

Expenditure Analysis

Expenditures on transportation, infrastructure and locomotive hauling services

Expenditures on transportation activities amounted to 1,151.5 bln roubles, which is 9.6% or 100.7 bln roubles more than in 2011 (1,050.8 bln roubles).

Payroll expenses

Payroll expenses amounted to 366.7 bln roubles (+6.9% or +23.5 bln roubles), including due to:

- ▶ increase in the traffic volume by 4.1 bln roubles;
- ▶ indexation of wages in line with the bargaining agreement of JSC "RZD" by 18.7 bln roubles;
- ▶ increase in estimated liabilities with regard to vacation pay to JSC "RZD" employees by 0.7 bln roubles.

Other material costs

Material costs (materials and OMC) amounted to 207.0 bln roubles (+1% or +2.1 bln roubles). Key change factors for other material costs:

- ▶ increase in the traffic volume (+4.2 bln roubles);
- ▶ price advance (+14.2 bln roubles);
- ▶ change in the overhaul structure and reduced volume of track repairs using new materials (expenses reduced by 7.9 bln roubles);
- ▶ company's successful activities aimed at cost optimization and check to prices (expenses reduced by 8.4 bln roubles).

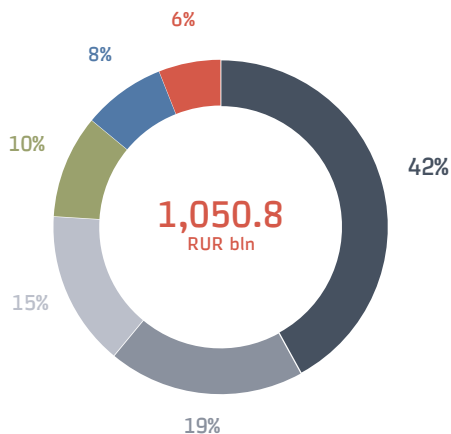
Social benefit expenses

Social benefit expenses amounted to 95.7 bln roubles (+0.8% or 0.7 bln roubles). Slower gain increase in social benefit expenses compared to payroll expenses is due to the impact of the regressive insurance contribution scale.

Depreciation costs

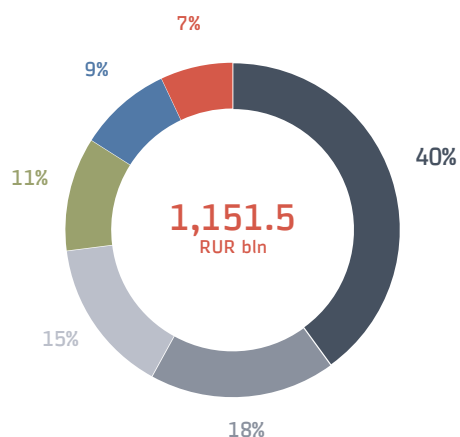
Depreciation costs amounted to 171.3 bln roubles (+6.9% or +11.1 bln roubles). This growth is due to commissioning of company's fixed assets as a part of implementation of the investment program of JSC "RZD".

STRUCTURE OF EXPENDITURES ON JSC "RZD" TRANSPORTATION IN 2011



- Payroll expenses and insurance contributions
- Other material costs
- Depreciation of fixed assets
- Electric power
- Other expenses
- Fuel

STRUCTURE OF EXPENDITURES ON JSC "RZD" TRANSPORTATION IN 2012



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- Payroll expenses and insurance contributions
 - Other material costs
 - Depreciation of fixed assets
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 - Fuel

Electricity costs

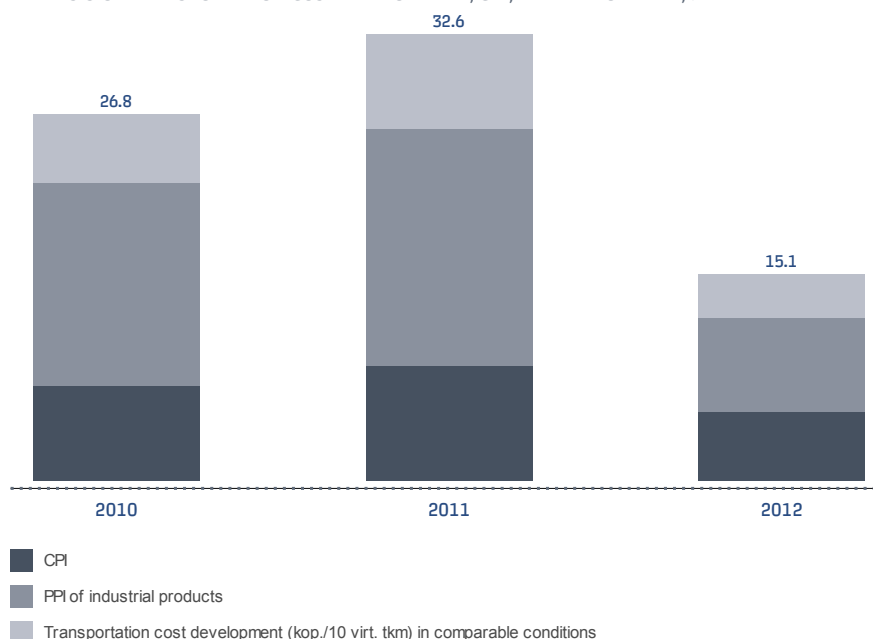
Electricity costs amounted to 106.7 (+4.7% or 4.8 bln roubles). Key growth drivers:

