

Open Joint Stock Company  
“Russian Railways”

Interim Condensed  
Consolidated Financial Statements

As at 30 June 2014 and for the six months then ended

Open Joint Stock Company “Russian Railways”  
Unaudited Interim Condensed Consolidated Financial Statements  
As at 30 June 2014 and for the six months then ended

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## Report on review of interim condensed consolidated financial statements

To the Shareholder of  
Open Joint Stock Company "Russian Railways"

### **Introduction**

We have reviewed the accompanying interim condensed consolidated financial statements of OJSC "Russian Railways" and its subsidiaries ("the Group"), comprising the interim consolidated statement of financial position as at 30 June 2014 and the related interim consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Basis for qualified conclusion**

As of the date of issuance of the accompanying interim condensed consolidated financial statements, the Group did not finalize its property, plant and equipment registers for the movements in its property, plant and equipment in 2013 and the six-month period ended 30 June 2014, including the effects of accounting for components. Also, as described in Note 8 to these interim condensed consolidated financial statements, the Group did not complete its impairment test for one of its cash-generating units as of 30 June 2014.

The effects of these departures from IAS 16 *Property, Plant and Equipment* on the financial position as of 31 December 2013 and 30 June 2014 and effects of the departures from IAS 36 *Impairment of Assets* on the financial position as of 30 June 2014, as well as respective effects on the results of operations for the six-month periods ended 30 June 2013 and 30 June 2014, have not been determined.



Совершенствуя бизнес,  
улучшаем мир

**Qualified conclusion**

Based on our review, with the exception for the matters described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

*Ernst & Young LLC*

15 October 2014

Open Joint Stock Company "Russian Railways"  
Interim Consolidated Statement of Financial Position  
as at 30 June 2014

*(All amounts are in millions of Russian Rubles)*

	Notes	30 June 2014 Unaudited	31 December 2013 Audited Restated*
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	3,061,459	2,983,986
Investment property		10,730	10,706
Goodwill	9	13,147	13,093
Intangible assets other than goodwill		64,804	66,796
Investments in associates and joint ventures	7	28,572	26,200
Other non-current financial assets		5,296	5,639
Deferred tax assets	24	10,625	13,424
Derivative financial assets	27	950	388
Other non-current assets		6,766	7,605
<b>Total non-current assets</b>		<b>3,202,349</b>	<b>3,127,837</b>
<b>Current assets</b>			
Inventories	10	109,538	112,812
Prepayments and other current assets		50,417	48,129
Income tax receivable		2,099	9,087
Receivables	11	99,340	78,037
Other current financial assets		16,785	15,877
Derivative financial assets	27	2,484	582
Cash and cash equivalents	12	58,232	114,759
		<b>338,895</b>	<b>379,283</b>
Assets classified as held for sale	13	8,717	10,142
<b>Total current assets</b>		<b>347,612</b>	<b>389,425</b>
<b>Total assets</b>		<b>3,549,961</b>	<b>3,517,262</b>

\* Certain amounts shown here do not correspond to the 2013 consolidated financial statements and reflect adjustments made as detailed in Note 3.

*Continued on next page*

*The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.*

Open Joint Stock Company "Russian Railways"  
Interim Consolidated Statement of Financial Position

as at 30 June 2014 (continued)

*(All amounts are in millions of Russian Rubles)*

	Notes	30 June 2014 Unaudited	31 December 2013 Audited Restated*
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holder of the parent</b>			
Share capital	18	1,960,153	1,947,179
Unrealised loss on available-for-sale financial assets, net of tax		–	(517)
Revaluation reserve		12,666	12,579
Retained earnings and other reserves		85,157	51,015
		<b>2,057,976</b>	<b>2,010,256</b>
Non-controlling interests		15,840	17,035
<b>Total equity</b>		<b>2,073,816</b>	<b>2,027,291</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	24	18,141	24,005
Long-term borrowings	15	598,242	595,305
Finance lease obligations, net of current portion		25,873	25,948
Net employee defined benefit liabilities		227,418	240,959
Derivative financial liabilities	27	18,805	17,197
Other non-current liabilities	16	12,719	17,017
<b>Total non-current liabilities</b>		<b>901,198</b>	<b>920,431</b>
<b>Current liabilities</b>			
Trade and other payables		189,606	257,513
Advances received for transportation		56,541	66,447
Finance lease obligations, current portion		13,879	12,273
Income tax payable		2,498	855
Taxes and similar charges payable (other than income tax)	14	52,035	38,562
Short-term borrowings	15	101,678	66,670
Derivative financial liabilities	27	3,230	2,759
Provisions and other current liabilities	17	148,100	120,818
		<b>567,567</b>	<b>565,897</b>
Liabilities, directly associated with the assets classified as held for sale	13	7,380	3,643
<b>Total current liabilities</b>		<b>574,947</b>	<b>569,540</b>
<b>Total equity and liabilities</b>		<b>3,549,961</b>	<b>3,517,262</b>

\* Certain amounts shown here do not correspond to the 2013 consolidated financial statements and reflect adjustments made as detailed in Note 3.

Yakunin V.I.

President

Kraft G.V.

Chief Accountant

15 October 2014

*The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.*

Open Joint Stock Company "Russian Railways"

Interim Consolidated Statement of Profit or Loss

for the six months ended 30 June 2014

(All amounts are in millions of Russian Rubles)

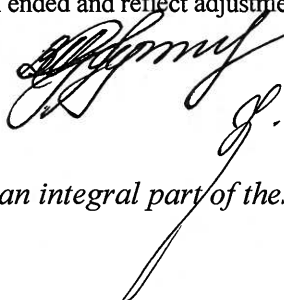
	Notes	2014	2013
		Unaudited	
			Restated*
<b>Revenues</b>			
Cargo revenues		563,157	564,168
Logistics revenues		108,981	85,706
Passenger revenues		84,709	86,682
Other revenues	19	108,386	112,115
<b>Total revenues</b>	5	<b>865,233</b>	<b>848,671</b>
<b>Operating expenses</b>			
Wages, salaries and related contributions		(350,920)	(338,805)
Materials, repairs and maintenance		(82,958)	(99,962)
Fuel		(47,444)	(46,958)
Purchased freight forwarding and logistics services		(80,927)	(61,419)
Electricity		(62,816)	(56,693)
Depreciation and amortization		(110,785)	(102,730)
Taxes other than income tax		(23,503)	(21,083)
Commercial expenses		(4,007)	(1,576)
Bad debt expense	20	(6,842)	(159)
Social expenses		(3,720)	(3,745)
Loss on impairment of property, plant and equipment		(2,427)	(4,377)
Other operating expenses	21	(60,742)	(63,221)
<b>Total operating expenses</b>		<b>(837,091)</b>	<b>(800,728)</b>
<b>Operating profit before subsidies from federal and municipal budgets</b>		<b>28,142</b>	<b>47,943</b>
Subsidies from federal and municipal budgets	22	28,189	30,586
<b>Operating profit after subsidies from federal and municipal budgets</b>		<b>56,331</b>	<b>78,529</b>
Finance expense and similar items		(14,279)	(11,587)
Finance income and similar items		2,434	3,112
<b>Finance expense and similar items, net</b>		<b>(11,845)</b>	<b>(8,475)</b>
Gain on disposal of controlling interest in subsidiaries, net	6	5,197	1,058
Equity income/(loss) from associates and joint ventures, net		130	(625)
Changes in fair value and gain on disposal of financial assets, net		2,089	77
Other income		9,205	9,033
Other expenses	23	(18,541)	(17,365)
Foreign exchange loss, net		(2,493)	(9,949)
<b>Income before taxation</b>	5	<b>40,073</b>	<b>52,283</b>
<b>Income taxes</b>			
Current taxes		(16,802)	(14,960)
Deferred taxes		3,152	(5,625)
<b>Total income taxes</b>	24	<b>(13,650)</b>	<b>(20,585)</b>
<b>Net income for the period</b>		<b>26,423</b>	<b>31,698</b>
Attributable to:			
Equity holder of the parent		27,250	30,508
Non-controlling interests		(827)	1,190

\* Certain amounts shown here do not correspond to the interim condensed consolidated financial statements as at 30 June 2013 and for the six months then ended and reflect adjustments and reclassifications made as detailed in Note 3.

Yakunin V.I.

Kraft G.V.

15 October 2014



President

Chief Accountant

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

Open Joint Stock Company "Russian Railways"  
Interim Consolidated Statement of Other Comprehensive Income  
for the six months ended 30 June 2014  
(All amounts are in millions of Russian Rubles)

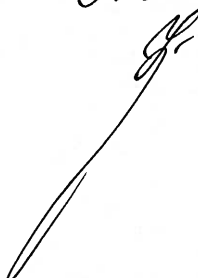
	2014	2013
	Unaudited	
<b>Net income for the period</b>	<b>26,423</b>	<b>31,698</b>
<b>Other comprehensive income</b>		
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>		
Revaluation of the investment property	91	–
Remeasurement gain on net defined benefit liabilities	7,265	7,980
Income tax effects	(76)	(207)
<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>	<b>7,280</b>	<b>7,773</b>
<i>Items to be reclassified to profit or loss in subsequent periods:</i>		
Translation difference	498	2,756
Other comprehensive (loss)/income attributable to investments in associates and joint ventures	(131)	51
Other comprehensive loss attributable to financial assets	(414)	–
Income tax effects	33	(4)
<b>Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods</b>	<b>(14)</b>	<b>2,803</b>
<b>Other comprehensive income for the period, net of tax</b>	<b>7,266</b>	<b>10,576</b>
<b>Total comprehensive income for the period, net of tax</b>	<b>33,689</b>	<b>42,274</b>
 Attributable to:		
Equity holder of the parent	34,725	40,718
Non-controlling interests	(1,036)	1,556

Yakunin V.I.



