



Russian Railways links East, West, North and South Eurasia

Russian Railways is a strategic player in the Russian economy in terms of its financial leverage and social importance. At the same time, the Company has long been a vital link between East, West, North and South Eurasia. With an ambitious strategy of reform that is still under way, Russian Railways is now aiming to win new positions on the global transport market.

Russian Railways is entirely state-owned and has a monopoly on passenger and cargo transportation within Russia. The Company carries nearly 1.3 billion passengers and 1.3 billion tonnes of freight annually, accounting for over 3.6% of Russia's GDP and handling around 80% of all transportation in the country. Russian Railways has an unshakable position on the logistics market and is one of the biggest transport companies in the world, with a network of 85,500 km of track across Russia's 11 time zones, second only to the USA.

A vital role in economy

The Company's vital strategic role in Russia is explained by the country's northern geographical location, its huge territorial extent and vast natural resources, many of which are in remote, harsh and sparsely populated regions of Siberia and the Russian Far East badly served by roads and far removed from the main population centres in European Russia. Railways are therefore often the only available means of transport for countless passengers and bulk commodities. Russia's highly developed railway system is therefore vital to the country's economic and social life and will continue to dominate transport for the foreseeable future, playing a vital role in virtually every segment of the economy. The rail network connects 85 of Russia's 89 regions, provides services to most major cities and has a direct impact on growth, industrial development and regional integration. Russian Railways is a 100% state-owned rail monopoly with 987 enterprises and 165 subsidiaries. And with 1.3 million employees, it is the biggest employer in the country and one of the world's leading freight carriers.

A little history

The history of Russia's railways dates back to the Russian Empire in the early nineteenth century, when the first line was built to link the imperial capital St. Petersburg with Moscow. But it was under Pavel Melnikov, Russia's first Minister of Communications, that the real development of Russia's railway system began. Melnikov, a talented engineer and scientist, trained the experts who later built the railways in European Russia and beyond and made service on the railways highly prestigious. In the twentieth century, Russia's railways continued their dynamic development and during the Soviet period, total track length increased from 115,000 km to more than 145,000 km. Major projects included a second Trans-Siberian line, the Baikal-Amur Main Line (BAM), which runs between Ust-Kut on the Lena River and Komsomolsk-on-the-Amur on the Pacific coast in Russia's Far East. Peak traffic volume in the Soviet Union was reached in 1988, when the railway system transported 4,116 million tonnes of freight and 4,395.9 million passengers. On the collapse of the Soviet Union, however, the old railway network was broken up into national systems based on newly independent Soviet republics. This period saw the Russian economy in deep trouble, with a precipitous drop in production and an end to state support for the rail industry. As a result, funds were lacking to repair rolling stock, track and stations, let alone to carry out any

modernisation. The inevitable result was a rapidly aging and obsolescent infrastructure. It became obvious that in order to provide the range and quality of rail services Russia required, the rail sector would have to undergo thoroughgoing reform and modernisation, and in 2003, a vast structural reform programme was set in motion. On 18 September 2003, Russian Government Decree No. 585 established the Russian Railways Public Corporation, in which the state held 100% of the shares. As the Company's sole owner, the Russian Federation delegates shareholder control to the government. The Ministry of Railways retains control of the regulation and government policy of railway transport, while Russian Railways manages the Company's financial operations.

The reform programme

The reform programme was divided into three stages lasting up to and beyond 2010 and focused on updating production and the technical side, renewing track and rolling stock, achieving greater efficiency and increasing revenues, competitiveness and the motivation of railway personnel. Further important aims include the elimination of cross-subsidies and, in the medium-term future, partial privatisation. This process remains on track and Russian Railways' finances are in great shape. The Company's net income in 2007 based on International Financial Reporting Standards (IFRS) was EUR 4.1

billion, making it one of Russia's most profitable companies, while assets as of 31/12/2008 were worth EUR 82 billion. The Company fully executes its financial obligations to the State and has the highest investment ratings among Russian companies, with a reputation as a reliable partner on the financial markets. The Company has wide-ranging and clearly defined plans for the future. By 2030, Russian Railways will spend more than 13 trillion roubles on acquiring new rolling stock and lay down over 20,000 km of new railway lines to ensure transport to and from industrial zones and newly developed mineral deposits.

Russian Railways and the Winter Olympics

In 2014, Russia will host its first ever Winter Olympics, which will be held at the Black Sea resort of Sochi. Preparations are already in full swing for the Games, and Russian Railway is making a major contribution to ensure that Sochi will be ready to cope with the large numbers of visitors expected. We are building a special railway link to connect the Olympic Park, the airport and the sporting venues at Krasnaya Polyana. The Company is also modernising stations for people with disabilities. The line should come into operation in the fourth quarter of 2011 and be able to carry 64,000 people a day in each direction. Four pairs of trains will operate every hour at 15 minute intervals during busy periods. In 2008, about 150 million roubles were spent on this project, which entails the construction of more than 2.7 km of single-line track, two 500 m long tunnels, about 2.8 km of electric cable, 800 m of overpasses and around 1,000 m of support walls. Russian Railways is also considering improving access to Sochi by establishing a high-speed link between Moscow and Adler with trains capable of 200 km/h. As a result, travel time between the two will take just 15.5 hours.

