Global Rail Freight Conference

Salman BABAYEV

Salman Babayev was born on 1 September 1955.
He graduated from the Khabarovsk Institute of Railway Engineers in 1978 as a qualified Railways Operations Engineer.
That same year Mr Babayev started his career in the rail industry, occupying several positions in the transport services sector.
Since March 2011, Mr Babayev has been Vice President of Commercial Activity at Russian Railways, overseeing the company's freight operations: multimodal transport, customs brokerage services and freight terminal services.

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SEAMLESS TRANSPORT CHAINS THROUGH HARMONISATION

Success Stories and Global Perspectives for Rail Freight

Salman Babaev

Transformation of Russian Railways into an international transport and logistics company

GRFC 2014 VIENNA

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23-26 June 2014

Key Driver of the Russian Economy

National Income

VAT | Corporate Tax | Social Tax | Income Tax

1.6 % of the national GDP

Employment

~ 902 thousand employees

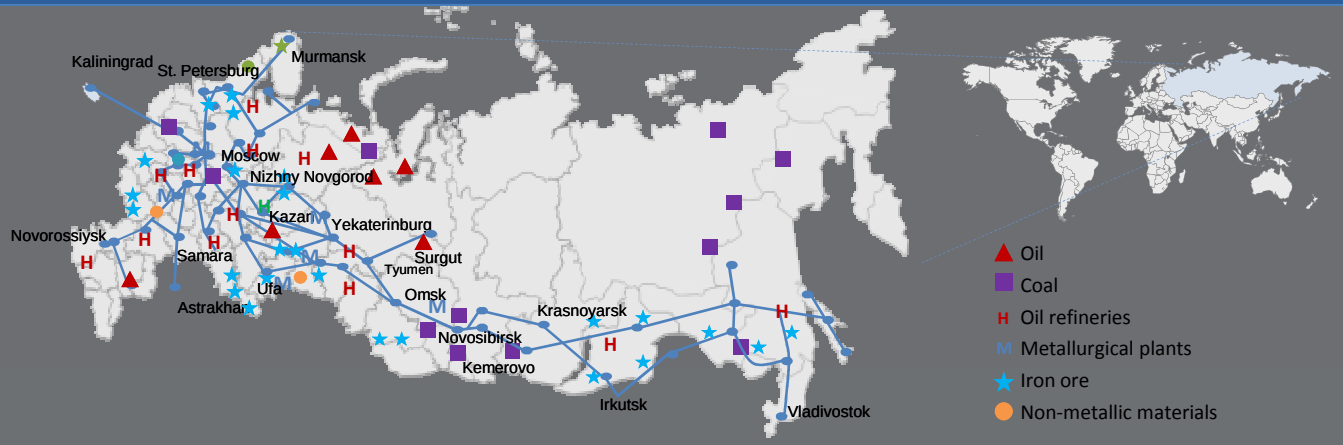
Strategic Element of Transportation System

