

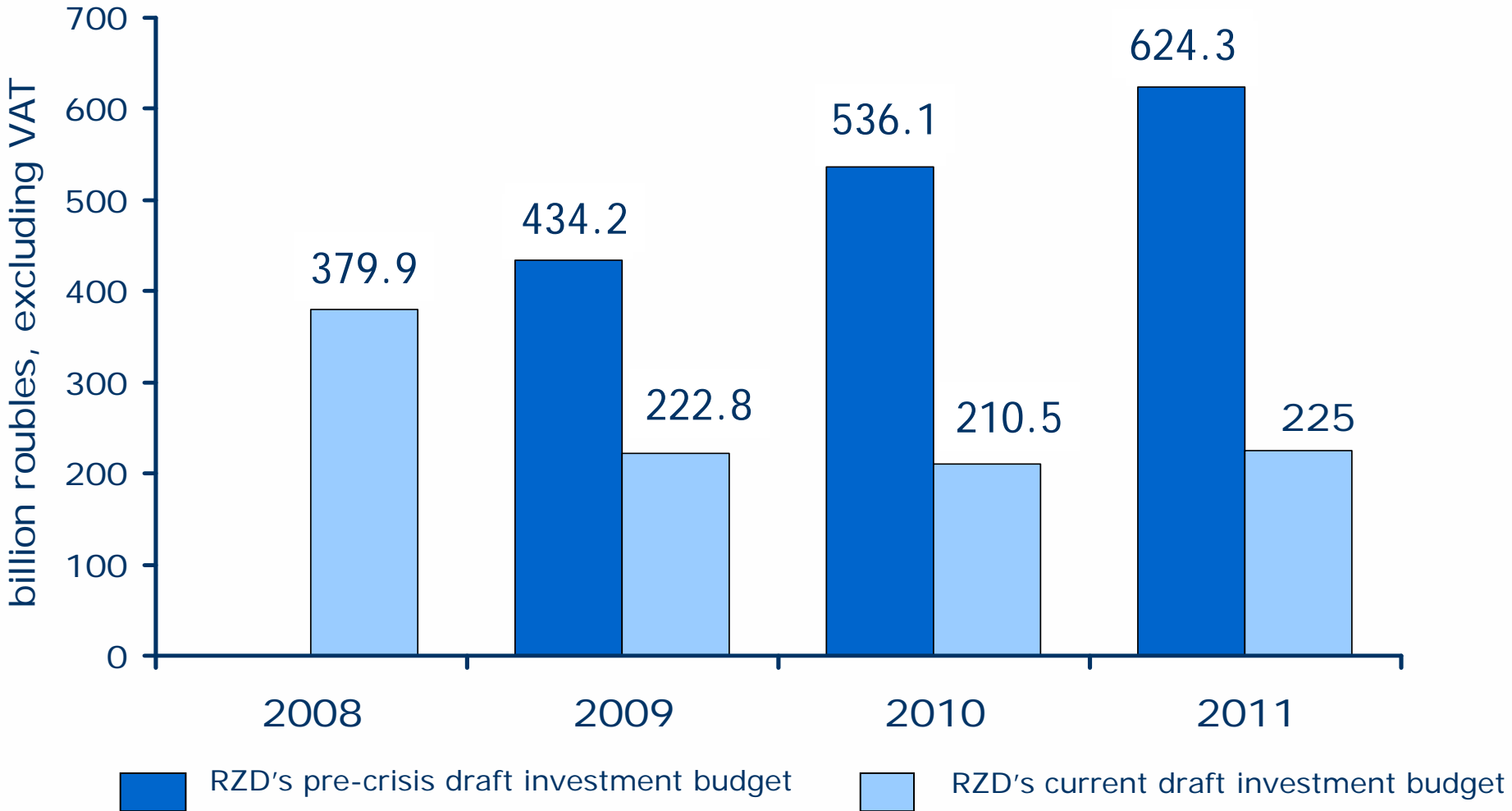


State support for rail infrastructure development projects

May 2010



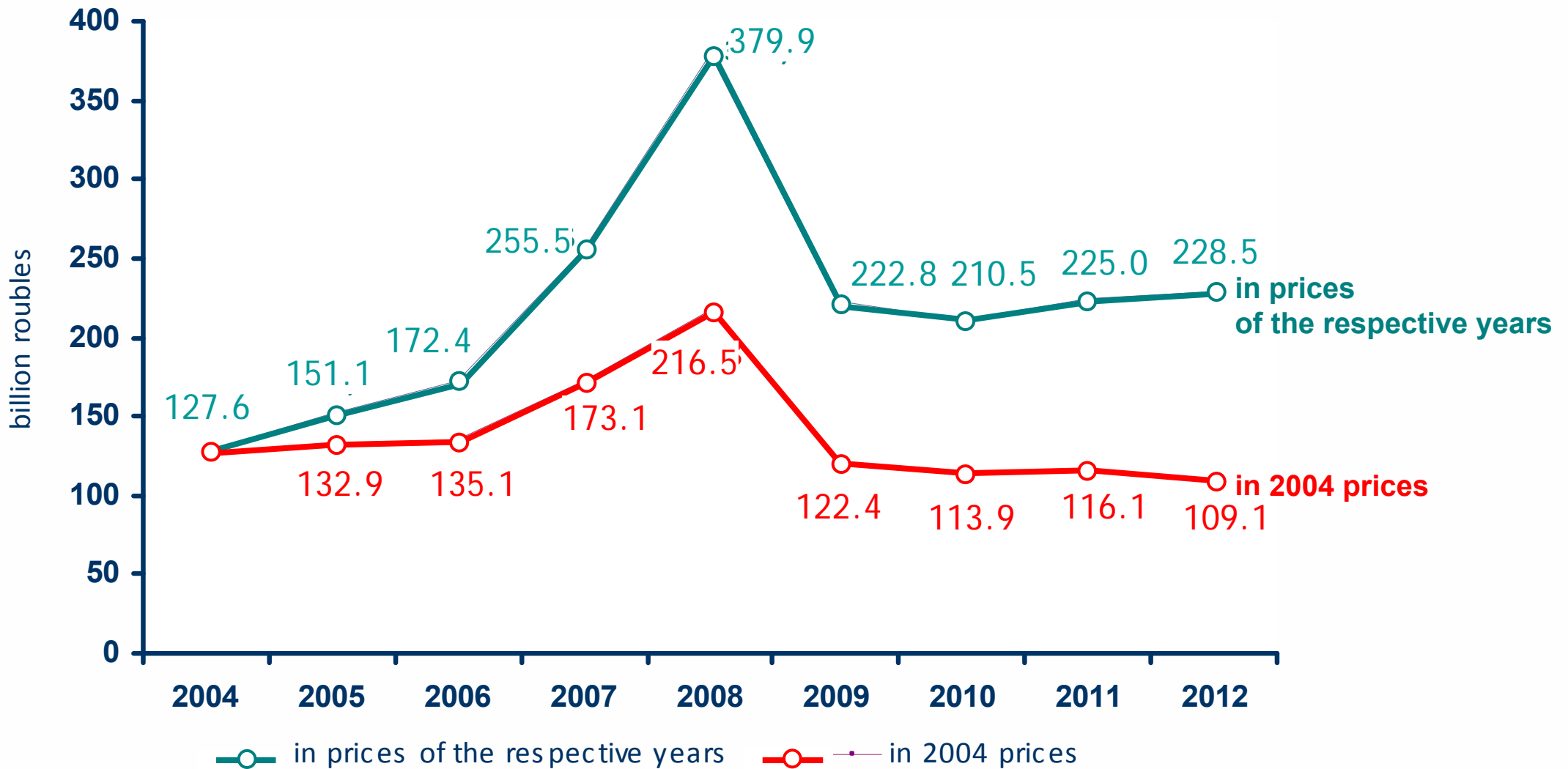
The rate of change in RZD's investment budget 2009–2011 ("own projects")