Russian Railways - proud of its latest projects

One of the Company's top priorities is to develop high-speed trains and approval has been given for projects on 18 routes with high passenger volumes. As a result,

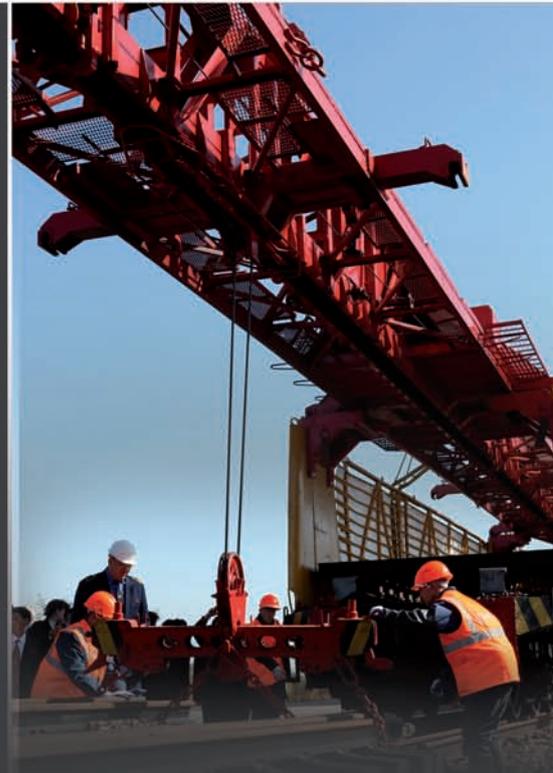


a pilot project between Moscow and St. Petersburg is underway and high-speed passenger services will be introduced between major cities such as St. Petersburg, Moscow, Krasnodar, Samara and Novosibirsk. These particular cities are not only major Russian hubs in economic terms, but also important tourist centres. A contract to supply the first Russian high-speed trains was agreed in 2006 with the German company Siemens AG. Four trains will be supplied for use on the Moscow- St. Petersburg route and four for the Moscow-Nizhniy Novgorod run. These trains are capable of speeds of up to 250 km/h, so that by mid-2009, travel time from Moscow to St. Petersburg will be cut to 3 hours 45 minutes, 45 minutes less than previously. According to Vladimir Yakunin, the President of Russian Railways, the fares will be lower than flights on the same route. Reducing the journey time is very important, especially for business passengers, which Russian Railways expects to be largest group to take advantage of the new fast connections. High-speed services between St. Petersburg and Helsinki is another of The Company's important projects. Introducing these new trains will reduce travel time between the two cities to 3-3.5 hours, at least two hours less than the 5.5 hours required at the moment. Providing high-speed trains, in line with modern European requirements of comfort and security, will be a rapid technological advance for Russian rail sector. The high-speed programme is due to be completed by 2020. Key areas in the Company's international activity include the development of closer partnerships with those coun-

tries which, like Russia, use the 1520 mm broad-gauge track, namely Finland, the members of the CIS and the three Baltic countries of Estonia, Latvia and Lithuania. On 14 February 1992, the Council for Rail Transport of CIS States was established to ensure firm economic ties between the newly independent national rail systems. The Council works to maintain the unity of the railway lines and links through unitary provisions on the technical operation of railway lines and instructions on signalling and the movement of trains and shunting, as well as by agreeing operating principles. In addition, the Council organises the joint operation of freight wagons, containers and a common information space.

A socially responsible company

The human resources policy at Russian Railways is firmly based on long-term investment in staff. The Company makes substantial investments in its employees by supporting a large educational and training network specialising in the railway industry and providing scholarships to students. Through its charity and sponsorship programmes, Russian Railways also maintains its reputation as a most attractive and appealing place to work for all of its employees. Russian Railways makes every effort to reduce the impact of its operations on the environment. In recent years we have successfully reduced harmful emissions into the air, water and ground, even as production has increased. Russian Railways will also enable Russians to decrease CO2 emissions on a larger scale by attracting many passengers from air to rail.



FACT BOX

FULL NAME: Russian Railways

PRESIDENT: Vladimir Yakunin

OPERATIONS: Transport and Infrastructure Services

ESTABLISHED: 2003

EMPLOYEES: 1.2 MILLION

REVENUE: EURO 32.8 BN (2007)

www.eng.rzd.ru