President

Kraft G.V.



Chief Accountant

15 October 2014

*The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.*



Open Joint Stock Company “Russian Railways”  
Interim Consolidated Statement of Changes in Equity

for the six months ended 30 June 2014 Restated\*

*(All amounts are in millions of Russian Rubles, except share amounts)*

	Notes	Share capital		Attributable to equity holder of the parent			Total	Non-controlling interests	Total equity
		Common Shares	Amount	Unrealized loss on available-for-sale financial assets, net of tax	Revaluation reserve	Retained earnings and other reserves			
As at 1 January 2014 as previously reported		1,947,179,187	1,947,179	(517)	12,579	288,428	2,247,669	17,035	2,264,704
Effect of adjustments (Note 3)		–	–	–	–	(237,413)	(237,413)	–	(237,413)
As at 1 January 2014 as restated		1,947,179,187	1,947,179	(517)	12,579	51,015	2,010,256	17,035	2,027,291
Net income for the period		–	–	–	–	27,250	27,250	(827)	26,423
Other comprehensive income		–	–	517	87	6,871	7,475	(209)	7,266
<b>Total comprehensive income</b>		–	–	<b>517</b>	<b>87</b>	<b>34,121</b>	<b>34,725</b>	<b>(1,036)</b>	<b>33,689</b>
Capital contribution by shareholder	18	12,973,678	12,974	–	–	–	12,974	–	12,974
Non-controlling interest arising from incorporation of subsidiaries		–	–	–	–	–	–	987	987
Capital contributions to share capital of subsidiaries by non-controlling shareholders		–	–	–	–	–	–	26	26
Acquisition of non-controlling interests in existing subsidiaries and other movements		–	–	–	–	21	21	(153)	(132)
Dividends		–	–	–	–	–	–	(1,019)	(1,019)
<b>As at 30 June 2014 (unaudited)</b>		<b>1,960,152,865</b>	<b>1,960,153</b>	<b>–</b>	<b>12,666</b>	<b>85,157</b>	<b>2,057,976</b>	<b>15,840</b>	<b>2,073,816</b>

\* Certain amounts shown here do not correspond to the 2013 consolidated financial statements and reflect adjustments made as detailed in Note 3.

*The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.*

Open Joint Stock Company “Russian Railways”  
Interim Consolidated Statement of Changes in Equity  
for the six months ended 30 June 2013

*(All amounts are in millions of Russian Rubles, except share amounts)*

	Attributable to equity holder of the parent							Non-controlling interests	Total equity
	Share capital		Unrealized loss on available-for- sale financial assets, net of tax	Revaluation reserve	Retained earnings and other reserves	Total			
	Common shares	Amount							
<b>As at 1 January 2013</b>	<b>1,887,709,216</b>	<b>1,887,709</b>	<b>(294)</b>	<b>11,217</b>	<b>239,834</b>	<b>2,138,466</b>	<b>13,914</b>	<b>2,152,380</b>	
Net income for the period	–	–	–	–	30,508	30,508	1,190	31,698	
Other comprehensive income	–	–	–	–	10,210	10,210	366	10,576	
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>40,718</b>	<b>40,718</b>	<b>1,556</b>	<b>42,274</b>	
Capital contributions to share capital of subsidiary by non-controlling shareholders and other movements	–	–	–	–	–	–	189	189	
Dividends	–	–	–	–	–	–	(1,426)	(1,426)	
<b>As at 30 June 2013 (unaudited)</b>	<b>1,887,709,216</b>	<b>1,887,709</b>	<b>(294)</b>	<b>11,217</b>	<b>280,552</b>	<b>2,179,184</b>	<b>14,233</b>	<b>2,193,417</b>	

Yakunin V.I.

President

Kraft G.V.

Chief Accountant

15 October 2014

*The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.*

Open Joint Stock Company “Russian Railways”

Interim Consolidated Statement of Cash Flows

for the six months ended 30 June 2014

(All amounts are in millions of Russian Rubles)

	Notes	2014	2013
		Unaudited	
<b>Cash flows from operating activities</b>			
Income before taxation		40,073	52,283
<b>Adjustments to reconcile income to cash generated from operations</b>			
Depreciation and amortization		110,785	102,730
Gain on disposal of controlling interest in subsidiaries, net	6	(5,197)	(1,058)
Equity (income)/loss from associates and joint ventures, net		(130)	625
Changes in fair value and gain on disposal of financial assets, net		(2,089)	(77)
Bad debt expense		6,842	159
Gain on disposal of assets held for sale		(48)	(299)
Loss on disposal of property, plant and equipment, net	23	159	728
Loss on impairment of property, plant and equipment		2,427	4,377
Finance expense and similar items, net		11,845	8,475
Change in provision and write-off of obsolete and damaged inventory		1,673	2,718
Change in provision for legal claims, net	17, 23	2,666	2,951
Foreign exchange loss, net		2,493	9,949
Effects of employee benefits		(4,911)	(3,760)
Other losses/(gains), net		1,517	(2,670)
<b>Operating income before working capital changes</b>		<b>168,105</b>	<b>177,131</b>
Increase in receivables		(24,173)	(17,700)
Increase in prepayments and other current assets		(4,051)	(1,628)
Decrease/(increase) in inventories		887	(23,276)
Decrease in trade and other payables		(24,211)	(25,685)
Decrease in advances received for transportation		(9,907)	(6,816)
Increase in taxes and similar charges payable (other than income tax)		14,207	6,417
Increase in other current liabilities		3,145	4,346
Decrease/(increase) in other non-current assets		888	(535)
Decrease in other non-current liabilities		(1,071)	(1,056)
<b>Net cash from operating activities before income taxes</b>		<b>123,819</b>	<b>111,198</b>
Income tax paid		(7,643)	(15,026)
<b>Net cash from operating activities</b>		<b>116,176</b>	<b>96,172</b>

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The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

Open Joint Stock Company "Russian Railways"  
Interim Consolidated Statement of Cash Flows  
for the six months ended 30 June 2014 (continued)  
*(All amounts are in millions of Russian Rubles)*

	Notes	2014	2013
		<u>Unaudited</u>	
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(230,645)	(263,699)
Proceeds from disposal of property, plant and equipment		1,695	1,371
Purchases of intangible assets		(1,785)	(2,221)
Proceeds from disposal of assets classified as held for sale		353	615
Loans given, deposits placed and acquisition of other financial assets, net		(2,756)	(9,556)
Proceeds from decrease of equity interest in associate		555	780
Acquisition of associates and contributions to share capitals of associates		-	(596)
Dividends received		1,640	188
Interest received		2,434	2,710
Proceeds from disposal of controlling interest in subsidiaries, net of cash disposed	6	8,046	1,448
<b>Net cash used in investing activities</b>		<u>(220,463)</u>	<u>(268,960)</u>
<b>Cash flows from financing activities</b>			
Proceeds from long-term borrowings		62,344	153,726
Repayment of long-term borrowings		(19,642)	(24,083)
Repayment of short-term borrowings, net		(6,654)	(33,064)
Interest paid		(26,144)	(18,057)
Repayment of finance lease obligations, including finance charges		(7,565)	(4,046)
Proceeds from sale-leaseback		6,179	5,115
Proceeds under derivative contracts, net		1,222	821
Contribution to share capital from shareholder	18	12,974	-
Proceeds from government grants	17	26,030	-
Acquisition of non-controlling interests in existing subsidiaries		(149)	-
Cash contributions from non-controlling shareholders to share capital of subsidiaries		476	260
<b>Net cash from financing activities</b>		<u>49,071</u>	<u>80,672</u>
<b>Net decrease in cash and cash equivalents</b>		<b>(55,216)</b>	<b>(92,116)</b>
Net foreign exchange gain/(loss)		564	(134)
Cash and cash equivalents at the beginning of the period	12	113,922	159,099
<b>Cash and cash equivalents at the end of the period</b>	12	<u><b>59,270</b></u>	<u><b>66,849</b></u>

Yakunin V.I.

President

Kraft G.V.

Chief Accountant

15 October 2014

*The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.*

Open Joint Stock Company “Russian Railways”  
Selected Notes to the Unaudited Interim Condensed  
Consolidated Financial Statements

As at 30 June 2014 and for the six months then ended

**1. Description of Business and Operating Environment**

**Corporate Information**

Open Joint Stock Company “Russian Railways” (“RZD” or “the Company”) was established on 1 October 2003 pursuant to Decree of the Russian Government No. 585 “On Foundation of Open Joint Stock Company Russian Railways” dated 18 September 2003 and in connection with implementation of the Program of Railway Transportation Industry Restructuring (“the Reform Program”). The Company is 100% owned by the Russian Federation.

These interim condensed consolidated financial statements of RZD and its subsidiaries (the “Group”) for the six months ended 30 June 2014 were authorized for issue by the management of RZD on 15 October 2014.

The principal activities of the Group are described in Note 5.

**Factors Affecting Financial Position of the Group**

*Operating Environment*

Russia continues development of its legal, tax and regulatory frameworks as required by the market economy. The future stability of the Russian economy is largely dependent upon effectiveness of economic, financial and monetary measures undertaken by the Government.

