of boards of 89 subsidiaries and affiliates. This insurance provides for the reimbursement of expenses to Company executives that may be borne in the event of claims lodged against them due to wrong doings by the Company’s management.

Following the implementation of Federal Law No. 225-FZ “On compulsory insurance of civil liability of a hazardous facility owner for damage caused by an incident at the facility” dated 27 July 2010 on 1 January 2012, an open tender was held to select suppliers of policies for each hazardous facility. In addition, in 2012 an open tender was held to choose an insurer to enter into a contract for civil liability insurance for rail transport infrastructure owner and carrier. Each year, JSC “RZD” voluntarily enters into this contract that insures the civil liability of JSC “RZD” for damage to life, health, property of beneficiaries and/or environment. The total insured sum under the contract is RUR 1 bln.

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JSC “RZD” continuously improves its coverage and relevant regulatory framework. Terms of insurance contracts are refined to extend the range of coverable risks.

In 2012 further claims were settled; the total amount of insurance indemnity received exceeded RUR 650 mln. A major insured event was settled in relation to a flood that resulted in heavy damage to the rail infrastructure and social facilities of JSC “RZD” that occurred on 6-7 July 2012 in the Krasnodar Territory. This occurrence was recognized as an insured event and insurance indemnity of the costs to restore infrastructure facilities amounted to RUR 251.041 mln.

In order to minimize risks of MTPL and hull coverage of the Company’s car fleet, in 2012, the Company held relevant open tenders to choose contractors from reputable insurers with a good standing in the MTPL and hull coverage market and with an extensive branch network.

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**RUR 3 bln**
Total amount of Directors’, officials’ and companies’ liability insurance contract for the period from 21 February 2012 to 20 February 2014.

**8,591 facilities**
Insured following the implementation of Federal Law No. 225-FZ “On compulsory insurance of civil liability of a hazardous facility owner for damage caused by an incident at the facility” dated 27 July 2010 on 1 January 2012.

**RUR 1 bln**
Total amount of the civil liability insurance contract for rail transport infrastructure, owner and carrier.

**RUR 650 mln**
Total amount of insurance indemnity received in 2012.
Large Capital
of a Large Company

Today, JSC “RZD” ranks as one of the main issuers, setting the benchmark for the overall position of Russian corporate securities on the domestic and international capital markets. We are open for cooperation with investors and aim to provide as much transparent financial information as possible. Each year, we organize non-deal roadshows and investor days in Russia, Europe, and Asia. Traditionally, JSC “RZD” is an active participant in the largest specialized financial and economic forums both in Russia and abroad.
**MAIN AREAS OF DEBT POLICY AND INVESTOR RELATIONS**

2010–2015

**Key Events of 2010–2012**

In 2010, JSC “RZD” participated in the international capital market for the first time, having placed 7-year Eurobonds worth US$ 1.5 bln, which were included in the international EMBI Global indices favored among investors. This was the first time ever, that Eurobonds of a Russian corporate issuer had been included in this index.

During the three following years, JSC “RZD” became known on the international capital markets as a borrower that sets new cost benchmarks for Russian issuers. In 2011, JSC “RZD” entered the super-long loan market in UK pounds by placing stocks for 20 years. In 2012, the Company set a new benchmark for loans in rubles and US dollars.

In December 2010, we held the first JSC “RZD” Investor Days in London, which were attended by over 40 investment funds and banks. Considering the strong interest from the investment community, JSCo RZD decided to hold such events regularly. In December 2011, another Investor Day was held in London. In 2012, we held investor days in London, Zurich, and Moscow. We also held regular meetings with industry analysts and media representatives.

The overall corporate rating of JSC “RZD” is maintained at the same level as the sovereign rating of the Russian Federation. In March 2012, the Standard & Poor’s agency raised the individual rating of JSC “RZD” from BB+ to the investment level BBB- and confirmed the cumulative corporate rating of RZD at the level of the sovereign rating of the Russian Federation: BBB, stable.

From 2010 to 2012, considerable efforts were made to improve the structure of the loan portfolio, which involved decreasing the share of short-term loans, increasing the average term for fulfillment of obligations and diversifying loan sources. The Company adopted an efficient financial strategy that defined medium-term benchmarks for the portfolio structure and debt burden, which determined the borrowing policy in 2010–2012.

In 2012, we were the first company to place bonds with a guard against inflation in the local market without a government guarantee. This is a totally new market instrument that creates a market of inflation-protected securities in Russia. The coupon rate for this issue is floating and depends on the annual average of the Consumer Price Index, which protects invested funds against inflation.

<table>
<thead>
<tr>
<th><strong>Main medium-term benchmarks</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Net debt/EBITDA – 2.5 maximum</td>
</tr>
<tr>
<td>2. Short-term/long-term liabilities ratio –20% to 80%</td>
</tr>
<tr>
<td>3. Share of borrowings in foreign currency – 40% maximum of the total loan volume</td>
</tr>
<tr>
<td>4. Diversification of loan sources, with a focus on financing from the capital markets</td>
</tr>
<tr>
<td>5. Broadening the investors’ geography. Increasing the interest in JSC “RZD” Eurobonds among new investors and maintaining relations with existing investors.</td>
</tr>
<tr>
<td>6. Strengthening relations with the investment community and maintaining an ongoing dialogue with professional participants of the Russian and international markets.</td>
</tr>
<tr>
<td>7. Development of the domestic market of long-term ruble funding by offering new debt instruments</td>
</tr>
<tr>
<td>8. Development of new mechanisms for funding long-term infrastructure projects, which are strategically important not only for the Company’s economic growth, but also for the Russian Federation as a whole.</td>
</tr>
</tbody>
</table>
MAIN AREAS OF DEBT POLICY AND INVESTOR RELATIONS

Create conditions for efficient operation on the capital markets by being committed to financial transparency, minimizing financial risks, and enhancing financial attractiveness.

Optimization of the capital structure for the development of RZD Holding.

Active cooperation with Russian and international investors and rating agencies to promote the Company’s image as one of the top issuers in Russia.

DEBT POLICY, CREDIT RATINGS AND INVESTOR RELATIONS

Debt Policy
Loan Portfolio Structure
Working with rating agencies, investors and analysts.
Debt Policy

In 2012, JSC “RZD” received an award from the international financial publication Euroweek in the category “Most Impressive Corporate Issuer on Emerging Markets.” The Euroweek award was given not for any specific deal, but for overall performance and recognized the Company’s excellent reputation on the international capital markets.

From the point of view of loan capital management, RDZ management set the following limits for the loan burden and structure of the loan capital:
- Net debt/EBITDA – 2.5 maximum in the long term
- Volume of borrowings in foreign currency in the loan portfolio – 40% maximum (excluding hedging instruments)
- Short-term/long-term liabilities ratio – 20% to 80%

The first indicator is one of the key valuations of debt sustainability of companies, the second criterion reflects the structure of earnings and costs of RZD, and the third the long-term nature of investment projects implemented by the Company. The set limits ensure a balanced approach to the management of the Company’s loan portfolio and the much needed flexibility in order to manage current liquidity taking into account the specific nature of the Company’s business.

Landmark deals of JSC “RZD” in the capital markets:

INTERNATIONAL MARKETS:
The principal and additional issues of Eurobonds were placed with the record low yield of 4.05% per annum, valued at US$ 1.4 bln and maturing in 2022. This is the lowest rate for 10-year Eurobonds in US dollars issued by companies in the CIS.

The volume of Eurobonds denominated in rubles totaled RUR 37.5 bln and was placed for 7 years at 8.3% per annum – this is the longest and largest issue on the Russian market of ruble-denominated Eurobonds in terms of maturity and value.

RUSSIAN MARKET:
The issue of bonds with coupon payments tied to the Consumer Price Index was issued for the first time in the history of JSC “RZD”. The net value of the issue was RUR 10 bln, with a maturity period of 20 years, and a period before offer of 10 years.

An important decision to issue “debut” infrastructure bonds of JSC “RZD” was made. A fundamentally new financial instrument for Russia, these provide the opportunity, on one hand, for secure investments of retirement savings of citizens and, on the other hand, for financing long-term investment projects of JSC “RZD”.

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1 Planned repayment of borrowed currencies is given at the rate as of 31 December 2012.
2 The majority of bank loans repaid in 2012 are part of the bridge loan extended by VTB Bank in 2011 with the purpose of financing business operations of JSC “RZD” until the funds from JSC Freight One sale are received.
As of late 2012, almost 80% of JSC “RZD” borrowings consisted of public instruments – bonds and Eurobonds. The share of bank funding (including project financing and syndicated loans) in the Company’s portfolio decreased from 35% in late 2011 to 21% in late 2012.

The size of the loan portfolio (the principal, taking into account exchange rate fluctuations) as of late 2012 was RUR 34.1 bln higher than its value in 2011, but this increase was merely technical: in late 2012, forward bridge-financing was used to finance the investment program until funds from the sale of 25% of JSC Freight One shares were received.

As a result, the average duration of the portfolio will increase gradually. The share of borrowings maturing in less than one year as of late 2012 stood at only 16%, which is two times below the indicator in the previous year. The share of ruble borrowings was maintained at 60–70%, since the ruble is the main currency in which the Company’s earnings are denominated. Both indicators meet the requirements of the loan structure determined by the management of JSC “RZD”.

In 2012, JSC “RZD” entered a number of landmark deals in the international and Russian capital markets. In the international capital market JSC “RZD” successfully placed two tranches of Eurobonds totaling US$ 1.4 bln and RUR 37.5 bln. Each of the issues set new benchmarks for Russian issuers regarding cost and terms.

The dollar tranche with a 10-year maturity is the “longest” for Eurobonds in the Reg S format from Russia, and the cost of borrowing for JSC “RZD” is 5.7% per annum, which is the lowest in the history of Eurobonds placement by Russian corporations. At that time, the difference between the return on the placed Eurobonds of JSC “RZD” in US dollars and similar sovereign bonds of the RF for the first time reached a figure below 100 basis points, which confirmed the right timing for the placement and allowed a repositioning of the Company’s risk in the international capital markets.

JSC “RZD” placed ruble-denominated Eurobonds in the Reg S format for the first time. This issue became not just “the longest” (7 years), but also the largest in terms of its volume among similar borrowings by Russian corporations. The yield after the placement of the primary and additional issues was 7.846% per annum, which is the lowest ever rate for 7-year Eurobonds denominated in rubles placed by Russian corporations on the international and domestic capital markets.

In July 2012, JSC “RZD” placed on the domestic market 10-year corporate ruble bonds with coupon payments tied to the Consumer Price Index (so-called “inflation bonds”).

<table>
<thead>
<tr>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Рублевые облигации</td>
<td>62 %</td>
<td>48 %</td>
</tr>
<tr>
<td>Еврооблигации</td>
<td>15 %</td>
<td>21 %</td>
</tr>
<tr>
<td>Синдицированные кредиты</td>
<td>15 %</td>
<td>3 %</td>
</tr>
<tr>
<td>Проектное финансирование</td>
<td>3 %</td>
<td>3 %</td>
</tr>
<tr>
<td>Двухсторонние банковские кредиты</td>
<td>14 %</td>
<td>1 %</td>
</tr>
</tbody>
</table>
The deal was unique for the Russian loan capital market: for the first time ever such bonds were issued by a corporate issuer without a government guarantee. The issue totaled RUR 10 bln, with a 20-year maturity and a 10-year period before offer.

A significant part of the inflation bonds of JSC “RZD” were purchased by the Russian Pension Fund, management companies and private pension funds, as well as Russian and foreign banks. Inflation-protected bonds are one of the target instruments in global practice for investments by pension funds that are interested in long-term securities with guaranteed return exceeding the inflation level.

The experience gained from the placement of inflation bonds paved the way for the issue of a new borrowing instrument in Russia – super-long corporate infrastructure inflation-protected bonds. In October of 2012, a meeting chaired by First Deputy Prime Minister of the Russian Federation, I.I. Shuvalov, was held. The results of joint efforts of JSC “RZD”, Vnesheconombank, the Ministry of Economic Development and the Ministry of Finance of the Russian Federation led to the decision to make an investment in the Holding’s projects totaling up to RUR 100 bln from the Russian Pension Fund for a period from 15 to 30 years at the rate of annual inflation, plus 1% per annum.

The cost of service and redemption of infrastructure bonds will be taken into account in the new formula of the long-term tariff of JSC “RZD” starting from 2014.

The new instrument will significantly improve the investment opportunities for both JSC “RZD” and the Russian Pension Fund. Some of the Holding’s projects that cannot be funded through market sources and have been previously categorized as “non-recoupable” can now be realized through a preferential source of funding. When placing funds into infrastructure bonds of JSC “RZD”, the Pension Fund will have an efficient mechanism for the long-term investing of retirement savings of citizens, which guarantees their protection from inflation.

The first tranche of infrastructure bonds with protection against inflation for 30 years was placed in June 2013: the net worth of the issue totaled RUR 25 bln, with a maturity period of 30 years at the rate of annual inflation + 1% per annum. This was a record-setting achievement and, although this is not a market tool in its own right, it nevertheless, creates new market opportunities.

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1 Information based on the management report of JSC “RZD” (including offers and excluding accrued interest)
Eurobonds of JSC «Russian Railways» were assigned the same investment grade rating as the government securities rating level, which indicates their reliability on a long-term horizon. New financial instruments are attracting investment on favorable terms to finance infrastructure projects of JSC «Russian Railways», which, in turn, are expected to increase the individual rating of the Holding Company.

In anticipation of future placements in the international capital markets, JSC «Russian Railways» has been working to improve individual or «standalone» ratings. A «standalone» rating is assigned to quasi-sovereign companies and reflects an assessment of the creditworthiness of the issuer in the event of any risks materializing at a state level. Individual ratings are more conservative in terms of the issuer’s risks assessment and, as a general rule, are set at a level below the final rating of the same issuer.

Therefore, until recently, the individual rating of JSC «Russian Railways», assigned by the agency Standard & Poor’s, was at BB+ level, two steps lower than the final BBB rating.

In 2011-2012, we conducted a series of consultations with methodologists from leading rating agencies, studying the possibility of revising their approaches to Russian companies’ risks assessment and the reduction factor assessment, introduced for country risk assessment. The most important result of this work was the raising of the individual rating of JSC «Russian Railways» from "BB+" to "BBB-" implemented by the rating agency Standard & Poor’s in March 2012.

In November 2012 a series of traditional annual meetings was held with analysts from the following rating agencies: Standard & Poor’s, Moody’s and Fitch. We examined the expected results of the Holding Company’s work for 2012 and plans for 2013. Representatives from all agencies noted the importance and timeliness of the decisions taken by the Government of the Russian Federation in the provision of concessional financing to JSC «Russian Railways» by means of infrastructure bonds tools, which are to be issued for a period of 30 years and less. Infrastructure bonds are an innovative long-term market tool for governmental support of major infrastructure projects. The fact that JSC «Russian Railways» will be the first issuer of infrastructure bonds, demonstrates the strategic importance of the Company to the country’s economy.

<table>
<thead>
<tr>
<th>CREDIT RATINGS OF JSC «RUSSIAN RAILWAYS» AS OF 31 DECEMBER 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Russia</strong></td>
</tr>
<tr>
<td><strong>MOODY’S</strong></td>
</tr>
<tr>
<td>Baa1</td>
</tr>
<tr>
<td><strong>JSC «RUSSIAN RAILWAYS»</strong></td>
</tr>
<tr>
<td><strong>MOODY’S</strong></td>
</tr>
<tr>
<td>Baa1</td>
</tr>
</tbody>
</table>
At the beginning of 2013, the rating agencies confirmed the rating of JSC «Russian Railways» at the levels BBB/Baa1/BBB provided that the Holding Company maintains the ratio debt / EBITDA below 2.5.

The analysts of the agencies noted the strategic importance of JSC «Russian Railways» to the Russian economy and highlighted the close relationship between the operating and financial results of the Holding Company and the state of the Russian economy. However, the agencies also noted the high level of capital costs of JSC «Russian Railways» connected with infrastructure maintenance and development and pointed out the need for a balanced approach to financing these costs.

According to the rating agencies, borrowing funds for the total investment program financing may exceed the threshold level of the Holding Company’s debt load. However, the new possibility of preferential financing of infrastructure projects of JSC «Russian Railways» with the involvement of the resources of the State Pension Fund of Russia partly removes this concern.

Successful placements of Eurobonds of JSC «Russian Railways» in 2012 demonstrate the consistently high market interest in the debt obligations of the Holding Company.

ADDITIONALLY, WE PARTICIPATED IN AND ORGANIZED A SERIES OF ACTIVITIES IN 2012, DEMONSTRATING THE COMPANY’S INCREASING OPENNESS AND TRANSPARENCY:

**January-March**
- Sberbank and Troika Dialog, «Forum Russia 2012» (Moscow)
- IX Krasnoyarsk Economic Forum (Krasnoyarsk)
- Round-table conference «Pension funds as a source of investment in infrastructure projects. Experience, Problems and Prospects» (Moscow)
- Bonds & Loans Russia Conference (Moscow)
- Meeting with analysts and representatives of the press based on the results of the group of JSC «Russian Railways» activities for the 1st half-year of 2011, in accordance with the International Financial Reporting Standards (Moscow)
- Holding of a road show connected with the debut Eurobond issue of JSC «Russian Railways» in rubles and in US dollars (London)

**April-June**
- Expert RA, IV Annual Conference «Future of Pension Market» (Moscow)
- Investor Day (Moscow)
- VTB Capital «Russia Invites!» (London)
- International Regional Railroad Business Forum «Strategic Partnership 1520» (Sochi)
- Saint Petersurg International Economic Forum (Saint Petersburg)

**October-December**
- Meeting with representatives of the press based on the results of the group of JSC «Russian Railways» activities for the full year 2011, in accordance with the International Financial Reporting Standards (Moscow)
- Company Day (Moscow)
- VTB Capital «Russia Invites!» (Moscow)
- Round-table conference «Vedomosti»: Privatization: the goals of the state, investors’ expectations (Moscow)
- Cbonds, X Russian Bond Congress (Saint Petersburg)
- «Russian Railways» - Partner and Business Dialogue, X International Conference «Transport Services Market: cooperation and partnership» (Moscow)
- Investor Day (London)
- Investor Day (Zurich)
Great Assets of the Great Company

JSC “RZD” has undertaken a considerable restructuring of its management system, moving from a territorial-based organization to a vertically integrated system categorized by various business activities. The aim of this new management system is to create an environment which will enable a dramatic increase in the productivity of Russian Railways and an improvement in the interaction between the Holding Company’s units, its customer focus and competitiveness. These changes are caused both by external circumstances and the Holding Company’s need to improve and increase its efficiency.
IMPLEMENTATION OF THE MANAGEMENT SYSTEM REORGANIZATION 2010–2015

Key events in 2010–2012

Chains of command were created for key activities: management of sales, transportation, traction rolling stock operation and repair, infrastructure, etc. Their managers are vested with powers and the responsibility for the performance of current workloads and the implementation of development projects.

Railways have started to operate in a new capacity — as regional centers of corporate management (RCCM). Considering that the main function of railways is the technological and corporate coordination of activities of regional units of JSC “RZD” branches, subsidiaries and affiliates, the RCCMs will soon be required to establish and strengthen the horizontal relations between these units.

In future, this coordination will pave the way for systematic and consistent operations across all railway services, improving the efficiency of how they interact, and establishing integrated technological and managerial processes, which will promote management quality and performance inside the regional units of JSC “RZD”.

In 2011 the Holding Company’s passenger complex was established.

JSC “RZD” started to create the transport and logistics business model in the Holding Company’s structure. Launching high-margin logistics services is the strategic goal of JSC “RZD”.

New tools allow the Holding Company to coordinate its operating activities, which is very important for the achievement of the Company’s long-term business goals. Specifically, new approaches to improve the interaction between branches, subsidiaries and affiliates were adopted, such as balanced score cards, integrated planning, and internal exchange of services.

Major tasks for 2013–2015

1. Completion of the reorganization of the passenger and infrastructure unit management, reorganization of management in the Holding Company’s transport and logistics activities.

2. Commitment to provide the necessary resource to make the following improvements: enhanced performance, energy efficiency, decrease in material and labor use.

3. Organization of regular activities to enhance performance, ensure the comprehensive quality of management processes and field operations, including using information support and automation methods.

4. Support of operations of the Company’s system of continuous improvement of management techniques and processes.

JSC “RZD” started to create the transport and logistics business model in the Holding Company’s structure. Launching high-margin logistics services is the strategic goal of JSC “RZD.”
MANAGEMENT SYSTEM
REORGANIZATION STRATEGY UNTIL 2030

KEY STRATEGIC PRIORITIES

Attainment of long-term targets and execution of strategic tasks, with the autonomous running of business units identified as a priority for senior management.

Development and effective use of managerial tools that ensure the attainment of common strategic objectives of the Holding Company and the coordination of actions across all elements of its organizational framework.

Coordination of managerial and technological processes for transportation activities at all levels of the Holding Company to ensure uninterrupted, effective and safe transportation.

Balance of responsibility and powers of all managers of JSC "RZD" and its subsidiaries and affiliates within the boundaries of the tasks entrusted to them.

Availability of all required assets, personnel and management systems in business units to match their area of expertise and scope of activities.

CORPORATE GOVERNANCE

Corporate Governance System

Governing and Supervisory Bodies of JSC Russian Railways
Corporate Governance System

Corporate Governance Principles of JSC Russian Railways

1. EFFECTIVE PERFORMANCE OF GOVERNING AND SUPERVISORY BODIES

GOVERNING STRUCTURE OF JSC RUSSIAN RAILWAYS

General Meeting of Shareholders

Audit Committee

Board of Directors

Advisory Bodies

President

Advisory bodies under the supervision of members of the Board – the President of JSC Russian Railways

Advisory bodies under the supervision of members of the Board – Vice-presidents of JSC Russian Railways

Advisory bodies under the supervision of members of the Board – department heads of JSC Russian Railways

Executive Board

Advisory bodies under the supervision of department heads and other heads of divisions of JSC Russian Railways

Administration
Board of Directors of JSC RUSSIAN RAILWAYS
The Board of Directors consists of highly professional managers with the necessary knowledge and expertise to address long-term strategic objectives of social development and with significant experience in governing boards.

The business practice of the Board of Directors of JSC Russian Railways is to involve members of the Board of Directors at a high level to shape the strategy of JSC Russian Railways and determine how it shall interact with stakeholders.

According to the state policy to promote the practice of election of independent directors to the governing bodies of state-owned companies, since 2008 independent directors have been regularly elected to the Board of Directors of JSC Russian Railways.

The rights and obligations of the members of the Board of Directors, their responsibilities, as well as the Board of Director’s work schedule and its decision-making process, are set forth in the Regulation of the Board of Directors approved by the Government of the Russian Federation.

To ensure timely decision-making to a high quality the following bodies have been established by the Board of Directors: the Committee for Audit, Risks and Remuneration of the Board of Directors of JSC Russian Railways, and the Committee for Strategic Planning of the Board of Directors of JSC Russian Railways.

Meetings of the Board of Directors are held regularly in accordance with long-term plans; materials for the meetings of the Board of Directors are provided in advance to ensure the thoroughness and effectiveness of decisions adopted by the Board of Directors.

Internal Company documents set out the obligations of members of the Board of Directors to disclose information on their ownership and transactions with securities of JSC Russian Railways. The procedures for the disclosure by members of the Board of Directors of any affiliations help to reduce the risk of conflict of interests.

Executive Bodies
A collegial executive body – the Executive Board – has been established in JSC Russian Railways to ensure collective decision-making in a number of key areas regarding the Company’s activities.

Basic operational principles and functional responsibilities of the Executive Board are governed by the Regulation of the Executive Board.

JSC Russian Railways also provides mechanisms to remunerate members of its executive bodies depending on the Company’s performance. These mechanisms create appropriate incentives for the executive bodies of JSC Russian Railways to help achieve their targets and meet the expectations of shareholders.

The Company’s internal documents set out the procedure for disclosing any conflicts of interest of members of the executive bodies of JSC Russian Railways and for the mandatory reporting of such conflicts to the Board of Directors.