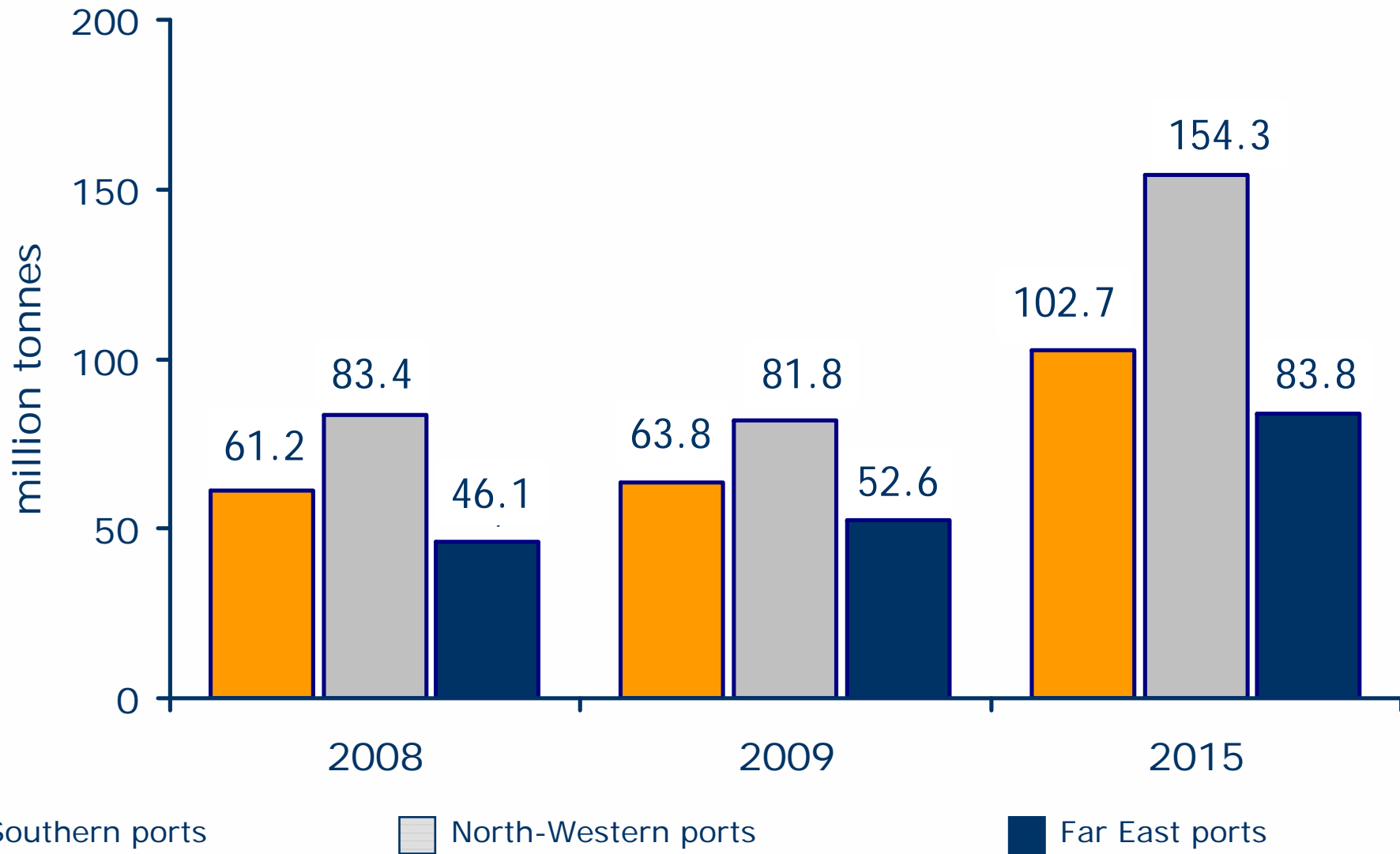
The investment budget for 2009–2011 has been reduced by a factor of 2.4 (by 936 billion roubles)