assets value is c. RUR 3.5 trln (c. €73,5 bln) as of 2013

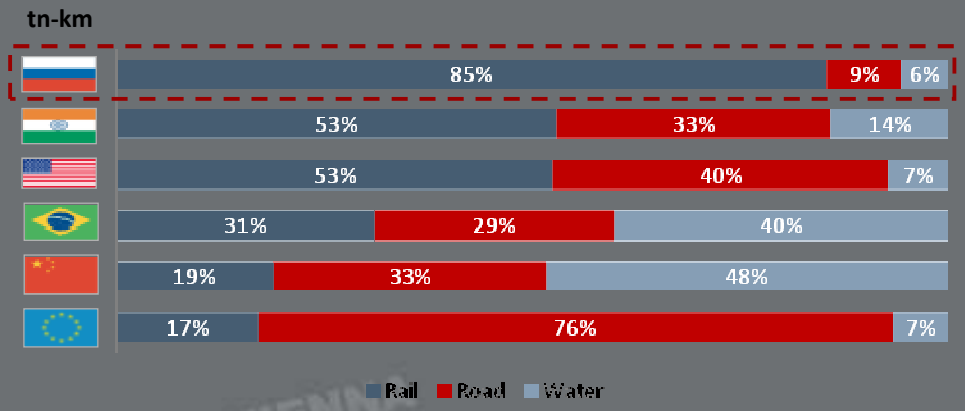
One of the Largest Consumers in Russia

Backbone of the Russian Economy

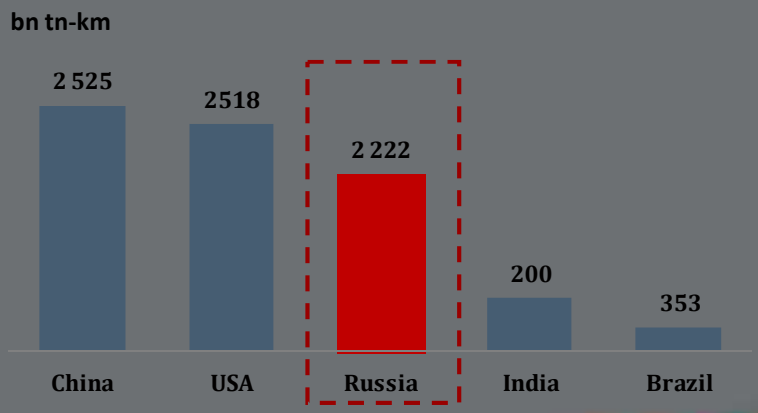
Russian Railway Network Serving National Economy



Rail is the Key Transportation Mode in Russia[1]



Rail Freight Turnover by Country



Notes: (1) Excluding pipelines

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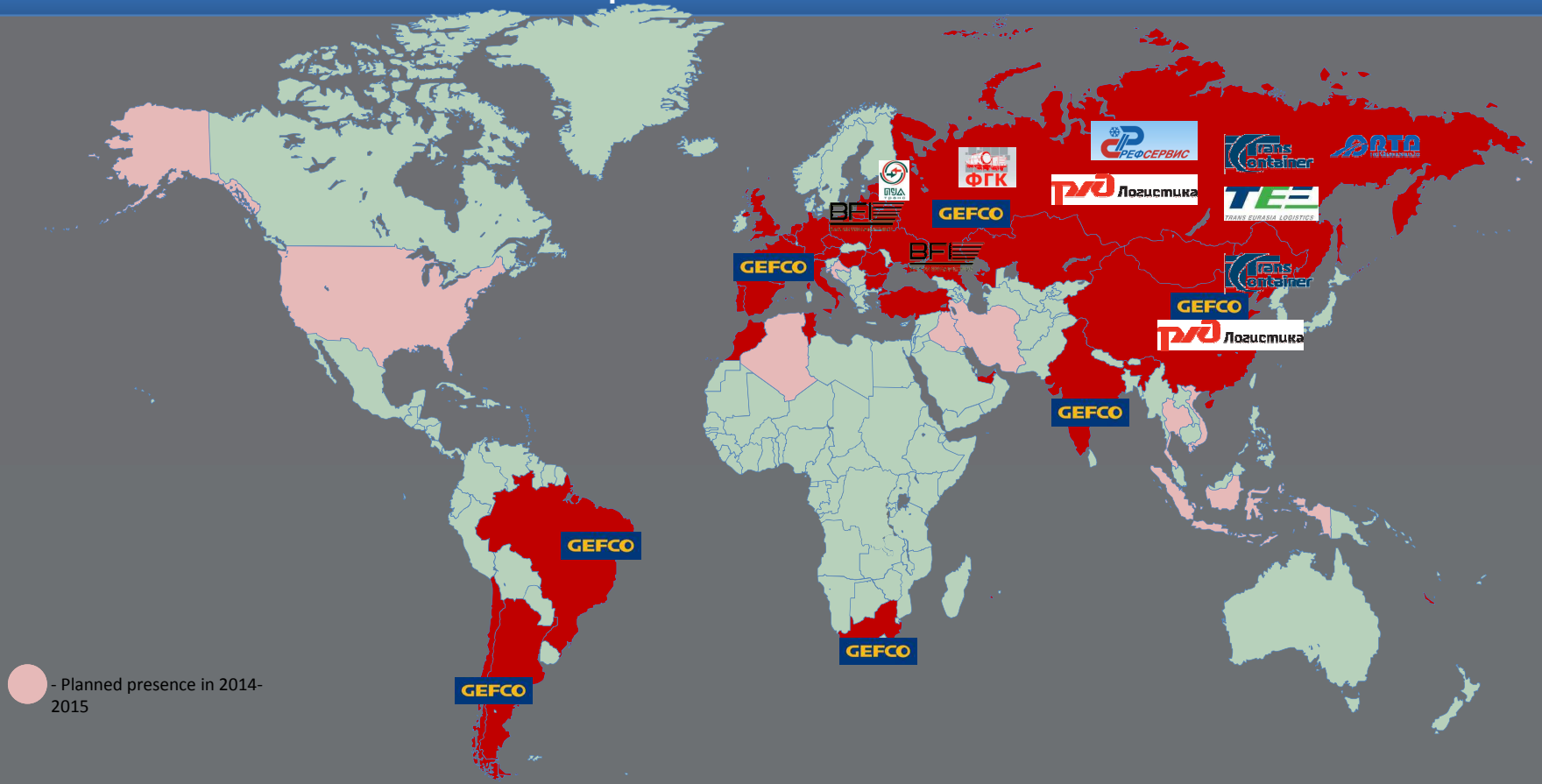
Global presence of RZD in 47 countries