A foundation of JSC Russian Railways’ sustainable development is the pool of suitable employees to replace the heads of departments, which ensures the continuity of JSC Russian Railways’ middle management.

The System of Control over financial and economic activities of JSC Russian Railways is performed by the Audit Committee, the Committee for Audit, Risks and Remuneration of the Board of Directors of JSC Russian Railways, structural units of JSC Russian Railways – the Centre for Internal Audit “Railways Audit” and an independent auditor.

The composition of the Audit Committee of JSC Russian Railways does not include persons occupying management positions in the Company nor Company employees, which ensures the Committee’s independence.

The main objectives and powers of the Committee for Audit, Risks and Remuneration regarding control over the financial and economic activities of JSC Russian Railways are set out in the relevant Regulation approved by the Board of Directors.

The most important functions assigned to the Railways Audit Centre include the development of plans, new business lines, forms and methods of internal audit and control over the economic and financial activities of JSC Russian Railways.

The Company carries out comprehensive work on the development of the risk-oriented internal control and audit system compliant with corporate governance best practice.
2. DISCLOSURE OF INFORMATION

The Board of Directors of JSC Russian Railways has approved the Regulation on the Information Policy of the Company.

JSC Russian Railways discloses financial and accounting statements in accordance with Russian (RAS) and International (IFRS) standards.

The Company’s annual report contains information, which is important for the Company’s stakeholders, and meets requirements of the regulations for the structure and content of the annual report submitted to shareholders in preparation for the general meeting.

The Company’s web site contains information on the development strategy of JSC Russian Railways and internal Company documents. Important information on the Company’s activities is disclosed in English.

3. IMPLEMENTATION OF THE COMPANY’S ETHICAL PRINCIPLES

The Board of Directors of JSC Russian Railways has approved the Code of Business Conduct, which is a set of rules and standards of conduct followed by the Company including all employees and officials of JSC Russian Railways in their relations with shareholders, investors, customers, suppliers, subsidiaries and affiliates.

The Code contains a list of measures aimed at strengthening team spirit and settling corporate conflicts. The Code communicates the Company’s values to all employees, unites them on common corporate objectives and, consequently, strengthens their corporate identity.

4. SOCIAL RESPONSIBILITY

JSC Russian Railways is committed to implementing its corporate strategy with a high level of social responsibility. JSC Russian Railways has an obligation to society and the country’s economy and its performance criteria in this area include: comprehensive promotion of regional development, growth of the population’s mobility, open and transparent information regarding its activities, continuous efforts to improve the quality of the services it provides and the full implementation of all government social programs.

The Company has adopted the Code of Corporate Social Responsibility of JSC Russian Railways. The adoption of the Code demonstrates the Company’s commitment to carrying out its economic activities with due regard to the interests of all stakeholders and to contributing to the balanced development of all stakeholders.

The Company has implemented the practice of regular social reporting and disclosure of its results to the public.

JSC Russian Railways provides charity support to individuals, public, religious and other organizations. Its charity activities are socially oriented to further strengthen the Company’s image and are carried out in line with the unified policy of JSC Russian Railways to maintain social infrastructure and welfare programs, support education, healthcare, science, art, sports and personal development.

As an environmentally-oriented company, JSC Russian Railways pays great attention to the reduction of human impact on the environment.

for more details see CORPORATE RESPONSIBILITY
JSC Russian Railways manages its subsidiaries and affiliates through its corporate procedures. The corporate management of its subsidiaries and affiliates is carried out through the participation of representatives of JSC Russian Railways in general meetings of shareholders, Boards of Directors and audit committees of subsidiaries and affiliates.

Interests of the parent company in the activities of its subsidiaries are managed through the design and implementation of uniform standards of corporate governance. Uniform standards ensure the creation of a single legal entity in the Holding company, the implementation of common strategic objectives and their contribution to the effective operation of governing bodies of all Group companies, as well as a reduction in management costs.

The subsidiaries of the Holding company are managed effectively through the following principles and approaches:

- the direct linking of the Holding company’s strategy with the strategies of its subsidiaries and affiliates; the coordination and balancing of the strategies of Group companies to achieve the best general outcome, minimize competition within the Holding companies and increase the possibility of sharing the Holding company’s resources to increase the efficiency of its subsidiaries and affiliates (for example, Holding-wide centralized procurement, repair and services provided by the Holding’s divisions to its subsidiaries and affiliates in the personnel management, accounting, IT, etc.);
- a clear, transparent and efficient procedure for strategic goal-setting and management that ensures the communication of strategic business tasks of the Holding through corporate procedures (e.g. as specific measurable objectives for the executives of the subsidiaries and affiliates); clear reporting lines/supervision of each of the subsidiaries and affiliates by one of the executives of JSC Russian Railways, responsible for the management of their performance;
- ensuring an adequate level of operational and commercial freedom of managers of subsidiaries and affiliates within the approved business tasks and specific business segments;
- appropriate mechanisms of corporate control of the subsidiaries and affiliates to achieve strategic goals (through the Board of the Directors and relevant Board committees, as well as through the development and implementation of unified management standards that contribute to the achievement of the Holding company’s common strategic goals and those of the management bodies of the parent company, its subsidiaries and affiliates).
The main organizational elements of the Holding company are the Corporate Centre of the Holding company and its business units.

### The Corporate Centre includes:

- The Executive Board of JSC Russian Railways
- Advisory bodies of the Holding (committees, commissions, working groups);
- The management of the Corporate Centre comprising departments, divisions and other units of JSC Russian Railways;
- Governing bodies of business blocks;
- Railways — subsidiaries of the Russian Railways.

#### The Holding company’s Corporate Centre

The management of the Holding company, comprising senior managers of JSC Russian Railways, heads of key branches, subsidiaries and affiliates, acting in the interest of the Russian state, determines the priority areas of the Holding company’s activities and long-range development plans, approves the appointment of key managers, manages unified corporate policies, standards and rules developed by the Corporate Centre, controls their compliance and achievement of strategic targets of the business units.

The Corporate Centre develops the strategic decisions to be approved by the Executive Board of the Holding company, develops unified corporate policies, rules and standards on the basis of the adopted decisions and, for the purpose of their achievement, ensures the control and analysis of the implementation of the strategic decisions and the achievement of their goals, organizes the ongoing allocation of the most important and limited resources and coordinates the interaction of branches, subsidiaries and affiliates internally as well as with the “external environment” at all levels in relation to the governance and performance of the control system.

The planned structure of the Corporate Centre will be organized by operational areas to ensure a unified and coordinated management of all business units in the relevant functions.

To maintain control at all levels, branches of JSC Russian Railways are included in the Corporate Centre and carry out some of their functions at a regional level.

#### Business Units

The responsibility for the performance and efficiency of specific activities is held at a business unit level — the branches, structural divisions, subsidiaries and affiliates of JSC Russian Railways. Strict compliance with corporate policies, standards, rules and regulations of interaction is required. However, the business units have the freedom to take operational decisions, and determine ways of achieving their goals, financial and non-financial indicators.

Taking into account the common tasks, technologies and additional synergies of coordinated activities, business units have been combined into three business blocks: Passenger Transportation, Transport and Logistics, and Infrastructure.

Each business block, as well as each business unit, is responsible for the achievement of the established parameters of their activities.
CORPORATE CENTER

President
Chairman of the Executive Board

Members of the Executive Board
First Vice-presidents, Senior vice-presidents, Vice-presidents,
Heads of key branches and subsidiaries

Passenger Transportation Block

Management of the Block
Economy
Personnel
Corporate procedures

Transport and Logistics Block

Management of the Block
Economy
Personnel
Corporate procedures

JSC Federal
Passenger
Company
Suburban
passenger
companies
Branches, subsidiaries
and affiliates

Management of
railway stations
Subsidiaries and
affiliates for repair
and maintenance of
rolling stock
Other branches,
subsidiaries and
affiliates

JSC Federal
Freight

Central Directorate
for Management
of the Terminal and
Warehouse Center

Corporate Transport
Service Center

Other branches,
subsidiaries and
affiliates

RESPONSIBILITY FOR THE OVERALL PERFORMANCE:
strategic management, coordination, unified representation
Infrastructure Block

Management of the Block

- Economy
- Personnel
- Corporate Procedures

Central Directorate of Infrastructure

Central Directorate of Transportation Management

Traction Directorate, Directorate for Repair of Traction Rolling Stock

Other branches, subsidiaries and affiliates

Departments, Directorates, Structural Units

- Strategic Management
- Finance and Economy
- Technological Coordination
- Personnel and Social Development
- Corporate Coordination
- Information Technology and Processes
- Traffic Safety
- Interaction with External Environment
- Engineering Policy
- Security and State Secrets
- Corporate Services
- Corporate Control
- Innovation
- Other

RUSSIAN RAILWAYS (REGIONAL CENTER OF CORPORATE GOVERNANCE)
Branches of JSC Russian Railways performing delegated functions of the Corporate Center at a regional level

ADVISORY BODIES
Committees, Commissions, Working Groups
Changes in the Organizational Model of JSC Russian Railways in 2012

In 2012, the Holding company continued to work actively on the implementation of the Concept of the Organizational Development of the Holding company. One of the most significant results of this work was the creation of the Central Directorate of Infrastructure.

The main task of the Central Directorate of Infrastructure is the management of the technology center of the public railway infrastructure, including its technical readiness for the transportation of freight and passengers.

In addition, in 2012 the Central Directorate of Multiple Unit Rolling Stock and the Central Directorate of Passenger Facilities (branches of JSC Russian Railways) were established.

The main task of the Central Directorate of Multiple Unit Rolling Stock is to provide multiple unit rolling stock services and to organize their operation, maintenance, service and repair at the hauliers’ request.

The main task of the Central Directorate of Passenger Facilities is the provision of services to users of the suburban passenger infrastructure, its maintenance and realization of the commercial potential of passenger facilities and their surroundings.

In 2012, the establishment of the Directorate of Capital Repair and Reconstruction of Electrification and Power Supply Facilities (a branch of JSC Russian Railways) at the Moscow Electromechanical Plant (a branch of JSC Russian Railways) was accomplished.

The main task of the Directorate is the provision of specialized services of capital repair and the reconstruction of electrification and power supply facilities.

Representative offices of JSC Russian Railways have been opened in the French Republic and the Republic of Belarus to represent and protect interests of JSC Russian Railways abroad and to establish and develop its business relationships.

The advantages of the new organizational model of the Holding company are:

- a well-defined distribution of powers and responsibilities for the performance of the Holding company in general and the results of specific activities and businesses;
- ability to assess the activity of managers based on key indicators associated with strategic goals and operative tasks;
- optimization of management levels, including the removal of departments at an operational management level; optimization of the location of regional management bodies by establishing business units;
- quality improvement of strategic decision-making due to the Corporate Centre’s focus on specific tasks;
- improvement of efficiency of operating decision-making due to the assignment of responsibilities and powers to the heads of business units.
To implement infrastructure projects abroad, branches of JSC Russian Railways have been set up in the State of Qatar and the United Arab Emirates.

To strengthen the position of the Holding company in the market of high-margin logistics services, in 2012 the Transport and Logistics Block was established.

In accordance with the programme and ideology of the railway reform the role of railways and their executives has changed significantly.

Following the railway companies’ transition to functioning as regional centers of corporate governance in October 2012, the Corporate Centre’s regional centers of corporate governance (RCCG) chain of command was established.

RCCG executives (heads of the railways), representing the President of JSC Russian Railways in the region, are responsible for the overall performance and improvement of the Holding company’s efficiency. For this purpose, they have been vested with the necessary additional powers and responsibilities for the technological coordination and the corporate governance of the Holding company at a regional level, as well as for determining the effective interaction with public authorities, society and business partners within the railway companies.

The role of effective interaction with regional authorities, as well as users of railway services within the railway companies was assigned to interregional and regional coordination councils established to increase the efficiency of interaction between all participants of the transport market and regional authorities involved in freight transportation.

Such bodies help to solve many problems associated with freight transportation at a regional level, for example, the modernization and development of freight zones on non-public railway tracks, and the use of technology to create exit routes.

The councils also play an important role in explaining legislative initiatives of JSC Russian Railways.

Priority tasks entrusted to heads of the railways as RCCG executives include:

- to implement RZD Holding Company’s mission at the regional level and achieve its strategic goals on the basis of its unified corporate values and consolidated actions of structural units of functional branches and subsidiaries (affiliates) of JSC Russian Railways;
- to strengthen the position of RZD Holding Company in promising transport and logistics market segments;
- to manage and monitor the implementation of RZD Holding Company’s strategically important investment projects of at the regional level;
- to ensure efficient management and disposal of RZD Holding Company’s real property at the regional level;
- to ensure information transparency of activities of structural units of functional branches and subsidiaries (affiliates) of JSC Russian Railways for the Company’s management;
- to ensure uniform representation at the regional level and promote RZD Holding Company’s corporate interests before state authorities of RF constituents, local authorities, public organizations and in the business community, including international associations;
- to create a positive image of RZD Holding Company and reduce its reputation risk;
- to ensure implementation of unified corporate standards and policies by structural units of functional branches and subsidiaries (affiliates) of JSC Russian Railways at the regional level;
- to organize the training system for top managers in the field of management and strategic planning of activities of structural units of functional branches and subsidiaries (affiliates) of JSC Russian Railways at the regional level;
- to ensure effective implementation of RZD Holding Company’s unified social policy at the regional level;
- to implement the best practice of corporate management in structural units of functional branches and subsidiaries (affiliates) of JSC Russian Railways at the regional level;
- to ensure the implementation of measures aimed at improving the management system and increasing performance of structural units of functional branches and subsidiaries (affiliates) of JSC Russian Railways at the regional level.
Governing and Supervisory Bodies of JSC Russian Railways

All shares of the Company are owned by the Russian Federation. The Russian Federation is represented by the Government of the Russian Federation.

The supreme governing body of JSC Russian Railways is the general meeting of shareholders. According to Article 47 of the Federal Law On Joint Stock Companies decisions of the general meeting of shareholders are adopted by the sole shareholder — the Government of the Russian Federation at its sole discretion and executed in writing in the form of decrees and orders.

In accordance with laws, decisions of the annual general meeting of shareholders are adopted by the Government of the Russian Federation not later than 30 June.

Decisions of the annual general meeting of shareholders of JSC Russian Railways in 2012 were executed in the form of the Decree of the Russian Government No. 1132-r dated 30 June 2012.

**Agenda:**
- Approval of the annual report, balance sheet, profit and loss statement of the Company for 2011;
- Distribution of profits and losses of the Company according to results of the financial year;
- Payment of dividends according to results of 2011;
- Determination of the number of members in the Company’s Board of Directors;
- Election of the Company’s Board of Directors;
- Determination of the number of members in the Company’s Audit Committee;
- Election of members of the Company’s Audit Committee;
- Approval of the Company’s auditor for 2012;
- Remuneration of members of the Company’s Board of Directors.

In the reporting year, in addition to the annual general meeting of shareholders, three extraordinary General Meetings of shareholders were held. They considered amendments to the Articles of Association and an increase in the Company’s authorized capital. The relevant decisions were executed in the form of the Decree of the Government of the Russian Federation No. 2427-r dated 19 December 2012 and Orders of the Government of the Russian Federation No. 1117 dated 1 November 2012 and No. 1336 dated 19 December 2012.
Board of Directors


The current composition of the eleven members of the Board of Directors of JSC Russian Railways was elected at the general meeting of shareholders of JSC Russian Railways (Decree of the Government of the Russian Federation No. 1132-r dated 30.06.2012).

According to global best practice in corporate governance, independent directors have been elected to the Board of Directors of JSC Russian Railways since 2008. Five of eleven members of the Board of Directors are independent.

Members of the Board of Directors do not have shares in the authorized capital of JSC Russian Railways.

<table>
<thead>
<tr>
<th>Representatives of the Russian Federation</th>
<th>Position</th>
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<tbody>
<tr>
<td>Androsov Kirill Gennadievich</td>
<td>Managing Partner of Altera Capital</td>
</tr>
<tr>
<td>Berezkin Grigory Viktorovich</td>
<td>Chairman of the Board of Directors of ESN Energo Limited Liability Company</td>
</tr>
<tr>
<td>Kosov Nikolay Nikolayevich</td>
<td>Chairman of the Board of the International Investment Bank</td>
</tr>
<tr>
<td>Sidorov Valily Vasilyevich</td>
<td>Member of the Advisory Board of shareholders of VTB Bank (Open Joint Stock Company)</td>
</tr>
<tr>
<td>Sobolev Nikolay Alexandrovich</td>
<td>First Deputy General Director, Financial Director of SOLLERS Open Joint Stock Company</td>
</tr>
<tr>
<td>Yakunin Vladimir Ivanovich</td>
<td>President of Russian Railways Open Joint Stock Company</td>
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<table>
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<tr>
<th>Independent Directors</th>
<th>Position</th>
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<tbody>
<tr>
<td>Gusakov Vladimir Anatolievich</td>
<td>Managing Director of Corporate Development of Moscow Stock Exchange Open Joint Stock Company</td>
</tr>
<tr>
<td>Komissarov Dmitry Georgievich</td>
<td>Chairman of the Board of Directors of Tekhnologicheskaya Companya Open Joint Stock Company</td>
</tr>
<tr>
<td>Mehdorn Hartmut</td>
<td>Member of the Board of Directors of Russian Railways Open Joint Stock Company</td>
</tr>
<tr>
<td>Ryazanov Alexander Nikolayevich</td>
<td>Chairman of the Board of Directors of Russian Holding Company Closed Joint Stock Company</td>
</tr>
<tr>
<td>Shokhin Alexander Nikolayevich</td>
<td>President of the All-Russian Association of Employers “Russian Union of Industrialists and Entrepreneurs”</td>
</tr>
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SHORT BIOGRAPHIES OF MEMBERS OF THE BOARD OF DIRECTORS OF JSC RUSSIAN RAILWAYS

ANDROSOV
Kirill Gennadievich
Since 2011, a member of the Board of Directors of JSC Russian Railways and since September 2011 Chairman of the Board of Directors of JSC Russian Railways.

BORN IN 1972

EDUCATION:
In 1994, he graduated from the Saint Petersburg State Marine Technical University, (Engineering and Economic Department), with a degree in Engineering Economics. In 2000, he was awarded a PhD in Economics from the Saint Petersburg State University of Economics and Finance. Between 2003-2005 he studied for an Executive MBA at the School of Business at the University of Chicago, Executive

PROFESSIONAL EXPERIENCE:
2010 – Managing Partner of Altera Capital Investment Company. He is also Chairman of the Board of Directors of JSC Aeroflot, a member of the Board of Directors of JSC First Channel, LSR Group JSC, Altera Investment Fund and JSC Russian Machines.
Since 2011 a member of the Public Council at the Federal Tax Service and since 2012, – a professor of the Higher School of Economics National Research University.
In 2012 he won the National Award “Director of the Year” in the category “Chairman of the Board of Directors: Contribution to the Development of Corporate Governance“.

BEREZKIN
Grigory Viktorovich
Since 2010, a member of the Board of Directors of JSC Russian Railways.

BORN IN 1966

EDUCATION:
In 1988, he graduated from the Lomonosov Moscow State University (Department of Chemistry). In 1993, he was awarded a PhD in Petroleum Chemistry.

PROFESSIONAL EXPERIENCE:
2000-2003 – Director General of LLC ESN Energo, a management company of JSC Kolenergo, and a member of the board of directors of JSC Kolenergo.
2004-2007 – a member of the Board of Directors of RAO UES of Russia.
2007-2010 – a member of the Board of Directors of JSC Freight One.
2008-2011 – a member of the Board of Directors of JSC SG-Trans.
A member of the board of the Russian Union of Industrialists and Entrepreneurs (RUIE), Chairman of the RUIE committee for electric power industry, Chairman of the RUIE committee for independent directors.

GUSAKOV
Vladimir Anatolievich
Since 2008, a member of the Board of Directors of JSC Russian Railways.

BORN IN 1960

EDUCATION:
In 1984, he graduated with honors from the Peoples’ Friendship University with a degree in Mathematics. He is an English and French Translator. In 2003, he received a second degree in Finance and Credit at the Plekhanov Russian Academy of Economics.
In 2008, he graduated from the Russian Academy of State Service at the President of the Russian Federation with a degree in Law. He also has a PhD in Physics and Mathematics, a professorship and is a State Councilor of the Russian Federation, 3rd rank.

PROFESSIONAL EXPERIENCE:
2007-2009 – President of LLC CentreInvest Securities, President of CJSC CIG GROUP.
2009-2011 – Vice-president and a member of the Executive Board of CJSC MICEX.
From December 2011 till present, Managing Director of Corporate Development at the JSC Moscow Stock Exchange. A winner of the National Award “Director of the Year 2011” in the category “Independent Director”. A winner of the 2012 ARISTOS Award category “The Best Independent Director”.

SHORT BIOGRAPHIES OF MEMBERS OF THE BOARD OF DIRECTORS OF JSC RUSSIAN RAILWAYS

KOMISSAROV
Dmitry Georgievich
Since 2008, a member of the Board of Directors of JSC Russian Railways.

KOSOV
Nikolay Nikolayevich
Since 2008, a member of the Board of Directors of JSC Russian Railways.

MEHDORN
Hans Hartmut
Since 2011, a member of the board of directors of JSC Russian Railways.

BORN IN 1970
EDUCATION:
In 1992, he graduated from the Moscow Financial Institute with a degree in International Currency and Credit Relations.

PROFESSIONAL EXPERIENCE:
2003-2008 – Chairman of the Board of Directors of CJSC Transmashholding;
From 2006 till present, a member of the Executive Board of the Russian Union of Industrialists and Entrepreneurs (RUIE);
From 2007 till present, a member of the Executive Board of the All-Russian Industrial Association of Employers “Russian Engineering Union”;
From June 2008 till present, Chairman of the Board of Directors of JSC Technological Company.

BORN IN 1955
EDUCATION:
In 1977, he graduated from the Moscow State Institute of International Relations.
In 2000, he received a second degree from the Financial University under the Government of the Russian Federation. He also has a PhD in Economics.

PROFESSIONAL EXPERIENCE:
1998-2007 — First Deputy Chairman of Vnesheconombank of the USSR.
2007-2012 — Member of the Executive Board and First Deputy Chairman of the Public Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank).
Since September 2012 Chairman of the Board of the International Investment Bank.

BORN IN 1942
EDUCATION:
He graduated from the Department of Mechanical Engineering of the Berlin Institute of Technology with a degree in Engineering.

PROFESSIONAL EXPERIENCE:
From the end of 1999 till April 2009, Chairman of the Executive Board of Deutsche Bahn AG in Berlin. From June 2009 till January 2013, Chairman of the Executive Board, and Member of the Board of Directors of AirBerlin. Since March 2013, Chairman of the Executive Board of BerlinBrandenburg. A member of the Advisory Councils of Fiege-Stiftung&Co. KG, CommerzbankAG, and Energie-Baden-WuerttembergAG (EnBWAG). An Honorary Doctor of Engineering.
SHORT BIOGRAPHIES OF MEMBERS OF THE BOARD OF DIRECTORS OF JSC RUSSIAN RAILWAYS (CONTINUED)

RYAZANOV
Alexander Nikolayevich
Since 2008, a member of the Board of Directors of JSC Russian Railways.

EDUCATION:
In 1979, he graduated from the Gubkin Moscow Institute of Oil and Gas and, in 1973, from the All-Union Correspondence Financial and Economic Institute.

PROFESSIONAL EXPERIENCE:
2001-2006 – Deputy Chairman of the Executive Board, a member of the Executive Board in JSC Gazprom. From 2007 till present, Chairman of the Board of Directors of CJSC Russian Holding Company (Moscow). From March 2009 till February 2010, Chairman of the Executive Board of JSC Stroytransgaz. A member of the Executive Board of the Russian Union of Industrialists and Entrepreneurs.

SIDOROV
Vailly Vasilyevich
Since 2012, a member of the Board of Directors of JSC Russian Railways.

EDUCATION:
In 1993, he graduated from the Moscow State Institute of International Relations (MGIMO) of the RF Ministry of Foreign Affairs with a degree in International Public Law and the Wharton Business School at the University of Pennsylvania with a degree in Finance.