The Russian economy is also vulnerable to market downturns and economic slowdowns elsewhere in the world caused by the global financial crisis of 2008-2009. Russian economy currently shows indicators of stagnation with expected GDP growth rates being reconsidered downwards both by the Russian Government and by international bodies. These effects together with potential negative impact on Russian economy of crisis in Ukraine and economic sanctions imposed by several countries against Russian Federation could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

*Foreign Exchange*

The exchange rate of the Ruble to 1 US Dollar equated to 33.63 and 32.73 as at 30 June 2014 and 31 December 2013, respectively. The exchange rate of the Ruble to 1 EUR equated to 45.83 and 44.97 as at 30 June 2014 and 31 December 2013, respectively. The exchange rate of the Ruble to 1 Pound Sterling equated to 57.26 and 53.96 as at 30 June 2014 and 31 December 2013, respectively. The exchange rate of the Ruble to 1 Swiss Franc equated to 37.67 and 36.70 as at 30 June 2014 and 31 December 2013, respectively.

As at 15 October 2014, the exchange rate was Rubles 40.53 to 1 US Dollar, Rubles 51.51 to 1 Euro, Rubles 65.06 to 1 Pound Sterling and Rubles 42.58 to 1 Swiss Franc.

Open Joint Stock Company “Russian Railways”  
Selected Notes to the Unaudited Interim Condensed  
Consolidated Financial Statements (continued)

**1. Description of Business and Operating Environment (continued)**

**Factors Affecting Financial Position of the Group (continued)**

*Liquidity*

As at 30 June 2014, the Group’s current liabilities exceeded its current assets by Rbls 227,335 million (31 December 2013: Rbls 180,115 million) which is to a large extent explained by the nature of Group’s current liabilities mainly represented by payables for construction, expansion, modernization and maintenance of property, plant and equipment (PP&E) as a part of Company’s investment program, as well as by advances received for transportation due to the fact that the largest part of the Company’s sales of transportation services are made on prepayment basis. The Company does not expect any changes in the general business terms of its contracts with customers and suppliers.

The Company determines the source of financing of an appropriate terms and duration for all the projects included in the Company’s investment program in accordance with the approved financial plan.

The Group is investing in expansion, modernization and maintenance of its PP&E. The Group financed investment activities through cash generated from operations and current and non-current borrowings and governmental financing received in the form of subsidies and contributions to the Company’s share capital.

Management uses the following instruments in order to manage the Group’s liquidity:

- Continuous monitoring and management of credit portfolio structure aiming at extending its duration and maintaining even flows of borrowings repayment in future periods;
- Maintaining diversified sources of external borrowings, including local and international capital markets and commercial banks;
- Entering into long-term and medium-term agreements with local banks to ensure sufficient liquidity reserves for emergency cases;
- Using short-term bridge facilities to ensure smooth cash flows to finance investments and operations.

Management believes that through twelve months after the date of authorization of these interim condensed consolidated financial statements, there will be sufficient funding from (a) existing cash balances, (b) cash generated from operations, and (c) debt financing.

Also, in 2014 the management has implemented additional cost cutting measures in order to address negative impact of insufficient tariffs indexation in 2014 and overall stagnation in Russian economy on its operating cash flows.

Open Joint Stock Company “Russian Railways”  
Selected Notes to the Unaudited Interim Condensed  
Consolidated Financial Statements (continued)

**2. Basis of Preparation and Accounting Policies**

**Basis of Preparation**

The interim condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2013.

The Group’s interim condensed consolidated financial statements are presented in Russian Rubles (“Rbls”), unless otherwise indicated.

**Changes in Accounting Policies and Disclosures**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of new amendments and interpretations effective as of 1 January 2014.

The following amendments affected the Group’s accounting policy and disclosures:

*IAS 36 Impairment of assets: Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)*

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period.

Several other amendments to standards and interpretations were applied for the first time in 2014. However, they do not impact the interim condensed consolidated financial statements of the Group or its annual consolidated financial statements. These amendments and interpretations include: amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements* relating to investment entities, amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*, amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* and IFRIC 21 *Levies*.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Open Joint Stock Company “Russian Railways”  
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**3. Restatement of Comparative Information and Reclassifications**

*Correction of Errors*

As at 31 December 2013, the Group performed an annual impairment test for its property, plant and equipment and identified impairment losses for certain cash-generating units determined as the excess of the carrying value of these cash-generating units over respective recoverable amount. However, identified impairment losses were not recorded by the Group in its consolidated financial statements as at and for the year ended 31 December 2013 as the Group has not finalized its PP&E registers for the year 2013 at the date when these annual consolidated financial statements were authorized for issuance, and, accordingly, reasonably expected that the impairment losses could have been significantly revised upon final determination of the respective carrying values as at 31 December 2013. In 2014, in the course of finalization of its property, plant and equipment registers as at 31 December 2013, the Group identified certain errors in the carrying values and movements of property, plant and equipment as at that date and for the year then ended and, based on its assessment of the state of completion of the PP&E registers, recognized impairment losses identified as at 31 December 2013.

Respectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, due to the matters described above, the Group restated appropriate balances of assets, liabilities and equity as at 31 December 2013 as follows:

Consolidated statement of financial position

Property, plant and equipment decreased by	Rbls 292,119 million
Deferred tax assets increased by	Rbls 9,161 million
Deferred tax liabilities decreased by	Rbls 50,192 million
Finance lease obligations, net of current portion, increased by	Rbls 2,551 million
Finance lease obligations, current portion, increased by	Rbls 2,096 million
Retained earnings and other reserves decreased by	Rbls 237,413 million



Open Joint Stock Company “Russian Railways”  
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Consolidated Financial Statements (continued)

**3. Restatement of Comparative Information and Reclassifications (continued)**

***Reclassifications and Correction of Misclassifications***

Certain comparative amounts in the interim consolidated statement of profit or loss have been reclassified to conform to the current period presentation and to correct certain presentation errors. Major reclassifications and changes in presentation are described below:

- Certain expenses related to repairs, previously included in *Materials, repairs and maintenance* of the interim consolidated statement of profit or loss, were reallocated between *Wages, salaries and related contributions, Fuel and Electricity*.
- Revenues and expenses related to the sale and leaseback of equipment produced by the Group and to the sale of metal scrap, previously reported on a net basis in the interim consolidated statement of profit or loss, were presented gross within *Other revenues* and *Materials, repairs and maintenance*, respectively.
- Certain expenses related to provision of logistic services, previously included in *Purchased Freight forwarding and logistics services* of the interim consolidated statement of profit or loss, were reclassified to *Other operating expenses*.

Disclosures in the related notes to these interim condensed consolidated financial statements were amended respectively.

Such reclassifications had no impact on the Group’s net income for the period.

**4. Seasonality of Operations**

The Group’s business is not significantly affected by seasonality. The Group’s cargo revenues remain relatively stable during the year. However, due to seasonal nature of passenger transportation revenue, higher revenues are usually expected in the second half of the year than in the first six months. Higher passenger transportation revenue during the period from June to August is mainly attributed to the summer vacations season.

**5. Segment Reporting**

For management purposes, the Group is organized into business units based on their services, and has five operating reportable segments as presented below.

Open Joint Stock Company “Russian Railways”  
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Consolidated Financial Statements (continued)

**5. Segment Reporting (continued)**

The following tables present revenue and segment results information regarding the Group’s reportable operating segments:

*Six months ended 30 June 2014*

	<b>RZD cargo</b>	<b>Long-distance passenger</b>	<b>Auxiliary operations</b>	<b>Subsidiaries cargo</b>	<b>Logistics services</b>	<b>All other segments</b>	<b>Eliminations (A)</b>	<b>Adjustments (B)</b>	<b>Total</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>
Sales to third parties	527,835	81,680	63,505	36,959	102,510	79,611	–	(26,867)	865,233
Inter-segment sales	22,887	3,488	67,085	5,740	10	83,933	(183,143)	–	–
<b>Total revenue</b>	<b>550,722</b>	<b>85,168</b>	<b>130,590</b>	<b>42,699</b>	<b>102,520</b>	<b>163,544</b>	<b>(183,143)</b>	<b>(26,867)</b>	<b>865,233</b>
<b>Segment result (income before taxation)</b>	<b>47,153</b>	<b>(16,223)</b>	<b>(831)</b>	<b>1,280</b>	<b>2,512</b>	<b>7,733</b>	<b>(7,815)</b>	<b>6,264</b>	<b>40,073</b>

*Six months ended 30 June 2013*

	<b>RZD cargo</b>	<b>Long-distance passenger</b>	<b>Auxiliary operations</b>	<b>Subsidiaries cargo</b>	<b>Logistics services</b>	<b>All other segments</b>	<b>Eliminations (A)</b>	<b>Adjustments (B)</b>	<b>Total</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>
Sales to third parties	529,940	83,138	58,017	35,567	81,461	80,912	–	(20,364)	848,671
Inter-segment sales	17,675	3,528	68,065	9,915	–	110,355	(209,538)	–	–
<b>Total revenue</b>	<b>547,615</b>	<b>86,666</b>	<b>126,082</b>	<b>45,482</b>	<b>81,461</b>	<b>191,267</b>	<b>(209,538)</b>	<b>(20,364)</b>	<b>848,671</b>
<b>Segment result (income before taxation)</b>	<b>55,147</b>	<b>(14,128)</b>	<b>(461)</b>	<b>5,327</b>	<b>1,639</b>	<b>10,708</b>	<b>(11,801)</b>	<b>5,852</b>	<b>52,283</b>

(A) Inter-segment revenues and margins are eliminated on consolidation.