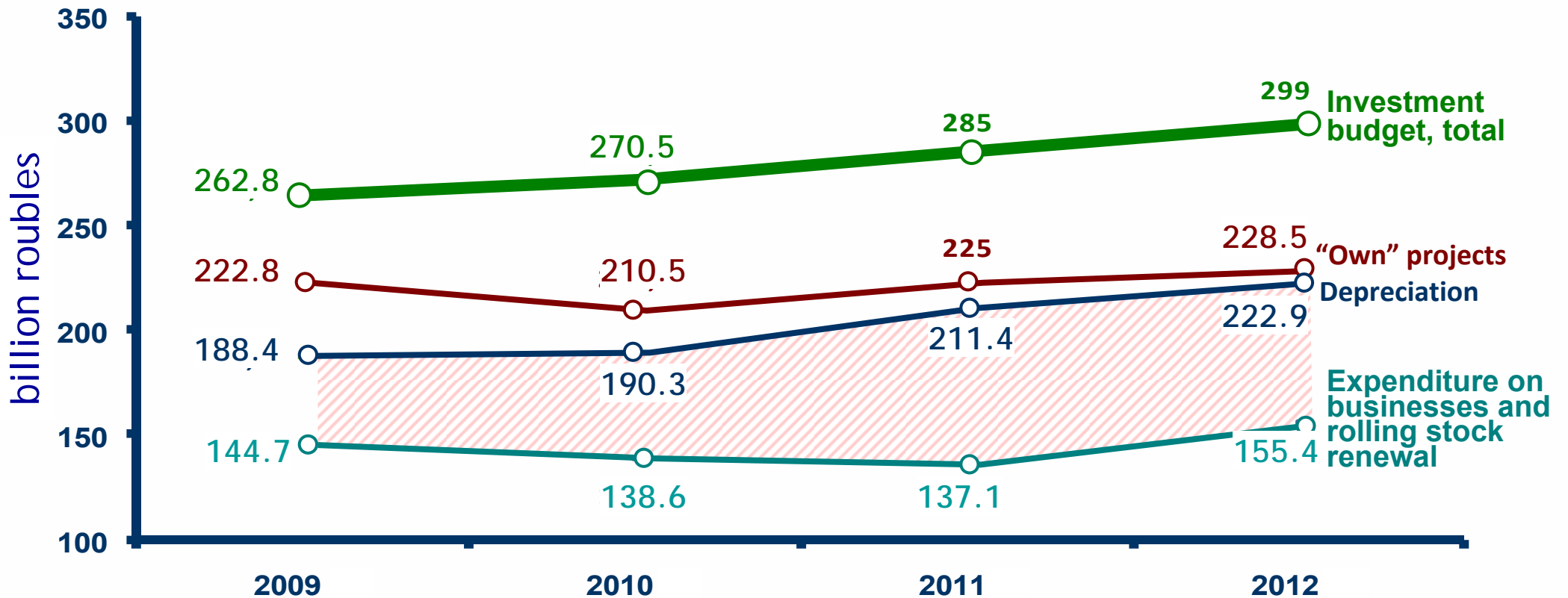
The rate of change in RZD's investment budget 2009–2011 ("own projects")



Volume of transportation of foreign trade freight by rail transport via Russia's ports in the period up to 2015 (million tonnes)



Sources of finance for RZD's investment budget



The gap between the annual volume of the company's fixed assets renewal and depreciation amounts to about **60 billion roubles** per year

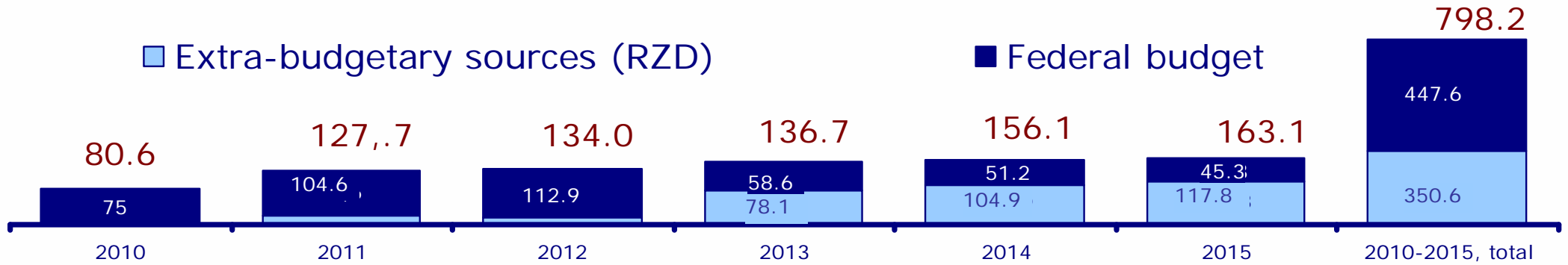
State support for RZD's investment programme for the period 2010–2015

In accordance with the decisions taken at a conference with V.V. Putin, Prime Minister of the Russian Federation (protocol No. VP-P9-pr of 27 February 2010), RZD prepared and submitted to the appropriate ministries:

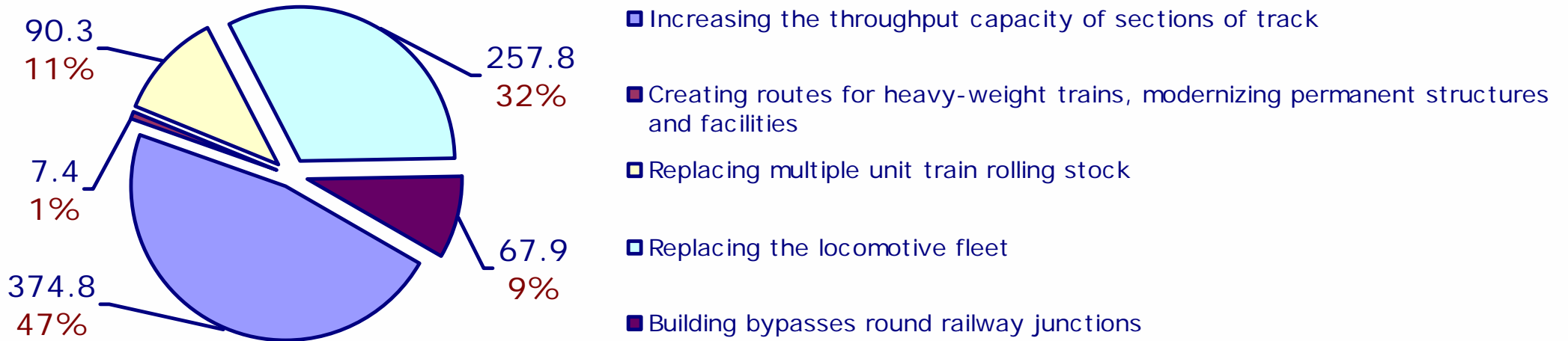
- ✓ Proposed amendments to the “Rail transport” sub-programme in the federal strategic programme “The development of Russia’s transport system (2010–2015)”
- ✓ A methodology for calculating the budget efficiency of state support in the form of budget investments in the registered capital of RZD aimed at implementing projects to develop the company

Amendments proposed by RZD to the federal strategic programme "The development of Russia's transport system (2010–2015)"