PROFESSIONAL EXPERIENCE:

SOBOLEV
Nikolay Alexandrovich
Since 2012, a member of the Board of Directors of JSC Russian Railways.

EDUCATION:
In 1997, he graduated from the Department of Economy of the Lomonosov Moscow State University and, in 1998, from the Academy of National Economy under the Government of the Russian Federation with a degree in Financial Management. In 2000, he received an MBA degree from the Business School at Kingston University (United Kingdom) and, in 2002, a PhD in Economics from the Moscow State University.

PROFESSIONAL EXPERIENCE:
From January 2005, Financial Director of JSC SOLLERS; from May 2009, First Deputy Director General of JSC SOLLERS; a member of the Board of Directors of JSC SOLLERS, LLC Ford-Sollers Holding, and the Chairman of the Board of Directors of MAZDA Sollers Manufacturing Rus, SOLLERS-BUSSAN.
MEETINGS OF THE BOARD OF DIRECTORS OF JSC RUSSIAN RAILWAYS

In 2012, seven meetings were held in person and 16 meetings in absentia, where 149 decisions on the most important issues of the Company’s activities were adopted.

Meetings of the Board of Directors are held in accordance with its Operation Plan developed on the basis of proposals of the Chairman of the Board of Directors, members of the Board of Directors, the President, members of the Executive Board, the Audit Committee and the Company’s auditor. The Operation Plan is drawn up for a six-month period and approved by the Board of Directors. If necessary, extraordinary meetings of the Board of Directors may also be convened.

INFORMATION ON THE NUMBER OF MEETINGS ATTENDED BY MEMBERS OF THE BOARD OF DIRECTORS:

<table>
<thead>
<tr>
<th>Members of the Board of Directors</th>
<th>Number of meetings*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Androsov K.G.</td>
<td>23/23</td>
</tr>
<tr>
<td>Berezkin G.V.</td>
<td>23/23</td>
</tr>
<tr>
<td>Gusakov V.A.</td>
<td>23/23</td>
</tr>
<tr>
<td>Komissarov D.G.</td>
<td>23/23</td>
</tr>
<tr>
<td>Kosov N.N.</td>
<td>23/21</td>
</tr>
<tr>
<td>Kuzovlev M.V. **</td>
<td>13/13</td>
</tr>
<tr>
<td>Mehdorn H.</td>
<td>23/23</td>
</tr>
<tr>
<td>Nedosekov A.N. **</td>
<td>13/13</td>
</tr>
<tr>
<td>Ryazanov A.N.</td>
<td>23/23</td>
</tr>
<tr>
<td>Sidorov V.V. ***</td>
<td>10/10</td>
</tr>
<tr>
<td>Sobolev A.N. ***</td>
<td>10/10</td>
</tr>
<tr>
<td>Shokhin A.N.</td>
<td>23/23</td>
</tr>
<tr>
<td>Yakunin V.I.</td>
<td>23/23</td>
</tr>
</tbody>
</table>

* The number of meetings, which the member of the Board of Directors could attend/number of meetings attended by the member of the Board of Directors.
** Resigned on 30 June 2012.
*** Elected on 30 June 2012.

SHOKHIN Alexander Nikolayevich
Since 2008, a member of the Board of Directors of JSC Russian Railways.

BORN IN 1951

EDUCATION:
In 1974, he graduated from the Department of Economy of the Lomonosov Moscow State University, became a Doctor of Economics in 1989 and a professor in 1991.

PROFESSIONAL EXPERIENCE:
From 1995 till present, President of the Higher School of Economics National Research University. Head of the Department of Theory and Practice of Business-Government Relationships. 2002-2006 – Chairman of the Supervisory Board of IG Renaissance Capital. 2005-2009 – a member of the Public Chamber of the RF. From 2005 till present, President of the Executive Board of the Russian Union of Industrialists and Entrepreneurs. An independent director of the Board of Directors of a number of companies, including JSC TMK, JSC Forum.

SHOKHIN Alexander Nikolayevich

YAKUNIN Vladimir Ivanovich
Since 2008, a member of the Board of Directors of JSC Russian Railways.

BORN IN 1948

EDUCATION:
In 1972, he graduated from the Leningrad Mechanical Institute as a Doctor of Political Science.

PROFESSIONAL EXPERIENCE:
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 JSC Russian Railways; since June 2005, President of JSC Russian Railways.

YAKUNIN Vladimir Ivanovich
INFORMATION ABOUT THE REGULATION ON THE REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

The adoption of the provision on remuneration of members of the Board of Directors of JSC Russian Railways is within the competence of the general meetings of shareholders of JSC Russian Railways. The draft provision on the remuneration and compensation to members of the Board of Directors has been submitted to the federal executive authorities for consideration by the Government of the Russian Federation.

REMUNERATION RECEIVED BY MEMBERS OF THE BOARD OF DIRECTORS

According to the Decree of the Government of the Russian Federation No. 1132-r dated 30 June 2012 On Decisions of the Annual Meeting of Shareholders of JSC Russian Railways, RUR 39,433 mln were allocated for the remuneration of members of the Board of Directors of JSC Russian Railways.

COMMITTEES OF THE BOARD OF DIRECTORS OF JSC RUSSIAN RAILWAYS

The Committee for Strategic Planning of the Board of Directors of JSC Russian Railways and the Committee for Audit, Risks and Remuneration of the Board of Directors of JSC Russian Railways (the decision of the Board of Directors of JSC Russian Railways adopted on 2 September 2008, Minutes No. 13) were established to carry out a preliminary review of the most important issues and prepare relevant recommendations to the Board of Directors of JSC Russian Railways.

The establishment and operation of the Committees are carried out in accordance with the Regulation on the Committee for Strategic Planning of the Board of Directors of JSC Russian Railways and the Regulation on the Committee for Audit, Risks and Remuneration of the Board of Directors of JSC Russian Railways dated 29 November 2011 (as amended by the decision of the Board of Directors of JSC Russian Railways adopted on 22 March 2013).

The Committees consist of members of the Board of Directors, the Company’s management and the State represented by the Russian Ministry of Economic Development, Russian Ministry of Transport, the Federal Anti-Monopoly Service of Russia, the Russian Federal Tariff Service and the Federal Agency for State Property Management. Representatives of the above federal executive authorities must have powers to communicate the official position of such authorities in respect of matters addressed to members of the Committees; they are nominated and included in the composition of the Committees upon consultation with the management of such authorities.
THE COMMITTEE FOR STRATEGIC PLANNING OF THE BOARD OF DIRECTORS OF JSC RUSSIAN RAILWAYS

The competence of the Committee includes the development of recommendations and proposals to the Board of Directors of JSC Russian Railways in respect of priority activities of the Company; preparing, shaping, and changing the Company’s strategy, its implementation and monitoring; development of standards (formats) of information disclosure to assess the feasibility of investment projects; Company’s dividend policy; investment policy of the Company; participation of JSC Russian Railways in subsidiaries and affiliates; innovative development of JSC Russian Railways, its subsidiaries and affiliates; approval of long-term plans and major programs of the Company’s activities, including the Company’s annual budget and investment programme.


<table>
<thead>
<tr>
<th>Members of the Committee</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Komissarov D.G.</td>
<td>Member of the Board of Directors of JSC Russian Railways (Chairman of the Committee)</td>
</tr>
<tr>
<td>Berezkin G.V.</td>
<td>Member of the Board of Directors of JSC Russian Railways</td>
</tr>
<tr>
<td>Bulatov G.B.</td>
<td>Deputy director of the Department of the Russian Ministry of Economic Development</td>
</tr>
<tr>
<td>Golomolzin A.N.</td>
<td>Deputy head of the Federal Anti-Monopoly Service of Russia</td>
</tr>
<tr>
<td>Kosov N.N.</td>
<td>Member of the Board of Directors of JSC Russian Railways</td>
</tr>
<tr>
<td>Lushnikov A.V.</td>
<td>Assistant of the Minister of Transport of the Russian Federation</td>
</tr>
<tr>
<td>Mikhaylov V.V</td>
<td>Senior vice-president of JSC Russian Railways</td>
</tr>
<tr>
<td>Nedosekov A.N.</td>
<td>Member of the Board of Directors of JSC Russian Railways</td>
</tr>
<tr>
<td>Reshetnikov V.I.</td>
<td>Senior vice-president of JSC Russian Railways</td>
</tr>
<tr>
<td>Ryazanov A.N.</td>
<td>Member of the Board of Directors of JSC Russian Railways</td>
</tr>
<tr>
<td>Stebunova T.I.</td>
<td>Deputy head of the Russian Federal Tariff Service;</td>
</tr>
</tbody>
</table>

In 2012, the Committee for Strategic Planning of the Board of Directors of JSC Russian Railways held eight meetings, where 19 matters were addressed. The list of matters addressed at the meetings of the Committee for Strategic Planning of the Board of Directors of JSC Russian Railways is provided on the site of the annual report.
THE COMMITTEE FOR AUDIT, RISKS AND REMUNERATION OF THE BOARD OF DIRECTORS OF JSC RUSSIAN RAILWAYS

The competence of the Committee for Audit, Risks and Remuneration of the Board of Directors of JSC Russian Railways includes the review of the Company's financial statements; functioning of the Company's internal control and risk management systems, interaction with the internal audit service, the Audit Committee and the Company's auditor; recommendations to the Company's Board of Directors in respect of the Company's position in the assessment of the Company's assets (property, shares, etc.) for the purpose of entering into transactions relating to assets; consideration, analysis and development of recommendations (opinions) on the appointment and employment of persons to be decided by the Board of Directors; analysis of proposals and development of recommendations to the Company's Board of Directors in respect of approval of long-term plans and major programs of its subsidiaries and affiliates, as well as the annual budgets included in the list annually approved by the Board of Directors and reports on the implementation.


<table>
<thead>
<tr>
<th>Members of the Committee</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gusakov V.A.</td>
<td>Member of the Board of Directors of JSC Russian Railways (Chairman of the Committee)</td>
</tr>
<tr>
<td>Vargunin V.N.</td>
<td>Deputy Head of the Federal Tariff Service of Russia</td>
</tr>
<tr>
<td>Komissarov D.G.</td>
<td>Member of the Board of Directors of JSC Russian Railways</td>
</tr>
<tr>
<td>Kraft G.V.</td>
<td>Chief Accountant of JSC Russian Railways</td>
</tr>
<tr>
<td>Mandron Ya.V.</td>
<td>Head of the Department of the Russian Ministry of Economic Development</td>
</tr>
<tr>
<td>Mikhaylov V.V</td>
<td>Senior Vice-President of JSC Russian Railways</td>
</tr>
<tr>
<td>Rutenberg D.A.</td>
<td>Head of the Department of the Federal Anti-Monopoly Service of Russia</td>
</tr>
<tr>
<td>Tugarinov S.L.</td>
<td>Director of the Department of the Russian Ministry of Transport</td>
</tr>
<tr>
<td>Tseluev A.V.</td>
<td>Head of the Department of the Federal Agency for State Property Management</td>
</tr>
</tbody>
</table>

In 2012, the Committee for Audit, Risks and Remuneration of the Board of Directors of JSC Russian Railways held eight meetings, where 33 matters were addressed. The list of matters addressed at the meetings of the Committee for Audit, Risks and Remuneration of the Board of Directors of JSC Russian Railways is provided on the site of the annual report.

CORPORATE SECRETARY OF JSC RUSSIAN RAILWAYS

The Corporate Secretary of JSC Russian Railways is a special officer, whose responsibility is to ensure that the Company's bodies and officers comply with laws of the Russian Federation, the Articles of Association and internal documents guaranteeing the protection of rights and legal interests of shareholders, as well as to organize measures to resolve conflicts associated with violation of rights of shareholders, and to organize interaction between the Company and its shareholders and between governing bodies of the Company.

The Corporate Secretary is appointed and dismissed by a decision of the Company's Board of Directors by a majority of votes of members of the Board of Directors. Responsibilities of the Corporate Secretary are set out in the Regulation on the Corporate Secretary of JSC Russian Railways and the Office of the Corporate Secretary. By the decision adopted by the Board of Directors on 29 November 2011, Starkov Andrey Krasnoslavovich was appointed Corporate Secretary.
President of JSC Russian Railways
Yakunin Vladimir Ivanovich

**BORN ON 30 JUNE 1948 IN VILLAGE ZAKHAROVO OF GUS-KHRUSTALNY DISTRICT, VLADIMIR REGION**

**EDUCATION:**

In 1972, he graduated from the Leningrad Mechanical Institute with a Doctorate in political sciences.

**PROFESSIONAL EXPERIENCE:**

He began his career as a junior researcher at the State Institute of Applied Chemistry. After completing his military service in the Soviet army, he worked as an engineer and senior engineer at the Directorate of the State Committee of the Council of Ministers for Foreign Economic Relations and as Head of Department at the Ioffe Physical Technical Institute at the Academy of Sciences of the USSR.

From 1985 he was a member of the Diplomatic Service (Second and the n First Secretary at the USSR’s Permanent Mission to the United Nations).

He the n held the position of Chairman of the Board of Directors of the CJSC International Centre of Business Cooperation and Head of the North-Western Federal District Inspectorate of the Main Control Directorate of the President of the Russian Federation.

From October 2005 he was Deputy Minister of Transport of the Russian Federation and from February 2005, First Deputy Minister of Railway Transport of the Russian Federation.

From October 2003 he was First Vice-President of JSC Russian Railways.

By Decree of the RF Government No. 786-r dated 14 June 2005 he was appointed President of JSC Russian Railways.

By Decree of the RF Government No. 843-r dated 12 June 2008 he was appointed President of JSC Russian Railways.

By Decree of the RF Government No. 987-r dated 10 June 2011 he was appointed President of JSC Russian Railways.

V.I. Yakunin is the Chairman of the Board of Trustees of the Centre of the National Glory of Russia and the Foundation of St. Andrew the First, the Founding President of the World Public Forum Dialogue of Civilizations, a Co-President of the Association for Franco-Russian Dialogue, the Scientific Director and Chairman of the Board of Trustees of the Governance and Problem Analysis Centre at the Social Sciences Division of the Russian Academy of Sciences, the Head of the Department of Government Policy at the Faculty of Political Science at Moscow State University, the Chairman of the Board of Trustees of the Child Welfare Foundation Spread Your Wings, a member of the Board of Trustees of Russian World, a member of the Board of the Russian Union of Industrialists and Entrepreneurs, the Chairman of the Commission on Transport and Transport Infrastructure, a Visiting Professor at the Stockholm School of Economics, an Honorary Doctor of the Diplomatic Academy of the Russian Foreign Ministry, the President of the International Union of Railways (UIC), the Chairman of the Board, GEFCO.

For his immense contribution to implementing measures to reform railway transport, shaping the development strategy of the Russian railways, providing a constructive social policy, interacting effectively with the authorities of the Russian Federation and constituent entities of the Russian Federation, as well as with foreign railway administrations and international organizations he was awarded the Order of Honor, the Order “For Services to the Fatherland” IV Degree, the medal “For the Development of the Railways”, the Russian Railways’ Badge of Honorary Railwayman and other awards.
Executive Board

The Executive Board of the Company, as a collegial executive body, carries out the general management of the Company’s business activities (excluding the matters that are within the competence of the general meeting of shareholders and the Board of Directors, as well as the President of the Company according to the Federal Law On Joint Stock Companies or the Company’s Articles of Association, unless otherwise provided by the Company’s Articles of Association).

Objectives of the Executive Board

The main tasks of the Executive Board of the Company are the development of proposals in respect of the strategy of the Company’s activities, implementation of the financial and economic policy of the Company, making decisions on the most important issues of its current business activities, coordination of its divisions, improvement of efficiency of the internal control and risk monitoring systems, and ensuring the protection of rights and legal interests of shareholders.

The Executive Board of the Company carries out its activities in accordance with laws of the Russian Federation, the Company’s Articles of Association, decisions of the general meetings of shareholders and the Board of Directors, this Regulation and internal documents of the Company.

The Executive Board acts in the public interest and is accountable to the general meeting of shareholders and the Board of Directors of the Company.

COMPETENCE

The competence of the Executive Board of the Company includes:

1) development of and submission to the Company’s Board of Directors of priority activities of the Company and long-term plans for their implementation, including annual budgets and Company investment programs, and the preparation of a report on the implementation for the Company’s Board of Directors, as well as the development and approval of current plans of the Company’s activities;

2) approval of internal calculated tariffs, charges and fees for works (services) performed (provided) by the Company that do not relate to the sphere of natural monopolies;

3) approval of rules to ensure the proper organization and accuracy of the Company’s accounting and timely submission of the annual report and other financial statements to the relevant authorities, as well as information on the Company’s activities to its shareholders, creditors and media;

4) submission of issue prospectuses and other documents related to the issue of the Company’s securities to the Company’s Board of Directors;

5) arrangement of long-term and current plans of the Company, implementation of investment, financial and other projects of the Company;

6) determination of accounting procedures at the Company’s affiliates;

7) review and approval of the Company’s draft collective bargaining agreement, regulations on the industry-specific non-state pension schemes, mandatory pension insurance, occupational pension insurance and sectoral tariff agreement for railway transport, as well as the ir submission for signing by the Company’s President;

8) establishment of the procedure for disclosing information on the Company to shareholders;

9) determination of the employee remuneration scheme and incentives for the Company’s employees;

10) approval of the Company’s internal documents related to the issues that fall within the competence of the Executive Board;

11) other issues associated with the ongoing activities of the Company submitted for consideration by the Chairman of the Company’s Executive Board, Board of Directors or shareholders.
AS OF 31 DECEMBER 2012 THE EXECUTIVE BOARD OF JSC RUSSIAN RAILWAYS INCLUDED 24 PERSONS.

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yakunin Vladimir Ivanovich</td>
<td>President</td>
</tr>
<tr>
<td>Morozov Vadim Nikolayevich</td>
<td>First Vice-President</td>
</tr>
<tr>
<td>Misharin Alexander Sergeyevich</td>
<td>First Vice-President from 3 December 2012 by Decision of the Board of Directors No. 19 dated 28 November 2012</td>
</tr>
<tr>
<td>Gapanovich Valentin Alexandrovich</td>
<td>Senior Vice-President</td>
</tr>
<tr>
<td>MIKHAYLOV Vadim Valerievich</td>
<td>Senior Vice-President</td>
</tr>
<tr>
<td>Reshetnikov Valery Ilyich</td>
<td>Senior Vice-President</td>
</tr>
<tr>
<td>Kraft Galina Vasilievna</td>
<td>Chief Accountant</td>
</tr>
<tr>
<td>MESHCHERYAKOV Anatoly Anatolievich</td>
<td>State Secretary – Vice-President from 8 February 2012 by Decision of the Board of Directors adopted on 2 February 2012, Minutes No. 1</td>
</tr>
<tr>
<td>Akulov Mikhail Pavlovich</td>
<td>Vice-President</td>
</tr>
<tr>
<td>Atkov Oleg Yurievich</td>
<td>Vice-President</td>
</tr>
<tr>
<td>BABAev Salman Magomedrasulovich</td>
<td>Vice-President</td>
</tr>
<tr>
<td>Bobrshov Alexander Sergeyevich</td>
<td>Vice-President</td>
</tr>
<tr>
<td>VOROTILKIN Alexey Valerievich</td>
<td>Vice-President from 8 November 2012 by Decision of the Board of Directors adopted on 15 October 2012, Minutes No. 16</td>
</tr>
<tr>
<td>Illarionov Aleksey Viktorovich</td>
<td>Vice-President from 8 November 2012 by Decision of the Board of Directors adopted on 15 October 2012, Minutes No. 16</td>
</tr>
<tr>
<td>Krasnoshchek Anatoly Anisimovich</td>
<td>Vice-President</td>
</tr>
<tr>
<td>Saltanov Alexander Vladimirovich</td>
<td>Vice-President</td>
</tr>
<tr>
<td>TONI Oleg Vilyamsovich</td>
<td>Vice-President</td>
</tr>
<tr>
<td>Shajdullin Shviet Nurgaliyevich</td>
<td>Vice-President – Head of the Traffic Safety Department from 3 December 2012 Decision of the Board of Directors adopted on 28 November 2012, Minutes No. 19</td>
</tr>
<tr>
<td>SHAHANOV Dmitry Sergeyevich</td>
<td>Vice-President</td>
</tr>
<tr>
<td>Tselko Alexander Vitalievich</td>
<td>Vice-President</td>
</tr>
<tr>
<td>Bynkov Vadim Ivanovich</td>
<td>Head of the Legal Department</td>
</tr>
<tr>
<td>Gnedkova Olga Eduardovna</td>
<td>Head of the Corporate Finance Department</td>
</tr>
<tr>
<td>Lapidus Boris Moiseyevich</td>
<td>Senior Advisor to the President of JSC Russian Railways</td>
</tr>
<tr>
<td>Starostenko Vladimir Ivanovich</td>
<td>Advisor to the President of JSC Russian Railways</td>
</tr>
</tbody>
</table>

In 2012, five people resigned from the Executive Board:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yepifantsev Sergey Nikolayevich</td>
<td>State Secretary – Vice-President till 8 February 2012 by Decision of the Board of Directors adopted on 02 February 2012, Minutes No. 1</td>
</tr>
<tr>
<td>Vorobyov Vladimir Borisovich</td>
<td>Vice-President till 13 June 2012 by Decision of the Board of Directors adopted on 29 May 2012, Minutes No. 9</td>
</tr>
<tr>
<td>Kornilov Georgiy Viktorovich</td>
<td>Vice-President till 7 November 2012 by Decision of the Board of Directors adopted on 15 October 2012, Minutes No. 16</td>
</tr>
<tr>
<td>Tishanin Alexander Georgievich</td>
<td>Vice-President till 1 November 2012 by Decision of the Board of Directors adopted on 29 October 2012, Minutes No. 17</td>
</tr>
<tr>
<td>MIKHAYLOV Sergey Vladimirovich</td>
<td>Head of the Corporate Communications Department till 25 September 2012 by Decision of the Board of Directors adopted on 15 October 2012, Minutes No. 16</td>
</tr>
</tbody>
</table>
Short biographies of members of the executive board of JSC Russian Railways

YAKUNIN
Vladimir Ivanovich

President of JSC Russian Railways
BORN IN 1948
In 1972, he graduated from the Leningrad Mechanical Institute as a Doctor of Political Sciences. 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 JSC Russian Railways; since June 2005, President of JSC Russian Railways. V.I. Yakunin is the Chairman of the Board of Trustees of the Centre of the National Glory of Russia and the Foundation of St. Andrew the First, the Founding President of the World Public Forum Dialogue of Civilizations, a Co-President of the Association for Franco-Russian Dialogue, the Scientific Director and Chairman of the Board of Trustees of the Governance and Problem Analysis Centre at the Social Sciences Division of the Russian Academy of Sciences, the Head of the Department of Government Policy at the Faculty of Political Science at Moscow State University, the Chairman of the Board of Trustees of the Child Welfare Foundation Spread Your Wings, a member of the Board of Trustees of Russian World, a member of the Board of the Russian Union of Industrialists and Entrepreneurs, the Chairman of the Commission on Transport and Transport Infrastructure, a Visiting Professor at the Stockholm School of Economics, an Honorary Doctor of the Diplomatic Academy of the Russian Foreign Ministry, the President of the International Union of Railways (UIC), the Chairman of the Board, GEFCO.

MOROZOV
Vadim Nikolayevich

First Vice-President of JSC Russian Railways
BORN IN 1954
In 1977, he graduated from the Leningrad Institute of Railway Engineers with a degree in Operation of Railways and a PhD in Technical Sciences. He has been working in railway transport since 1971. From June 2000, First Deputy Head of the Moscow Railways; 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 June 2004, Executive Director of the Welfare (Blagosostoyaniye) private pension fund. Since August 2005, First Vice-President of JSC Russian Railways.