Open Joint Stock Company “Russian Railways”  
Selected Notes to the Unaudited Interim Condensed  
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**5. Segment Reporting (continued)**

(B) Operating profit of each operating segment does not include the following adjustments representing differences between management accounts and these interim condensed consolidated financial statements prepared in accordance with IAS 34, for the six months ended 30 June:

	<b>2014</b>	<b>2013</b>
	<i>Rbls,mln</i>	<i>Rbls,mln</i>
Reclassification of subsidies	(13,453)	(13,847)
Income from rent of other property	(4,666)	(4,121)
Effect of net presentation of income and cost of goods sold	(5,724)	–
Other adjustments to revenue	(3,024)	(2,396)
	<b>(26,867)</b>	<b>(20,364)</b>
PP&E adjustments (C)	29,996	32,921
Effect of net presentation of income and cost of goods sold	5,485	–
Bad debt expense	(6,842)	(159)
Additional non-current employee benefit liabilities	4,628	3,614
Subsidies from federal and municipal budgets not included in segment results (Note 22)	28,189	30,586
Finance expense and similar items, net, not included in segment results	(11,845)	(8,475)
Changes in fair value and gain on disposal of financial assets, net, not included in segment results	2,089	77
Foreign exchange loss, net, not included in segment results	(2,493)	(9,949)
Commercial expenses	(4,007)	(1,576)
Bank charges (Note 23)	(1,314)	(1,847)
Payments under collective labour agreement	(2,687)	(2,678)
Loss on impairment of property, plant and equipment	(2,427)	(4,377)
Penalties charged (by)/to customers, net	(1,026)	42
Contributions to trade union, membership in professional associations (Note 23)	(1,734)	(1,751)
Social expenses	(3,720)	(3,745)
Gain on disposal of controlling interest in subsidiaries, net	5,197	1,058
Equity income/(loss) from associates and joint ventures, net	130	(625)
Change in provision for legal claims, net (Notes 17 and 23)	(2,666)	(2,951)
Charity expenses (Notes 23)	(854)	(680)
Other adjustments	(968)	(3,269)
<b>Total adjustments to income before taxation</b>	<b>6,264</b>	<b>5,852</b>

(C) PP&E adjustments represent the effect of different carrying values and useful lives of property, plant and equipment and accounting treatment of property, plant and equipment components for the purposes of management accounts and these interim condensed consolidated financial statements prepared in accordance with IAS 34.

Open Joint Stock Company “Russian Railways”  
 Selected Notes to the Unaudited Interim Condensed  
 Consolidated Financial Statements (continued)

**6. Subsidiaries**

**Changes in the Group’s Ownership Interests in Subsidiaries**

***Disposals During Six Months ended 30 June 2014***

*Disposal of controlling interest in OJSC “First Nonmetallic Company”*

In June 2014, the Company sold 75% less two shares in OJSC “First Nonmetallic Company” for cash consideration of Rbls 4,862 million. The Group’s interest in OJSC “First Nonmetallic Company” decreased to 25% plus two shares, and the Group lost control over OJSC “First Nonmetallic Company”. As a result of the disposal of controlling interest in OJSC “First Nonmetallic Company”, a gain of Rbls 3,475 million was recognised in the interim consolidated statement of profit or loss within *Gain on disposal of controlling interest in subsidiaries, net*.

Calculation of the gain on disposal of controlling interest in OJSC “First Nonmetallic Company” is presented below:

	<b>At the transaction date</b>
	<i>Rbls mln</i>
Proceeds from disposal	4,862
Investment in joint venture OJSC “First Nonmetallic Company” at fair value (Note 7)	1,374
Carrying value of net assets disposed	(2,761)
<b>Gain on disposal of controlling interest in OJSC “First Nonmetallic Company”</b>	<b>3,475</b>

The Group’s retained investment in OJSC “First Nonmetallic Company” is accounted for using equity method in accordance with IAS 28 *Investments in associates and joint ventures* (Note 7).

*Disposal of controlling interest in OJSC “Vagonremmash”*

In June 2014, the Company sold 75% less two shares in OJSC “Vagonremmash” for cash consideration of Rbls 2,501 million. The Group’s interest in OJSC “Vagonremmash” decreased to 25% plus two shares, and the Group lost control over OJSC “Vagonremmash”. As a result of the disposal of controlling interest in OJSC “Vagonremmash”, a gain of Rbls 1,277 million was recognised in the interim consolidated statement of profit or loss within *Gain on disposal of controlling interest in subsidiaries, net*.

The Group’s retained investment in OJSC “Vagonremmash” is accounted for using equity method in accordance with IAS 28 (Note 7).

***Disposals during Six Months ended 30 June 2013***

*Disposal of OJSC “Krasnoyarskiy elektrovagonoremontniy zavod”*

In January 2013, the Group sold 100% less one share in OJSC “Krasnoyarskiy elektrovagonoremontniy zavod” for cash consideration of Rbls 1,560 million. As a result of the transaction, a gain of Rbls 1,058 million was recognized in the interim consolidated statement of profit or loss within *Gain on disposal of controlling interest in subsidiaries, net*.

Open Joint Stock Company “Russian Railways”  
Selected Notes to the Unaudited Interim Condensed  
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**7. Investments in Associates and Joint Ventures**

Investments in associates and joint ventures as at 30 June 2014 and 31 December 2013 comprised the following:

	<b>30 June 2014</b>	<b>31 December 2013</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>
The Breakers Investments B.V. (CJSC “Transmashholding”)	13,368	13,289
OJSC “Moscow Rail Ring”	2,817	2,750
JSC “Kedentransservice”	2,032	2,270
OJSC “Central exurban passenger company”	1,934	1,645
OJSC “Zeldorrem mash”	1,479	1,463
OJSC “First Nonmetallic Company”	1,374	–
OJSC “Vagonrem mash”	865	–
OJSC “Novosibirskiy strelochniy zavod”	585	621
Other	4,118	4,162
	<b>28,572</b>	<b>26,200</b>

*OJSC “First nonmetallic Company” and OJSC “Vagonrem mash”*

In June 2014, the Group lost control over OJSC “First Nonmetallic Company” and OJSC “Vagonrem mash” (Note 6). The Group’s retained 25% plus two shares interests in OJSC “First Nonmetallic Company” and in OJSC “Vagonrem mash” were recognized at their fair value at the date when control was lost and accounted for in accordance with IAS 28.

**8. Property, Plant and Equipment**

Property, plant and equipment as at 30 June 2014 and 31 December 2013 comprised the following:

**30 June 2014 – unaudited**

Gross book value	Balance as at 1 January 2014,		Disposals	Transfers	Disposal of subsidiaries	Reclassification from assets classified as held for sale	Reclassification to assets classified as held for sale	Effect of translation difference	Balance as at 30 June 2014
	as restated	Additions							
	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>
Land	11,858	12	(86)	3	–	25	(126)	57	11,743
Buildings	305,011	593	(963)	5,217	(29)	371	(1,971)	148	308,377
Constructions	1,247,446	252	(2,374)	20,059	(21)	22	(73)	–	1,265,311
Roadbed	503,062	11	(456)	3,877	–	–	(2)	–	506,492
Superstructure	909,503	117	(5,218)	2,111	(1)	5	(26)	–	906,491
Operating equipment	883,012	5,506	(6,464)	18,706	(82)	21	(1,821)	28	898,906
Locomotives	498,724	52	(838)	36,243	(6)	51	(9)	29	534,246
Rolling stock, cargo	224,688	2,047	(2,473)	7,298	–	3,032	(4)	150	234,738
Rolling stock, passenger	488,591	298	(3,034)	13,985	–	5	(230)	5	499,620
Other fixed assets	152,113	438	(1,292)	4,869	(5)	226	(641)	64	155,772
Construction-in-progress	374,694	185,163	(1,792)	(112,368)	(4)	125	(66)	8	445,760
<b>Total</b>	<b>5,598,702</b>	<b>194,489</b>	<b>(24,990)</b>	<b>–</b>	<b>(148)</b>	<b>3,883</b>	<b>(4,969)</b>	<b>489</b>	<b>5,767,456</b>

Open Joint Stock Company “Russian Railways”  
Selected Notes to the Unaudited Interim Condensed  
Consolidated Financial Statements (continued)

**8. Property, Plant and Equipment (continued)**

**30 June 2014 – unaudited (continued)**

Accumulated depreciation	Balance as at	Deprecia-	Accumulated	Transfers	Disposal of subsidiaries	Reclassi-	Reclassi-	Effect of translation difference	Balance as at 30 June 2014
	1 January 2014, as restated	tion charge for the period	depreciation on disposals			fication from assets as held for sale	fication to assets held for sale		
	Rbls mln	Rbls mln	Rbls mln	Rbls mln	Rbls mln	Rbls mln	Rbls mln	Rbls mln	Rbls mln
Land	–	–	–	–	–	–	–	–	–
Buildings	(87,513)	(2,827)	85	(97)	18	(132)	702	5	(89,759)
Constructions	(500,940)	(19,181)	1,305	(21)	16	(13)	23	–	(518,811)
Roadbed	(216,532)	(3,927)	24	27	–	–	1	–	(220,407)
Superstructure	(537,369)	(34,162)	5,158	52	1	(3)	18	–	(566,305)
Operating equipment	(405,367)	(25,457)	5,344	30	54	(7)	710	2	(424,691)
Locomotives	(196,871)	(10,275)	517	30	6	(29)	8	(7)	(206,621)
Rolling stock, cargo	(101,918)	(6,090)	574	45	–	(2,713)	1	–	(110,101)
Rolling stock, passenger	(209,901)	(2,783)	2,008	528	–	(1)	161	–	(209,988)
Other fixed assets	(56,149)	(3,224)	1,109	(594)	2	(112)	268	(10)	(58,710)
Impairment	(302,156)	–	1,552	–	–	–	–	–	(300,604)
<b>Total</b>	<b>(2,614,716)</b>	<b>(107,926)</b>	<b>17,676</b>	<b>–</b>	<b>97</b>	<b>(3,010)</b>	<b>1,892</b>	<b>(10)</b>	<b>(2,705,997)</b>

