Russian Federation Railways

Russian Federation Railway Reform and Development Program

INDIA RAILWAYS STRATEGY WORKSHOP

New Delhi – March 25, 2009

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With contribution from RZD and John H. Winner (HWTSK)
Content

• Presentation of the Russian Railways

• Reform Process 2001 - 2010

• Joint Stock Company Russian Railways RZD

• Network Development Program to 2030
The RF Railway Network

11 time zones

85,500 km of track

More than 1 million employees
100% state-owned

World #1 proportion of electrified railway line (>50%)

World #1 rail branch-line system

World #2 by total rail track

World #2 by freight volumes

Handle: 80% of freight traffic

40% of passenger traffic (China population each year)
Russian Railways moves 1.3 bn tons of freight each year

Growth in freight turnover:

The company’s freight fleet comprises over 600,000 railcars (including subsidiaries and affiliates). By 2030 the company plans to purchase a further 777,000-996,000 units.

Source: HWTSK and RZD
Russian Railways performs a positive social function by transporting passengers at less than cost

1.296 billion passengers in 2008

Over 41% of all passenger journeys in Russia

Onward travel within Russia for 135 million passengers (including international links - 56 international routes to 19 countries)

Suburban routes 1145.2 million passengers

Around 100 deluxe trains offering high levels of service and comfort, additional passenger services and original design.
Holiday tours in luxury-class trains:

- The first Russia’s private luxury train *The Golden Eagle* Trans-Siberian Express runs on the world's longest railway line, from Moscow to Vladivostok (9288 km) as well as other special routes.

- 12 sleeping cars, which come in Gold and Silver classes. Gold class cabins are equipped with quality DVD/CD players, LCD TV screens, a full audio system, individual air conditioning, and extensive wardrobe space.

- *The Alexander Nevksy* – a luxury hotel on rails - visits Russia’s Golden Ring towns, as well as providing luxury journeys from Moscow and St. Petersburg to other destinations.
The rail transport development strategy to 2030 envisages the development of rapid and high-speed rail travel in Russia:

**Rapid travel (160-200 km/h)** - along 10,000 km of track
- Moscow - St. Petersburg (to start in 2009)
- St. Petersburg - Helsinki (to start in 2010)

**High-speed travel (350 km/h)** - along 1,500 km of track
- Moscow-St. Petersburg (2012-2014) - cutting journey time to 2.5 hours
- Moscow-Nizhniy Novgorod: to 2 hours
- Moscow-Sochi: to 14-15 hours
High Speed Travels

High-speed passenger transport system planned for completion by 2030

- High-speed operation (up to 300-350 kmph)
- High-speed operation (up to 250 kmph)
- Speeded operation (up to 160-200 kmph)
- Passenger route Center – South (maximum speed – 160-200 kmph)
- Passenger lines construction: Prokhorovka – Rossosh, Gartmasheva – Chertkovo, Chertkovo – Likhaya – Bataysk and Krivenkovskaya – Adler
Russian Railways is upgrading its fleet through purchases of equipment new to Russia from leading international and Russian manufacturers.

- VelaroRus trains made by Siemens (Germany)
- Pendolino trains made by Alstom (France)
- Talgo (Spain)
- Double-Decker Carriages (Russia-France)
Russian Railways’ focus in this area is the creation of a multi-mode complex linking Moscow’s railway stations and airports. A terminal complex to be built in central Moscow will have rail connections to the city’s three airports.

By 2020, Moscow’s airports will be interconnected by rail.

The company is implementing a program of renovation and modernization of its stations.

Planned investment to 2015 - 30 bn Rubles.

Pilot project - renovation of Kursky station

Investment - 700 million roubles.

Project completed in 2008 by Mirax Group, consultant - Deutsche Bahn
Russian Railways is focused on maximizing the benefit of Russia’s geographical position by fully integrating the Russian railway system into the Eurasian transport network.

Developing the transport corridors will help:

• provide competitive transport solutions (door-to-door) across the continent

• achieve substantial reductions in delivery times compared to sea routes
On April 2008 Russian Railways - along with Austrian, Slovak and Ukrainian railways - signed a protocol on the commencement of pre-design studies to extend the broad-gauge railway line from Moscow to Vienna. Total cost - around $4.3 bn.

Once implemented, this project will boost freight flows to Europe, including shipments from the Asia Pacific region.

Eurasian trade is forecast to grow by 5-6% annually to 2010, and by 3-4% annually thereafter to 2020.

Benefits:
- Reduction of delivery times between East Asia and Western Europe to 13-14 days (sea route - 29-35 days)
- Rigorous delivery times thanks to use of high-speed block-trains.
- Increased passenger numbers
Trans-Siberian Railways

Map showing the route of the Trans-Siberian Railway from Rotterdam, Berlin, Bratislava, Budapest, Novorossiysk, St. Petersburg, Moscow, Vladivostok, and Shanghai. The total length is 9,300 km (15 days), 1,800 km (30 days), and 19,000 km (35 days).
Trans-Siberian Railways