MISHARIN
Alexander Sergeyevich

First Vice-President of JSC Russian Railways
BORN IN 1959
He graduated from the Urals State University of Railway Transport in 1981 with a degree in Electrification of Railway Transport. In 1997 he received a degree in Economics and Business Management (Railway Transport), a PhD in Economics, and a doctor of technical sciences. He has been working in railway transport since 1981. From June 1998, Deputy Minister of Railway Transport of the Russian Federation; from July 2000, First Deputy of the Minister of Railway Transport of the Russian Federation; from February 2002, Deputy Minister of the Minister of Railway Transport of the Russian Federation; from May 2002, Head of the Sverdlovsk Railway; from May 2004, Director of the Integrated Infrastructure Development Department of the Ministry of Transport of the Russian Federation; from June 2004, Deputy Minister of Transport of the Russian Federation; from March 2009, Director of the Industry and Infrastructure Department of the Government of the Russian Federation; from November 2009, Governor of the Sverdlovsk Region; since December 2012, First Vice-President of JSC Russian Railways.
Senior Vice-President of JSC Russian Railways

BORN IN 1955

In 1992, he graduated from the Novosibirsk Institute of Railway Engineers with a degree in Management of Transportation Processes on the Railways. He is an Honored Transport Worker of the Russian Federation and has been working in railway transport since 1974. From January 1998, Deputy Head of the West Siberian Railway; from November 2000, Chief engineer of the Oktyabrskaya Railway; from November 2003, Vice-President of JSC Russian Railways. Since June 2008, Senior Vice-President of JSC Russian Railways.

GAPANOVICH
Valentin Alexandrovich

Senior Vice-President of JSC Russian Railways

BORN IN 1969

In 1992, he graduated from the State Financial Academy with a degree in Finance and Credit. From May 2001, Director of the department of bank audit of CJSC Arthur Andersen; from April 2003, Director General of LLC Ernst & Young (Business Consulting). Since September 2009, Senior Vice-President of JSC Russian Railways.

MIKHAYLOV
Vadim Valerievich

Senior Vice-President of JSC Russian Railways

BORN IN 1952


RESHETNIKOV
Valery Ilyich

Chief Accountant of JSC Russian Railways

BORN IN 1950

In 1973 and 1983, she graduated from the Leningrad Institute of Railway Engineers with a degree in Automation, Remote Control and Communication in Rail Transport, and Economics and Organization of Railway Transport and is a doctor of economic science. She has been working in railway transport since 1973. From November 2003, Vice-President of JSC Russian Railways – Head of the Investment Department; from August 2005, Vice-President of JSC Russian Railways. Since December 2005, Chief Accountant of JSC Russian Railways.

KRAFT
Galina Vasilievna
Short biographies of members of the executive board of JSC Russian Railways

(continued)

State Secretary – Vice-President of JSC Russian Railways

BORN IN 1953

In 1975, he graduated from the Ufa Aviation Institute with a degree in Electric Machines and Apparatuses. He also is a doctor of social sciences and holds a PhD in Psychology. From October 2000, Deputy of the authorized representative of the President of the Russian Federation in the Southern Federal District; from May 2004, Chief federal inspector for the Rostovskaya Region of the Office of the authorized representative of the President of the Russian Federation in the Southern Federal District; from December 2008, Advisor to the President of JSC Russian Railways; from April 2009 till February 2012, State Secretary – Vice-President of JSC Russian Railways.

YEPIFANTSEV
Sergey Nikolayevich

State Secretary – Vice-President of JSC Russian Railways

BORN IN 1966

In 1988, he graduated from the Kiev Military Aviation Engineering Academy with a degree in Avionics and in 1998 from the Institute of Contemporary Business with a degree in Finance and Credit. He also holds a PhD in Technical Sciences. From 2004, Deputy Director General for External Relations, Director of External Relations – Head of the External Relations Department, Director of Human Resources and External Relations, First Deputy Director General of CJSC Transmashholding; from December 2011, Senior advisor to the President of JSC Russian Railways. Since February 2012, State Secretary – Vice President of JSC Russian Railways.

MESCHERYAKOV
Anatoly Anatolievich

Vice-President of JSC Russian Railways

BORN IN 1960


AKULOV
Mikhail Pavlovich

Vice-President of JSC Russian Railways

BORN IN 1949

In 1973, he graduated from the I.M. Sechenov Moscow Medical Institute with a degree in General Medicine. He is also a doctor of medical sciences, a professor, a Hero of the Soviet Union and an Honored Scientist of the Russian Federation. 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 of JSC Russian Railways. Since August 2005, Vice-President of JSC Russian Railways.

ATKOV
Oleg Yurievich
Vice-President of JSC Russian Railways

BORN IN 1955
In 1978, he graduated from the Khabarovsk Institute of Railway Engineers with a degree in Operation of Railways. He is an Honored Transport Worker of the Russian Federation and has been working in railway transport since 1978. From January 2001, Deputy Head of the Moscow Railway; from February 2002, Head of the Centre of Premium Transport Services; from November 2002, Head of the Privolzhskaya Railway; from November 2003, Vice-President of JSC Russian Railways - Director General of the Centre of Premium Transport Services; from August 2005, Vice-President of JSC Russian Railways; from October 2007, Director General of JSC Freight One and an advisor to the President of JSC Russian Railways. Since March 2011, Vice-President of JSC Russian Railways.

BABAEV Salman Magomedrasulovich

Vice-President of JSC Russian Railways

BORN IN 1965

BOBRESHOV Alexander Sergeyevich

Vice-President of JSC Russian Railways

BORN IN 1949
In 1978, he graduated from the Moscow Institute of Railway Engineers with a degree in Construction of Railways, Track and Track Facilities. He holds a PhD in Technical Sciences, is an Honored Transport Worker of the Russian Federation and has been working in railway transport since 1969. From June 1998, Deputy Head of the Moscow Railway; from July 2002, Head of the North Caucasus Railway; from December 2006 till June 2012, Vice-President of JSC Russian Railways.

VOROBYOV Vladimir Borisovich

Vice-President of JSC Russian Railways – Head of the Directorate of Traction

BORN IN 1961
In 1988, he graduated from the Irkutsk Institute of Railway Engineers with a degree in Electrification of Railway Transport, a PhD in Technical Sciences. He has been working in railway transport since 1978. 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 JSC Russian Railways. Since February 2011, Vice-President – Head of the Directorate of Traction (a branch of JSC Russian Railways).
Short biographies of members of the executive board of JSC Russian Railways

(continued)

**ILLARIONOV**
Aleksey Viktorovich
Vice-President of JSC Russian Railways
BORN IN 1966
In 1989, he graduated from the Leningrad Polytechnic Institute with a degree in Applied Information Science. He has been working in railway transport since 2005. From November 2005, Head of the Department of Corporate Informatisation; from March 2007, Head of the Department of Informational Support and Corporate Governance Procedures. Since November 2012, Vice-President of JSC Russian Railways.

**KORNILOV**
Georgy Viktorovich
Vice-President of JSC Russian Railways
BORN IN 1959
In 1988, he graduated from the Leningrad Institute of Railway transport with a degree in Railway Transportation Management, as a railway engineer for the operation of railway transportation processes, He holds a PhD in Economics and has been working in railway transport since 1978. From September 2002, Deputy Head of the Oktyabrskaya Railway; from June 2004, First Deputy Head of the Oktyabrskaya Railway – Chief Auditor for Train Safety; from March 2005, First Deputy Head of the Oktyabrskaya Railway; from July 2008, Head of the East Siberian Railway. Since December 2011, Vice-President of JSC Russian Railways.

**KRASNOSHCHEK**
Anantoly Anisimovich
Vice-President of JSC Russian Railways
BORN IN 1953
In 1976, he graduated from the Odessa Institute of Marine Engineers with a degree in Marine Machines and Mechanisms as a machine engineer. From September 1980 he held operational and managerial positions in the KGB of the USSR, the FSK, and the FSB of Russia; from March 2004 till November 2012, Vice-President of JSC Russian Railways.

**SALTANOV**
Alexander Vladimirovich
Vice-President of JSC Russian Railways
BORN IN 1946
In 1970, he graduated from the Moscow State Institute of International Relations with a degree in International Relations, a specialist in international relations, an officer for Eastern countries. He is an Honored Worker of the Diplomatic Service of the Russian Federation. From October 1992, Ambassador Extraordinary and Plenipotentiary of the Russian Federation in 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 Head of the Ministry of Foreign Affairs of the Russian Federation. Since May 2011, Vice-President of JSC Russian Railways.
Vice-President of JSC Russian Railways

**TISHANIN Alexander Georgievich**
BORN IN 1966
In 1993, he graduated from the Ural Electromechanical Institute of Railway Transport with a degree in Railway Transportation Management, as a railway engineer for the operation of railway transportation processes and in 1999 he graduated from the Ural State University of Railway Transport with a degree in Economics and Business Management (Railway Transport) as an economist/manager. He has been working in railway transport since 1984. From April 2004, Head of the East Siberian Railway; from September 2005, Governor of the Irkutsk Region; from September 2008, Vice-President of JSC Russian Railways; from March 2012 till November 2012, Vice-President of JSC Russian Railways – Head of the Traffic Safety Department.

Vice-President of JSC Russian Railways

**TONI Oleg Vilyamsovich**
BORN IN 1964
In 1986, he graduated from the Voronezh Civil Engineering Institute 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. From March 2004, First Deputy Head, Head of the Capital Construction Department of JSC Russian Railways. Since April 2006, Vice-President of JSC Russian Railways.

Vice-President – Head of the Traffic Safety Department of JSC Russian Railways

**SHAJDULLIN Shevket Nurgalievich**
BORN IN 1961
In 1990, he graduated from the Kuibyshev Institute of Railway Engineers with a degree in Locomotive Maintenance Management, and a PhD in Technical Sciences. From September, Head of the Gorky Railway; from May 2004, Head of the Sverdlovsk Railway; from April 2007, Advisor to the President of JSC Russian Railways; from December 2008, Director General of CJSC South Caucasus Railway; from February 2002, Head of the Kuibyshev Railway. Since December 2012, Vice-President – Head of the Traffic Safety Department of JSC Russian Railways.

Vice-President of JSC Russian Railways

**SHAHANOV Dmitry Sergeyevich**
BORN IN 1961
In 1988, he graduated as a lawyer from the Academy of the Ministry of Internal Affairs of the USSR with a degree in Law. From November 1999, Deputy Director General of JSC Lenenergo; from October 2005, Deputy Director General of JSC Territorial Generating Company No. 1; from October 2006, a Deputy Director, Director of Roszheldorsnab. Since April 2009, Vice-President of JSC Russian Railways.
Short biographies of members of the executive board of JSC Russian Railways (continued)

Vice-President – Head of the West Siberian Railway

**TSELKO Alexander Vitalievich**

**Born in 1956**

In 1978, he graduated from the Novosibirsk Institute of Railway Engineers with a degree in Operation of Railways as a railway engineer. He is an Honored Transport Worker of the Russian Federation and has been working in railway transport since 1978. From November 1999, Head of the South Urals Railway; from May 2000, Deputy Head, the First Deputy Head of the Minister of Railway Transport of the Russian Federation; from February 2002, Head of the West Siberian Railway. Since November 2012, Vice-President of JSC Russian Railways.

Head of the Legal Department of JSC Russian Railways

**Bynkov Vadim Ivanovich**

**Born in 1962**

In 1985, he graduated as a lawyer from the Kalinin State University with a degree in Law. From June 2002, Head of the Legal Department of JSC Investment Group ALROSA; from April 2004, Lawyer at the Legal Office of Bynkov V.I. of the Tver Regional Chamber of Lawyers; from October 2005, Head of the Legal Department of JSC Russian Railways; from December 2007, State Secretary – Head of the Legal Department of JSC Russian Railways. Since April 2009, Head of the Legal Department of JSC Russian Railways.

Head of the Corporate Finance Department of JSC Russian Railways

**Gnedkova Olga Eduardovna**

**Born in 1947**

In 1973 and 1984, he graduated from the All-Union Correspondence Institute of Railway Engineers with a degree in Electrification of Rail Transport and Economics and Organization of Railway Transport. He is a doctor of economic science, a professor and an Honored Economist of the Russian Federation. He has been working in railway transport since 1967. From March 1997, Head, the Executive Officer of Economic Department of the Ministry of Railway Transport of Russia; from November 2003, Vice-President of JSC Russian Railways; from August 2005, Senior Vice-President of JSC Russian Railways. Since March 2010, Director General of the Research Institute of Railway Transport and Senior Advisor to the President of JSC Russian Railways.

Senior Advisor to the President of JSC Russian Railways

**Lapidus Boris Moiseyevich**

**Born in 1947**

In 1973 and 1984, he graduated from the All-Union Correspondence Institute of Railway Engineers with a degree in Electrification of Rail Transport and Economics and Organization of Railway Transport. He is a doctor of economic science, a professor and an Honored Economist of the Russian Federation. He has been working in railway transport since 1967. From March 1997, Head, the Executive Officer of Economic Department of the Ministry of Railway Transport of Russia; from November 2003, Vice-President of JSC Russian Railways; from August 2005, Senior Vice-President of JSC Russian Railways. Since March 2010, Director General of the Research Institute of Railway Transport and Senior Advisor to the President of JSC Russian Railways.
Head of the Corporate Communications Department of JSC Russian Railways

Born in 1971

In 1993, he graduated from the Moscow State Institute of International Relations with a degree in International Journalism as an international journalist with knowledge of a foreign language. He is a member of the Union of Journalists of the Russian Federation. From June 2004, Advisor to the President of JSC Russian Railways; from May 2005, Head of the Public Relations of JSC Russian Railways; from June 2006 till September 2012, Head of the Corporate Communications Department of JSC Russian Railways.

Advisor to the President of JSC Russian Railways

Born in 1948

In 1975, he graduated from the Novosibirsk Institute of Railway Engineers with a degree in Operation of Railways as a railway engineer. He is an Honored Transport Worker of the Russian Federation and has been working in railway transport since 1966. From February 1997, Head of the West Siberian Railway; from May – Ministry of Railway Transport of the Russian Federation; from September 1999, Head of the West Siberian Railway; from February 2002, Head of the Moscow Railway. Since November 2009, Advisor to the President of JSC Russian Railways.

The Remuneration System of Members of the Executive Board of JSC Russian Railways, Remuneration Principles and Indicators Influencing the Remuneration

The current remuneration system for members of the Executive Board of JSC Russian Railways approved by the Board of Directors was developed in order to improve the individual and collective performance of the members of the Executive Board both in the short-term and long-term period, as well as performance incentives for JSC Russian Railways as a single economic entity.

Bonuses to executives based on the ir performance for the year are paid according to key performance indicators (KPIs) and an assessment of work of the Executive Board of JSC Russian Railways in general.

Key performance indicators of the Executive Board are approved by the Board of Directors of JSC Russian Railways.

The levels of key performance indicators are categorized as follows:
1. general corporate performance indicators;
2. functional indicators;
3. indicators for individual tasks.

According to request of the RF President D.A. Medvedev No. Pr-846 dated 2 April 2011, the general corporate performance indicators were supplemented with the cost reduction for purchase of goods (works, services) per unit of production by 10% per year in real terms.

Remuneration received by members of the Executive Board

The aggregate income of members of the Executive Board of JSC Russian Railways paid in 2012 was RUR 1,765.8 mln.

More detailed information is provided in clause 5.3 “Information on the Remuneration, Bonuses and/or Compensation of Expenses for Each Governing Body of the Issuer” in the Issuer’s quarterly report.
Audit Committee


The competence of the Audit Committee includes the review of the results of the financial and economic activities of the Company at the year end or at any time on its own initiative, the decision of the Company’s Board of Directors or at the request of a shareholder; validation and analysis of the financial position of the Company, its solvency, the efficiency of the system of internal control and management of financial and operational risks, liquidity of assets, equity and debt; confirmation of the accuracy of data contained in the Company’s annual report and annual financial statements and other reports, as well as other financial Company documents; checking compliance of solutions related to the financial and economic activities adopted by the President, the Board of Directors and the Executive Board with the Articles of Association and decisions of the general meeting of shareholders.

COMPOSITION OF THE AUDIT COMMITTEE OF JSC RUSSIAN RAILWAYS ELECTED PURSUANT TO THE DECREES OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 1132-R DATED 30 JUNE 2013:

<table>
<thead>
<tr>
<th>Name</th>
<th>Born</th>
<th>Education</th>
<th>Professional Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>VARVARIN Alexander Viktorovich</td>
<td>1975</td>
<td>In 1998, he graduated as a lawyer from the A.S. Griboedov Institute of International Law and Economics with a degree in Law.</td>
<td>2005-2009 – Head of the Department, Director of the Corporate Relations Department of the Russian Union of Industrialists and Entrepreneurs. From 2006, Director General of Centre for Corporate Relations and Resolution of Economic Disputes; from 2009, Managing Director for corporate relations and legal support of the Russian Union of Industrialists and Entrepreneurs. A member of the Board of Directors of JSC All-Russian Centre for the Study of Public Opinion (VTsIOM), CJSC TransTeleCom, JSC IDGC of Volga, Chairman of the Board of Directors of JSC Central Research Institute of Textile and JSC VNIPIneft. Since 2012, a member of the Audit Committee of JSC Russian Railways.</td>
</tr>
<tr>
<td>ZELENTSOVA Irina Vadimovna</td>
<td>1979</td>
<td>Saint Petersburg State University of Economics and Finance, Management of Economic Development of Enterprises.</td>
<td>From 2007 till May 2013, Consultant, Deputy Head, Head of the Department of Property of Industrial and Construction Organizations; Deputy head of the Administration of Property of Commercial Organizations; Deputy head of the Administration of Infrastructure Sectors and Organizations of the Military Industrial Complex of the Federal Agency for the Administration of State Property. Since 2008, a member of the Audit Committee of JSC Russian Railways.</td>
</tr>
</tbody>
</table>
ZYABLITSKY
Igor Yurievich
BORN IN 1966

EDUCATION:
The M.I. Kalinin Krasnoyarsk Institute of Non-Ferrous Metals, the Department of Geological Mapping, Prospecting and Exploration of Mineral Deposits, the Institute of Economics and Management, the Law Department; a PhD in Economics.

PROFESSIONAL EXPERIENCE:

KAZUTIN
Andrey Vladimirovich
BORN IN 1972

EDUCATION:
The Novosibirsk State Academy of Economics and Management, the Department of Finance and Credit.

PROFESSIONAL EXPERIENCE:
From 2004, Deputy Head of the Regulatory and Methodological Department, Head of the Restructuring Department, Acting Deputy Director of the Department of Structural Reforms, Deputy Director of the Department of Property Relations and Spatial Planning of the Ministry of Transport of the Russian Federation, a member of the Audit Committee of JSC State Transport Leasing Company. Since 2006, a member of the Audit Committee of JSC Russian Railways.

MANDRON
Yaroslav Vladimirovich
BORN IN 1983

EDUCATION:
The State University of Management, the Department of the State and Municipal Government, Law.

PROFESSIONAL EXPERIENCE:
From 2005 till present, Advisor, Deputy Head of the Department, Head of the Transport Reform and Communication Division, Deputy Head of the Department of State Regulation of Tariffs, Infrastructure Reforms and Energy Efficiency of the Russian Ministry of Economic Development. Since 2010, a member of the Audit Committee of JSC Russian Railways.

SAMARSKY
Roman Sergeyevich
BORN IN 1975

EDUCATION:
The Moscow State University of Railway Transport, the Management of Transportation Processes on the Railways.

PROFESSIONAL EXPERIENCE:

In 2012, the Audit Committee of JSC Russian Railways conducted an annual review of the financial and economic activities of the Company, according to results of which a relevant opinion was prepared.

Remuneration received by members of the audit committee

Members of the Audit Committee of JSC Russian Railways in the period of performance of the ir duties did not receive remuneration or compensation of expenses related to the ir functions as members of the Audit Committee.
Great Responsibility of the Great Company

Economic scale, geographical reach and the resulting unquestionable importance of the activities of JSC “RZD” at a state level equate to an ever-increasing degree of social responsibility. This is why we are and remain the leader in employees’ social security, the promotion of an improved quality of life in the regions impacted by rail transport, and environmental protection. It is the responsibility of any large business to set the pace for Russia’s general social and economic development and this is even more the case for a natural monopoly, such as JSC “RZD”.
FULFILLMENT OF COMPANY’S SUSTAINABLE DEVELOPMENT PLANS AND COMMITMENTS in 2010-2015

Key events in 2010-2012

The number of employees of JSC “RZD” and its subsidiaries exceeds 1 mln employees. Their increasing consumer demand accounts for an annual gain in Russia’s GDP of 0.6%. Effective personnel management is a key requirement for JSC “RZD” given the strategic and operational tasks that it is undertaking. The company has implemented a corporate competence system, established the corporate university of JSC “RZD”, and continuously improves its training and personnel development system subject to continuous improvement.

Systematic work with young people is one of the key tools for development of the Company’s talent pool. We motivate young people to activities aimed at increasing the Holding Company’s efficiency, encourage authors of valuable proposals and projects. In 2012, young people aged under 30 accounted for 28% of the total number of staff. The Company has set up a strong youth pool that is willing and able to act as an effective coordinator of ongoing change.

JSC “RZD” has retained its status as a stable, socially responsible company by having fulfilled all the obligations set out in the Bargaining Agreement. These are not just financial payments; these are investments in the Company’s future. In accordance with the Bargaining Agreement, wages were indexed based on an increase in consumer prices. JSC “RZD” maintains the economically reasonable balance between labor productivity rates and actual wages.

75 regions of Russia have 234 non-state healthcare institutions run by JSC “RZD”. Mobile consulting and diagnostic centers operate at five railways; they are becoming a part of the compulsory health insurance system.

Rail transport is globally recognized as the most environmentally-sound type of transport. Nonetheless, JSC “RZD” still focuses on activities to protect nature. Currently, more than 2.5 th. enterprises of JSC “RZD” branches use natural resources between Kaliningrad and Yuzhno-Sakhalinsk. None of the se enterprises has a sizable impact on the environment.

Major tasks for 2013-2015

1. Improvement of corporate social responsibility and social partnership principles in the Holding Company.
2. Implementation of targeted social support activities based on individual social packages.
3. Implementation of the housing policy concept.
4. Development of the corporate system of non-state pension coverage and social support of industry veterans.
5. Optimization of social assets.
6. Implementation of social policy in physical culture and sports, cultural and educational activities.
7. Implementation of social policy in recreation and health improvement of employees and their family members.
8. Development of social infrastructure services.
9. Increase in cost-efficiency of social policy implementation.
10. Introduction of a competence-based approach in personnel management.
11. Implementation of the corporate youth policy.
SUSTAINABLE DEVELOPMENT STRATEGY

KEY STRATEGIC PRIORITIES

Environmental performance

Hazardous emission reduction by more than 3 times

Prevention of untreated effluent discharge

Decrease in transportation power input (consumption of power by 14.4% and fuel by 9.1%).

Social performance

Development of talent pool and personnel motivation system

Increase in labor productivity of public rail transport employees

Safety

Safety of rail infrastructure facilities, mitigation of risks of unauthorized interference with the operation.

Goal of accident-free traffic through the application of advanced facilities, research and technology and innovative solutions.

SUSTAINABLE DEVELOPMENT

Corporate social responsibility

Industrial safety

Environmental protection and resource saving

Personnel management

Implementation of the Bargaining Agreement

Youth policy

Youth and health improvement programs

Corporate pension scheme

Charity
Corporate social responsibility

JSC “RZD” considers corporate social responsibility to be a fundamental principle of corporate governance and a basic factor of dynamic and sustainable development – today and in the longer term.

As a socially responsible company, JSC “RZD” strives to maintain an effective balance between the three components of sustainable development:
• economic,
• environmental,
• social.

The scale of operation, geographical reach and the importance of the tasks performed by JSC “RZD” necessitate a very focused degree of social responsibility. JSC “RZD” strives to enhance its competitive advantages in the context of increasing global competence. This is why we aim to become the leader in corporate social responsibility in Russia.

Since 2006, the Company has annually published Corporate Social Reports that include a review of major impacts in economic, environmental and social areas, data on the development of the non-financial risk management system and sustainable development trends. Non-financial statements of JSC “RZD” are available to all stakeholders on the corporate website www.rzd.ru.