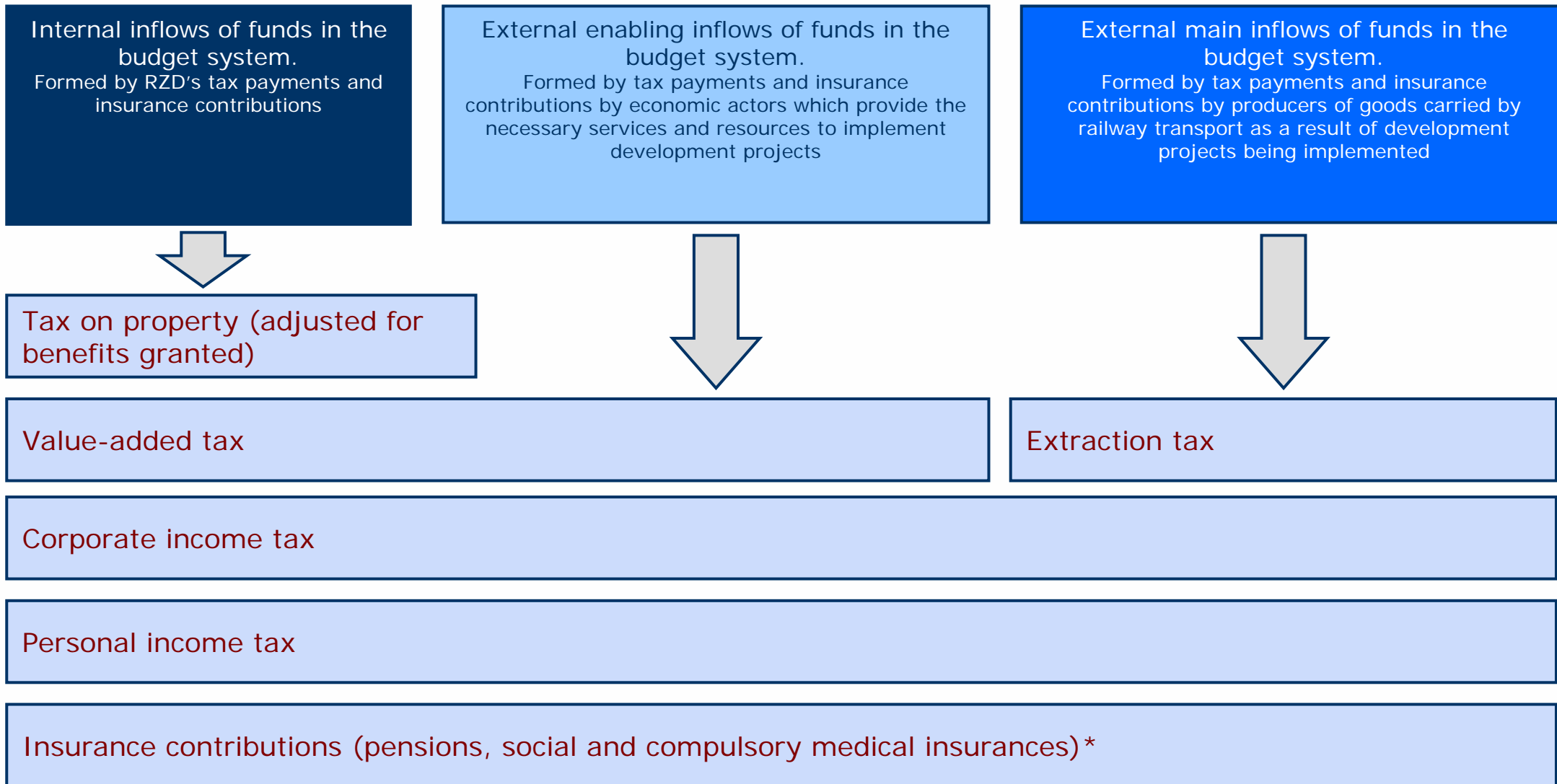
(billion roubles excluding VAT, in the prices of the respective years)



Distribution of investment among the tasks at hand



Effects taken into account in the composition of inflows of funds in the budget system



Projects to develop the railway infrastructure and routes included in the calculation of budget efficiency

1. Comprehensive reconstruction of the Mga – Gatchina – Veymarn – Ivangorod section and the railway approaches to ports on the southern shore of the Gulf of Finland: proposed volume of state support **90 billion roubles**.
2. Comprehensive reconstruction of the M. Gorky – Kotelnikovo – Tikhoretskaya – Krymskaya route, with a bypass round the Krasnodar railway junction: **67.9 billion roubles**.
3. Development of the Tobolsk – Surgut route: **21.9 billion roubles**.
4. Comprehensive reconstruction of the Trubnaya – Verkhniy Baskunchak – Aksarayskaya route: **11.3 billion roubles**.
5. Construction of additional main tracks and sidings, development of stations: **72.1 billion roubles**.
6. Acquisition of locomotive stock: **16.4 billion roubles**.

✓ The choice of the aforementioned “development projects” is driven by the need to implement them jointly with the aim of delivering the forecast levels of traffic to the ports in the North-West and South of Russia.

✓ The amount of state support needed to implement these projects represents **more than 60%** of the total amount of state support being requested.

Map of the projects to develop the railway infrastructure and routes included in the calculation of budget efficiency

Coal	13.0	13.1
Coke	0.1	0.1
Oil freight	26.3	36.3
Ores	-	0.5
Ferrous metals	5.7	8.3
Timber	4.1	4.6
Construction materials	4.7	7.3
Fertilizers	6.8	6.9
Bread	1.5	3.1
Other	10.1	17.8
Total	72.3	98.0

Coal	0.1	-
Coke	0.1	0.1
Oil freight	0.2	0.2
Ores	1.3	2.8
Ferrous metals	0.7	1.2
Timber	0.2	0.2
Construction materials	2.8	6.6
Fertilizers	0.1	-
Bread	0.2	0.3
Other	4.4	8.4
Total	10.1	19.8

Coal	1.9	7.3
Coke	-	0.1
Oil freight	15.1	27.2
Ores	0.2	0.2
Ferrous metals	2.7	4.8
Timber	0.6	0.8
Construction materials	1.5	1.0
Fertilizers	0.3	1.9
Bread	0.4	2.8
Other	1.2	9.7
Total	23.9	55.8