**30 June 2013 – unaudited**

Gross book value	Balance as at	Additions	Disposals	Transfers	Disposal of subsidiaries	Reclassification	Effect of translation difference	Balance as at 30 June 2013
	1 January 2013					to assets classified as held for sale		
	Rbls mln	Rbls mln	Rbls mln	Rbls mln	Rbls mln	Rbls mln	Rbls mln	Rbls mln
Land	11,965	1,821	(1,356)	–	–	(22)	172	12,580
Buildings	297,845	195	(4,371)	17,178	(188)	(894)	757	310,522
Constructions	1,023,999	234	(2,728)	18,871	(2)	(65)	–	1,040,309
Roadbed	428,913	4	(195)	3,786	(18)	–	–	432,490
Superstructure	745,209	495	(8,789)	32,564	–	(18)	–	769,461
Operating equipment	767,490	1,800	(3,972)	25,228	(409)	(11)	299	790,425
Locomotives	383,902	28	(2,760)	36,628	–	–	–	417,798
Rolling stock, cargo	180,836	11,982	(10,743)	9,533	–	–	757	192,365
Rolling stock, passenger	390,533	1,600	(1,535)	7,558	(3)	(3)	–	398,150
Other fixed assets	144,366	133	(2,271)	17,153	(658)	(8)	317	159,032
Construction-in-progress	567,016	241,960	(6,521)	(168,499)	–	(64)	13	633,905
<b>Total</b>	<b>4,942,074</b>	<b>260,252</b>	<b>(45,241)</b>	<b>–</b>	<b>(1,278)</b>	<b>(1,085)</b>	<b>2,315</b>	<b>5,157,037</b>

Accumulated depreciation	Balance as at	Depreciation	Accumulated	Disposal of subsidiaries	Reclassifica-	Effect of translation difference	Balance as at 30 June 2013
	1 January 2013	charge for the period	depreciation on disposals		tion to assets classified as held for sale		
	Rbls mln	Rbls mln	Rbls mln	Rbls mln	Rbls mln	Rbls mln	Rbls mln
Land	–	–	–	–	–	–	–
Buildings	(85,385)	(3,259)	404	76	414	(345)	(88,095)
Constructions	(480,824)	(16,661)	2,907	3	40	–	(494,535)
Roadbed	(196,118)	(3,131)	230	7	–	–	(199,012)
Superstructure	(402,971)	(23,498)	4,554	–	12	–	(421,903)
Operating equipment	(364,650)	(26,928)	3,506	168	3	(239)	(388,140)
Locomotives	(150,928)	(8,400)	2,843	–	–	–	(156,485)
Rolling stock, cargo	(70,955)	(4,964)	5,638	–	–	(439)	(70,720)
Rolling stock, passenger	(188,554)	(5,572)	1,246	1	2	–	(192,877)
Other fixed assets	(59,400)	(5,552)	1,465	262	7	(199)	(63,417)
Impairment	(4,134)	–	–	–	–	–	(4,134)
<b>Total</b>	<b>(2,003,919)</b>	<b>(97,965)</b>	<b>22,793</b>	<b>517</b>	<b>478</b>	<b>(1,222)</b>	<b>(2,079,318)</b>

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**8. Property, Plant and Equipment (continued)**

<b>Net book value</b>	<b>Balance as at 30 June 2014</b>	<b>Balance as of 30 June 2013</b>	<b>Balance as of 31 December 2013, as restated</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>
Land	11,743	12,580	11,858
Buildings	218,618	222,427	217,498
Constructions	746,500	545,774	746,506
Roadbed	286,085	233,478	286,530
Superstructure	340,186	347,558	372,134
Operating equipment	474,215	402,285	477,645
Locomotives	327,625	261,313	301,853
Rolling stock, cargo	124,637	121,645	122,770
Rolling stock, passenger	289,632	205,273	278,690
Other fixed assets	97,062	95,615	95,964
Construction-in-progress	445,760	633,905	374,694
Impairment	(300,604)	(4,134)	(302,156)
<b>Total</b>	<b>3,061,459</b>	<b>3,077,719</b>	<b>2,983,986</b>

During the six-month period ended 30 June 2014, the Group also recognized impairment loss of Rbls 3,140 million (for the six-month period ended 30 June 2013: Rbls 4,377 million) for individual items of property, plant and equipment on the basis of management’s assessment of probability of future sale or use of property, plant and equipment and construction-in-process projects. The Group also reversed the previously recognised impairment of Rbls 713 million (for the six-month period ended 30 June 2013: nil).

As described in Note 3, as at 31 December 2013, the Group performed an annual impairment test for its property, plant and equipment and identified impairment losses for certain CGUs.

For the purpose of the impairment test, the Group determined recoverable amounts of CGU *Infrastructure* (CGU IS), CGU *Long-Distance Passenger Transportation* (CGU LDPT) and CGU *Suburban Passenger Transportation* (CGU SPT) as at 31 December 2013 based on the value-in-use calculation. The Group identified the following impairment losses, calculated as the excess of the CGU carrying value over respective recoverable amount, for CGU LDPT and CGU SPT (in millions of Rubles):

	<b>CGU LDPT</b>	<b>CGU SPT</b>
Recoverable amount of CGU determined based on value-in-use calculation	184,495	–
Discount rate used in the estimate of value in use	9.17%	9.17%
<b>Impairment loss identified</b>	<b>163,616</b>	<b>131,715</b>

The Group also identified impairment losses of other CGUs in amount of Rbls 3,424 million as at 31 December 2013.

No impairment of CGU IS was identified as of 31 December 2013. However, adverse changes in the cargo and passenger turnover and tariffs growth rates, and in other factors affecting calculation of CGU recoverable amount, in the future periods, if any, could result in the material impairment loss for CGU IS in the periods where such changes occur.

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**8. Property, Plant and Equipment (continued)**

As at 30 June 2014, the Group has identified impairment indicators for CGU IS and CGU SPT, however, no additional impairment losses for CGU IS and CGU SPT were identified.

As at 30 June 2014, the Group has identified impairment indicators for CGU LDPT, however, the detailed calculation of impairment has not been performed for this CGU as at this date due to the absence of reliable forecasts of future cash flows for CGU LDPT reflecting negative changes in the medium-term macroeconomic forecasts after 31 December 2013. At the same time, the Group has assessed the effect of expected deterioration in the financial result from long-distance passenger transportation for the year 2014 (as compared to the expectations used to calculate impairment loss as at 31 December 2013) on the recoverable amount of CGU LDPT. As the result of this assessment, and taking into account the increase in the carrying value of CGU LDPT assets during the first six months of 2014, the excess of the carrying value of the CGU LDPT over its recoverable amount as at 30 June 2014 comprised Rbls 27 billion. Management believes that based on the emerging trends in the long-distance passenger transportation segment and taking into account indicators of overall stagnation in Russian economy, the amount of additional impairment of CGU LDPT for the as at 31 December 2014 could be higher.

As at 30 June 2014, the Group has the infrastructure bonds outstanding in the amount of Rbls 175,000 million (31 December 2013: Rbls 150,000 million) (Note 15). The difference of Rbls 30,178 million (31 December 2013: Rbls 26,778 million) between the fair value of bonds as at the initial recognition and the cash proceeds was recognized as government grants. As at 30 June 2014, Rbls 23,025 million (31 December 2013: Rbls 16,449 million) of these government grants were deducted from the amount of PP&E acquired or constructed for the bonds proceeds (Note 16) in accordance with the Group’s accounting policy.

Property, plant and equipment as at 30 June 2014 and 31 December 2013 includes borrowing costs incurred in connection with the acquisition and construction of PP&E. Borrowing costs capitalized as PP&E during the six months ended 30 June 2014 using a capitalization rate of 7.8% amounted to Rbls 16,495 million (the six-month period ended 30 June 2013: Rbls 10,899 million using capitalization rate of 7.7%).

Leased assets as at 30 June 2014 and 31 December 2013 included above, where the Group is a lessee under a finance lease, comprised the following:

	<b>30 June 2014</b>	<b>31 December 2013, as restated</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>
Cost – capitalized finance leases	50,618	44,487
Accumulated depreciation	(3,703)	(2,840)
<b>Net book value</b>	<b>46,915</b>	<b>41,647</b>

Included in leased assets above are assets with the aggregate cost of Rbls 20,393 million as at 30 June 2014 (31 December 2013: Rbls 18,071 million), which were obtained from related parties (Note 25).



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**9. Goodwill**

As at 30 June 2014 the Group performed impairment test of goodwill. As a result, no impairment was recognized.