Principles and basic performance indicators, as well as non-financial risk management mechanisms at JSC “RZD”, are set out in the Corporate Social Responsibility Code approved in 2008. However, given that the Company is undergoing reforms and many tasks related to the implementation of social and environmental programs will be devolved further to functional units, in 2012, we developed common guidelines on many matters related to sustainable development.
Industrial safety

Safe production principles at JSC “RZD”

Health protection, industrial and fire safety and environmental protection are elements of the common system of production process safety (PPS);

Managerial duties related to PPS are carried out mainly in the Health, Safety and Environment Department;

The PPS is assessed based on risk calculations with regard to audit results;

Common investment policy in PPS regarding the purchase of new facilities and safety systems for employees exposed to elevated risks;

Interaction with state control and supervision authorities with regard to PPS, including protection of the Company’s interests.

In 2012, the accident rate decreased by 14% and the number of fatalities by 26%. This decreasing accident rate is a stable trend.

**ACCIDENT RATE TRENDS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Injured</th>
<th>Including Fatalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>146</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>106</td>
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<tr>
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<td>2006</td>
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<td>2007</td>
<td>75</td>
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<td>2008</td>
<td>75</td>
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<tr>
<td>2009</td>
<td>649</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>620</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>534</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>418</td>
<td></td>
</tr>
</tbody>
</table>

**Total injured**

**Including fatalities**
IMPROVEMENT OF LABOR CONDITIONS – AN IMPORTANT FACTOR OF THE PRODUCTION PROCESS SAFETY

In 2012, a Decree of the Ministry of Labor approved a new method of calculation for the level of insurance rates for compulsory social insurance against industrial accidents and occupational diseases. These rates are now based on the results of workplace assessments in terms of labor conditions.

LABOR SAFETY COSTS

- In 2012 the third cycle of workplace assessment at JSC “RZD” was completed. During the cycle, 486 th. workplaces underwent assessment (as of 1 January 2013, 427 th. have been completed).
- Over five years, more than 68 th. workplaces have been brought in line with regulatory requirements (including 21 th. in 2012).
- Labor conditions were improved at 233 th. workplaces (55.7 th. in 2012).
- At the end of 2012, the Company still had 3.6 th. workplaces where the impact of harmful factors could be reduced or eliminated. A plan to bring the m in line with regulatory requirements has been approved for 2013.

OCCUPATIONAL INJURIES

The overall accident rate (number of injured per 1,000 employees) decreased to 0.39 and the fatality rate to 0.05. Over a third of those injured in 2012 had worked at the Company for less than a year.

Analysis shows that the main reason for occupational injuries is poor organization and control of working practices and, to a somewhat lesser degree, violations of regulations and employee failure to use personal protective equipment. As a result the Company has tightened its control of compliance with industrial safety regulations: in 2012 10 targeted audits and four spot checks as well as two internal audits at various Company units were carried out.

Demonstrating intolerance of labor safety violators is equally as important: in the reporting year, 17,773 people violated safety regulations and the Company terminated labor contracts with 38 employees. At the same time, in 2012, based on performance in 2011, 117 th. employees directly engaged in the assurance of accident-free operations were recognized with awards.

On average, JSC “RZD” spent RUR 14.7 th. (in 2011, RUR 12.8 th.) on the improvement of labor conditions and protection per employee. RUR 4.8 bln (38% of the total amount) were spent on the purchase of personal protective equipment. JSC “RZD” designs and purchases innovative devices and equipment to improve labor safety: train approach alarm devices; mobile alert systems for workers engaged in track overhaul; DC voltage meters; air cleaning systems; hearing, UV and IR protection devices.

Labor conditions are being improved in co-operation with Rosprofzhel: suggestions made by the trade union have been taken into account in the development of the Long-Term Comprehensive Program for the Improvement of Labor Conditions and Protection at JSC “RZD” for 2013-2015. In addition, in 2012 the baseline labor protection standard of JSC “RZD” (the “Labor Protection Management System at JSC “RZD”) was revised and the professional risk management system was implemented.
Environmental protection and resource saving

The environmental strategy of JSC “RZD” provides for the 35% reduction of adverse effect on the environment by 2015 and by 70% reduction by 2013.

Railway is one of the most environmentally-friendly means of transport. In Russia, its benefits are particularly obvious, as more than 85% of cargo and 80% of passengers are transported by electric traction, which prevents harmful air emissions and reduces soil pollution with heavy metals. Nevertheless, the Company sees significant opportunities to mitigate further the environmental impact of its economic activities.

The strategy is being implemented through the nature protection management system, industry-specific environmental programs and investment projects. Top-priority projects aim to eliminate the most important environmental issues and yield the maximum return on each rouble invested.

In 2012, JSC “RZD” was awarded the Honorary Diploma “Leader of nature protection activities in Russia-2012” and became a prize winner of the National Environmental Award “Crystal Noosphere”, in the category “Innovative Eco-Efficient Technologies”.

Environmental policy of JSC “RZD”

In transportation, the Company strives to use technologies with the least environmental impact.

During the decision-making process to upgrade the railway and rolling stock infrastructure and renew rolling stock, the Company takes into consideration environmental factors and compliance with environmental requirements.

Environmental factors are taken into account in the Company’s managerial decision-making.

The environmental strategy of JSC “RZD” approved in 2009 provides for the introduction of resource-saving and nature protection activities, technical retooling, use of ecologically-sound materials, a decrease in energy intensity of transportation and an increase in environmental safety in production.
In 2012, with a 4.4% increase in cargo turnover, the Company’s branches have achieved:

- **7.2%**
  Reduction in harmful air emissions from fixed sources

- **3.2%**
  Reduction in the discharge of pollutant effluents into water bodies

+**13%**
Increase in waste neutralization and use in processes

Implementation of the Environmental policy of JSC “RZD”. Results achieved in 2012 (compared to the baseline 2007 year):

- **41%**
  Decrease in harmful air emissions from fixed sources

- **19%**
  Decrease in greenhouse gas emissions

- **23%**
  Decrease in discharge of pollutant effluents into water bodies

+**13%**
Reduced waste generation

**TECHNICAL RETOOLING IS CONDUCTED AT “RZD” WITH REGARD TO ENVIRONMENTAL REQUIREMENTS**

The technical retooling program of JSC “RZD” is targeted at infrastructure reconstruction, replacement and upgrading of the hauling and rolling stock, and includes the mitigation of environmental impact:

- during the overhaul of diesel units, outdated engines are replaced with advanced, more environmentally-friendly and low-consumption engines manufactured domestically; In 2012, outdated D-100 diesel engines on 93 diesel units were replaced with new D-49 engines. New engines reduced harmful air emissions by 5.5%;
- the Company has switched to the new, cleaner EURO-3 standard diesel fuel;
- during the overhaul of 3.2 th. km of track, timber sleepers were replaced with cleaner concrete ones;
- the Company only purchases timber sleepers impregnated with eco-friendly aseptic (4 hazard class);
- three “dry” transformers were introduced at October Railway; the so do not need transformer oil, which pollutes the environment if leaked;
- Federal Passenger Company re-equip the passenger rolling stock with environmentally compatible closed toilets (ECT) to prevent bacterial contamination of the railroad bed and adjacent territories. In 2012, 427 ECT cars were commissioned. Today, nearly one in every three cars in operation is fitted with ECT.
INVESTMENT IN NATURE PROTECTION ACTIVITIES

In 2012, JSC “RZD” invested RUR 2.4 bln in activities directly related to environmental protection or those with an environmental component.

The majority of investment is made in the following projects: “Environmental safety assurance” and “Introduction of resource-saving technologies in rail transport”.

In 2012, the level of investment in the project “Environmental safety assurance” was RUR 711.3 mln. These funds were allocated to construct and reconstruct 19 environmentally protected sites and to survey 20 environmentally protected sites. 70 units of nature protection and laboratory equipment and devices were supplied to branches of JSC “RZD”. Six mobile (vehicle-based) environmental laboratories with a full set of measuring equipment were acquired.

In 2012, 1,527 activities with an environmental component at branches of JSC “RZD” were carried out as part of the investment project “Introduction of resource-saving technologies in rail transport”. They included: 1,197 activities aimed at saving diesel fuel for hauling operations, 131 activities to save fuel and energy resources, 199 activities to introduce LED equipment.

From 2003 to 2012 inclusive, the Company invested RUR 4.7 bln in the “Environmental safety assurance” project. 124 environmentally protected sites were constructed and reconstructed, more than 700 units of nature protection equipment and more than 1,000 units of facilities and equipment for oil spill response were installed. Environmental laboratories received more than 750 units of laboratory equipment and devices. JSC “RZD” has 56 fixed-site laboratories, 11 track test cars with an onboard set of analytical equipment, 62 vehicle-based laboratories and 81 rolling stock environmental control stations. All laboratories of JSC “RZD” are accredited.

In 2012, JSC “RZD” environmental protection costs were RUR 2.9 bln. In 2013, no less than RUR 2.9 bln will be spent on investment in projects, of which no less than RUR 0.5 bln will be spent on environmental protection.

MAIN FOCUS AREAS OF NATURE PROTECTION ACTIVITIES OF JSC “RZD”:

- **Reduction of Air Emissions from Transport and Boilers, Use of Clean Fuel: Gas and Diesel**
- **Water Rationing and Reduced Consumption, Including Through Large-Scale Introduction of Modular Air-Cooled Compressor Plants**
- **Reduction of Noise Impact: Laying of Continuous Welded Rails, Installation of Noise Screens**
- **Control Over Waste Generation and Neutralization, For Example, Recycling Used Sleepers**
- **Development of the Nature Protection Management System**
- **Introduction of “Ecology” ACS, Personnel Training**
- **Development of Environmental Monitoring System**
- **Resource Saving**
Personnel management

Employees are our main asset. Their ambition, enthusiasm and commitment are key to the economic success and competitive power of JSC “RZD”. We achieve our strategic aims through the ir involvement in the performance of corporate tasks.

We strive to be an attractive employer. Around two-thirds of the allowances, warranties and compensations provided to Company employees are higher than the standards provided for in Russian law. But the se costs are justified. By increasing our employees' income, encouraging the ir initiatives, personal and professional growth, and helping the m improve the ir housing conditions, the Company attracts and retains the best of the m. In the long run, this helps us continuously improve the quality of our personnel and ensure a constant increase in labor productivity and performance.

Basic personnel management principles

- Improved attractiveness of JSC “RZD” as an employer
- Attraction and retention of employees with required qualifications
- Manpower management supported by the introduction of innovative technical and engineering solutions
- Generation of effective talent pool, continuous personnel development
- Professional and personal development of young employees
- Consolidation of the corporate culture based on RZD brand values

TOP-PRIORITY ACTIVITIES OF THE SOCIAL AND PERSONNEL UNIT IN 2012 AND IN THE NEAR TERM

<table>
<thead>
<tr>
<th>SUPPORT OF STRUCTURAL REFORMS AT JSC “RZD”</th>
<th>IMPROVEMENT OF THE PERSONNEL MANAGEMENT SYSTEM</th>
<th>INTRODUCTION OF BEST LABOR MANAGEMENT PRACTICES</th>
</tr>
</thead>
</table>

JSC “RZD”
In 2012, the Company removed its largest branch – the Central Infrastructure Directorate. Given that structural reforms must be backed up by relevant changes in the personnel management system as well, a target model of social and personnel unit processes was developed, which serves as the basis for the development of regulations for the interaction between personnel units at all management levels of JSC “RZD”. These changes will further ensure the effective performance of tasks that the unit is undertaking.

Ongoing structural changes in the Company are also reflected in the new Conditions for Team Competitions in 2012-2013. In 2013, the Company is introducing the practice of labor competition at a functional branch level.

Another innovation introduced in 2012 was a collective form of labor management and motivation at sorting depots: employees of operational and repair depots engaged in the common process of transport management are united to set up integrated teams, which bear joint responsibility for the end results of the depot, the performance of train dispatch and tasks to decrease train standbys.

In 2013, JSC “RZD” will introduce the system of corporate personnel requirements. It also intends to develop a new Bargaining Agreement for 2014-2016, ensure manpower optimization and increase the real income of JSC “RZD” employees.
Improvement of the remuneration and incentive system

The main innovation of 2012 in the Company’s incentive system is the possibility to give Company awards to nearly all employees of JSC “RZD” subsidiaries and affiliates.

Successful co-operation and active contribution to improve JSC “RZD” performance is rewarded. Bonuses by incentive types were increased for Company employees.

Manpower optimization

In 2012 manpower optimization and labor productivity improvement programs were introduced for each branch, linked to the targets of the “RZD” Holding Company strategy development until 2015.

Optimization opportunities are created by improving business processes and work methods and introducing advanced labor management practices, namely: reduction of intrashift losses, “condensed” labor hours, decrease in low-load inefficient workplaces and multi-skilling. The parameters of the approved programs were considered in unit budgets for 2012 and will be taken into account in future budgets.

The programs are proving to be effective. For example, in 2012, staff on the payroll of JSC “RZD” working in transportation decreased by 12.4 th. people (-1.6% year-on-year). This reduction had virtually no impact on employees directly involved in transportation assurance and train traffic safety.

TOTAL NUMBER OF AWARDEES

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Awardees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>9,642</td>
</tr>
<tr>
<td>2011</td>
<td>8,580</td>
</tr>
<tr>
<td>2010</td>
<td>7,745</td>
</tr>
</tbody>
</table>

1 Gain is specified in comparable conditions

STAFFING LEVEL,%

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>97.7</td>
</tr>
<tr>
<td>2011</td>
<td>98.1</td>
</tr>
<tr>
<td>2010</td>
<td>98.2</td>
</tr>
</tbody>
</table>

STAFF TURNOVER LEVEL,%

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>8.3</td>
</tr>
<tr>
<td>2011</td>
<td>8.8</td>
</tr>
<tr>
<td>2010</td>
<td>9.0</td>
</tr>
</tbody>
</table>

THE COMPANY REWARDS EMPLOYEES BOTH FOR PERSONAL AND CORPORATE-WIDE ACHIEVEMENTS:

- up to 50% of project savings are given to the employees who have introduced lean production standards;
- employees and managers of efficiently-run areas are rewarded from the "master fund";
- up to 50% of the amount saved on fuel and energy resources is spent on employee rewards;
- employees of car depots who have found hard-to-find defects are rewarded;
- loyalty bonuses are paid to employees with a long transport service record.

AVERAGE MONTHLY SALARY OF EMPLOYEES ENGAGED IN ALL ACTIVITIES, RUR.

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Monthly Salary of Employees, RUR.1</th>
<th>Wage Increase in Real Terms (adjusted for inflation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>10,331</td>
<td>5.9%</td>
</tr>
<tr>
<td>2010</td>
<td>12,081</td>
<td>10.0%</td>
</tr>
<tr>
<td>2009</td>
<td>16,932</td>
<td>12.5%</td>
</tr>
<tr>
<td>2008</td>
<td>21,738</td>
<td>10.6%</td>
</tr>
<tr>
<td>2007</td>
<td>24,604</td>
<td>6.0%</td>
</tr>
<tr>
<td>2006</td>
<td>28,930</td>
<td>3.8%</td>
</tr>
<tr>
<td>2005</td>
<td>33,106</td>
<td>2.3%</td>
</tr>
</tbody>
</table>
The JSC “RZD” training, conversion and skill improvement program is based on the competence approach. It applies to all employees of JSC “RZD” at all levels. However, the content and requirements of corporate competences vary subject to an employee’s level.

The competence approach provides the opportunity to master a set of skills and knowledge to complement current individual skills: employees immediately put knowledge obtained into practice using it to perform real Company tasks. Employees’ competences are evaluated by experts of the Corporate University and road Centers for Personnel Monitoring and Evaluation and Youth Policy based on “assessment center” technology. Business education system of JSC “RZD” is in place. Managers are trained in the Corporate University. According to the graduation marks and in view of the progress in their development, experience and expertise, they can be enrolled to the candidate pool, sent for further training or retraining or admitted to individual educational programs with a possibility to study in prestigious business schools, including abroad.

In line with the Personnel Training, Conversion and Skill Improvement Program, in 2012:
- 61.3 th. people were trained in new and secondary professions (110% of the annual target);
- the skills of 152.4 th. workers were improved (112% of the annual target), including 25 th. people who improved skills in the ir category.

In 2012, 46.5 th. people (111% of the annual target) acquired new and secondary professions and 43.6 th. workers (104% of the annual target) improved the ir skills at the Company’s technical schools and training centers.
COMPANY’S STRATEGIC TASK IS TO INTRODUCE THE PRINCIPLE OF CONTINUOUS PROFESSIONAL AND PERSONAL DEVELOPMENT OF MANAGERS

In 2012, some 70 th. managers and specialists of JSC “RZD” took part in advanced training programs. In its executive education programs, the Company co-operates with leading educational establishments:

- “Corporate management” program at the Russian Presidential Academy of National Economy and Public Administration was completed by 42 people – deputy directors of railways and heads of regional directorates.
- “International logistics and supply chain management” program at the Center for International Logistics and Supply Chain Management of the Graduate School of Management of St. Petersburg University was taken by 23 people.
- Jointly with the Stockholm School of Economics, JSC “RZD” is implementing an Executive MBA modular corporate educational program. In 2012, a group of 40 people completed the ir studies.
- More than 160 young managers completed training under MBA and Executive MBA group programs of conversion training at Russian and foreign business schools; six young managers completed business education training abroad.
- Two groups of HR managers of JSC “RZD” branches and units (60 people) took further training under the program “Practice of human resources management in Russia”.
- Programs to improve language skills were arranged for managers and specialists working internationally who studied at business schools and were a part of the superior candidates pool: 110 people took on-site training, 1,000 were trained off-site and 12 people at a foreign language school.
- The Company arranges additional short-term training programs in Germany, France, Great Britain, Finland, Czech Republic, Spain, Korea, China, Norway and the USA. Last year, 586 people took part in programs developed for various specialists.

### 5 K+L CORPORATE COMPETENCE MODEL HAS BEEN DEVELOPED BASED ON JSC “RZD” BRAND VALUES: “WORKMANSHIP”, “INTEGRITY” AND “RENOVATION”

<table>
<thead>
<tr>
<th>Brand value</th>
<th>WORKMANSHIP</th>
<th>Competence Customer focus</th>
<th>INTEGRITY</th>
<th>Corporate governance and responsibility Quality and safety</th>
<th>RENOVATION</th>
<th>Creativity and innovation Leadership</th>
</tr>
</thead>
</table>

### MBA PROGRAM TRAINING IN RUSSIAN BUSINESS SCHOOLS, PEOPLE

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>160</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>106</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>119</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### SHORT-TERM ADVANCED TRAINING ABROAD, PEOPLE

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>586</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>462</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>235</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### ON-SITE LEARNING OF ENGLISH, GERMAN AND FRENCH BASED ON ENGLISH FIRST AND MIIT, PEOPLE

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>114</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>123</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>107</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### DISTANCE LEARNING OF ENGLISH BASED ON ENGLISH FIRST, PEOPLE

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>650</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>20</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Corporate university

The JSC “RZD” Corporate University, established in 2010, has become a key element of the extended corporate business education system.

In 2012, various educational programs at the Corporate University were taken by 5,736 managers of JSC “RZD”, including 746 managers at university branches.

The obligatory training program lasts 1.5 years. In addition to the obligatory program, trainees may apply to the Corporate University for detailed individual development of certain corporate competences.

The Corporate University does not only train JSC “RZD” employees. It also develops new effective personnel development technologies based on the best global practices. Strategically important activities include projects on performance reviews, personnel training and development and knowledge management.

In 2012 approaches were refined to implement the target business model of the University’s co-operation with the HR function: “Corporate University as an HR partner”.

### HOLDING COMPANY’S MANAGERS TRAINED, PEOPLE

<table>
<thead>
<tr>
<th>Year</th>
<th>Managers Trained</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>5,736</td>
</tr>
<tr>
<td>2011</td>
<td>2,380</td>
</tr>
<tr>
<td>2010</td>
<td>1,572</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Location</th>
<th>Managers Trained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moscow</td>
<td>4,990</td>
</tr>
<tr>
<td>Samara branch</td>
<td>443</td>
</tr>
<tr>
<td>St. Petersburg branch</td>
<td>303</td>
</tr>
</tbody>
</table>

### IN 2012, THE CORPORATE UNIVERSITY:

- set up branches in St. Petersburg and Samara;
- assessed the level of corporate competences of 1,619 trainees of the JSC “RZD” President;
- trained 1,540 managers of the JSC “RZD” President and 1,723 managers of directors of JSC “RZD” departments under the “Corporate leader” program;
- 2,425 “Corporate leader” program trainees started to implement Individual Development Plans (IDP) as part of the automated individual development management system;
- designed 38 distant courses targeted at corporate competence development;
- arranged two-day individual development programs following personal IDP requests from 220 trainees;
- at the request of functional units, arranged special-purpose training programs for 2,253 people;
- fulfilled the first external order from SUE “Moscow Metro” for the training of 132 managers.
JSC “RZD” traditionally fulfills all obligations set out in the Bargaining Agreement, including obligations with regard to labor ratings, work and rest hours, remuneration, and wage indexation in line with commodity and service price inflation. In addition, the Company provides employees and the ir family members with additional benefits and allowances, including those linked to labor relations and the improvement of labor conditions. In 2012, the costs of the se amounted to RUR 102 bln.

One of the innovations of the Bargaining Agreement is the provision of a compensable social package. One of the aims of providing an individual social package is to enhance the attractiveness of the workplace and motivate employees. The compensable social package is based on the “cafeteria principle”: the limit of funds and a list of elements that the se funds may be used for are established for each employee.

In 2012, JSC “RZD” provided the compensable social package to more than 20 thousand employees of various occupations (more than 100) at all railways and branches. The total package amount was RUR 312 mln.

The analysis has shown that the compensable social package has become an effective tool to reduce job turnover at Company units.
Housing policy of JSC “RZD”

JSC “RZD” owns a housing stock of more than 800 th. m² and offers support to its employees in need of housing improvement. This is one of the ways for the Company to attract labor resources and retain staff.

During the railway restructuring and following the establishment of JSC “RZD” in 2003, a large part of housing in the maintenance department was transferred into municipal ownership. JSC “RZD” was left with 1.2 mln m² of residential premises, mainly, hostels.

In 2003-2012, JSC “RZD” invested RUR 26,906 mln (excluding VAT) to establish Company housing stock (CHS), including, in 2012, RUR 2,871 mln.

As of 31 December 2012, JSC “RZD” owned a housing stock of more than 800 th. m². This amounts to some 10.2 th. apartments in apartment blocks, 2.1 th. apartments in buildings with a small number of apartments, 1.0 th. rooms in hostel-type residential buildings and 53 rooms in hotel-type residential buildings.

Although the Company bears the costs
In 2006-2012, nearly 24.3 th. employees of JSC “RZD” improved their living conditions with the Company’s financial support. The Company subsidizes its employees in need of housing improvement by paying most of the costs of interest on real estate loans, for which employees pay only 4.5% p.a., and young specialists 2%. During this period, tandem loans were granted to more than 2.4 th. employees.

Residential premises are provided to: employees of primary occupations and positions working in transportation technology and the operations of newly commissioned production capacities; and managers and specialists invited and transferred as part of the staff relocation package for the period of the ir performance of labor duties under labor contracts.

Virtually the entire CHS under the Target Program for 2011-2013 (88.6%) is provided in localities with poorly developed or no rented housing market. About a half of the residential space is built or acquired for employees of Siberian and Far Eastern railways.

The CHS structure and management system as a whole matches the Company’s structure and housing policy aims of JSC “RZD”. The CHS management system has enabled the optimization of a number of housing stock facilities and the ir loss-free maintenance.

### HOUSING IMPROVEMENT SUBSIDIES AND LOANS

In 2006-2012, nearly 24.3 th. employees of JSC “RZD” improved their living conditions with the Company’s financial support. The Company subsidizes its employees in need of housing improvement by paying most of the costs of interest on real estate loans, for which employees pay only 4.5% p.a., and young specialists 2%. During this period, tandem loans were granted to more than 2.4 th. employees.

More than a thousand young families with children obtained non-repayable subsidies from the Company for partial repayment of the ir debts on tandem loans, which had been previously granted. The Company pays special attention to large families and single parents: the y may obtain a subsidy of 70% of the accommodation value.