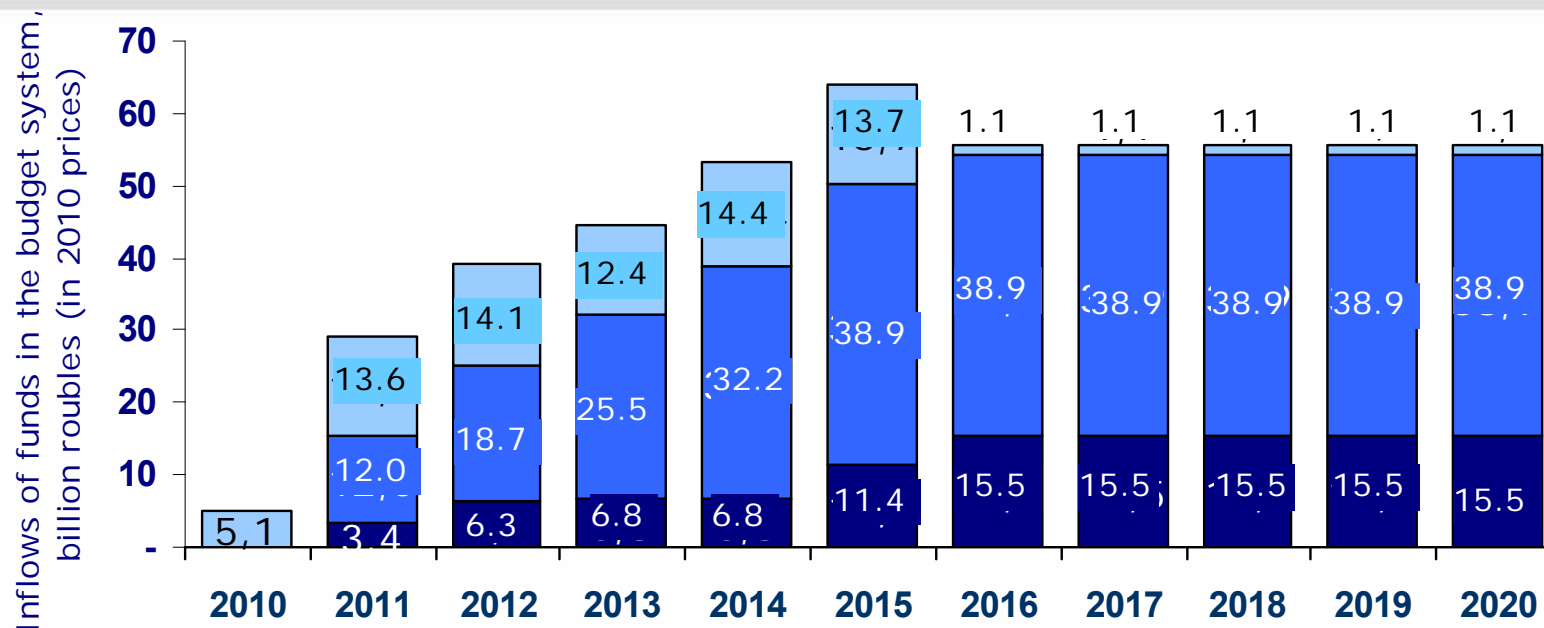
Coal	-	-
Coke	-	-
Oil freight	0.1	-
Ores	0.5	1.2
Ferrous metals	-	0.3
Timber	-	-
Construction materials	1.2	1.7
Fertilizers	-	0.4
Bread	0.3	0.5
Other	1.4	3.3
Total	3.5	7.4

LEGEND

- Outlined projects to develop the infrastructure of the jointly used railway network being implemented as part of the federal strategic programme
- Measures to develop the infrastructure of the jointly used railway network
 - Construction of additional main tracks
 - Construction of side tracks
 - Construction of new railway tracks
 - Electrification of the section
 - Installation of an automatic block signalling system at the section
 - Installation of a semi-automatic block signalling system at the section
 - Extension of passing sidings
 - Development of freight distribution centres
 - Construction and reconstruction of sidings, number of sidings
 - Development of Russian borderline stations
 - New borderline stations
 - Development of Russian pre-port and port stations
- Rail routes providing for the transportation of projected freight flows as the outlined projects are implemented
- Years - mln tkm/km

2015	107.5
2009	72.0
2009	5.1
2015	10.8
- Freight flows
- Spare throughput capacity as of 01.01.2006 (couples of trains per 24 hours)

Inflows of funds in the budget system of the Russian Federation formed as a result of implementation of development projects in the federal strategic programme "The development of Russia's transport system (2010–2015)"



Internal inflows

Inflows of funds in the budget system formed by RZD's tax payments and insurance contributions

External main inflows

Inflows of funds in the budget system formed by tax payments and insurance contributions by producers of goods carried by railway transport as a result of development projects being implemented

External enabling inflows

Inflows of funds in the budget system formed by tax payments and insurance contributions by economic actors which provide the necessary services and resources to implement development projects

Parameters of implementation and indicators of budget efficiency of state investment in the implementation of the federal strategic programme “The development of Russia’s transport system (2010–2015)”

Volume of state investment taken into account when calculating budget efficiency

in forecast prices, billion roubles

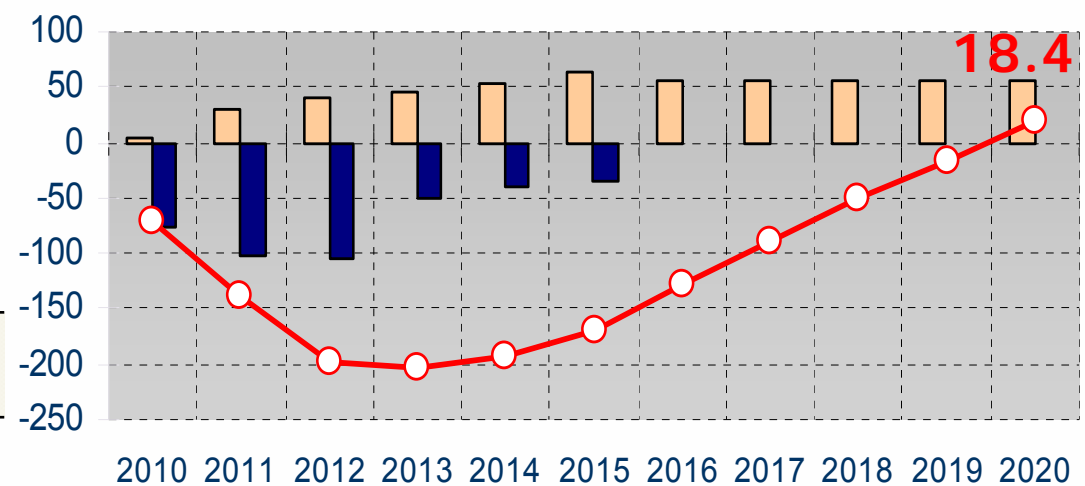
2010	2011	2012	2013	2014	2015	Total
75.0	104.6	112.9	58.6	51.2	45.3	447.6

in 2010 prices, billion roubles

2010	2011	2012	2013	2014	2015	Total
75.0	101.3	104.7	50.7	41.2	33.7	406.7

Net discounted financial inflow in the budget system of the Russian Federation, formed as “development projects” are being implemented

(billion roubles in 2010 prices at a 5% discount rate)



- Inflows of funds
- Outflows of funds (state investments)
- Net discounted revenue of the budget system

Effects not taken into account in the composition of inflows of funds in the budget system