Transformation of RZD Business Model

Inertial model:
JSC «RZD» – transporter

- Low capacity for development of infrastructure at own expense and high burden on the state in current business model
- High risks in case of economic crisis due to prevailing volume of recurring expenses in cost structure
- Necessity for the State to finance significant part of expenses on railway infrastructure
- Low dividend flow for the shareholder (Russian Federation)

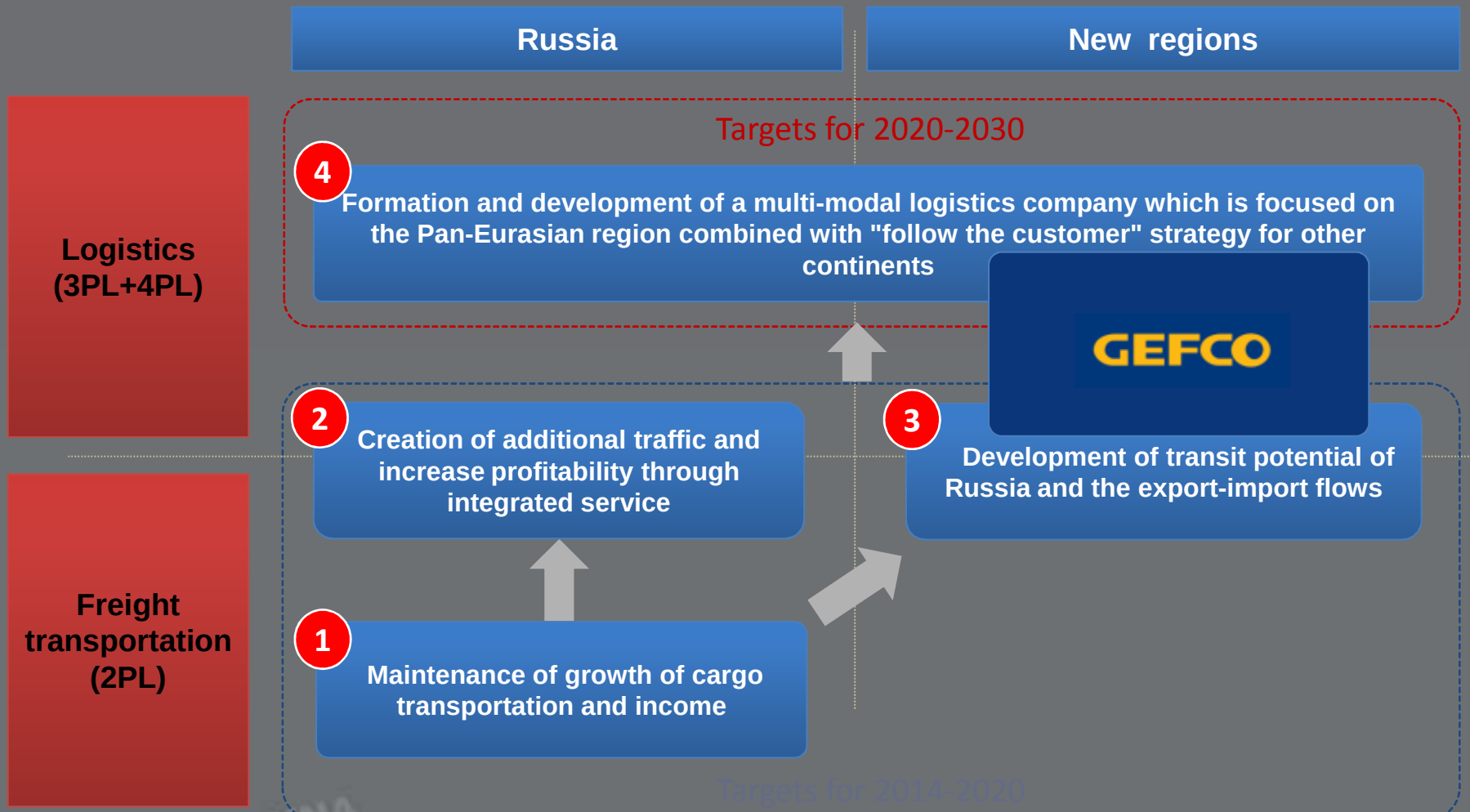
New paradigm: JSC «RZD» –
Freight forwarding and logistics company

