

## 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 — 1.7-2.4%;
- ▶ engineering products, electrical goods — 3.8%;
- ▶ other — 1.0%;
- ▶ fuel and energy resources — 2.7%;
- ▶ products purchased under the investment program — 12.5%

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### NUMBER OF PRODUCT CLAIMS, PCS

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2012



2011



- Quality claims
- Quantity claims

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.

**Absolute dynamics of wholesale prices of Russian manufacturers and average purchase prices of JSC "RZD" for diesel fuel, th. roubles/t**

**Absolute dynamics of wholesale prices of Russian manufacturers and average purchase prices of JSC "RZD" for oil fuel, th. roubles/t**

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.

**Activities aimed at conclusion of long-term contracts will continue in 2013.**

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.