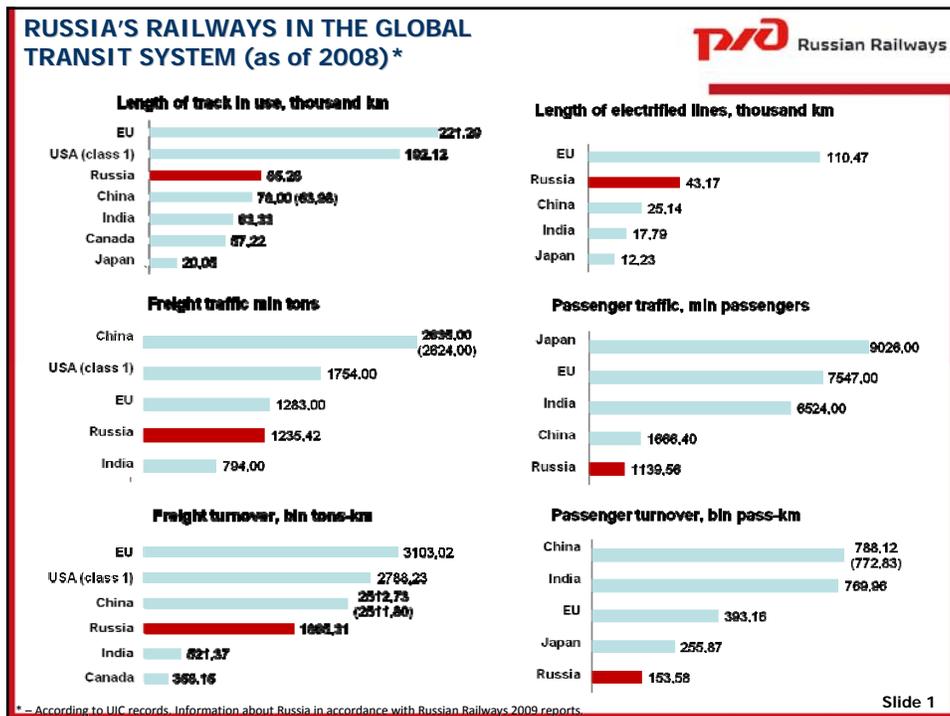




## Developing the Eurasian Transportation Network – Russian Railways Strategic Priorities for International Cooperation

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**18<sup>th</sup> OSCE Economic and Environmental Forum**  
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## RUSSIA'S RAIL SYSTEM DEVELOPMENT STAGES



### 2008-2015 Railway Transport Modernization

- ➔ Conversion into an effective transportation and logistics holding company
- ➔ Quick modernization of existing resources and infrastructure
- ➔ Financing investment projects using the investment fund monies
- ➔ Expansion of state-to-private partnership
- ➔ Improving rail access to Russian seaports
- ➔ Construction of St. Petersburg – Moscow high-speed railway
- ➔ Intensification of design and survey work for the construction of new railway lines

### 2016-2030 Dynamic Expansion of Railway Network

- ➔ Full-scale implementation of state policy for railway industry development
- ➔ Rail network expansion
- ➔ Compliance with international standards of technological development
- ➔ Increase in container freight traffic to 1 bln TEU per year
- ➔ Establishment of common transportation space within EurAsEC