- Length - 9,288.2 km. Longest railway line in the world.
- Cuts around 20 days off sea-freight delivery between Europe and the Asian-Pacific region.
- Can handle up to 100 million tons of freight, including 300,000 TEUs in international transit (today about 100,000 TEUs). Future potential - up to 1 million TEUs.
- Growth in transit freight - +30-35% per year.
Russia’s first railway was built 170 years ago (1839)
Prior to 2003, the railways were managed by the Ministry of Railways
On 18 May 2001, the Russian Government introduced a structural reform program for the rail transport sector.
The reform programme sets out strategic priorities for the rail industry to 2010 and beyond, and aims to improve the efficiency and profitability of rail services in Russia and encourage investment to drive modernisation
RZD Reform – Phase I

- Creation of Joint Stock Company Russian Railways (100% of the shares owned by the RF) as the corporate successor to the Russian Ministry of Railways in 2003.
- Russian Railways takes on all assets and operations previously under the former Ministry of Railways.
- Regulatory functions transferred to Ministry of Transport. Assets of 987 rail sector enterprises contributed to the new company’s charter capital (1,535,700 million Rubles, increased to 1,541,697,819 million Rubles in 2008).

- 1US$ = 35 Rubles in 2008
Creation of specialized subsidiaries for container shipments, freight deliveries, repairs, manufacture and maintenance of rolling stock.

Today, Russian Railways’ main subsidiaries are:

- JSC Transcontainer – container shipments
- JSC Refservice – transportation of perishables
- JSC Freight One – freight shipments
- JSC Roszheldorproekt – design work
- JSC Roszheldorstroy – construction of infrastructure
- JSC Elteza – manufacture and maintenance of rail control equipment

In addition, there are another hundred companies specializing in freight transportation, manufacture and repair of track equipment, construction and repair of rolling stock, research and project design.
Objectives:

- Make the business more transparent
- Achieve breakeven on passenger transport
- Expand the railcar fleet
- Grow the holding company’s capitalization
- Boost investment opportunities, including via flotation of subsidiaries (Transcontainer, Freight One and others)

Russian Railways today is a large and transparent company enjoying vigorous growth and good credit ratings from the leading agencies, working successfully with foreign partners.
Significant shortage of investment resources

Insufficient financial transparency of business operations

Lack of competition in the railway transportation market

Subsidization of passenger transportation with profit from freight transportation services

Low overall profitability of railway transportation services
Raising debt finance at capital markets: about US $3 Bn

High transparency and governance standards: investment grade ratings from three major rating agencies

Raising debt finance at capital markets: about US $3 Bn

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<th>2004</th>
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<td>Revenues (US $ Bn)</td>
<td>18.6</td>
<td>23.0</td>
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<td>EBITDA (US $ Bn)</td>
<td>3.9</td>
<td>4.8</td>
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<td>EBITDA margin (%)</td>
<td>21.2</td>
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New legislative framework to promote competition in the railway transportation market
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<th>Year</th>
<th>Revenue</th>
<th>EBITDA</th>
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Note: in billions $/ €=1.26
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FUTURE: Goal and Objectives of Next Stage in Railway Transport Reform

GOAL

To ensure extended reproduction of railway transport infrastructure and raise significant funds to invest into the railway transportation industry

OBJECTIVES

- To develop competition in the rail transport: spin-offs of operator business; growth of private operators
- To maintain competitive position in the market and increase operating efficiency
- To enhance the value of JSC Russian Railways
Next Steps of Reform

JSC RUSSIAN RAILWAYS

- Infrastructure 100%
- Locomotive Traction 100%

Non-discriminatory access

Development of new tariffs for infrastructure and locomotive traction services

- RZD Freight 51%
- Federal Passenger Company (annual subsidy from the Budget of appr. US$ 1 Bn) 100%
- Other Subsidiaries from 25% +1 up to 100%
RZD FREIGHT: New Freight Transportation Company

Establis RZD FREIGHT AND NICHE FREIGHT TRANSPORTATION COMPANY

- Increase competitiveness under freight tariff deregulation
- Spin-off RZD Freight to enhance transparency and efficiency
- Enhance governance of RZD Freight to attract investments
- Sell minority stake to finance modernisation of infrastructure

Freight Transportation Company est. Revenue: Appr. US$ 3 Bn
Freight Transportation Company est. EBITDA: Appr. US$ 1 Bn

Increased value of freight transportation company
Integration into the Global Transportation System

GOAL

To increase volume of transportation and optimize the use of the transportation capacity

- Increase of transit traffic through international transport corridors
- Integration of the railway infrastructure of Russia and the EU to create a common economic space
- Establishment of close partnerships with railways of other countries, including development of joint logistics companies
Expected Results of the Next Stage of the Reform

>> Sustainable development of infrastructure and locomotive traction which will continue to be 100% state-owned

>> Increased profitability of JSC Russian Railways through development of the operator business

>> Raising capital through selling stakes in subsidiaries to be established in competitive market sectors

>> Integration into the global transportation system to increase volume of transportation and improve capacity utilization

>> Creation of state-of-the-art infrastructure and modernisation of rolling stock through a significant investment programme

>> Steady long-term increase of value and enhanced competitiveness of railway transportation

Strategy goals: to create transport infrastructure that meets the needs of the country’s socio-economic development and to enhance the competitiveness of the Russian economy.

The Strategy envisages the construction of new railway lines, development of infrastructure and replacement of rolling stock.

Total investment in development of rail transport to 2030 - 13.7 trillion Rubles (about $500 billion)
THANK YOU

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