- **RUR 4.0 bln**
  - Value of tandem loans
- **RUR 2.7 bln**
  - Total amount of subsidies granted
Youth policy

Today, one in every three employees of JSC “RZD” is from the younger generation.

We offer opportunities for fast professional and personal development and career growth in one of the country’s largest and most progressive companies.

Today, JSC “RZD” employs more than 269 th. young people. In 2012 alone, the Company recruited 7,219 young people. Nearly 66 th. young people are managers or specialists and account for 24.4% of the se positions.

The target program “Youth of JSC “RZD” has been developed to attract and retain young employees – the Company’s strategic asset. During the seven years of its implementation, the number of Company employees aged under 30 has increased from 19.0% to 28.6%.

Young people are involved in the performance of corporate tasks. For example, members of “Team 2030”, a corporate club that unites the most promising and self-motivated young employees, develop projects of various complexity in a number of the Company’s key areas of activity.

“New Link”, a youth contest for innovative projects (held since 2008), promotes the development of innovative way of thinking. In 2012, 1,488 projects from 2,850 contestants were submitted in the contest. 7,400 young employees have taken part in the contest since its establishment. More than 200 out of 3,400 projects submitted received organizational and financial support from the Company’s management. Owners of the winning projects have been given internships in the leading railway companies of Germany, Spain and France.

On the other hand, more than 50 young railway men from 16 countries of Europe and Asia took part in the international section of the VI Youth Rally of JSC “RZD”. Rally participants developed a roadmap for future transport systems until 2050 and submitted it to the Company’s management.

For more details on the youth policy of JSC “RZD”, see the annual news bulletin at www.rzd.ru.
Youth and health improvement programs

In 2012, the Company arranged and implemented the following corporate social projects:

- For children of JSC “RZD” employees: summer corporate camp “Roads of Future” and “Your Safety Route” program
- For young people choosing their future occupation: “Company’s Open Doors” program
- For students and young people: “RHF Network: Road, Home, Friends” project
- For family vacation and health improvement: “Family Album” program

Currently, there are nearly 1.5 different clubs at the cultural facilities of JSC “RZD” with a membership of over 43 th. people, including nearly 26 th. railway employees and their family members.

Special attention is paid to children’s health improvement. Last year, 73.0 th. children of JSC “RZD” employees stayed at Company health resorts, including 13.3 th. children at Russia’s Black Sea coast. 8.5 th. children stayed at third party health resorts.

More than 48.8 th. children stayed at 65 JSC “RZD” children recreation camps.

Professional counselors (more than 6.0 th. people) and health care providers (716 people) are employed to attend to children.

Costs to JSC “RZD” of the children’s health improvement campaign are partially compensated by regional budgets. In 2012, compensation obtained was RUR 158.4 mln.

The Company strives to promote physical exercise and sports among its employees; it fosters a healthy lifestyle as part of the corporate culture. Support of the renowned football club “Locomotive” is only one part of these activities.
Non-state pension coverage is one of the most important elements of the social package at JSC “RZD”: Company employees are able to secure a suitable amount to live on upon their retirement.

By the end of 2012, the number of contributors to the Blagosostoyanie corporate pension fund exceeded 654 th. people. 70% of JSC “RZD” employees took advantage of supplementary pension coverage opportunities.
One of the ways in which JSC “RZD” interacts with society is through the Company’s charitable activity conducted both independently via standing order payments to provide assistance requested by various non-profit organizations and individuals and also via special-purpose foundations. These entities are used to provide beneficial aid to all kinds of individuals and organizations.

Each year, the Company’s management determines and approves the Charity Plan for the year.

In its day-to-day activities, the Company pays much attention to providing beneficial aid to its employees, veterans and their family members whenever they need emergency medical treatment, expensive treatment, and social support, including housing improvement. In 2012, more than RUR 322 mln were allocated for these purposes.

To ensure a more efficient organization of charitable activities and to attract additional sources of finance, the Transsoyuz Charity Fund (CF) was set up; its aim is to consolidate financial possibilities and charitable efforts of JSC “RZD” and its affiliates in order to implement all-Russia charitable projects or those acknowledged as large industrial projects.

In 2012, the Company, together with the Transsoyuz CF, took part in large-scale target charitable projects such as:

- restoration of Agate Rooms in Tsarskoye Selo State Reserve Museum; the total level of funds until 2013 inclusive will exceed RUR 270 mln and the share from JSC “RZD” in 2012 was RUR 59 mln;
- arrangement and financing of expensive treatment, care for children in hardship, help to a children’s hospice and support of Rasprav Krylia (Spread Your Wings) charitable fund of social support to children for a total amount of over RUR 100 mln, of which JSC “RZD”’s share in 2012 was RUR 39 mln.
Terms and definitions

**1,520 mm** – an official railway gauge of countries of in the Commonwealth of Independent States, Baltic states, Mongolia and Finland. Its total length of railways in the the “1,520 space” exceeds 150,000 km. 1,520 mm is referred to as a “broad” gauge.

**1,520 space** – territories serviced by using the “broad” gauge of railway of JSC “Kazakhstan Temir Zholy” (KTZ), the – “Kazakhstan Railways” national company.

**2PL, 3PL and 4PL** – levels of a logistics service (PL-Party Logistics): partial logistic outsourcing, integrated logistic outsourcing

**AIGTR** – Agreement on international goods transport by railway

**CIM** – International convention concerning the carriage of goods by railway

**CIM/AIGTR note** – unified railway bill

**Common economic space (CES)** – economic and political integration of three CIS countries: Russia, Kazakhstan and Byelorussia

**Common Network Process (CNP)** – a document aimed at arrangement and management of to organize and manage the railway transportation process in the event of multiple operators. It provides for the accommodation and movement of empty cars agreed upon with operators based on monthly transportation planning and parameters of effective infrastructure use.

**Cross connection** – set of operations to connect two underground mines or one mine and the surface.

**CU** – the Customs Union of the Russian Federation, the Republic of Kazakhstan and the Republic of Belarus.

**Federal Freight Company (JSC “FFC”) (before 13 November 2012** – Open Joint Stock Company “Second Freight Company”, JSC “SFC”) – affiliate of JSC “RZD” established in accordance with the resolution of the Board of Directors of JSC “RZD” passed on 26 August 2010; one of Russia’s largest freight railway operators.

**Federal Passenger Company (JSC “FPC”)** – Russia’s largest operator of railway transportation

**Freight turnover** – the volume of cargo transportation. The unit of measurement is ton-kilometer. It is calculated by adding the products of the masses of cargo transported in tons by the distance of transportation in kilometers.

**FTS, FTS of Russia** – the Federal Tariff Service. The federal executive body regulating the activities of natural monopolies; it carries out state regulation of prices (tariffs), in particular, in railways in accordance with Russian laws.

**GEFCO S.A.** – affiliate of JSC “RZD”. On 20 December 2012, JSC “RZD” consummated concluded a transaction for the purchase of 75% shares of French logistic operator GEFCO from PSA Peugeot Citroen valued at EUR 800 mln.

**Hub** – transport and interchange station

**Intermodal transportation** – sequential cargo transportation by two or more transport means within the same transportation unit or vehicle without cargo transfer when a transport means is changed.

**International Union of Railways (UIC)** – (French: Union Internationale des Chemins de Fer) – an international organization that unites national railway companies for the joint settlement completion of rail transport development tasks.

**ISO 14000** – international standard for environmental management system design. A family of environment-related standards aimed to help organizations minimize the adverse impact of the ir operations on the environment, comply with applicable laws, rules and other environmental requirements, and to continuously improve in the above matters.

**JSC “NC Kazakhstan Temir Zholy” (KTZh)** – National Company “Kazakhstan Railways”.

**JSC “UBR”** – Ulan Bator Railways.

**LMP** – low-mobility population

**Logistic costs** – expenses for logistic operations (warehousing, transportation, collection, storage and communication of data about orders, inventories, supplies, etc.).

**Maintenance and repair (M&R)** – a set of operations intended to maintain working capacity or running order of production equipment in its use for intended purposes, standby, storage and transportation.

**MPC** – mobility promotion center

**OHSAS 18001** – a series of standards that sets out requirements and guidelines with regard to the development and introduction of health and safety management systems (HSMS) whose application helps allows to control risks of the management system and enhance its performance.
Organization for the Collaboration of Railways (OCR) – an international organization whose aims are the development of international freight and passenger transportation, creation of a common rail transport space in the Eurasian region, competitive growth of transcontinental railway directions and promotion of technical advance progress and scientific and technical co-operation in rail transport.

Passenger turnover – the volume of passenger transportation. The unit of measurement is passenger-kilometer. It is calculated by adding the products of the number of passengers by each transportation position by the distance.

PBC fleet – fleet of open cars borrowed by JSC “RZD” from JSC “FFC” based on the contract dated 26 January 2012 “On lease of open cars” (PBC fleet) and resolution No. 1051 of the Government of the Russian Federation “On the procedure of borrowing of the rolling stock for freight operations by Open Joint Stock Company “Russian Railways” and on establishment of a special procedure of pricing for freight transportation using this rolling stock”. The legal status of the PBC fleet is similar to that of a carrier’s fleet (common park), but is subject to tariff regulation peculiarities established by decree No. 444-t/4 of the Russian FTS dated 27 December 2011.

RAB (Regulatory Asset Base) – a value established in order to regulate tariffs that reflects a market value of a company’s assets with regard to the ir physical wear.

RCCG – regional centres of corporate governance.

RGCM – regional centers of corporate management

S&A – subsidiaries and affiliates of JSC “RZD”

SA “Byelorussian Railways” (BZD) – State Association “Byelorussian Railways”

Shipment (dispatch) of cargo – the mass of cargo in tons admitted for railway transportation. Its value is calculated as a sum of all dispatches admitted for transportation from consignors, other means of transportation or foreign railways in the reporting period on the territory of the country.

SPC – suburban passenger companies

TEU – twenty-foot equivalent unit – a conventional unit of measurement of traffic flows, capacity of container terminals or cargo vehicles. Equivalent to the dimensions of an ISO container 20 feet long (6.1 m). ISO container.

Traffic safety management system (TSMS) – management system for JSC “RZD” management and governance with regard to traffic safety.

Transportation (departure) of passengers – the volume of passenger transportation. It is determined by the number of tickets sold or issued free of charge in the relevant reporting period with account of passenger journeys for group tickets, freight documents, commutation and other tickets in the relevant period.

UN ESCAP – UN Economic and Social Commission for Asia and the Pacific

UNECE ITC – Inland Transport Committee of the Economic Commission for Europe

Appendixes

Appendix 1. Information on major transactions and other transactions subject to approval according to the major transaction approval procedure envisaged in the Company’s Articles of association

Appendix 2. Information on related party transactions.

Appendix 3. Description of key risk factors related to the Company’s activities

Appendix 4. Current assets and short-term liabilities

Appendix 5. Issues discussed at the meetings of the Board of Directors of JSC “Russian Railways”

Appendix 6. List of issues discussed at the meetings of the Committee for Strategic Planning of the Board of Directors of JSC Russian Railways

Appendix 7. List of issues discussed at the meetings of the Committee for Audit, Risks and Remuneration of the Board of Directors of JSC Russian Railways
Appendix 1.
Information on major transactions and other transactions subject to approval according to the major transaction approval procedure envisaged in the Company’s Articles of association

In the reporting period, JSC “RZD” did not make any transactions that can be recognized major transactions according to Article 78 of the Federal Law “On Joint Stock Companies”.

Other transactions subject to approval according to the major transaction approval procedure envisaged by clause 17.15 of the Articles of association of JSC “RZD”.

1. Additional agreement No. 1 to loan agreement No. 1226 dated 9 November 2010 between JSC “RZD” and JV RasonKonTrans. The transaction price is determined based on the principal loan amount not less than RUR 6 bln. and loan interest at a rate of 9% per annum.

The transaction was approved by the decision of the Board of Directors of JSC “RZD” on 15 February 2012 (Minutes No. 3).

2. On the participation of JSC “RZD” in the tender for acquisition of 75% of share capital of GEFCO (GEFCO S.A., France). Seller – Peugeot S.A. The cost of shares acquired by JSC “RZD” (transaction amount) is EUR 800 mln.;

The transaction was approved by the decision of the Board of Directors of JSC “RZD” on 14 September 2012 (Minutes No. 14).

3. Sale of 11,372,073,499 ordinary shares of JSC “Zheldorremmash” owned by JSC “RZD” according to the results of the open tender with qualification requirements to participants. Buyer – winner of the tender LLC “TMH-Service” Target selling price – RUR 7,915,000,000.

The transaction was approved by the decision of the Board of Directors of JSC “RZD” on 28 November 2012 (Minutes No. 19).


The transaction was approved by the decision of the Board of Directors of JSC “RZD” on 28 November 2012 (Minutes No. 19).
Appendix 2.
Information on related party transactions.

1. Advertising services agreement between JSC “RZD” and CJSC “Locomotive Football Club”. Transaction price: RUR 4,589,000,000, including VAT. Related parties: members of the Executive Board JSC “RZD” Babaev S.M., Bobreshov A.S., Morozov V.N.

The transaction was approved by the decision of the Board of Directors of JSC “RZD” on 15 February 2012 (Minutes No. 3).

2. Contract for overhaul and refurbishment of passenger cars between JSC “RZD” and JSC “FPC”. Transaction price: not more than RUR 123,411,982.68, including VAT (18%). Related parties: members of the Executive Board JSC “RZD” Akulov M.P., Gnedkova O.E., Reshetnikov V.I.

The transaction was approved by the decision of the Board of Directors of JSC “RZD” on 12 March 2012 (Minutes No. 5).


The transaction was approved by the decision of the Board of Directors of JSC “RZD” on 12 March 2012 (Minutes No. 5).

4. Contract for repair of passenger car wheel pairs between JSC “RZD” and JSC “FPC”. Transaction price: not more than RUR 52,139,480, including VAT (18%). Related parties: members of the Executive Board JSC “RZD” Akulov M.P., Gnedkova O.E., Reshetnikov V.I.

The transaction was approved by the decision of the Board of Directors of JSC “RZD” on 12 March 2012 (Minutes No. 5).

5. Contract for repair and equipment of passenger cars between JSC “RZD” and JSC “FPC”. Transaction price: not more than RUR 224,998,088.28, including VAT (18%). Related parties: members of the Executive Board JSC “RZD” Akulov M.P., Gnedkova O.E., Reshetnikov V.I.

The transaction was approved by the decision of the Board of Directors of JSC “RZD” on 12 March 2012 (Minutes No. 5).

6. Contract for repair of passenger car trucks between JSC “RZD” and JSC “FPC”. Transaction price: not more than RUR 172,038,335.95, including VAT (18%). Related parties: members of the Executive Board JSC “RZD” Akulov M.P., Gnedkova O.E., Reshetnikov V.I.

The transaction was approved by the decision of the Board of Directors of JSC “RZD” on 12 March 2012 (Minutes No. 5).

7. Sale and purchase agreement for shares of regional telecommunication companies between JSC “RZD” and CJSC “Company TransTeleCom” in payment for additional shares of CJSC “Company TransTeleCom”. Transaction price: RUR 1,069,365 mln. Related parties: members of the Executive Board JSC “RZD” Gnedkova O.E., Kraft G.V., Reshetnikov V.I.

The transaction was approved by the decision of the Board of Directors of JSC “RZD” on 27 June 2012 (Minutes No. 11).
8. Agreements for the lease of land plots (parts thereof), which are federal property leased to JSC “RZD”, between JSC “RZD” and JSC “FPC”. Transaction price for all sublease agreements: RUR 6,298.66 per year, including VAT. Related parties: members of the Executive Board JSC “RZD” Akulov M.P., Gnedkova O.E., Reshetnikov V.I. The transaction was approved by the decision of the Board of Directors of JSC “RZD” on 27 June 2012 (Minutes No. 12).

9. Purchase and sale agreement for movable and immovable property between JSC “RZD” and JSC “FPC”. Transaction price: RUR 116,847,847 (including VAT). Related parties: members of the Executive Board JSC “RZD” Akulov M.P., Gnedkova O.E., Reshetnikov V.I. The transaction was approved by the decision of the Board of Directors of JSC “RZD” on 28 September 2012 (Minutes No. 15).

10. Lease of some immovable property items of JSC “RZD” to Blagosostoyanie Non-Governmental Pension Fund. Transaction price: RUR 6,756 per sq.m. per year, including VAT. Related parties: President of JSC “RZD” Yakunin V.I., members of the Executive Board of JSC “RZD”: Mikhaylov V.V., Shahanov D.S. The transaction was approved by the decision of the Board of Directors of JSC “RZD” on 28 September 2012 (Minutes No. 15).

11. Property exchange agreement between JSC “RZD” and JSC “FPC”. Transaction price: RUR 211,984,790 (net of VAT). Related parties: members of the Executive Board JSC “RZD” Akulov M.P., Gnedkova O.E., Reshetnikov V.I. The transaction was approved by the decision of the Board of Directors of JSC “RZD” on 15 September 2012 (Minutes No. 16).

12. Additional agreement No. 2 to loan agreement No. MTZ:091038 dated 6 June 2009 between JSC “RZD” and JSC “UBR”. Transaction price: not more than USD 48 mln. Related parties: member of the Executive Board JSC “RZD” Morozov V.N. The transaction was approved by the decision of the Board of Directors of JSC “RZD” on 15 October 2012 (Minutes No. 16).

13. Premises sale and purchase agreement between JSC “RZD” and JSC “FPK”. Transaction price: RUR 89,675,079.52 net of VAT (RUR 104,196,150.53 including VAT), including the cost of the land plot under the building subject to transfer to ownership of JSC “PGK” is RUR 9,002,462.79 (exempt from VAT). Related parties: member of the Executive Board JSC “RZD” Babaev S.M. The transaction was approved by the decision of the Board of Directors of JSC “RZD” on 16 November 2012 (Minutes No. 18).

14. Transaction (several related transactions) between JSC “RZD” and JSC “FPC” related to the lease of immovable property items. Price of the transaction (several related transactions): RUR 24,494,511.82 per year, net of VAT. Related parties: members of the Executive Board JSC “RZD” Akulov M.P., Gnedkova O.E., Reshetnikov V.I. The transaction was approved by the decision of the Board of Directors of JSC “RZD” on 16 November 2012 (Minutes No. 18).

15. Agreement between JSC “RZD” and JSC “RZD-ZDOROVIE” for acquisition of holiday packages for employees of JSC “RZD”, their families and retired pensioners of JSC “RZD”. Transaction price: not more than RUR 1,370,000,000 (one billion three hundred seventy million rubles). Related parties: members of the Executive Board JSC “RZD” Atkov O.Yu., Gnedkova O.E. The transaction was approved by the decision of the Board of Directors of JSC “RZD” on 13 November 2012 (Minutes No. 20).

16. Approval of the total value of maintenance of Allegro trains for 2013 under the agreement for maintenance of Allegro trains No. 1588 dated 29 December 2011 between Oy Karelian Trains Ltd, JSC “RZD” and VR Group Ltd. Transaction price: EUR 5,391,000. Related party: member of the Executive Board JSC “RZD” Akulov M.P. The transaction was approved by the decision of the Board of Directors of JSC “RZD” on 26 December 2012 (Minutes No. 22).
Appendix 3.
Description of key risk factors related to the Company’s activities

Information of court proceedings for 2012 where JSC “RZD” is a respondent

20,825 cases initiated by claims lodged against JSC “RZD” with a total amount of RUR 19,656,942.2 th. were pending in court in 2012.

10,030 cases (including with expired period for appeal) for a total amount of RUR 5,605,949.2 th. were considered, including:

- not in favor of JSC “RZD” 7,141 cases for a total amount of RUR 1,960,976.0 th.;
- in favor of JSC “RZD” 2,889 cases for a total amount of RUR 3,644,973.2 th.;
- 10,793 cases for an amount of RUR 14,048,575.1 th. are pending.

Including:

**Trial courts**
considered 6,347 cases for a total amount of RUR 8,997,374.4 th., including:

- not in favor of JSC “RZD” 4,884 cases for a total amount of RUR 1,637,973.6 th.;
- not in favor of JSC “RZD” 1,463 cases for a total amount of RUR 7,359,400.8 th.;
- 3,152 cases for a total amount of RUR 3,818,253.6 th. are pending.

**Courts of appeal**
considered 1,041 cases for a total amount of RUR 820,899.0 th., including:

- not in favor of JSC “RZD” 446 cases for a total amount of RUR 162,663.4 th.;
- in favor of JSC “RZD” 2,704 cases for a total amount of RUR 552,360.8 th.;
- 1,982 cases for a total amount of RUR 10,486,190.7 th. are pending.

**Courts of cassation**
considered 88 cases for a total amount of RUR 129,626.7 th., including:

- not in favor of JSC “RZD” 66 cases for a total amount of RUR 51,566 th.;
- not in favor of JSC “RZD” 22 cases for a total amount of RUR 78,060.7 th.;
- 54 cases for a total amount of RUR 29,841.7 th. are pending.

Information of court proceedings for 2012 where JSC “RZD” is a plaintiff

13,075 cases initiated by claims lodged by JSC “RZD” with a total amount of RUR 14,320,378.6 th. were pending in court in 2012.

2,160,067.6 cases (including with expired period for appeal) for a total amount of RUR 2,160,067.6 th. were considered, including:

- not in favor of JSC “RZD” 1,499 cases for a total amount of RUR 707,561.5 th.;
- in favor of JSC “RZD” 5,822 cases for a total amount of RUR 1,408,506.1 th.;
- 5,753 cases for a total amount of RUR 12,201,316.1 th. are pending.

Including:

**Trial courts**
considered 3,150 cases for a total amount of RUR 716,024.2 th., including:

- not in favor of JSC “RZD” 446 cases for a total amount of RUR 162,663.4 th.;
- in favor of JSC “RZD” 2,704 cases for a total amount of RUR 552,360.8 th.;
- 1,982 cases for a total amount of RUR 10,486,190.7 th. are pending.

**Courts of appeal**
considered 465 cases for a total amount of RUR 244,169.5 th., including:

- not in favor of JSC “RZD” 188 cases for a total amount of RUR 144,887.8 th.;
- in favor of JSC “RZD” 277 cases for a total amount of RUR 99,281.7 th.;
- 58 cases for a total amount of RUR 32,602 th. are pending.

**Courts of cassation**
considered 68 cases for a total amount of RUR 712,684.5 th., including:

- not in favor of JSC “RZD” 24 cases for a total amount of RUR 120,161.1 th.;
- not in favor of JSC “RZD” 44 cases for a total amount of RUR 592,523.4 th.;
- 30 cases for a total amount of RUR 9,645.2 th. are pending.
Information on potential circumstances that objectively impede the Company’s activities

In 2012, as a result of earthquakes, hazardous meteorological and hydrological phenomena occurring in the territory of the Russian Federation railway facilities included in the infrastructure of JSC “RZD” were locally damaged, which did not escalate into emergencies and did not have a significant impact on the industry. Consequences of the damage were quickly liquidated at the expense of JSC “RZD” without the involvement of territorial unified state emergency prevention and response system.

Information on the execution of orders of the President of the Russian Federation and the Government of the Russian Federation.