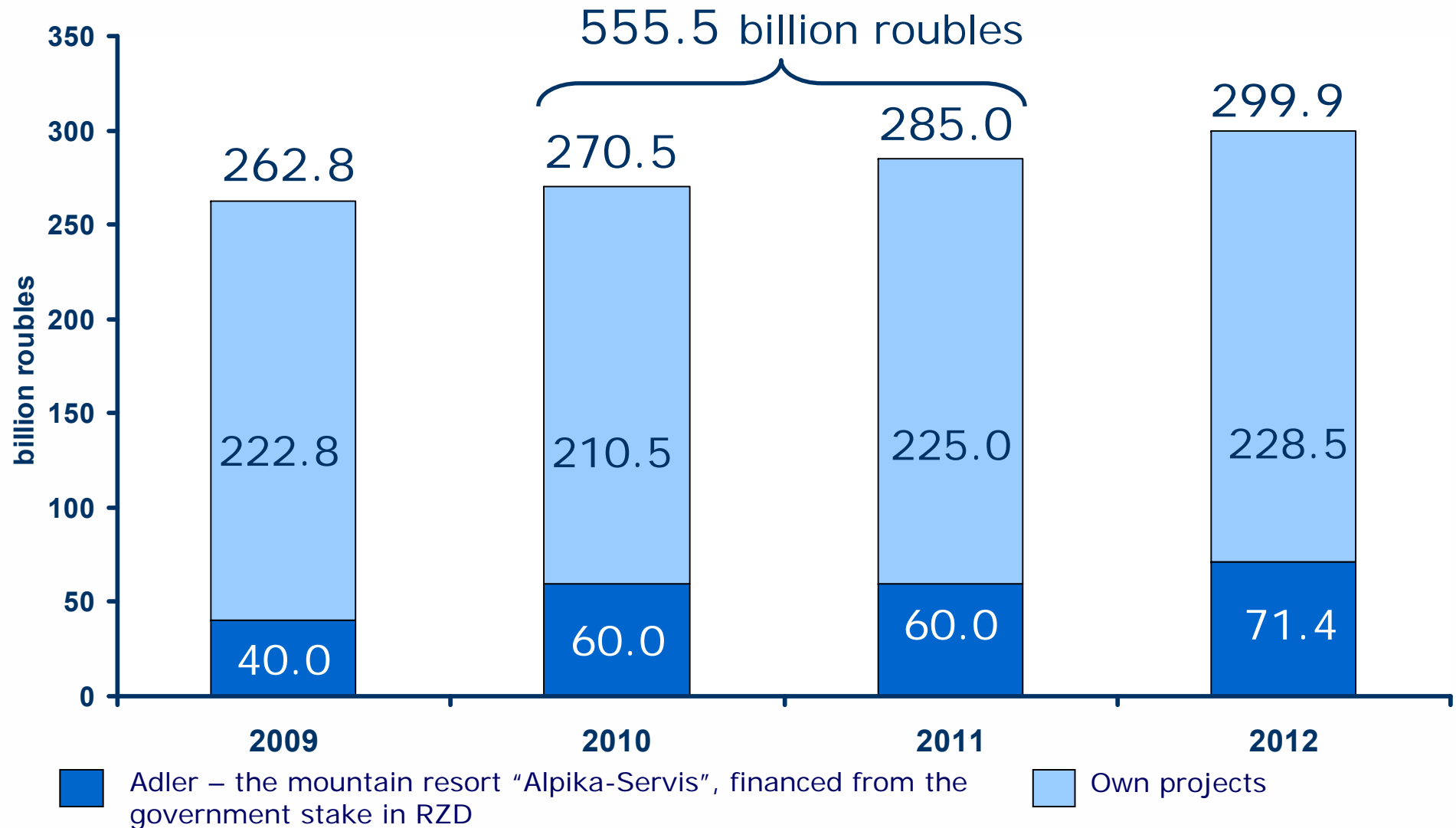
- ✓ Tax payments and insurance contributions paid by economic actors which provide services on the territory of sea ports.
- ✓ Customs payments levied on freight owners for taking goods across the customs border of the Russian Federation.
- ✓ Budget revenue (tax payments) from producers of “other” freight not taken into account in the calculation.
- ✓ Budget revenue linked to the secondary circulation of capital (the multiplication effect).

Conclusions

- ✓ The calculations show that budget investment in the development of railway transport infrastructure is highly efficient.
- ✓ The income for the federal budget from the implementation of these projects is driven primarily by budget revenue from sectors of industry limited in their development by transport constraints. This income is significantly in excess of RZD's income from implementing the projects.
- ✓ Taking into account the existing rates on the external loan markets, there is a good case for issuing target state bonds with the aim of acquiring sources of the aforementioned budget investment.