- Accelerated development in market segments that facilitate and strengthen the transportation business – strategy for realization of synergies
- Customer focus and quality enhancement
- Creation of growth points in unregulated business segments
- Dividend growth and reduction of state subsidies

Target model

Russian government and the Board of Directors of JSC "RZD" approved acquisition of GEFCO, thus making a strategic decision on development of the international logistic business

Transformation of RZD Business Model



Perimeter of the transport and logistics business block of the RZD Holding Company

Board of Directors of JSC "RZD" approved the Development Strategy for the RZD Holding up to 2030

The Management Board of JSC "RZD" approved the Development Concept for the transport and logistic business of the RZD Holding

The perimeter of the transport and logistic business block is approved

Transport and logistics business block management department

12 subsidiary and dependent companies

- JSC "Federal Freight Company"
- JSC "Refservice"
- JSC "TransContainer"
- JSC "RZD Logistics"
- GEFCO S.A.
- Black Sea Ferries Limited
- JSC" Russkaya Troika"
- JSC "RailTransAuto"
- JSC "Transport and logistics" complex (Ust Luga)
- TransEurasia Logistics GmbH
- JSC "TLC Bely Rast"
- JSC "Port Ust Luga Transport Company"

2 BRANCHES OF RZD

- Company transport services centre
- Central Directorate for management of terminal and warehousing complex

1 STRUCTURAL SUBDIVISION OF JSC "RZD":

Customs Centre

Russian Railways freight business portfolio

Basic services

- ✓Route dispatch
- ✓Wagon dispatch
- ✓Timetable traffic
- ✓Wagon storage
- ✓Loading and unloading work at common use locations

Additional services

- ✓Rolling stock provided
- ✓Transshipment at the port
- ✓Customs services
- ✓Insurance and en route freight security
- ✓Certification
- ✓Container carriage
- ✓Execution of transport documents
- ✓"First" and "last" mile services
- ✓Freight transportation by rail ferry
- ✓Warehousing services