**10. Inventories**

Inventories as at 30 June 2014 and 31 December 2013 comprised the following:

	<b>30 June 2014</b>	<b>31 December 2013</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>
Raw materials	31,756	33,378
Spare parts and construction materials	59,929	59,187
Fuel and lubricants	8,752	10,489
Merchandise inventories	1,438	1,854
Other	15,471	14,025
<b>Total</b>	<b>117,346</b>	<b>118,933</b>
Less: provision for obsolete and damaged inventory	(7,808)	(6,121)
<b>Total inventories, net</b>	<b>109,538</b>	<b>112,812</b>

**11. Receivables**

Receivables as at 30 June 2014 and 31 December 2013 comprised the following:

	<b>30 June 2014</b>	<b>31 December 2013</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>
Receivables for logistics services, net	39,904	34,065
Receivables for transportation services, net (A)	7,852	6,309
Other accounts receivable, net (B)	51,584	37,663
<b>Total receivables</b>	<b>99,340</b>	<b>78,037</b>

(A) Receivables for transportation services, net as at 30 June 2014 and 31 December 2013 comprised the following:

	<b>30 June 2014</b>	<b>31 December 2013</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>
Receivables for transportation services	20,899	18,870
Less: allowance for impairment	(13,047)	(12,561)
<b>Total receivables for transportation services, net</b>	<b>7,852</b>	<b>6,309</b>

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**11. Receivables (continued)**

(B) Other accounts receivable, net as at 30 June 2014 and 31 December 2013 comprised the following:

	<b>30 June 2014</b>	<b>31 December 2013</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>
Other accounts receivable	81,172	62,969
Less: allowance for impairment	(29,588)	(25,306)
<b>Total other accounts receivable, net</b>	<b>51,584</b>	<b>37,663</b>

Increase in other accounts receivable is mainly represented by receivable from the Federal Agency on Railway Transportation on subsidies related to compensation for the effects of tariffs’ regulation with regard to suburban transportation and long distance passenger transportation for the six months ended 30 June 2014, in the amount of Rbls 8,005 million and Rbls 3,242 million, respectively (Notes 22 and 25).

**12. Cash and Cash Equivalents**

Cash and cash equivalents as of 30 June 2014 and 31 December 2013 comprised the following:

	<b>30 June 2014</b>	<b>31 December 2013</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>
Bank deposits and other cash equivalents in Russian Rubles and foreign currencies	35,475	88,604
Cash in Russian Rubles	15,948	17,847
Cash in foreign currencies (primarily in US Dollars, Euro)	6,809	8,308
<b>Total cash and cash equivalents presented in the statement of financial position</b>	<b>58,232</b>	<b>114,759</b>
Bank overdrafts	(1,032)	(1,187)
Cash and cash equivalents attributable to assets classified as held for sale	2,070	350
<b>Total cash and cash equivalents presented in the statement of cash flows</b>	<b>59,270</b>	<b>113,922</b>

**13. Assets Classified as Held for Sale and Related Liabilities**

Assets classified as held for sale as at 30 June 2014 included rolling stock in the amount of Rbls 1,089 million (31 December 2013: Rbls 1,317 million).

As at 30 June 2014, assets and liabilities of OJSC “Roszheldorproject” (Rbls 6,420 million and Rbls 7,310 million, respectively), of CJSC “Olminea” (Rbls 1,090 million and Rbls 70 million, respectively) and investment in OJSC “Railcar Repair Works “Griazi” (Rbls 118 million) were classified as assets held for sale and accounted for in accordance with IFRS 5 *Assets Held for Sale and Discontinued Operations*.

Assets and liabilities of OJSC “First Nonmetallic Company” and of OJSC “Vagonremmash”, classified as held for sale as of 31 December 2013, were derecognized upon completion of the sale of controlling stakes in these subsidiaries (Note 6).

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**14. Taxes and Similar Charges Payable (other than income tax)**

Taxes and similar charges payable (other than income tax) as at 30 June 2014 and 31 December 2013 comprised the following:

	<b>30 June 2014</b>	<b>31 December 2013</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>
Settlement with social funds	19,658	20,543
VAT (A)	17,145	4,808
Property tax	9,777	7,640
Personal income tax	4,142	4,441
Other taxes	1,313	1,130
<b>Total taxes and similar charges payable (other than income tax)</b>	<b>52,035</b>	<b>38,562</b>

(A) The increase in VAT payable is mainly related to the decrease of VAT available for offset due to the completion of Olympics construction in Sochi.

**15. Long-Term and Short-Term Borrowings**

The outstanding balances of short-term and long-term borrowings as at 30 June 2014 and 31 December 2013 comprised the following:

<b>30 June 2014</b>	<b>Original currency</b>	<b>Principal amount in original currency <i>mln</i></b>	<b>Interest rate</b>	<b>Maturity of non-current portion</b>	<b>Current <i>Rbls mln</i></b>	<b>Non-current <i>Rbls mln</i></b>
<i>Short-term bank loans</i>						
<i>Fixed rates</i>						
Other banks	RUR	12,755	7.5%-14%		12,755	–
<i>Variable rates</i>						
EONIA+	EUR	22	2%		1,026	–
<i>Long-term bank loans</i>						
<i>Fixed rates</i>						
Other banks	RUR	50,467	7.45%-15%	2015-2023	18,636	31,831
Deposit Insurance Agency	RUR	10,000	6.50%		9,855	–
Other banks	EUR	6	6.30%	2023	18	259
<i>Variable rates</i>						
MosPrime+	RUR	7,229	2.8%	2019	895	6,333
EURIBOR+	EUR	317	0.09%-3.6%	2015-2020	8,149	7,544
<i>Debt securities issued</i>						
Loan participation notes	US\$	2,900	5.7%-5.739%	2017-2022	–	98,394
Loan participation notes	GBP	650	7.487%	2031	–	37,156
Loan participation notes	RUR	37,500	8.3%	2019	–	37,635
Loan participation notes	CHF	675	2.177%-2.730%	2018-2021	–	25,427
Loan participation notes (B)	EUR	1,500	3.374%-4.60%	2021-2023	–	68,738
<i>Bonds</i>						
CPI+ (C)	RUR	185,000	1%-2.1%	2028-2044	–	155,127
Other (A)	RUR	175,188	0.1%-11%	2015-2028	46,500	128,542
<i>Other borrowings</i>						
Other	Other		0%-12%	2015-2021	3,844	1,256
<b>Total</b>					<b>101,678</b>	<b>598,242</b>

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**15. Long-Term and Short-Term Borrowings (continued)**

31 December 2013	Original currency	Principal amount in original currency <i>mln</i>	Interest rate	Maturity of non-current portion	Current <i>Rbls mln</i>	Non-current <i>Rbls mln</i>
<i>Short-term bank loans</i>						
<i>Fixed rates</i>						
Other banks	RUR	9,026	7.5%-14%		9,026	–
<i>Variable rates</i>						
EONIA+	EUR	26	2%		1,187	–
<i>Long-term bank loans</i>						
<i>Fixed rates</i>						
Other banks	RUR	48,302	7.45%-13%	2015-2023	5,797	42,506
Deposit Insurance Agency	RUR	10,000	6.50%		9,855	–
Other banks	EUR	7	6.30%	2023	18	281
<i>Variable rates</i>						
MosPrime+	RUR	8,373	2.80%-2.85%	2019	1,595	6,778
EURIBOR+	EUR	388	0.09%-3.6%	2015-2020	3,368	13,850
<i>Debt securities issued</i>						
Loan participation notes	US\$	2,900	5.7%-5.739%	2017-2022	–	95,828
Loan participation notes	GBP	650	7.487%	2031	–	35,074
Loan participation notes	RUR	37,500	8.3%	2019	–	37,418
Loan participation notes	CHF	675	2.177%-2.730%	2018-2021	–	24,773
Loan participation notes	EUR	1,000	3.374%	2021	–	44,970
<i>Bonds</i>						
CPI+	RUR	160,000	1%-2.1%	2028-2043	–	133,308
Other (A)	RUR	190,951	0.1%-15%	2015-2028	31,501	159,277
<i>Other borrowings</i>						
Other	Other		0%-12%	2015-2021	4,323	1,242
<b>Total</b>					<b>66,670</b>	<b>595,305</b>

- (A) Bonds, outstanding as at 30 June 2014, comprised series of bonds with face value of Rbls 1 thousand each. Coupon rate is paid semi-annually. The terms of certain bonds issued by the Group provide their bondholders with the right for early redemption within twelve months subsequent to 30 June 2014. Respectively, bonds of Rbls 30,000 million were classified as current as at 30 June 2014 (31 December 2013: Rbls 14,920 million). In March 2014, the Group redeemed bonds with the aggregate nominal value of Rbls 15,000 million.
- (B) In March 2014 the Group placed Loan Participation Notes at the Irish Stock Exchange with an aggregate nominal value of EUR 500 million (Rbls 22,915 million at exchange rate as at 30 June 2014) with the maturity of 9 years and coupon rate 4.60%.
- (C) In June 2014, the Company placed bonds series BO-19 with the nominal value of Rbls 25,000 million and CPI<sup>1</sup>+1% coupon rate and maturity of 30 years at domestic market. At the initial recognition the bonds were measured at fair value, determined based on market rate of 10.04% (Notes 8 and 16).

<sup>1</sup> Consumer Price Index

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**16. Other Non-Current Liabilities**

Other Non-Current Liabilities as at 30 June 2014 and 31 December 2013 comprised:

	<b>30 June 2014</b>	<b>31 December 2013</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>
Government grants (A)	7,153	10,329
Advances received for real-estate projects	861	1,958
Liabilities under service concession agreement	945	1,015
Other	3,760	3,715
<b>Total other non-current liabilities</b>	<b>12,719</b>	<b>17,017</b>

(A) Government grants are represented by the balance of deferred income arising from bonds issued at a below-market interest rate (Note 15). As at 30 June 2014, Rbls 23,025 million of these government grants were deducted from the amount of PP&E acquired or constructed with the proceeds of the bonds (Note 8) (31 December 2013: Rbls 16,449 million).