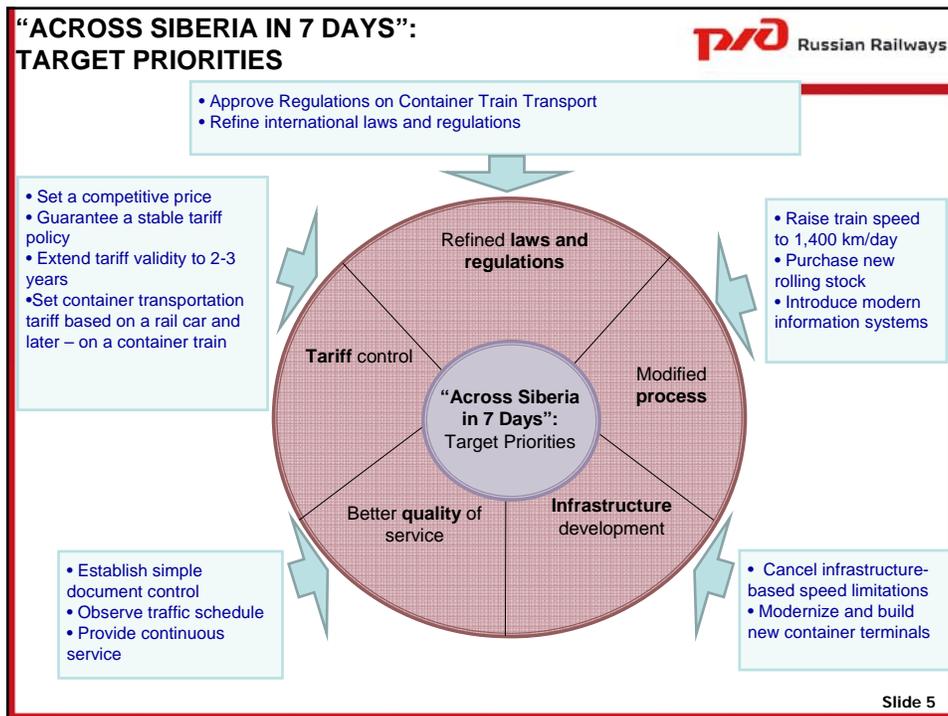
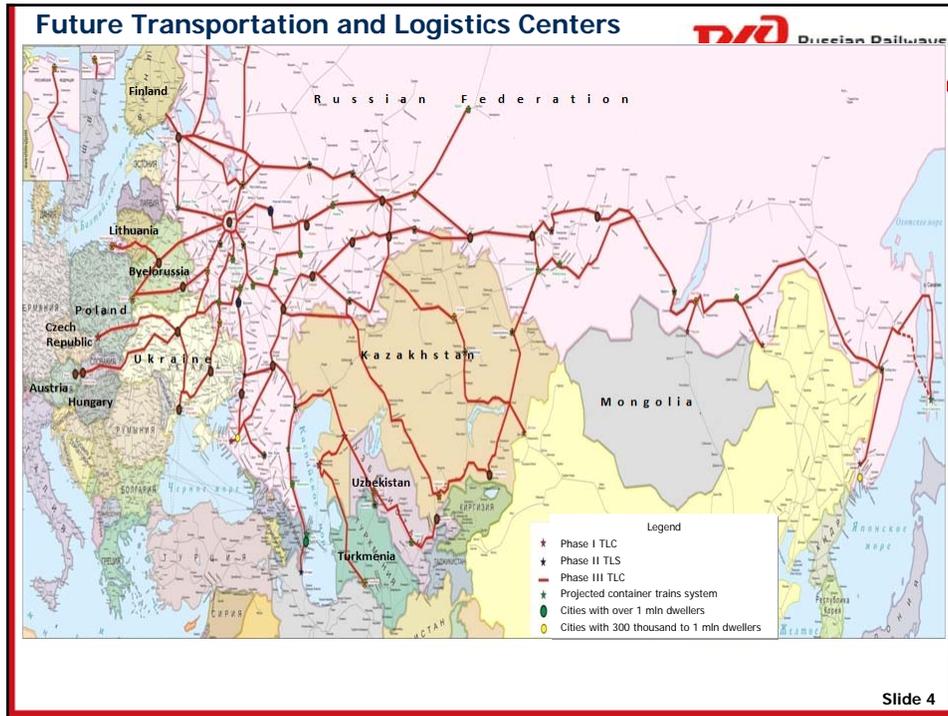
The estimated investment into the railway industry between 2008 and 2030 (in 2007 prices) is 325.7 to 394.3 bln Euros, depending on the option selected

Slide 2

## EAST-WEST AND NORTH-SOUTH INTERNATIONAL TRANSPORT CORRIDORS



Slide 3



## CONSTRUCTION OF 1520 mm GAUGE KOSICE – BRATISLAVA – VIENNA RAILWAY



Designed railway length – 565 km



### Project goals:

- ❑ Build a competitive direct rail link connecting Europe with Russia and Asia-Pacific Region.
- ❑ Avoid transfer of cargo at stations where European rail lines connect with 1520/1435 mm gauge track.
- ❑ Reduce haulage cost and time; reduce transport cost in the final price of products transported by rail.
- ❑ Cut delivery time in half for freight shipped from Western Europe to Eastern Asia as compared to sea shipment (13-14 days versus 28-30 days)
- ❑ Savings will amount to \$100 to \$1,000 per container depending on the cost of freight.