APPENDICES

The rate of change in RZD's investment budget 2009–2012



Sources of finance for RZD's investment programme

Borrowings

330.0 billion roubles

Net profit

cost optimization
caps on tariffs

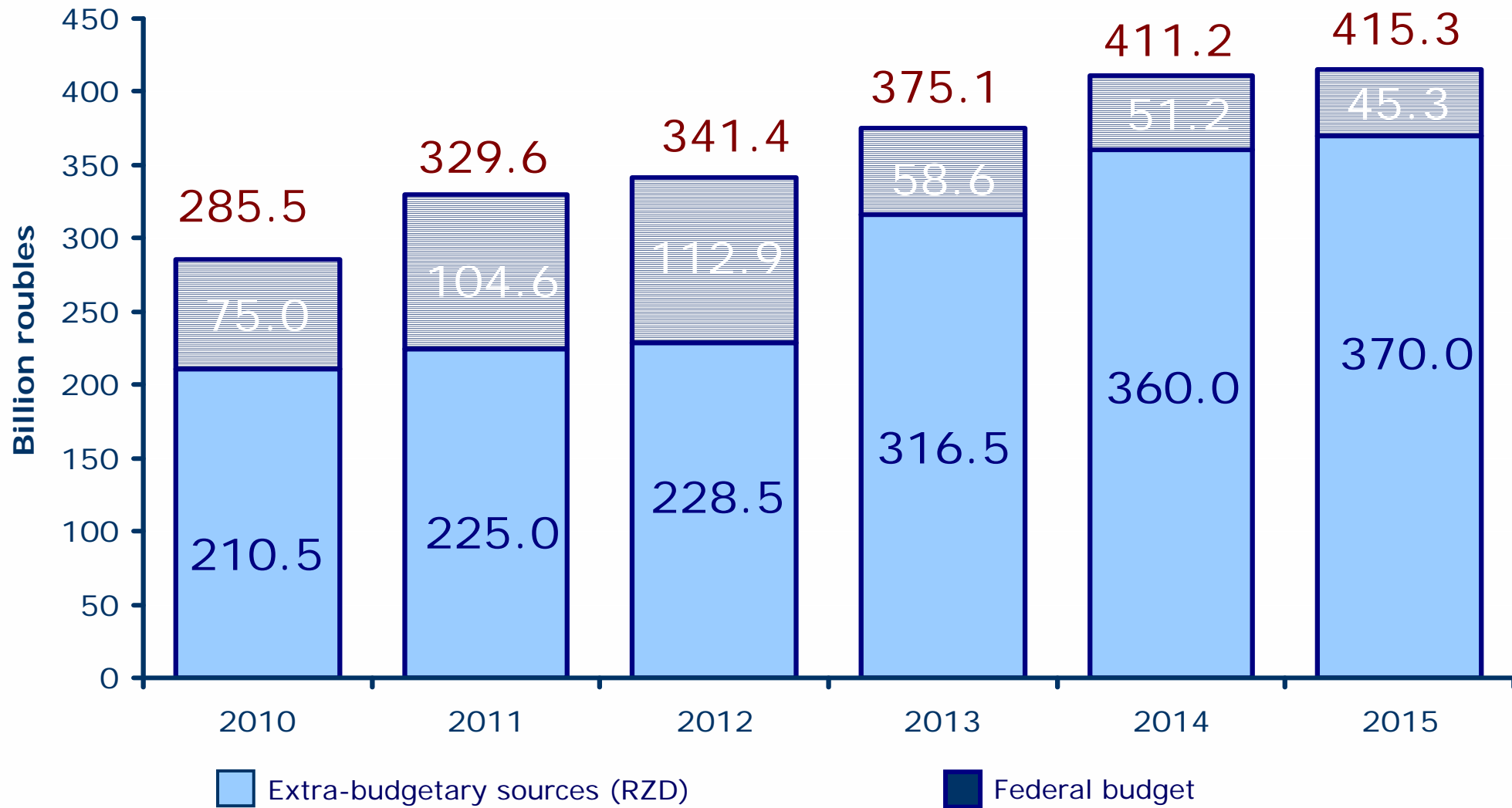
Depreciation & amortization

190.3 billion roubles

Increased registered capital

opportunity for growth !

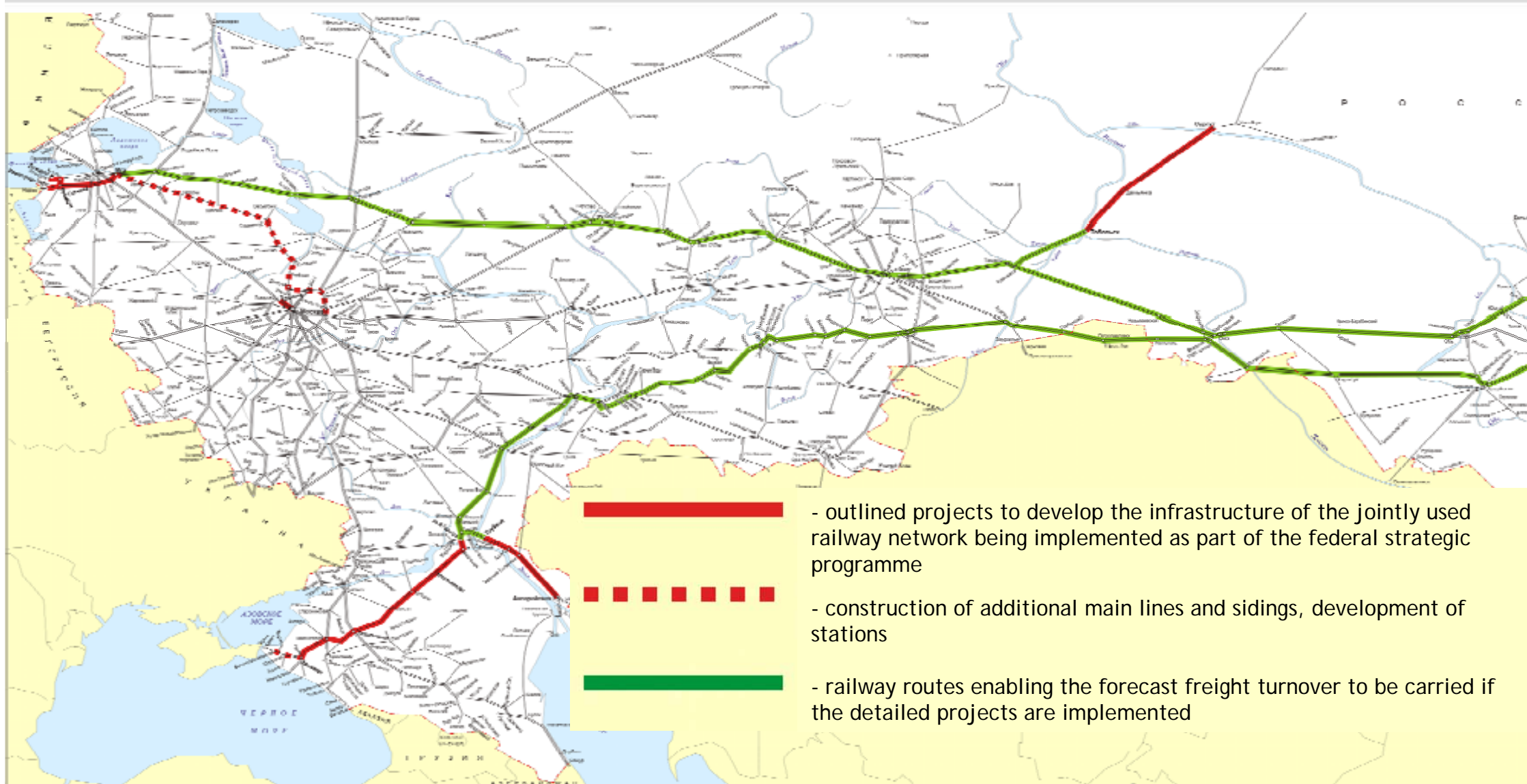
Investment required to renew and develop the infrastructure