**17. Provisions and Other Current Liabilities**

Provisions and other current liabilities as at 30 June 2014 and 31 December 2013 comprised the following:

	<b>30 June 2014</b>	<b>31 December 2013</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>
Settlements with employees	54,806	56,084
Government grants (A)	26,030	–
Current liabilities under construction contracts	16,649	16,102
Provision for legal claims	13,261	12,468
Provision for tax liabilities	11,659	10,982
Accrued interest on loans	9,408	10,750
Provision for guarantees	3,662	3,615
Other liabilities	12,625	10,817
<b>Total provisions and other current liabilities</b>	<b>148,100</b>	<b>120,818</b>

(A) As at 30 June 2014, government grants comprised an unused government grant for capital repairs of transport infrastructure in 2014 received in the first half of 2014 in the amount of Rbls 26,030 million (Note 25).

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**17. Provisions and Other Current Liabilities (continued)**

The movements of provisions and current liabilities under construction contract for the six months ended 30 June 2014 were as follows:

	<b>Tax liabilities</b>	<b>Legal claims</b>	<b>Provision for guarantees</b>	<b>Liabilities under construction contract</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>
<b>As at 1 January 2014</b>	10,982	12,468	3,615	16,102
Arising during the reporting period	677	7,818	–	–
Utilised	–	(1,874)	–	–
Unused amounts reversed	–	(5,152)	(4)	–
Effect of foreign currencies translation	–	1	51	547
<b>As at 30 June 2014</b>	<b>11,659</b>	<b>13,261</b>	<b>3,662</b>	<b>16,649</b>

**18. Equity**

*Share Capital*

The share capital of the Company as at 30 June 2014 consists of 1,960,152,865 (31 December 2013: 1,947,179,187) authorized, issued and outstanding common shares with par value of Rbls 1 thousand.

In May 2014, the Company issued 12,973,678 ordinary shares to the sole shareholder with par value of Rbls 1 thousand. The issue was approved by the shareholder for the purposes of development of railway infrastructure Mezhdurechensk-Taishet, reconstruction of Maxim Gorky – Kotelnikovo – Tikhoretskaya – Krymskaya route, development of railway infrastructure of Moscow region and other projects. Cash consideration received for these shares equated to Rbls 12,974 million.

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**19. Other Revenues**

Other revenues for the six months ended 30 June 2014 and 2013 comprised the following:

	<b>2014</b>	<b>2013</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>
Repair of rolling stock	21,325	25,559
Sale of goods	19,114	20,590
Healthcare services	14,173	13,013
Telecommunication services	10,978	10,233
Transit and sale of electrical and heat energy	5,844	5,542
Locomotive traction	5,212	5,538
Infrastructure services	4,752	4,143
Rent of locomotive crew	4,303	4,488
Rent of rolling stock and railway infrastructure objects	3,006	3,254
Social services	2,426	2,292
Construction services	1,968	3,892
Information and IT services	1,335	1,234
Utility services	1,082	1,060
Other	12,868	11,277
<b>Total other revenues</b>	<b>108,386</b>	<b>112,115</b>

**20. Bad Debt Expense**

Bad debt expense for the six month ended 30 June 2014 mainly comprised impairment and direct write off of receivables and advances issued related to Olympic construction in Sochi of Rbls 2,161 million and impairment of advances issued for projects in Lybia in the amount of 2,611 million previously secured by bank guarantees. These bank guarantees expired in the first half of 2014 and were not renewed.

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**21. Other Operating Expenses**

Other operating expenses for the six months ended 30 June 2014 and 2013 comprised the following:

	<b>2014</b>	<b>2013</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>
Security costs	9,442	8,953
Business trips and personnel education	6,329	6,115
Foreign railroads services	5,876	6,032
Services related to construction	4,109	6,505
Telecommunication fees	4,030	2,919
Rolling stock servicing and handling	3,060	2,924
Bedding and servicing expenses	2,772	2,826
Railtrack and right-of-way maintenance expenses	2,397	2,219
Information and IT services	2,077	1,830
Operating rent of rolling stock, including cargo cars	1,942	3,640
Consulting services	1,851	2,155
Fire safety maintenance	1,592	1,594
Expenses related to provision of logistics services	1,538	2,121
Insurance costs	1,266	1,260
Cost of premises sold	776	1,419
Other	11,685	10,709
<b>Total other operating expenses</b>	<b>60,742</b>	<b>63,221</b>

**22. Subsidies from Federal and Municipal Budgets**

Subsidies from federal and municipal budgets for the six months ended 30 June 2014 and 2013 comprised the following:

	<b>2014</b>	<b>2013</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>
Subsidies received from federal budget for compensation of the effects of tariffs' regulation – long distance passenger transportation	12,392	14,628
Subsidies received from federal budget for compensation of the effects of tariffs' regulation – suburban transportation	13,453	13,847
Subsidies received from regional and municipal budgets and other subsidies	2,344	2,111
<b>Total subsidies from federal and municipal budgets</b>	<b>28,189</b>	<b>30,586</b>



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**23. Other Expenses**

Other expenses for the six months ended 30 June 2014 and 2013 comprised the following:

	<b>2014</b>	<b>2013</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>
Rent expenses	4,269	3,946
Change in provision for legal claims, net (Note 17)	2,666	2,951
Loss on disposal of inventory, net	2,092	1,712
Penalties charged by customers	1,852	898
Contributions to trade union, membership in professional associations	1,734	1,751
Bank charges	1,314	1,847
Charity expenses	854	680
Loss on disposal of property, plant and equipment, net	159	728
Other expenses	3,601	2,852
<b>Total other expenses</b>	<b>18,541</b>	<b>17,365</b>

**24. Income Taxes**

The major components of income tax expense for the six months ended 30 June 2014 and 2013 comprised the following:

	<b>2014</b>	<b>2013</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>
<b>Consolidated statement of profit or loss</b>		
<b>Current income tax:</b>		
Current income tax charge	(16,064)	(13,595)
Adjustments in respect of current income tax of previous periods and penalties related to income tax, net	(61)	(138)
Provision for income tax liabilities (Note 17)	(677)	(1,227)
<b>Deferred tax:</b>		
Relating to origination and reversal of temporary differences	3,152	(5,625)
<b>Income tax expense reported in the statement of profit or loss</b>	<b>(13,650)</b>	<b>(20,585)</b>
Income tax recognised in other comprehensive income	(43)	(211)
<b>Total income taxes</b>	<b>(13,693)</b>	<b>(20,796)</b>

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**24. Income taxes (continued)**

Deferred tax relates to the following:

	<b>30 June 2014</b>	<b>31 December 2013, as restated</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>
<b>Tax effects of taxable temporary differences:</b>		
Valuation of property, plant and equipment	(36,795)	(33,156)
Valuation of investments in subsidiaries, associates and joint ventures	(1,344)	(4,053)
Valuation of investment property	(1,954)	(1,906)
Valuation of intangible assets	(10,671)	(9,488)
<b>Tax effects of deductible temporary differences:</b>		
Net employee defined benefit liabilities	19,267	20,125
Payables/Accruals	16,721	11,010
Valuation of accounts receivable	1,202	2,286
Valuation of derivative financial instruments	3,150	3,245
Other	2,908	1,356
<b>Total deferred tax liability, net</b>	<b>(7,516)</b>	<b>(10,581)</b>
Deferred tax assets	10,625	13,424
Deferred tax liabilities	(18,141)	(24,005)

**25. Related Party Transactions**

As defined by IAS 24 *Related Parties Disclosures* the entity is related to a reporting entity if any of the following conditions applies:

- a. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- b. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- c. Both entities are joint ventures of the same third party;
- d. One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- e. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
- f. The entity is controlled or jointly controlled by a person, that:
  - i. has control or joint control over the reporting entity;
  - ii. has significant influence over the reporting entity; or
  - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

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**25. Related Party Transactions (continued)**

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The most significant balances with related parties as at 30 June 2014 and 31 December 2013 are as follows (for description of the nature of relationships between the Group and its related parties refer to definitions in a.-f. above):

<b>Related party, Nature of relations, Type of service/product</b>	<b>30 June 2014</b>		<b>31 December 2013</b>	
	<b>Amounts receivable</b>	<b>(Amounts payable)</b>	<b>Amounts receivable</b>	<b>(Amounts payable)</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>
<b>OPERATING ACTIVITIES</b>				
<i>Transactions with associates and joint ventures (b)</i>				
<i>Attributed to sales and income</i>				
Transportation services	328	(200)	262	(129)
Rent	2,091	–	714	(80)
Repairs and technical maintenance	474	(1)	450	(5)
Other	2,737	(5)	2,345	(126)
<i>Attributed to purchases and expenses</i>				
Acquisition of rolling stock and spare parts	3,552	(8,329)	4,236	(7,217)
Acquisition of equipment other than rolling stock	–	(479)	20	(781)
Transportation services	–	(167)	–	(362)
Design and exploratory works and construction	–	(885)	2	(2,311)
Repairs and technical maintenance	931	(2,464)	599	(3,772)
Other	31	(1,963)	26	(1,557)
<i>Ministries of the Russian Federation (a)</i>				
<i>Attributed to sales and income</i>				
Subsidies (Note 11)	11,247	–	–	–
Transportation services	2,622	(1,721)	783	(2,766)
Repairs and technical maintenance of rolling stock	130	–	174	–
Other	228	–	151	(115)
<i>Attributed to purchases and expenses</i>				
Security and fire safety services	–	(938)	–	(955)
Other	–	(102)	1	(315)
<i>Transactions with State-controlled entities (a)</i>				
<i>Attributed to sales and income</i>				
Transportation services	47	(6,103)	51	(6,440)
Electricity	303	–	268	–
Construction	2,904	(1,687)	3,595	(2,532)
Communication services	7	–	8	(1)
Other	503	(479)	469	(543)
<i>Attributed to purchases and expenses</i>				
Fuel	10	(2,028)	24	(3,436)
Electricity and heating	36	(63)	19	(101)
Settlement and cash services, encashment	–	(100)	1	(152)
Other	9	(2,075)	45	(1,409)
<i>Transactions with entities under control or joint control of the Group's key management personnel (f)</i>				
<i>Attributed to sales and income</i>				
Electricity	80	–	63	–
Other	11	–	7	–
<i>Attributed to purchases and expenses</i>				
Electricity and heating	17	(2,812)	38	(5,291)