Comprehensive solutions

- ✓ Door to door
- ✓Organisation of a complex of TLS for rail carriage (including by sea, rail and road)
- ✓Contract logistics
- ✓4 PL/logistics engineering

clients

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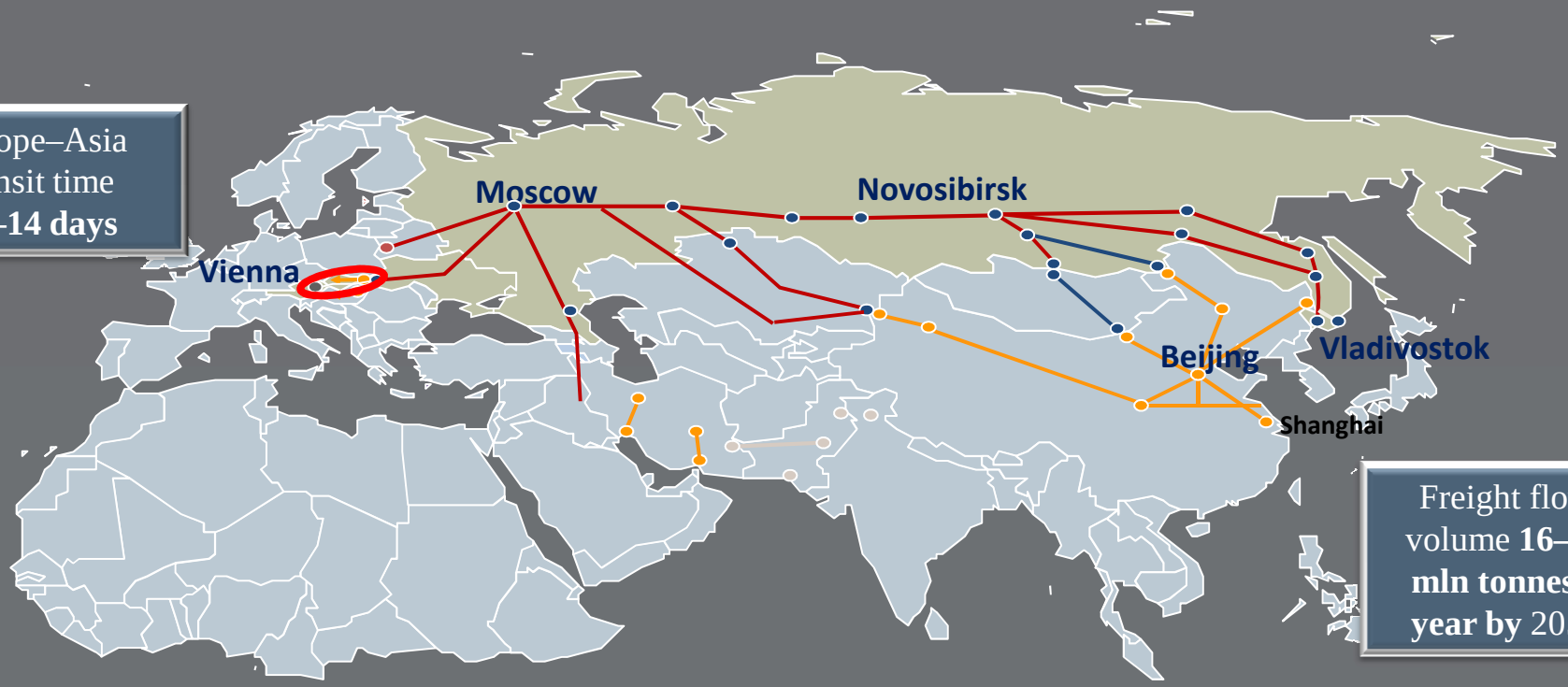
International Transport Corridors

Europe–Asia transit time **12–14 days**



Freight flow volume **16–24 mln tonnes a year by** 2050

Russia's geographical location means it can play an important role in the global economic system as a land transport bridge between Europe and Asia, above all in the East–West direction

UTLC meets the strategic transportation objectives of the Common Economic Space

Project Highlights

July 2012 – Common Economic Space is launched

June 2013 – Russian Railways, Kazakhstan's KTZ and Belarusian Railway sign Agreement on the creation of the UTLC