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## NORTH-SOUTH INTERNATIONAL TRANSPORT CORRIDOR



Potential product market volume for ITC North-South is 25-26 mln tons



Slide 7

## Materials for Presentation

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**Transportation Network as Russian Railways**  
**Strategic Priority for International**  
**Cooperation**

Slide 1

First of all, I would like to welcome everyone on behalf of Russian Railways and thank the organizers for the opportunity to speak in front of such a distinguished audience.

To begin, let me briefly discuss the role of rail transport in the Russian economy. In fact, rail transport is the backbone of Russia's transportation system. Russian Railways is the largest transportation company in Russia and handles 42% of freight traffic in the country (*85% if we exclude pipeline services*) and almost 38% of passenger traffic.

On average, around 1.3 bln passengers and almost 1.5 bln tons of freight are transported by rail in Russia each year.

We are one of Russia's largest employers with over 1.1 mln employees. Russian rail system is among the world's top railways in terms of length of lines and volume of freight and passenger traffic.

Slide 2

The Government of the Russian Federation recognizes the significance of rail transport for national economic development and social stability. **With this in mind, the Government has developed a Strategy for Developing Rail Transport in the Russian Federation through 2030, which was approved in 2008.**

The Strategy calls for the construction of over 20 new locomotives, 996,000

freight cars and 20,400 passenger cars.

The estimated volume of investment required to carry out development activities in 2008-2030 (*in 2007 prices, VAT excluded*) is 11.4 to 13.8 trillion rubles (*325.7 to 394.3 bln euro*) depending on the option selected.

**Without question, the global economic recession affected Russia, among other countries, and slowed down many processes, including the implementation of the Strategy for Developing Rail Transport.** It is sufficient to say that Russian Railways invested around 382 bln Rubles (*9.9 bln euro*) into the development effort in 2008, whereas last year it was only able to contribute 265.7 bln Rubles (*6.9 bln euro*).

**The global recession demonstrated that the world economic system is flawed and national economies are weak even in highly-developed countries, which makes it essential to develop new methods to overcome the recession and build a suitable environment for stable post-recession development.**

**Developing transport infrastructure may become one of the key implements building a stable global economy.** Projects of this sort will, on the one hand, create tens of thousands of jobs and, on the other hand, create a solid foundation for economic modernization and increased competitiveness.

Slide 3

Effectively leveraging the potential of the Russian railway system is a prerequisite for achieving one of the prioritized strategic goals set by the Company. Thanks to Russia's geographic location, the Russian rail system can claim a significant role in the global economic system as a transport bridge connecting Europe and Asia East to West and North to South.

Today, Russia exports over 180 mln tons of freight to Europe and imports around 5 mln tons of cargo by rail.

The most effective rail routes linking Europe and Asia pass through Russia, and many of these are part of international transport corridors. We seek to use all the benefits available to us in a more effective manner to strengthen the role of the rail

transport in export-and-import and transit shipments.

The highest priority tasks in this respect include cooperation with railway companies, development of new transport products and infrastructure enhancement.

Slide 4

The future development of the East-West international transport corridor with the Trans-Siberian Railway as its backbone is based on the shipment of high-tonnage containers using express freight trains. In addition to greatly reducing delivery time, this will also help ship freight in fixed-size batches and strictly as scheduled.

In this context, I have to mention a project that started in January 2008 for the delivery of car parts from Germany, Czech Republic and Slovakia to the Volkswagen factory in Kaluga, Russia, by rail. The project is operated by our special business unit, TransContainer, together with the German Schenker Automotive RailNet (*around 100 thousand TEU on over 700 container trains have been transported under this project to this date*).

Creation of this sort of logistic systems opens new doors for drawing additional freight traffic to a given rail network due to a larger volume of container traffic.

Development of logistic terminals tied to the Russian rail system is a major project that is expected to result in substantial growth in rail container traffic and the development of Europe to Asia transport links in general.

Let me highlight the fact that already today it takes less than 20 days to deliver freight from Japanese or Korean seaports to Western European borders (of which 11 days is travel through Russia). Meanwhile, shipments by sea, which have become increasingly risky, take around 35 days via the Suez Canal and as long as 60 days around Africa. Expedited delivery becomes even more important during times of recession, when tying up liquid assets is an untenable option.

Slide 5

Our experts conducted market research to determine that the transit time through Russia should not exceed 7 days, while the price of shipment should be no

more than \$1,000 higher than that of sea shipping. Under these conditions, the use of Russian ground transport for shipping cargo from Eastern Asia to Europe becomes attractive.

