

Increase in the Transport Service Quality

JSC “RZD” is setting an objective to increase freight delivery reliability by at least 5% in 2013 compared to 2012

The current poor quality of transport service is largely due to external factors — forced transition to operation with a private car fleet, redundancy of this fleet, infrastructure load imbalance, and lack of regulatory framework. Over a number of years, the Company has been trying to introduce a systematic approach to transportation quality; however, the rate of external changes has overtaken these efforts.

Freight delivery quality claims are lodged by both consigners and consignees. In 2012, 759 th. claims were lodged for a total amount of RUR 13.5 bln. Among these, 616 th. claims (81.1%) totalling RUR 6.7 bln (49.5%) were lodged for missed delivery times by empty private cars. 154 th. claims for RUR 2.4 bln were approved. Compared to 2011, the number of claims lodged increased by 5.6 times and the claimed amount by 1.9 times.

An overload on freight and distributing stations and the road network resulted in a decreased capacity of the railway network and, consequently, a significant increase in a number of freight delivery delays.

- ▶ In 2012, deliveries via the public road network amounted to 16,895.2 th. Of deliveries that arrived at their destination, 4,648.2 th. arrived late (27.5% or +9.1% versus 2011);
- ▶ the average delivery rate in 2012 decreased by 28 km/day (in 2012 it was 219 km/day and in 2011, 247 km/day);
- ▶ the volume of delayed deliveries of both empty and loaded cars increased. By the end of the year, the share of delayed loaded deliveries amounted to 20.8% (in early 2012 this was 19.8%);
- ▶ empty cars accounted for 55% of all delayed deliveries (in 2011 this was 48%);
- ▶ delivery reliability was 73%.

THE FOLLOWING ACTIVITIES WERE CARRIED OUT IN 2012 TO IMPROVE TRANSPORT SERVICE QUALITY:

Automated systems to monitor delivery delays were commissioned; this will ensure a faster response time

The Program “Development of terminal and warehouse activities of JSC “RZD” is being coordinated

Proposals were submitted to the Russian Ministry of Transport to revise normative documents with regard to the delivery period to protect the Company's interests and promote equal conditions for all means of transport

There is a special focus on contract logistics development and the market launch of integrated client-centered logistics services

Promising services: managing freight train traffic to match customer schedules

The innovative use of technology to manage freight train traffic implemented by JSC “RZD” will ensure that freight delivery matches fixed schedules agreed with the customer.

In 2012, the Corporate Transport Service Center (CTSC) of JSC “RZD” entered into contracts with 13 companies for freight train transportation. According to the schedule more than 4.8 th. freight trains and more than 14.7 mln tons of freight were transported amounting to an additional income of RUR 401.2 mln. Since the start of the project, more than 6 th. freight trains and more than 18 mln tons of freight were transported with an additional income of RUR 535.7 mln.

The new scheme was tested at 24 railway destinations (three destinations of the Sverdlovsk Railway, 17 of October, and four of the West Siberian Railway). Demand for the service came from, in particular, LLC “TC “ErazHolding” (seven destinations) and JSC “Severstal” (three destinations).

In mid-November 2012 the launch of the transportation of ferrous metals according to customer schedules started from Smychka and Novokuznetsk-Severnny stations to Mys Astafieva station. During the implementation of the pilot project, the freight delivery time decreased by 30% (from 15-17 days to 10-12). On the West Siberian Railway, an experimental coal delivery was arranged according to a fixed schedule from Eranukovo station to Obnorskaya, Novokuznetsk-Severnny, Biryulinskaya stations and from Obnorskaya station to Nakhodka-Eksportnaya station.

Railways have developed rules of interaction regarding the management of train traffic “according to the schedule”, which, in particular, will help consolidate fleets of different owners and reduce empty return car flows.

JSC “RZD” takes measures to enhance road capacity:

- ▶ Heavy-weight traffic helps improve capacity use, specifically, on busy sections. In 2012 over 117 th. freight trains weighing above 6 th. t were delivered; deliveries will grow in 2013. As a result, track infrastructure, power supply, automatic systems and telemechanics will also be need to be brought in line with compliance.
- ▶ Introduction of job orders involving co-operation across JSC “RZD” production functions will improve key

quality indicators of transportation. The “customer — contractor” principle helps determine the cross responsibility of units for specific elements of business processes. Provisional rules have been approved; they set out the procedure, liability of directorates and their units related to the generation, performance, summation of mutual obligations and job orders in transportation.

- ▶ The steady operation of distributing and divisional stations also determines transportation quality. Their development program has been adopted, their method of train inspections revised, and inspector numbers increased. In 2012, these measures helped reduce the standby of transit cars at the network’s most important distributing stations by 3.1%. The standby period decreased and car turnover increased.
- ▶ Routing (delivery of a train with the freight destined to one or more neighboring points) is an effective tool to speed up car movements. JSC “RZD” set routing level targets for 2013: for the transportation of oil and oil products up to 41%, coal 78%, ore 85%, and ferrous metals 32%. Routing also applies to empty cars.
- ▶ Development of automated systems will contribute to the improvement of performance and quality of JSC “RZD” transportation.

Promising services: long-term contract for guaranteed freight presentation and pickup

The contract guarantees the carrier’s performance in respect of freight acceptance and delivery in an agreed volume, including during the seasonal routine maintenance of production capacities and infrastructure of JSC “RZD”.

In 2012, the total transportation volume of key customers under long-term contracts amounted to 313.1 mln tons. JSC “RZD” operations under long-term contracts represented 97% (of the volume).

The JSC “RZD” Corporate Transport Service Center entered into long-term contracts for guaranteed freight presentation and pickup with LLC “TC EvrazHolding”, JSC “SUEK”, LLC “Mechel-Trans”, JSC “OC “Kuzbassrazrezugol”, CJSC “SibugleMET”, JSC “Novatek”, JSC “MMK” and JSC “NLMK”. Long-term contracts are being developed with JSC “MCC “Eurochem” (JSC “NAK Azot” and JSC “Nevinnomyssk Azot”), LLC “MC Metalloinvest”, JSC “Severstal”, JSC “Gazpromneft”.

Promising services: “take-or-pay” agreement

This agreement covers client co-financing of railway infrastructure development subject to certain freight transportation volumes secured for the long term; it also guarantees the pickup of all finished products. In March 2012, JSC “RZD” and JSC “NOVATEK” signed a strategic partnership agreement until 2020. As agreed by the parties, JSC “NOVATEK” will partially finance work to enhance the capacity of the Limbey — Surgut — Tobolsk section (RUR 30.5 bln). JSC “RZD” will provide guarantees for the pickup of all finished products of the gas company from Purovsky plant (up to 12 mln tons by 2020).

Upcoming trends: JSC “RZD” distriports

Transport and logistics complexes of JSC “RZD”

In 2012, JSC “RZD” launched a pilot project for the comprehensive transport service of “terminal-to-terminal” container transportation. The Holding Company is testing the transportation of liquid chemicals in special-purpose containers for chemical companies and expects to see an increase in the share of railway transportation in this segment.

Last April, the Board of JSC “RZD” approved the Concept for creation of distriports within the Russian Federation. It covers distriport networking, infrastructure upgrading and the improvement of transport service techniques. These complexes are planned to be set up jointly with strategic partners. Project companies will be incorporated for each terminal with the participation of JSC “RZD”, its affiliates and corporate partners.