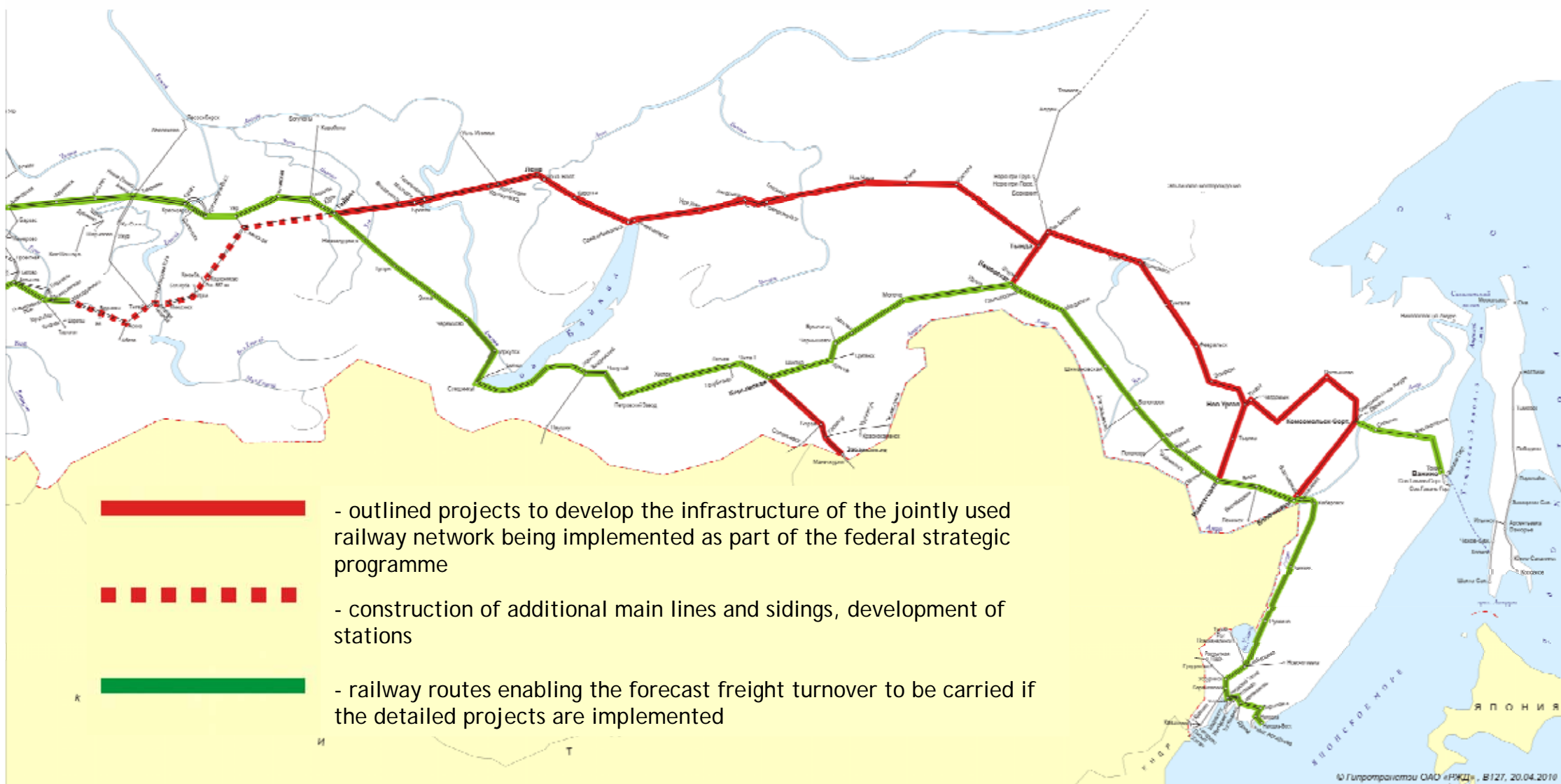
Forecast freight and passenger traffic across the railway network of the Russian Federation

Indicators	Values by years		
	2008	2009	2015
Freight turnover, billion t/km	2116.2	1865.3	2440
Passenger turnover, billion passenger/km	175.9	153.6	181.6
Total freight carried, million tonnes	1486.2 (100%)	1235.4 (100%)	1693.4 (100%)
including:			
- Russian domestic	972.3 (65.4 %)	766.9 (62.1 %)	1097.2 (64.8 %)
- export	371.7 (25.0 %)	368.5 (29.8 %)	440.5 (26.0 %)
- import	111.7 (7.5 %)	77.5 (6.3 %)	113.4 (6.7 %)
- transit	30.5 (2.1 %)	22.5 (1.8 %)	42.3 (2.5 %)

Projects to develop the railway infrastructure proposed as part of the federal strategic programme "The development of Russia's transport system (2010–2015)"

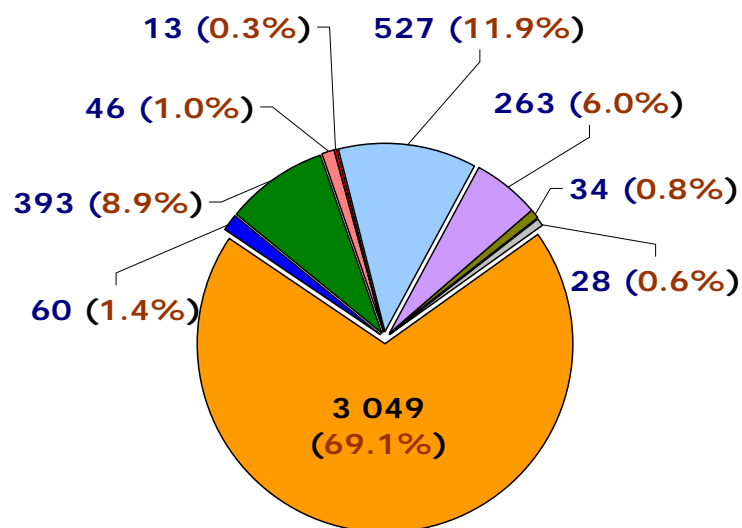


Projects to develop the railway infrastructure proposed as part of the federal strategic programme "The development of Russia's transport system (2010–2015)"



Data used in calculating the external main inflows in the budget system

Breakdown of external main inflows, formed during the production and marketing of produce carried by rail transport, roubles per tonne (%)



- coal
- oil freight
- ferrous metals
- construction materials
- bread
- coke
- ores
- timber
- fertilizers

Freight category	Prices for produce carried by rail transport, roubles per tonne (according to Rosstat data, "Average manufacturing prices for various types of industrial goods in the Russian Federation 1998 – 2009", to the end of 2009)	Return on sales of produce across industrial sectors carried by rail transport (according to data from the First Independent Ratings Agency FIRA.RU for January to September 2009), %
Coal	Bituminous coal for power generation 712	Extraction of bituminous coal, brown coal and peat 10.8
Coke	Coking coal 1 026	Extraction of bituminous coal, brown coal and peat 10.8
Oil freight	Extracted oil (including condensate) 6 633	Petroleum products manufacturing 17.9
Ores	Iron ore (commodity) 676	Extraction of iron ore 16.3
Ferrous metals	Pig iron 7 764	Metal manufacturing 12.9
Timber	Round timber material for board 855	Processing timber and manufacturing products from wood or cork, except for furniture -1
Construction materials	Ministry of Construction Materials 191	Production of cement, lime and gypsum 15.6
Bread	Flour 7 235	Production of flour and cereals, starch and starch products 1.16

Parameters of implementation and indicators of budget efficiency of state investment in the implementation of the federal strategic programme “The development of Russia’s transport system (2010–2015)”
(taking into account external main effects at a level of 50%)

Volume of state investment taken into account when calculating budget efficiency

in forecast prices, billion roubles

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