**Taking into account market requirements, we have developed and are currently introducing a special program to create a new transport product – Across Siberia in 7 Days.**

Completion of the work planned under this program will enable freight shipping across Russia east to west in 7 days as soon as 2012 (*from Nakhodka to Krasnoye at the mean speed of 1,400 km/day or 58.3 km/h*).

By 2015, we expect to reach a speed of 1,500 km/day, carrying freight in 7 days as far as to Brest (on the Belarus-Poland border).

Slide 6

**The construction of a 1520 mm gauge railway in Slovakia from Bratislava to Vienna, as well as associated logistics infrastructure, may be a breakthrough in developing the transport link from Europe to CIS to China.** This new railway will attract freight traffic from many countries, including Austria, Slovakia, the Czech Republic, Hungary, Germany, Switzerland, Italy, Slovenia, Serbia and Croatia.

When built, this rail line will help drastically increase the value of logistic systems based on railways. The use of this new uniform-gauge railway will reduce the overall delivery cost, time and the transport component in the end price of freights shipped via the line.

According to our estimates, it will enable shipments between Europe to Asia in 13-14 days. And, as I have already mentioned, the expected transit time through Russia is 7 days.

Russian Railways have been working on this project together with railway authorities and transportation agencies in Austria, Slovakia and Ukraine since 2007.

**The passenger segment is also a market with significant growth potential.** The vast disruption in air travel caused by the Icelandic volcanic eruption in April

demonstrated the importance of a stable and fail-safe ground transport system. During that period, Russian Railways sent 95 additional railcars to carry passengers from European capitals including Vienna, Berlin, Prague, Warsaw and Helsinki.

A total of around 10,500 people left Europe by rail during the period of disruption, including on regular trains.

As of today, we have passenger cars travelling from Russia to Austria on a regular basis. Trains travel to Vienna on the Moscow-Prague line (*transported over 9,800 passengers in 2009*) and to Innsbruck on the Moscow-Warsaw line.

Slide 7

In addition to developing the transportation link between the east and west of the Eurasian continent, Russian Railways is working under an intergovernmental agreement to build a consistent railway infrastructure within the **North-South** international transport corridor. This project will help establish a direct rail link between Russia and Iran in the Caspian region.

The project will be completed in the coming years to launch, for the first time in history, an almost 4500 km long land line from St. Petersburg to the Bandar Abbas seaport in the Persian Gulf and connect North-Western and Central Europe with the Near East, Middle East and South Asia.

The new route will be in high demand to support growing regional freight traffic and start container traffic between Europe and Asia. Expert estimates indicate that the product market volume for ITC North-South may reach 25-26 mln tons by 2020. The advantages of the North-South corridor over other transport lines, chiefly the sea route via the Suez Canal, include a shorter delivery time (almost half the time for certain routes) and lower shipping costs.

Russian Railways places a high value on cooperation **with the European Union, the United Nations Economic Commission for Europe and other international organizations** to ensure smooth integration of Russia's rail system into the European transport network. We are participating in the Motor and Rail Transport Workgroup within EU- Russia Transport Dialog and the work of EU-Russia Industrialists' Round Table; we are a member of the Contact Group established in a joint effort of the Organization for Railways Cooperation (OSJD) and European Railway Agency (ERA) and actively participate in the work of the Internal Transport Committee of the European Economic Commission for United Nations Organization.

The company's priorities in cooperation with international organizations include harmonizing transport law, refining border crossing procedures, minimizing freight delivery time and supporting engineering capabilities for the interoperability of railways and the coordinated development of infrastructure of Eurasian transport corridors.

Russian Railways and our affiliated companies have established joint ventures with railway operators in Germany, Finland and Slovakia to develop various transit transport services.

One of the most significant international projects operated by Russian Railways is the concessional management of the Armenian rail system, which is intended to promote a stable transportation and economic development in the region.

Another important effort is aimed at establishing stronger bilateral ties with partner railway companies in the East, primarily in China and Kazakhstan. Russian Railways have made some keynote arrangements on the company's participation in the development of Mongolian railways and reconstruction of the Trans-Korea Railway. We give special attention to assisting countries with no sea borders in getting access to sea ports.

In conclusion, let me express my strong belief that close collaboration of all the parties interested in developing the Eurasian transport corridors will help promote security and cooperation in Europe and on the continent in general.