- ▶ Increase in train hauling expenses by 4 bln roubles (+4.5%) due to:
 - ▶ increase in the traffic volume — gross ton-kilometer operation in electric traction by 3.6% or 3.2 bln roubles;
 - ▶ decrease in the specific allowance for electric traction hauling of trains by 1%, which allowed to cut costs by 0.9 bln roubles;
 - ▶ increase in electric power rates by 1.9%, which resulted in cost escalation by 1.7 bln roubles;
- ▶ Increase in expenses on non-hauling needs by 0.8 bln roubles (+6.6%), which is due to increased electric power consumption following transition of a number of boiler rooms from solid fuel to electric power and advance on electric power rates.

Cost of railway transportation

The cost of railway operations in 2012 amounted to 393.4 kop./10 virt. tkm, up 6.5% on 2011. In comparable conditions (without regard to costs on car lease from JSC "SFC" that were absent in 2011), increase in the cost is valued by the Company at 3.2%, which is much lower than the advance of industrial prices (6.8%) over this period.

ANALYSIS OF TRANSPORTATION COST DEVELOPMENT, CPI, PPI YEAR-ON-YEAR, %



Fuel costs

Fuel costs in 2012 amounted to 77.4 bln roubles (+20.8% or 13.3 bln roubles). Major expense growth drivers:

- ▶ Increase in train hauling expenses by 11.4 bln roubles (+22.5%) due to:
 - ▶ increase in the traffic volume — gross ton-kilometer operation in electric traction by 3.3% or 1.7 bln roubles;
 - ▶ decrease in the specific fuel allowance for heat traction hauling of trains by 0.9%, which allowed to cut costs by 0.5 bln roubles;
 - ▶ advance of diesel fuel prices, including due to a rise of diesel fuel excises in accordance with Federal Law No. 306-FZ dated November 27, 2010 "On amendments to the first and second parts of the Russian Tax Code"; cost escalation amounted to 10.2 bln roubles;
- ▶ increase of expenses on non-hauling needs by 1.9 bln roubles (+14.3%), which is mainly due to a price advance on the fuel consumed for non-hauling needs.

Overhaul of fixed assets

In 2012, company's maintenance costs were spent on overhauls of fixed assets of JSC "RZD" in the amount of 100.7 bln roubles, which accounts for 91.1% of the actual value of 2011. The main reasons for a decrease in overhaul costs in 2012 compared to 2011 are:

- ▶ Curtailment of the program for track overhaul using new materials along nearly 1,100 km with the track reconstruction program enhanced by 1,700 km;
- ▶ Elimination of inventory park freight cars from the overhaul program in 2012 (in 2011, more than 4,500 cars repaired, in 2012 — 0).

Expenditures on investment activities

In 2012, the total amount of investment costs was 480.1 bln roubles, which is 21.4% more than in 2011. In 2012, investment activities were mainly performed at the expense of Company's funds and federal budget and external investors' raised funds.

2012 saw commissioning of 2.8 km of new lines, 103.9 km of the second track, 99.7 km of the station track, 129.2 km of electrification, 504.6 km of centralized traffic control, 131 sets of pointworks, 53.2 km of automatic block signal systems, 6 traction substations.

532 units of the traction rolling stock were purchased and 2,184 were upgraded, 475 units of the multiple-unit tolling stock were purchased and 519 units of the freight rolling stock were upgraded. The total cost of fixed assets commissioning in 2012 amounted to some 370 bln roubles.

Other expenditures

Other expenditures amounted to 126.8 bln roubles (+55.1% or +45.1 bln roubles). Key expense growth drivers:

- ▶ additional costs on handling the car fleet of JSC FPC (JSC "SFC") (+35.4 bln roubles);
- ▶ increase in the traffic volume (+1.5 bln roubles);
- ▶ price advance (+4.6 bln roubles);

- ▶ increase in property tax costs (+1 bln roubles);
- ▶ increase in site protection and other costs (+2.6 bln roubles).

Evaluation of increase in transportation expenditures in 2012, bln roubles