October 2013 – Russian Railways, KTZ and Belarusian Railway sign the UTLC Term Sheet

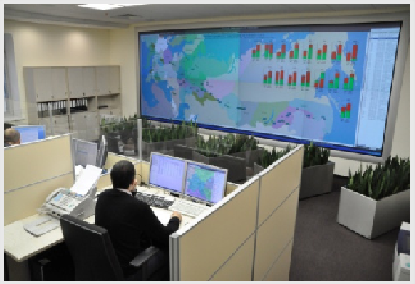
Second half of 2014 – UTLC is registered

SINGLE TRANSPORT AND LOGISTICS SYSTEM

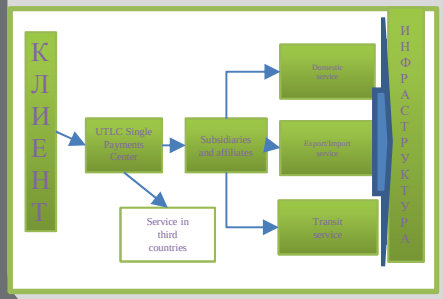
Joint use of rolling stock

Streamlined infrastructure development

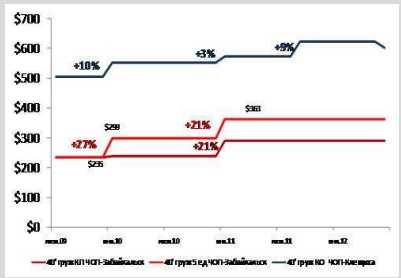
Single transportation technology



Single settlement system



Unified long-term pricing policy



A framework to optimize the transport system

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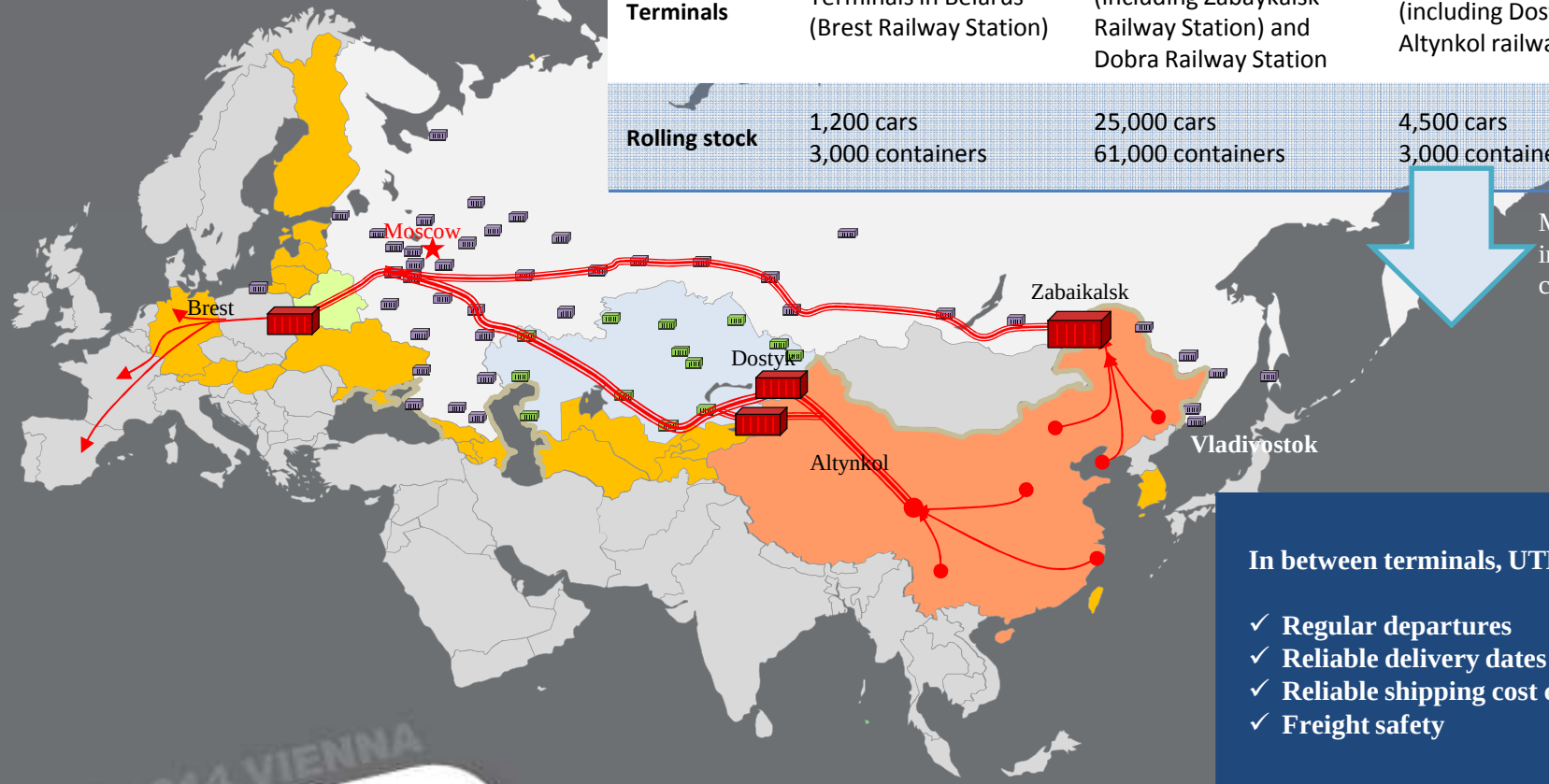
UTLC brings together key container shipping assets in the Common Economic Space, thus ensuring high-quality reliable service on the entire territory