<table>
<thead>
<tr>
<th>Order</th>
<th>Results of execution</th>
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<tr>
<td>On amendments to the procedure for calculating tariffs for freight transportation in borrowed cars and rules for their application providing the use of adjusting factors within the established price corridor differentiated according to the type of cargo and destination Minutes of the meeting with Prime Minister of the Russian Federation Medvedev D.A. No. DM-P9-16pr dated 6.08.2012</td>
<td>The FTS of Russia issued Order No. 215-t/2 dated 13.09.2012 “On amendments on the procedure of calculating tariffs for freight transportation in borrowed cars and rules for their application approved by the FTS of Russia on 27.12.2011 under No. 444-T/4”</td>
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<tr>
<td>Order</td>
<td>Results of execution</td>
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<td>----------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------</td>
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<tr>
<td>Prolongation of the discount exceptional rate of 0.01 applicable to</td>
<td>Decree of the Government of the Russian Federation No. 1415 dated 27.12.2012 “On amendments to the Decree of the Government of the Russian Federation No. 844 dated 17.10.2011 prolonging for 2013 the the discount exceptional rate of 0.01 applicable to tariffs for the public railway infrastructure services provided by JSC “RZD” in suburban passenger transportation, with the compensation of relevant revenue losses of JSC “RZD” at the expense of the federal budget. Order of the FTS of Russia No. 443-t/1 dated 28.12.2012 “On the establishment of the discount exceptional rate for public railway infrastructure services provided by Open Joint Stock Company “Russian Railways” in public railway passenger transportation by suburban trains” (registered by the RF Ministry of Justice on 05.02.2013 under No. 26836)</td>
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<tr>
<td>tariffs for the public railway infrastructure services provided by JSC</td>
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<tr>
<td>“RZD” in suburban passenger transportation for 2013</td>
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<tr>
<td>Instruction of Deputy Prime Minister of the Russian Federation</td>
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<tr>
<td>Dvorkovich A.V. No. AD-P9-6274 dated 19.10.2012;</td>
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<tr>
<td>On working out the Concept of development of suburban railway</td>
<td>The Draft Concept of the development of suburban railway passenger transportation was approved on 01.11.2012 (Minutes No. 1) at the meeting of the Government Commission on Transport and Communication</td>
</tr>
<tr>
<td>passenger transportation</td>
<td></td>
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<tr>
<td>Minutes of the meeting with Deputy Prime Minister of the Russian</td>
<td>Interdepartmental working group for the development of railway transport was established by the order of Deputy Prime Minister of the Russian Federation Dvorkovich A.V. No. AD-P9-5096 dated 29.08.2012; JSC “RZD” is represented by Mikhailov V.V. and Meshcheryakov A.A.</td>
</tr>
<tr>
<td>Federation Dvorkovich A.V. No. AD-P9-28pr dated 29.06.2012;</td>
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<tr>
<td>On the establishment of the interdepartmental working group for the</td>
<td>The plan for the establishment of of railway transportation tariffs for a 5-year term was approved by order of Prime Minister of the Russian Federation Medvedev D.A. No. DM-P9-7592 dated 13.12.2012.</td>
</tr>
<tr>
<td>development of railway transport</td>
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<tr>
<td>Minutes of the meeting with Prime Minister of the Russian Federation</td>
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<tr>
<td>Medvedev D.A. No. DM-P9-28pr dated 5.08.2012;</td>
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<tr>
<td>On the establishment of railway transportation tariffs for a 5-year</td>
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<td>term</td>
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<tr>
<td>Minutes of the meeting with Prime Minister of the Russian Federation</td>
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<tr>
<td>Medvedev D.A. No. DM-P9-28pr dated 5.08.2012;</td>
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<tr>
<td>for long-distance trains of JSC “Federal Railway Company” in the</td>
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<td>domestic traffic in the regulated segment in average annual terms</td>
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<td>by 20% against 2012</td>
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<td>Minutes of the meeting with Deputy Prime Minister of the Russian</td>
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<tr>
<td>Federation Dvorkovich A.V. No. AD-P9-112pr dated 23.11.2012;</td>
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<td>for government support of railway transportation in 2013</td>
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<td>Minutes of the meeting with Deput Prime Minister of the Russian</td>
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<td>System”</td>
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<tr>
<td>Order of the President of the Russian Federation No. 596 dated</td>
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<tr>
<td>07.05.2012 “On the long-term state economic policy”</td>
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Appendix 4.
Current assets and short-term liabilities

CURRENT ASSETS

DYNAMICS OF CURRENT ASSETS, RUR BLN.

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<tr>
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<tbody>
<tr>
<td>Inventory</td>
<td>76.5</td>
<td>77.1</td>
<td>0.6</td>
<td>0.8</td>
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<tr>
<td>VAT for assets acquired</td>
<td>6.5</td>
<td>8.1</td>
<td>1.6</td>
<td>24.6</td>
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<tr>
<td>Receivables</td>
<td>86.0</td>
<td>81.4</td>
<td>-4.6</td>
<td>-5.3</td>
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<tr>
<td>Financial investments (excluding cash equivalents)</td>
<td>6.4</td>
<td>5.0</td>
<td>-1.4</td>
<td>-21.9</td>
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<tr>
<td>Cash and cash equivalents</td>
<td>180.8</td>
<td>113.5</td>
<td>-67.3</td>
<td>-37.2</td>
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<tr>
<td>Other current assets</td>
<td>14.2</td>
<td>14.0</td>
<td>-0.2</td>
<td>-1.4</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>370.4</strong></td>
<td><strong>299.1</strong></td>
<td><strong>-71.3</strong></td>
<td><strong>-19.3</strong></td>
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</table>

SHORT-TERM LIABILITIES

DYNAMICS OF SHORT-TERM LIABILITIES, RUR BLN.

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</thead>
<tbody>
<tr>
<td>Borrowed funds</td>
<td>120.7</td>
<td>60.2</td>
<td>-60.5</td>
<td>-50.1</td>
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<tr>
<td>Payables</td>
<td>299.4</td>
<td>312.3</td>
<td>12.9</td>
<td>4.3</td>
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<tr>
<td>Deferred revenue</td>
<td>6.1</td>
<td>7.1</td>
<td>1</td>
<td>16.4</td>
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<tr>
<td>Estimated liabilities</td>
<td>29.0</td>
<td>38.6</td>
<td>9.6</td>
<td>33.1</td>
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<tr>
<td>Other short-term liabilities</td>
<td>2.0</td>
<td>3.0</td>
<td>1</td>
<td>50</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>457.2</strong></td>
<td><strong>421.2</strong></td>
<td><strong>-36</strong></td>
<td><strong>-7.9</strong></td>
</tr>
<tr>
<td><strong>TOTAL (excluding borrowings)</strong></td>
<td><strong>336.5</strong></td>
<td><strong>361</strong></td>
<td><strong>24.5</strong></td>
<td><strong>7.3</strong></td>
</tr>
</tbody>
</table>

JSC “RZD” manages its current capital according to the following positions:

- payment discipline (timeliness of payments);
- optimization of solvency ratios of the RZD Group;
- management of reserves;
- management of inventories.

Sufficiency of current capital leads to cost minimizing, improving financial results, and company sustainability.

Accordingly, the company uses an aggressive model of current capital management characterized by separation of investment assets financed at the expense of current capital.

At year-end 2012, the company’s WCR (working capital requirement) was RUR (–180.5) bln. The net cash flow from changes in working capital was RUR +1.2 bln. The following factors had an adverse effect:

- growth of receivables of SPCs and creation of bad debt provision for a total amount of RUR 14.8 bln.;
- debt as a result of assignment of rights and obligations under a lease agreement in the amount of RUR 7.3 bln.;
- other (growth of debt for advances issued, reduction of taxes and duties payable).

However, the impact of the above factors was compensated by the growth of payables to suppliers for RUR 25 bln., increase in the amount of estimated liabilities for RUR 9.7 bln.
INVENTORY MANAGEMENT

At year-end, the company’s inventories amounted to RUR 77.1 bln. with an increase against the beginning of the year by RUR 0.6 bln., including:

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</tr>
</thead>
<tbody>
<tr>
<td>Total inventories, including:</td>
<td>76.5</td>
<td>77.1</td>
<td>0.6</td>
<td>0.8</td>
</tr>
<tr>
<td>raw materials and other similar inventories</td>
<td>74.7</td>
<td>75.9</td>
<td>1.2</td>
<td>1.6</td>
</tr>
<tr>
<td>expenses for work in progress</td>
<td>1.2</td>
<td>0.7</td>
<td>-0.5</td>
<td>-41.7</td>
</tr>
<tr>
<td>finished goods and goods for resale</td>
<td>0.3</td>
<td>0.2</td>
<td>-0.1</td>
<td>-33.3</td>
</tr>
<tr>
<td>goods shipped</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>deferred expenses</td>
<td>0.3</td>
<td>0.3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>other inventories and expenses</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Due to the significant upgrading of rolling stock held by the company with the removal of life-expired fleets and posting used spare parts, the growth of inventories was observed in the locomotive, car and business facilities.

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>emergency stock</td>
<td>1.9</td>
<td>2.7</td>
<td>142 %</td>
</tr>
<tr>
<td>seasonal track structure material stock</td>
<td>1.8</td>
<td>14.5</td>
<td>806 %</td>
</tr>
<tr>
<td>reused material stock</td>
<td>7.4</td>
<td>8.4</td>
<td>114 %</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of inventories for production, days of use (total)</td>
<td>53</td>
<td>47</td>
<td>89 %</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>materials</td>
<td>59</td>
<td>52</td>
<td>88 %</td>
</tr>
<tr>
<td>fuel</td>
<td>34</td>
<td>29</td>
<td>85 %</td>
</tr>
</tbody>
</table>
Measures aimed at the reduction of the inventory turnover period:

- sale of reused materials not required for the production and economic activities;
- additional sale of scrap metal;
- redistribution of non-core inventories;
- allocation of funds to purchase materials and equipment with account of inventories from own production, reuse of materials and their distribution among subsidiaries, available inventories;
- development and updating technical documentation in order to shorten technological processes, reduce production costs and therefore decrease the number of inventories.

**OTHER CURRENT ASSETS**

Other current assets as of 31.12.2011 amounted to RUR 14.0 bln. with a decrease against the beginning of year by RUR 0.2 bln. (or by 1%).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>property by the right of operational management</td>
<td>0.3</td>
<td>0.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Value added tax for advances received</td>
<td>8.9</td>
<td>8.6</td>
<td>-0.3</td>
</tr>
<tr>
<td>shortages and losses from impairment of assets</td>
<td>0.6</td>
<td>0.5</td>
<td>-0.1</td>
</tr>
<tr>
<td>accrued but not due revenue</td>
<td>4.5</td>
<td>4.4</td>
<td>-0.1</td>
</tr>
<tr>
<td>immovable property transferred to buyers before recognition of revenue from sale</td>
<td>-</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>14.2</td>
<td>14.0</td>
<td>-0.2</td>
</tr>
</tbody>
</table>

Deferred revenue increased by RUR 1 bln. against the beginning of the year. The balance as of 31.12.2012 is RUR 7.1 bln.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>6.1</td>
<td>7.1</td>
<td>1</td>
</tr>
</tbody>
</table>

At the end of the reporting period estimated liabilities were RUR 39 bln., including:

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Bonuses and leave allowances, including:</td>
<td>19.7</td>
<td>24.4</td>
<td>4.7</td>
<td>+23.8</td>
</tr>
<tr>
<td>Other payments to employees</td>
<td>3.6</td>
<td>5.6</td>
<td>2</td>
<td>+51.4</td>
</tr>
<tr>
<td>Legal proceedings:</td>
<td>2.2</td>
<td>5.3</td>
<td>3.1</td>
<td>+140.9</td>
</tr>
<tr>
<td>Bank guarantees</td>
<td>3.4</td>
<td>3.3</td>
<td>-0.1</td>
<td>-2.9</td>
</tr>
<tr>
<td>TOTAL</td>
<td>29.0</td>
<td>38.6</td>
<td>9.6</td>
<td>+33.1</td>
</tr>
</tbody>
</table>
OTHER SHORT-TERM LIABILITIES

Other short-term liabilities as of 31.12.2011 amounted to RUR 3.0 bln. with a decrease against the beginning of year by RUR 1.0 bln. (or by 50%).

BREAKDOWN OF OTHER CURRENT ASSETS, RUR BLN.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Value added tax for advances paid</td>
<td>2.0</td>
<td>3.0</td>
<td>1.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2.0</td>
<td>3.0</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Accounts receivable and payable management

RECEIVABLES AS OF 31.12.2012, RUR BLN.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total buyers and customers</td>
<td>86.0</td>
<td>81.4</td>
<td>-4.6</td>
<td>-5%</td>
</tr>
<tr>
<td>(sales receivables), including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>for transportation</td>
<td>19.0</td>
<td>12.8</td>
<td>-6.2</td>
<td>-33%</td>
</tr>
<tr>
<td>other years and customers</td>
<td>3.1</td>
<td>2.5</td>
<td>-0.6</td>
<td>-19%</td>
</tr>
<tr>
<td>Advances paid</td>
<td>15.9</td>
<td>10.3</td>
<td>-5.6</td>
<td>-35%</td>
</tr>
<tr>
<td>including capital investments</td>
<td>24.2</td>
<td>32.1</td>
<td>7.9</td>
<td>+33%</td>
</tr>
<tr>
<td>Social insurance and social security</td>
<td>0.6</td>
<td>0.5</td>
<td>-0.1</td>
<td>-17%</td>
</tr>
<tr>
<td>Taxes and levies</td>
<td>5.3</td>
<td>6.6</td>
<td>1.3</td>
<td>+25%</td>
</tr>
<tr>
<td>Wage settlements and other settlements with persons accountable</td>
<td>0.3</td>
<td>0.2</td>
<td>-0.1</td>
<td>-33%</td>
</tr>
<tr>
<td>Other debtors</td>
<td>36.5</td>
<td>29.2</td>
<td>-7.3</td>
<td>-20%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>86.0</td>
<td>81.4</td>
<td>-4.6</td>
<td>-5%</td>
</tr>
</tbody>
</table>

Sales receivable turnover period, days

As a result of the work performed, the average length of turnover (turnover period) of receivables for sales (transportation and other) was 3 days (-2 days against 2011).

At year-end of 2012, receivables of JSC “RZD” amounted to RUR 81.4 bln. with a decrease against the beginning of the year by RUR 4.6 bln. (or 5%). The greatest decrease is associated with receivables from buyers and customers, other than transportation, (-35%), other debtors (-20%). At the same time the growth of receivables for advances paid (including under long-term projects) was 33%, for taxes and levies – 255.

Receivables from buyers and customers (other than transportation) decreased against the beginning of the year by RUR 5.6 bln. (-35%) and amounted to RUR 10.3 bln., including for sale of inventories and other assets – by RUR 5.6 bln., for lease – by RUR 0.3 bln., for social services – by RUR 0.2 bln. Receivables from subsidiaries and affiliates was RUR 4.1 bln. (40% of the total receivables from buyers and customers), including debts of:

- suburban passenger companies – RUR 2.4 bln. (lease of multiple units (MU)),
- FPC – RUR 1.5 bln. (lease of traction rolling stock (TRS)),
- car repair companies (VRK-1, VRK-2, VRK-3) – RUR 0.2 bln.,
- JSC “TD RZD” – RUR 0.5 bln,
- TransTeleCom– RUR 0.2 bln. (lease of the Single Network Digital Communication Network).

RECEIVABLES, RUR BLN.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total receivables</td>
<td>12.8</td>
<td>3.0</td>
<td>6.6</td>
<td>81.4</td>
</tr>
<tr>
<td>Sales receivable</td>
<td>30.6</td>
<td>6.1</td>
<td>70.3</td>
<td>103.9</td>
</tr>
<tr>
<td>Sales turnover period, days</td>
<td>30.2</td>
<td>5.8</td>
<td>83.5</td>
<td>113.7</td>
</tr>
<tr>
<td></td>
<td>19.0</td>
<td>4.7</td>
<td>67.0</td>
<td>86.0</td>
</tr>
</tbody>
</table>
As of 31.12.2012, the balance sheet of JSC “RZD” shows receivables (including the bad debt reserve) from suburban passenger companies (including the Federal Railway Transport Agency (FRTA)) in the amount of RUR 36.6 bln. (+ RUR 13.1 bln. against the beginning of the year).

### CHANGES IN RECEIVABLES BY SUBURBAN PASSENGER COMPANIES FOR 2012 (INCLUDING RECEIVABLES IN RESERVE), RUR BLN.

<table>
<thead>
<tr>
<th>Item</th>
<th>for 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at the beginning of the period, including receivables in reserve</strong></td>
<td>23.5</td>
</tr>
<tr>
<td>Including receivables in reserve</td>
<td>22.8</td>
</tr>
<tr>
<td>Loss of unprofitable SPCs</td>
<td>6.3</td>
</tr>
<tr>
<td>Increase in the debt of federal and regional authorities to SPCs</td>
<td>0.0</td>
</tr>
<tr>
<td>Difference between revenues from infrastructure services and subsidies received</td>
<td>7.0*</td>
</tr>
<tr>
<td>Other factors of changes in receivables from SPCs</td>
<td>-0.2</td>
</tr>
<tr>
<td><strong>Balance at the end of the period, including receivables in reserve</strong></td>
<td>36.6</td>
</tr>
<tr>
<td>Including receivables in reserve</td>
<td>36.1</td>
</tr>
</tbody>
</table>

*Subsidies in the amount of RUR 25 bln. was receive in 2012 in full

Of these, the reserve for bad debts of SPCs (including the FRTA) includes RUR 36.1 bln.

The growth of the bad debt reserve is associated, first of all, with a failure of suburban passenger companies (SPCs) to pay for infrastructure services and lease of rolling stock with a crew (relating to other activities) due to their unprofitability. The reason for the increase in the debt of suburban passenger companies is the constituents’ failure to fulfil their obligations to compensate shortfalls in income of SPCs due to the state regulation of tariffs (for more details see Section “Suburban Passenger Traffic”), which at year-end of 2012 amounted to RUR 6.3 bln.

Moreover, it should be noted that in 2012 JSC “RZD” effectively collaborated with relevant ministries and state authorities in order to adopt the Rules for Subsidizing JSC “RZD” from the Federal Budget to compensate revenue losses resulted from the state regulation of tariffs for public railway infrastructure services provided for suburban passenger traffic and receive a subsidy in the amount of RUR 25 bln., preventing the growth of receivables from SPCs in this amount. Nevertheless, the subsidy received did not cover the difference between the basic and exceptional tariff in full, which resulted in receivables from the FRTA in the amount of RUR 7.0 bln.

Thus, as of 31.12.2012, the total receivables from the FRTA to JSC “RZD” for the period of 2011-2012 amounted to RUR 11.8 bln. (included to the bad debt reserve).

However, the financial result from the changes in receivables in the reserve was RUR – 14.5 bln. The breakdown of the bad debt reserve is given in the table below.

### BAD DEBT RESERVE AS OF 31.12.2012, RUR BLN.

<table>
<thead>
<tr>
<th>Item</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total reserve</td>
<td>74.3</td>
</tr>
<tr>
<td>including SPCs</td>
<td>36.1</td>
</tr>
<tr>
<td>Ministry of Health and Social Development</td>
<td>10.9</td>
</tr>
<tr>
<td>Libya project</td>
<td>24.6</td>
</tr>
<tr>
<td>other (housing and public utilities, etc.)</td>
<td>2.7</td>
</tr>
</tbody>
</table>
The financial result from changes in bad debt reserves amounted to 1.1% of income of JSC “RZD” for 2012 (the international practice shows companies’ reserving up to 1.5% of their revenues).

Receivables for advances paid increased by RUR 7.9 bln. (or +33%) against the beginning of the year and made up RUR 32.1 bln.

Tax liabilities amounted to RUR 6.5 bln., with an increase of RUR 1.2 bln. (or +23%) against the beginning of the year, including VAT of RUR 6.1 bln. (it will be reclaimed in 1Q 2013).

Other receivables amounted to RUR 29.2 bln.

### PAYABLES OF JSC “RZD”, RUR BLN.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>investment activities</td>
<td>84.0</td>
<td>100.2</td>
<td>-</td>
<td>+16.2</td>
<td>+19%</td>
</tr>
<tr>
<td>operating activities</td>
<td>68.5</td>
<td>77.3</td>
<td>-</td>
<td>-8.8</td>
<td>+13%</td>
</tr>
<tr>
<td>Wage settlements and other settlements with persons accountable</td>
<td>13.9</td>
<td>15.1</td>
<td>0.0</td>
<td>+1.2</td>
<td>+9%</td>
</tr>
<tr>
<td>Debts related to social insurance and social security</td>
<td>6.2</td>
<td>7.3</td>
<td>0.0</td>
<td>+1.2</td>
<td>+18%</td>
</tr>
<tr>
<td>Debts related to taxes and levies</td>
<td>25.5</td>
<td>12.6</td>
<td>0.0</td>
<td>-12.9</td>
<td>-51%</td>
</tr>
<tr>
<td>Advances received from other transactions</td>
<td>17.9</td>
<td>18.6</td>
<td>0.0</td>
<td>+0.7</td>
<td>+4%</td>
</tr>
<tr>
<td>Advance payment for transportation</td>
<td>70.6</td>
<td>70.5</td>
<td>0.0</td>
<td>-0.1</td>
<td>-</td>
</tr>
<tr>
<td>Outstanding distribution to shareholders</td>
<td>0</td>
<td>0</td>
<td>0.0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Other payables</td>
<td>12.8</td>
<td>14.1</td>
<td>0.1</td>
<td>+1.3</td>
<td>+10%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>299.4</strong></td>
<td><strong>315.7</strong></td>
<td><strong>0.5</strong></td>
<td><strong>+16.4</strong></td>
<td><strong>+5%</strong></td>
</tr>
<tr>
<td><strong>Total payables, excluding advances received</strong></td>
<td><strong>210.9</strong></td>
<td><strong>226.7</strong></td>
<td><strong>0.5</strong></td>
<td><strong>+15.8</strong></td>
<td><strong>+7%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2011.</th>
<th>In 2012</th>
<th>+/- vs 2011, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover period, days</td>
<td>34.4</td>
<td>38.1</td>
</tr>
<tr>
<td><strong>operating activities</strong></td>
<td>29.1</td>
<td>32.3</td>
</tr>
<tr>
<td><strong>investment activities</strong></td>
<td>41.5</td>
<td>45.3</td>
</tr>
</tbody>
</table>
Payables increased by RUR 16.4 bln. (or 5%) against the beginning of the year.

Payables to suppliers and contractors increased by RUR 25.0 bln. (or 16%), other payables – by RUR 1.3 bln. (or 10%), debts related to taxes and levies decreased by RUR 12.9 bln. (or 51%).

The increase of payables to suppliers and contractors to RUR 177.5 bln. is caused by the growth of debts relating to investment activities of JSC “RZD” by RUR 16.2 bln. (or 19%).

At year-end 2012, the turnover period of payables to suppliers and contractors was 38.1 days for the company in general, with increase by 3.7 days against the same period of the previous year. The increase in the turnover period of payables to suppliers and contractors in the reporting period was mainly caused by the turnover period of debts related to investment activities associated with fluctuations in work volumes and guarantee withholdings.

As of 31.12.2011, the payables to suppliers and contractors relating to investment activities was RUR 100.2 bln., including:

- payables that arose in December 2012 in the amount of RUR 71.4 bln.
- guarantee withholdings in the amount of RUR 25.4 bln.

As of the end of the reporting year, advances received (other than transportation) amounted to RUR 18.6 bln. (RUR 0.74 bln. or 4% against the beginning of the year), including those received for construction of a railway line (Libya) – RUR 13.6 bln.

Advances received from transportation remained at the level of 2011 and amounted to RUR 70.5 bln.

Tax liabilities decreased by RUR 12.9 bln., or 51%, against the beginning of the year and made up RUR 12.6 bln.

Other payables as of 31.12.2011 amounted to RUR 14.1 bln. with a decrease by RUR 1.3 bln. (or by 10 %) against the beginning of year.

Due to the current capital management the company could ensure availability of current assets in 2012, which resulted in cost minimizing, improving financial performance, timely fulfilling obligations to contractors, and avoid disruptions in production and sale of products, excessive diversion of current assets to inventory.
Appendix 5.
Issues discussed at the meetings of the Board of Directors of JSC “Russian Railways”

Minutes No. 1 dated 2 February 2012
1. Approval of the work schedule of the board of directors of JSC “RZD” for the first half of 2012.
2. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) in respect of the agenda of the extraordinary general meeting of shareholders of JSC “RZD”.
3. Approval of secondary employment of the executive board member of JSC “RZD” Babayev S.M. in the management body of JSC “PGK”.
4. Approval of amendments to the Regulation on placing orders for purchasing goods, carrying out works or providing services for the core activities of JSC “RZD” approved on 29 November 2011.
5. Dismissal and appointment of members of the executive board of JSC “RZD”.

Minutes No. 2 dated 7 February 2012
1. Principles of participation of the board of directors of JSC “RZD” in the management of subsidiaries and affiliates and control over their activities.
2. Concept of management of non-core assets of JSC “RZD”, its subsidiaries and affiliates (in respect of social infrastructure facilities and housing stock of JSC “RZD”).
3. Concept of the integrated development of the container business in JSC Holding Company.
4. Preliminary results of redistribution of management functions from territory subsidiaries of JSC “RZD” and railway departments to central directorates of JSC “RZD”.
5. Determination of the initial (maximum) price of the contract for compulsory audit of financial (accounting) statements of JSC “RZD” for 2012.
6. Results of purchasing activities of JSC “RZD” for 4Q 2011.
7. Determination of the position of Jsc “RZD” (representatives of JS “RZD”) at the meeting of the board of directors of CJSC “Company TransTeleCom” in respect of the agenda item “Participation of CJSC “Company TransTeleCom” in the share capital of CJSC “Electro-com”.

Minutes No. 3 dated 15 February 2012
1. Approval of the surety agreement between JSC “RZD” and the Russian Federation represented by the RF Ministry of Finance entered into to secure obligations of JSC “VSM” under settlement agreement for case No. A56-40703/2003 concluded with the RF Ministry of Finance providing restructuring of part of overdue liabilities of JSC “VSM” under promissory note No. 242-1-4-28 dated 21 October 1997.
2. Approval of the surety agreement between JSC “RZD” and the Russian Federation represented by the RF Ministry of Finance entered into to secure obligations of JSC “VSM” under settlement agreement for case No. A56-13962/2006 concluded with the RF Ministry of Finance providing restructuring of part of overdue liabilities of JSC “VSM” under promissory note No. 242-1-4-28 dated 21 October 1997.
3. Approval of terms and conditions of additional agreement No. 1 to loan agreement No. 1226 dated 9 November 2010 between JSC “RZD” and JV RasonKonTrans.
4. Liquidation of the subsidiary of JSC “RZD”, whose property was used to establish a scientific and technical company in the field of transportation.
5. Approval of the advertising services agreement with CJSC “Locomotive Football Club” as a related party transaction.
Minutes No. 4 dated 27 February 2012
Awarding the President of JSC “RZD” and assessment of his performance according to the results of 4Q 2011.

Minutes No. 5 dated 12 March 2012
1. Approval of the Regulation on Insider Information.
2. Approval of transactions for repair of passenger cars between JSC “RZD” and JSC “FPC” as related party transactions.
3. Approval of the concept of the High-Speed Railway-1 project and priority measures for its implementation.
5. RZD’s placement of issues of non-convertible interest-bearing documentary bearer bonds of 27, 28, 29, 30, 31 and 32 series and approval of equity documents.
6. Awarding of the President of JSC “RZD” according to the results of the transaction of JSC “PGK”.

Minutes No. 6 dated 19 April 2012
1. Approval of the report on the implementation of the Innovative Development Program of JSC Russian Railways for the period up to 2015.
2. Approval of the rules for keeping the registry of holders of registered securities (shares) of JSC “RZD”.
4. Amendments to the Regulation on placing orders for purchasing goods, carrying out works or providing services for the core activities of JSC “RZD” approved by the board of directors of JSC “RZD” on 29 November 2011.

Minutes No. 7 dated 28 April 2012
2. Results of purchasing activities of JSC “RZD” for 1Q 2012.
3. Awarding the President of JSC “RZD” and assessment of his performance according to the results of 1Q 2012.

Minutes No. 8 dated 15 May 2012
3. Preliminary approval of the annual accounting reporting of JSC “RZD” for 2011, including the profit and loss statement.
4. Awarding of members of the board of Directors of JSC “RZD”.
5. Recommendations to the general meeting of shareholders in respect of approval of the auditor of JSC “RZD” for 2012.
6. Approval of the fees payable to the auditor of JSC “RZD” for services provided in 2012.
7. Progress in the development and implementation of the effective car fleet management technology in the context of multiple operators of rolling stock and the lack of the inventory rolling stock.
8. Program of renovation of track equipment of the track facility in 2012-2016.
10. Recommendations on the amount of dividends and the procedure for dividend payment for the annual meeting of shareholder of JSC “RZD” according to the results of the company’s performance in 2011; distribution of net profit of JSC “RZD” according to results of 2011 (with account of directives of the Government of the Russian Federation No. 2204p-P13 dated 15 May 2012).

Minutes No. 9 dated 29 May 2012
1. Approval of the Regulation on the Protection of Confidential Information Constituting a Trade Secret during the meeting of the board of directors of JSC Russian Railways and its committees and commissions.
2. Liquidation of the Moscow Electromechanical Plant – a subsidiary of JSC “RZD”.
3. Dismissal of a member of the executive board of JSC “RZD”.
Minutes No. 10 dated 6 June 2012

1. Approval of secondary employment of the executive board members of JSC “RZD” in the management bodies of other organizations.
2. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) in respect of agenda items of general meetings of shareholders and the boards of directors of companies included in the list of subsidiaries and affiliates approved by the board of directors of JSC “RZD”, in respect of which the board of directors of JSC “RZD” adopts decisions according to the first paragraph of clause 71.23 of the Articles of association of JSC “RZD”.
3. Appointment of representative of JSC “RZD” for the participation in general meetings of shareholders of subsidiaries and affiliates.

Minutes No. 11 dated 27 June 2012

1. Application of direct long-term contracts for supply of steel products with the price formula accounting for the guidelines approved by Order of the RF Trade Ministry No. 1243 dated 20 December 2010 (with account of directives of the RF Government No. 751p-P13 dated 22 February 2012).
2. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of CJSC “Company TransTeleCom” in respect of the agenda item “Approval of the report on the utilization of the budget of CJSC “Company TransTeleCom” for 2011”.
5. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the discussion by management bodies of CJSC “Company TransTeleCom” of an increase in share capital of CJSC “Company TransTeleCom” by issue of additional shares.
6. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of CJSC “Company TransTeleCom” in respect of the agenda item “Purchase of shares in the share capital of other organizations by CJSC “Company TransTeleCom”.”

Minutes No. 12 dated 27 June 2012

1. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “Zheldorremmash” in respect of the agenda item “Approval of the report on the utilization of the budget of JSC “Zheldorremmash” for 2011”.
2. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “ZRdstroy” in respect of the agenda item “Approval of the report on the utilization of the budget of JSC “ZRdstroy” for 2011”.
3. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “ZRdstroy” in respect of the agenda item “Approval of the report on the utilization of the budget of JSC “ZRdstroy” for 2011”.
4. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “ZRdstroy” in respect of the agenda item “Approval of the report on the utilization of the budget of JSC “ZRdstroy” for 2011”.
5. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “ZRdstroy” in respect of the agenda item “Approval of the report on the utilization of the budget of JSC “ZRdstroy” for 2011”.

3. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “ZRdstroy” in respect of the agenda item “Approval of the report on the utilization of the budget of JSC “ZRdstroy” for 2011”.

4. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “ZRdstroy” in respect of the agenda item “Appro
“FPC” in respect of the agenda item “Adjustment of the budget of JSC “FPC” for 2012.”

6. Approval of sublease agreements for land plots (their parts) between JSC “RZD” and JSC “FPC” as related party transactions.

Minutes No. 13 dated 30 June 2012
Reorganization of non-public health care institutions of JSC “RZD”.

Minutes No. 14 dated 14 September 2012
1. Election of the Chairman of the meeting of the board of directors of JSC “RZD”.
3. Minutes No. 15 dated 28 September 2012
4. Election of the Chairman of the meeting of the board of directors of JSC “RZD”.
5. Appropriateness of alienation by JSC “RZD” of core assets in sectors of economy with a sufficient level of competition, including in order to ensure the maximum possible participation of small and medium-sized businesses.
6. Approval of the Environmental Responsibility Program of JSC “RZD”.
7. Results of purchasing activities of JSC “RZD” for 1H 2012.
8. Approval of a sale and purchase agreement between JSC “RZD” and JSC “FPC” as related party transaction.
9. Approval of the transfer in lease of part of immovable property of JSC Russian Railways to Blagosostoyanie Non-Governmental Pension Fund as a related party transaction.
10. Awarding the President of JSC “RZD” and assessment of his performance according to the results of 2Q 2012.
11. Approval of secondary employment of the executive board members of JSC “RZD” in the management bodies of other organizations.

Minutes No. 15 dated 28 September 2012
1. Election of the Chairman of the meeting of the board of directors of JSC “RZD”.
2. Appropriateness of alienation by JSC “RZD” of core assets in sectors of economy with a sufficient level of competition, including in order to ensure the maximum possible participation of small and medium-sized businesses.
3. Approval of the Environmental Responsibility Program of JSC “RZD”.
4. Results of purchasing activities of JSC “RZD” for 1H 2012.
5. Approval of a sale and purchase agreement between JSC “RZD” and JSC “FPC” as related party transaction.
6. Approval of the transfer in lease of part of immovable property of JSC Russian Railways to Blagosostoyanie Non-Governmental Pension Fund as a related party transaction.
7. Approval of the transfer in lease of part of immovable property of JSC Russian Railways to Blagosostoyanie Non-Governmental Pension Fund as a related party transaction.
8. Approval of secondary employment of the executive board members of JSC “RZD” in the management bodies of other organizations.

Minutes No. 16 dated 15 October 2012
1. Election of the Chairman of the meeting of the board of directors of JSC “RZD”.
2. Approval of a property exchange agreement between JSC “RZD” and JSC “FPC” as related party transaction.
3. Dismissal of members of the executive board of JSC “RZD”.
4. Appointment of vice-presidents of JSC Russian Railways

Minutes No. 17 dated 29 October 2012
1. Election of the Chairman of the meeting of the board of directors of JSC “RZD”.
2. Election of the chairmen of committees of the board of directors of JSC “RZD”.
4. Adjustment of the investment program and financial plan of JSC “RZD” for 2012 according to the performance in 1H 2012.
5. Draft consolidated financial plans of JSC “RZD” and its key subsidiaries and affiliates and draft investment program of JSC “RZD” for 2013 and the planning period of 2014 and 2015.
6. Approval of the list of subsidiaries and affiliates approved by the board of directors of JSC “RZD”, in respect of which the board of directors of JSC “RZD” adopts decisions according to clause 71.23 of the Articles of association of JSC “RZD”.
7. Reduction of RZD’s share in JSC “Central SPC”.
8. Dismissal of a vice-president of JSC Russian Railways.
Minutes No. 18 dated 16 November 2012
1. Election of the chairman of the board of directors of JSC “RZD”.
2. Approval of additional agreement No. 2 to loan agreement No. MTZ09038 dated 6 June 2009 between JSC “RZD” and JSC “UBR” as a related party transaction.
3. Approval of the premises sale and purchase transaction between JSC “RZD” and JSC “FPC” as related party transaction.
4. Approval of the transaction (several related transactions) between JSC “RZD” and JSC “FPC” related to the lease of immovable property items as a related party transaction.

Minutes No. 19 dated 28 October 2012
1. Withdrawal of RZD from JSC “PGK”.
2. Approval of sale of 75% minus 2 shares of JSC “Zhedorremmash”.
3. Approval of investment program and financial plan of JSC “RZD” for 2013 and the planning period of 2014 and 2015.
4. Approval of the Code of Conduct of JSC “RZD”.

Minutes No. 20 dated 13 December 2012
1. The cost of placing additional shares of JSC “RZD”.
2. Results of purchasing activities of JSC “RZD” for 9 months of 2012.
4. Approval of the agreement between JSC “RZD” and JSC “RZD-ZDOROVIE” for acquisition of holiday packages for employees of JSC “RZD”, their families and retired pensioners.

Minutes No. 21 dated 21 December 2012
1. Approval of the decision to issue additional ordinary registered uncertificated shares of JSC “RZD”.
2. Adjustment of the investment program and financial plan of JSC “RZD” for 2012.
3. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “FGK” for 2012.
4. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “FGK” in respect of the agenda item “Approval of the adjusted budget of JSC “FGK” for 2013-15”.
5. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “FGK” in respect of the agenda item “Approval of the budget of JSC “FGK” for 2013-15”.

Minutes No. 22 dated 26 December 2012
1. The cost of placing additional shares of JSC “RZD”.
2. Approval of the total value of maintenance of Allegro trains for 2013 under the agreement for maintenance of Allegro trains No. 1588 dated 29 December 2011 between Oy Karelian Trains Ltd, JSC “RZD” and VRGroupLtd.
3. Determination of the position of JSC “RZD” (representative of JSC “RZD”) in respect of the agenda item of the general meeting of shareholders of JSC “RZDstroy” “Changing of terms and conditions of a major transaction”.
4. Liquidation of the Federal Passenger Directorate – a subsidiary of JSC “RZD”, whose property was used to establish JSC “FPC”.
5. Determination of the position of JSC “RZD” in respect of the agenda item of the general meetings of shareholders of subsidiaries and affiliates of JSC “RZD” included in the list annually approved by the board of directors of JSC “RZD” – “Approval of the agenda of the general meeting of shareholders”.

Minutes No. 23 dated 29 December 2012
1. Change in RZD’s share in JSC “AK “ZHDY“.”
Appendix 6.
List of issues discussed at the meetings of the Committee for Strategic Planning of the Board of Directors of JSC Russian Railways

Minutes No. 1 dated 31 January 2012
1. Principles of participation of the board of directors of JSC “JSC” in the management of subsidiaries and affiliates and control over their activities.

Minutes No. 2 dated 02 February 2012
1. Preliminary results of redistribution of management functions from territory subsidiaries of JSC “RZD” and railway departments to central directorates of JSC “RZD”.

Minutes No. 3 dated 06 March 2012

Minutes No. 4 dated 10 May 2012
Progress in the development and implementation of the effective car fleet management technology in the context of multiple operators of rolling stock and the lack of the inventory rolling stock.

Minutes No. 5 dated 18 June 2012
1. Application of direct long-term contracts for supply of steel products with the price formula accounting for the guidelines approved by Order of the RF Trade Ministry No. 1243 dated 20 December 2010.
2. Determination of the position of JSC “RZD” (representatives of JS “RZD”) at the meeting of the board of directors of JSC “VGK” in respect of the agenda item “Participation of JSC “VGK” in Limited Liability Company “Knorr-Bremze 1520”.
3. Determination of the position of JSC “RZD” (representatives of JS “RZD”) at the meeting of the board of directors of JSC “FPC” in respect of the agenda item “Participation of JSC “FPC” in Open Joint Stock Company “FPC-Logistics”.

Minutes No. 6 dated 25 June 2012
2. Implementation of technological measures aimed at intensifying the use of the existing infrastructure, including by increase of the length and weight of a freight train, application of advanced interval traffic regulation systems, optimization of passenger traffic, improvement of performance of terminal yards, upgrading the locomotive fleet.
3. Reduction of RZD’s share in JSC “Zheldorremmash”.
4. Determination of the position of JSC “RZD” (representatives of JS “RZD”) at the meeting of the board of directors of JSC “FPC” in respect of the agenda item “Participation of JSC “FPC” in Open Joint Stock Company “FPC-Logistics”.

Minutes No. 7 dated 26 October 2012
1. Adjustment of the investment program and financial plan of JSC “RZD” for 2012 according to the performance in 1H 2012.
2. Draft consolidated financial plans of JSC “RZD” and its key subsidiaries and affiliates and draft investment program of JSC “RZD” for 2013 and the planning period of 2014 and 2015.
3. Reduction of RZD’s share in JSC “Central SPC”.

Minutes No. 8 dated 27 November 2012
1. Participation of Jsc “Rzd” in the share capital of CJSC “Locomotive Football Club”.
2. Participation of CJSC “Company TransTeleCom” in CJSC “Maginfo”.
Appendix 7.
List of issues discussed at the meetings of the Committee for Audit, Risks and Remuneration of the Board of Directors of JSC Russian Railways

Minutes No. 1 dated 3 February 2012
1. Determination of the initial (maximum) price of the contract for compulsory audit of financial (accounting) statements of JSC “RZD” for 2012.

Minutes No. 2 dated 6 March 2012
1. Awarding of the President of JSC “RZD” according to the results of the sale of 75% minus 2 shares of JSC “PGK”.

Minutes No. 3 dated 03 May 2012
3. Preliminary approval of the annual accounting reporting of JSC “RZD” for 2011 according to Russian standards, including the profit and loss statement.
4. Recommendations to the general meeting of shareholders in respect of approval of the auditor of JSC “RZD” for 2012.

Minutes No. 4 dated 8 June 2012
1. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “Zhedorremmash” in respect of the agenda item “Approval of the report on the utilization of the budget of JSC “Zhedorremmash” for 2011”.
2. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “RZDstroy” in respect of the agenda item “Approval of the report on the utilization of the budget of JSC “RZDstroy” for 2011”.

Minutes No. 5 dated 15 June 2012
1. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “FPC” in respect of the agenda item “Approval of the report on the utilization of the budget of JSC “FPC” for 2011”.

2. Results of purchasing activities of JSC “RZD” for 4Q 2011.
2. RZD’s placement of six issues of non-convertible interest-bearing documentary bearer bonds of 27, 28, 29, 30, 31 and 32 series and approval of relevant documents.

5. Approval of the fees payable to the auditor of JSC “RZD” for services provided in 2012.
6. Recommendations on the maximum amount of dividends and the procedure for dividend payment for the annual meeting of shareholder of JSC “RZD” according to the results of the company’s performance in 2011; distribution of net profit of JSC “RZD” according to results of 2011.
7. Awarding of members of the board of Directors of JSC “RZD”.

3. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “VGK” in respect of the agenda item “Approval of the report on the utilization of the budget of JSC “VGK” for 2011”.
4. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “FPC” in respect of the agenda item “Approval of the report on the utilization of the budget of JSC “FPC” for 2011”.

2. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “FPC” in respect of the agenda item “Adjustment of the budget of JSC “FPC” for 2012”.

Appendix 7.
List of issues discussed at the meetings of the Committee for Audit, Risks and Remuneration of the Board of Directors of JSC Russian Railways
3. Withdrawal of RZD from JSC “PGK”.
5. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the discussion by management bodies of CJSC “Company “TransTeleCom” of an increase in share capital of CJSC “Company “TransTeleCom” by issue of additional shares.
6. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the discussion by management bodies of CJSC “Company “TransTeleCom” of the item “Purchase of shares in the share capital of other organizations by CJSC “Company “TransTeleCom”.
7. Reduction of RZD’s share in JSC “Central SPC”.
8. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of CJSC “Company TransTeleCom” in respect of the agenda item “Approval of the report on the utilization of the budget of CJSC “Company TransTeleCom” for 2011”.
9. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “PGK” in respect of the agenda item “Approval of the budget of JSC “PGK” for 2011”.

Minutes No. 6 dated 30 July 2012
Consideration of the draft shareholders’ agreement in respect of JSC “Zheldorremmash”.

Minutes No. 7 dated 22 October 2012
Consideration of the draft for repair and upgrading of rolling stock between JSC “RZD” and JSC “Zheldorremmash”.

Minutes No. 8 dated 14 December 2012
1. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “Zheldorremmash” in respect of the agenda item “Approval of the budget of JSC “Zheldorremmash” for 2013-2015”.
2. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “FGK” in respect of the agenda item “Approval of the adjusted budget of JSC “FGK” for 2012”.
3. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “FGK” in respect of the agenda item “Approval of the budget of JSC “FGK” for 2013-15”.
4. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “RZDstroy” in respect of the agenda item “Adjustment of the budget of JSC “RZDstroy” for 2012”.
5. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of JSC “RZDstroy” in respect of the agenda item “Approval of the budget of JSC “RZDstroy” for 2013–2015”.
6. Determination of the position of JSC “RZD” (representatives of JSC “RZD”) at the meeting of the board of directors of CJSC “Company TransTeleCom” in respect of the agenda item “Approval of the budget of CJSC “Company TransTeleCom” for 2013–2015”.
7. Withdrawal of JSC “RZD” from JSC “Saransk VRZ”.
LEGAL DISCLAIMER

This annual report (hereinafter referred to as the Annual Report) has been produced based on the information available to Open Joint Stock Company “Russian Railways” (hereinafter referred to as JSC “RZD” or the Company) and its affiliates (hereinafter referred to as the Group or “RZD”) as of the date of its publication.

The annual report of JSC “RZD” for 2012 discloses information to provide the shareholder represented by the Government of the Russian Federation, as well as government agencies, potential and actual investors, shippers, passengers and miscellaneous stakeholders and information users with comprehensive and relevant data on the operations of JSC “Russian Railways” in 2012 and the Company’s development trends.

The report complies with the following standards and legal acts:
• Federal Law “On joint-stock companies”;
• Order No. 228 of the Administration of the Federal Agency for Federal Property Management dated 26 July 2005 “On the regulation of activities of the Federal Agency for Federal Property Management in the sphere of corporate management” (with recommendations on forming position of the Russian Federation on adoption of an annual report of the open joint stock company whose shares are held by the Russian Federation);
• Regulation No. 17/ps of FSC dated 31 May 2002 “On approval of the provision on additional requirements to the procedure of preparing, convening and holding a general shareholders’ meeting”;
• Regulation No. 421/r of FSC dated 4 April 2002 “On recommendations on application of the code of corporate conduct”.

This report is an overview of the current situation of JSC “RZD” and its performance for the year ended 31 December 2011 as well as major trends that may have an impact on its future performance.

For the purposes of this document, the word “Company”, pronoun “we” and its various forms refer to JSC “RZD”.

This report contains forward-looking statements that reflect expectations of the Company’s management.

These forward-looking statements are not based on actual circumstances and include all the statements with regard to the Company’s intentions, opinions or current expectations concerning its performance, financial standing, liquidity, growth prospects, strategy and industry where JSC “RZD” operates. These forward-looking statements are inherently characterized by risks and uncertainty factors as the y relate to the events and depend on the circumstances that may not occur in the future.

Such terms as “assume”, “consider”, “expect”, “forecast”, “intend”, “plan”, “project”, “review”, “could” and other similar expressions and negative phrases are normally indicative of a predictive nature of a statement. These assumptions contain risks and uncertainties either expected or unexpected by the Company. Thus, future performance may be different from current expectations and users of this information may not rely in the circumstances that may not occur in the future.

The assumptions contain risks and uncertainties either expected or unexpected by the Company. Thus, future performance may be different from current expectations and users of this information may not rely on the information provided in the Annual Report. Apart from the official information on JSC “RZD” activities, this Annual Report contains information obtained from third parties. This information has been obtained from the sources deemed reliable by JSC “RZD”. However, we do not guarantee that this information is accurate as it may be incomplete. JSC “RZD” does not guarantee that its or its industry’s actual performance, scale or operating rates will match the performance, scale or operating rates expressed or implied in any forward-looking statements contained in this Annual Report or elsewhere. JSC “RZD” shall not be liable for any losses that may be sustained by any person as a result of this person’s reliance on forward-looking statements. Unless otherwise expressly provided for in applicable laws, the Company does not assume any obligations with regard to the distribution or publication of any updates or changes in forward-looking statements that reflect any changes in expectations or new information as well as further events, conditions or circumstances.
Great Company for a Great Country

Last year, the railway service in Russia celebrated its 175th anniversary. Peering into a long way, laid by our predecessors, we understand the enormous responsibility for the present and future of the Company. This responsibility has never confined to short-term goals, or narrow objectives of the industry. The railways were and still are the largest component of the Russian transport system, one of the main mechanisms for the development of its economy and the welfare of its citizens.

Our country is changing, and Joint Stock Company “Russian Railways” is changing along with the country. Infrastructure giant that was focused on mass transportation of cargoes and services to large customers, is now being transformed into a flexible, efficient transport and logistics operator, which is providing to various clients a set of qualitative and modern services. Changing the business model is programmed by the new long-term development strategy of “Russian Railways”, adopted in 2012. The implementation of this strategy will allow Russian Railways to follow major challenges of the time being, while maintaining the competitive advantages gained through the history of the railways industry in Russia.

In this report, not only activities of the company in 2012 are presented. We would like to show how the company implements its long-term objectives of development, as long as objectives for the development of Russia.