Distribution network	14 agencies in Belarus 3 agencies abroad	147 agencies in Russia 8 representative offices 6 subsidiaries or affiliates 28 agents abroad	18 agencies in Kazakhstan 1 representative office 1 subsidiary 12 agents abroad
Terminals	Terminals in Belarus (Brest Railway Station)	Terminals in Russia (including Zabaykalsk Railway Station) and Dobra Railway Station	Terminals in Belarus (including Dostyk and Altynkol railway stations)
Rolling stock	1,200 cars 3,000 containers	25,000 cars 61,000 containers	4,500 cars 3,000 containers



Meeting international client demands

In between terminals, UTLC guarantees:

- ✓ **Regular departures**
- ✓ **Reliable delivery dates**
- ✓ **Reliable shipping cost calculation**
- ✓ **Freight safety**

Benefits: Working Capital, Costs

Status quo

1) Expensive hub services

2) Deliveries to/from China are more expensive (by air) or take longer (by sea)

3) Low receivables turnover ratio for sea freight services

4) High costs involved

Affects costs of building a supply chain and competitive ability

Rail traffic advantages

1) Savings on shipping rates and cash flow

2) Costs are 4–8 times below air freight, and less than half the working capital required for sea freight

3) Possibility to combine and consolidate shipments to/from China and subsequently arrange for further shipping to China or Europe

4) Best possible pricing options on the expanding markets of Russia and Kazakhstan

★ **Streamlining the supply chain by launching an integrated service on the China–Europe route**

Key Routes

Traditional routes	Rail transit time (station to station)	Sea transit time (port to port)
Suzhou–Warsaw	13 days	44 days
Chonquing–Duisburg	18 days	44 days
Chengdu–Lodz	14 days	46 days
Zhengzhou–Hamburg	16 days	43 days

Suzhou–Warsaw (through Zabaikalsk–Krasnnoye–Brest)
Chonquing–Duisburg (through Dostyk–Iletsk–Krasnoye–Brest)
Chengdu–Lodz (through Dostyk–Iletsk–Krasnoye–Brest)
Zhengzhou–Hamburg (may take either of the routes through Dostyk or Zabaikalsk)

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THANK YOU FOR YOUR TIME!

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