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**25. Related Party Transactions (continued)**

<b>Related party, Nature of relations, Type of service/product</b>	<b>30 June 2014</b>		<b>31 December 2013</b>	
	<b>Amounts receivable</b>	<b>(Amounts payable)</b>	<b>Amounts receivable</b>	<b>(Amounts payable)</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>
<b>INVESTMENT ACTIVITIES</b>				
<i>Transactions with associates and joint ventures (b)</i>				
Dividends received	359	–	–	–
<b>FINANCING ACTIVITIES</b>				
<i>Deposit insurance agency (a)</i>				
Loans received (Note 15)	–	(10,162)	–	(10,164)
<i>State-controlled entities (a)</i>				
Loans received	–	(72,621)	–	(67,170)
<i>Ministries of the Russian Federation (a)</i>				
Other liabilities	–	(520)	–	(478)
<b>OPERATIONS WITH PENSION FUNDS</b>				
<i>Pension funds (e)</i>				
Payable to the pension fund	77	(2,863)	82	(4,963)

The most significant of transactions with related parties are as follows (for description of the nature of relationships between the Group and its related parties refer to definitions in a.-f. above):

<b>Related party, Nature of relations, Type of service/product</b>	<b>Six months ended 30 June 2014</b>		<b>Six months ended 30 June 2013</b>	
	<b>Sales/income*</b>	<b>(Purchases)/ (expenses)*</b>	<b>Sales/income*</b>	<b>(Purchases)/ (expenses)*</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>
<b>OPERATING ACTIVITIES</b>				
<i>Transactions with associates and joint ventures (b)</i>				
<i>Attributed to sales and income</i>				
Transportation services	1,262	–	948	–
Rent	8,264	–	8,204	–
Repairs and technical maintenance	3,841	–	3,473	–
Other	2,669	–	1,605	–
<i>Attributed to purchases and expenses</i>				
Acquisition of rolling stock and spare parts	–	(45,475)	–	(54,790)
Acquisition of equipment other than rolling stock	–	(585)	–	(631)
Transportation services	–	(422)	–	(564)
Design, exploratory works and construction	–	(1,177)	–	(967)
Repairs and technical maintenance of rolling stock	–	(13,985)	–	(14,717)
Other	–	(3,422)	–	(3,638)

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**25. Related Party Transactions (continued)**

<b>Related party, Nature of relations, Type of service/product</b>	<b>Six months ended 30 June 2014</b>		<b>Six months ended 30 June 2013</b>	
	<b>Sales/ income*</b>	<b>(Purchases)/ (expenses)*</b>	<b>Sales/ income*</b>	<b>(Purchases)/ (expenses)*</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>
<b><i>Ministries of the Russian Federation (a)</i></b>				
<i>Attributed to sales and income</i>				
Subsidies (Note 22)	28,189	–	30,586	–
Transportation services	11,135	–	4,949	–
Repairs and technical maintenance of rolling stock	417	–	1,286	–
Other	1,116	–	1,141	–
<i>Attributed to purchases and expenses</i>				
Security and fire safety services	–	(7,874)	–	(7,374)
Other	–	(258)	–	(465)
<b><i>Transactions with State-controlled entities (a)</i></b>				
<i>Attributed to sales and income</i>				
Transportation services	81,893	–	58,835	–
Electricity	2,032	–	1,626	–
Design, exploratory works and construction	699	–	2,867	–
Communication services	865	–	866	–
Other	2,808	–	2,368	–
<i>Attributed to purchases and expenses</i>				
Fuel	–	(21,685)	–	(21,407)
Acquisition of rolling stock	–	–	–	(36)
Settlement and cash services, encashment	–	(995)	–	(1,900)
Electricity and heating	–	(1,404)	–	(634)
Communication services	–	(738)	–	(719)
Other	–	(2,593)	–	(3,106)
<b><i>Transactions with entities under control or joint control of the Group’s key management personnel (f)</i></b>				
<i>Attributed to sales and income</i>				
Electricity	512	–	290	–
<i>Attributed to purchases and expenses</i>				
Electricity and heating	–	(70,544)	–	(60,703)
<b>INVESTMENT ACTIVITIES</b>				
<b><i>Transactions with associates and joint ventures (b)</i></b>				
Dividends received	1,569	–	188	–
<b>OPERATIONS WITH PENSION FUNDS</b>				
<b><i>Pension funds (e)</i></b>				
Pension contributions	244	(14,416)	290	(12,691)

\* Amounts include VAT, where applicable.

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**25. Related Party Transactions (continued)**

During six-month period ended 30 June 2014, the Group’s companies maintained several accounts in state-controlled banks. The amount of cash and deposits held in these banks as at 30 June 2014 and 31 December 2013 comprised the following:

	<b>30 June 2014</b>	<b>31 December 2013</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>
Cash and cash equivalents in state-controlled banks	39,127	86,495
Short term deposits in state-controlled banks	35	984
<b>Total</b>	<b>39,162</b>	<b>87,479</b>

Interest income from related parties comprised Rbls 867 million for the six-month period ended 30 June 2014 (for the six-month period ended 30 June 2013: Rbls 1,707 million). Interest expenses from related parties comprised Rbls 3,569 million for the six-month period ended 30 June 2014 (for the six-month period ended 30 June 2013: Rbls 3,475 million).

Loans obtained by the Group from related parties during the six-month period ended 30 June 2014 attract interest varying from 1.15% to 14% (for the six-month period ended 30 June 2013: 0% to 14%).

Related party guarantees issued and received as at 30 June 2014 and 31 December 2013 are presented below:

	<b>30 June 2014</b>	<b>31 December 2013</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>
Amounts guaranteed by the Group in favor of related parties	4,537	5,371
Amounts guaranteed by the Group to related parties	5,303	4,877
Amounts guaranteed to the Group by related parties	8,148	11,276

Further, for the six-month period ended 30 June 2014 the Group is entitled to receive tariff compensation of Rbls 1,114 million (for the six-month period ended 30 June 2013: Rbls 1,159 million) from federal and regional ministries of the Russian Federation for transportation of certain categories of passengers. Accounts receivable balance outstanding regarding the tariff compensation for transportation of certain categories of passengers as at 30 June 2014 is Rbls 13,039 million (31 December 2013: Rbls 11,765 million). The Group recognised an impairment of Rbls 10,971 million relating to this accounts receivable balance outstanding as at 30 June 2014 (31 December 2013: Rbls 10,942 million).

The aggregate amount of finance lease liabilities on agreements signed with the Group’s related parties equated to Rbls 20,393 million as at 30 June 2014 (as at 31 December 2013: Rbls 18,071 million). The weighted average effective interest rate on the finance lease agreements with related parties entered during six-month period ended 30 June 2014 comprised 15% p.a.( for the six-month period ended 30 June 2013: 16% p.a.). Leased assets with the aggregate cost of Rbls 28,452 million as at 30 June 2014 (as at 31 December 2013: Rbls 22,273 million) were obtained from state-controlled and other entities related to the Company.

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**25. Related Party Transactions (continued)**

During the six months ended 30 June 2014, the Group received a government grant of Rbls 26,030 million for capital repairs of transport infrastructure from Federal Agency for Railway Transport (Note 17) (for the six months ended 30 June 2013: nil).

**26. Commitments and Contingencies**

**Environment**

The operations and earnings of the Group are affected by political, legislative, fiscal and regulatory developments. The nature and frequency of these developments and events associated with this risks, which generally are not covered by insurance, as well as their effect on future operations and earnings are not predictable.

**Tariff Regulation Policy**

Potential reforms in tariff-setting policy may have a significant effect on the Company’s financial position and results of operations. The Company is continuously discussing the tariff setting policy, including both unification of such tariffs between domestic and foreign transportation and increases in the tariffs, with the Government of the Russian Federation.

It is currently uncertain whether and when any further changes will be introduced in the tariff setting policy. These interim condensed consolidated financial statements do not include any adjustments that might result from these uncertain effects. Such adjustments, if any, will be reported in the Group’s consolidated financial statements in the period when they become known and estimable.

**Taxation**

Russia currently has a number of taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profit tax), property tax, personal income tax and social contributions, together with others.

The Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional or federal authorities. Latest changes as well as forthcoming changes in tax legislation of Russian Federation suggest that the tax authorities may take a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. In addition, the complexities of the Group’s organizational and business structure negatively affect the Group’s ability to ensure proper application of certain provisions of tax laws, thus creating additional risks, and, as a consequence, tax-related contingent liabilities.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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**26. Commitments and Contingencies (continued)**

**Taxation (continued)**

Starting 1 January 2012, a new Russian transfer pricing legislation came into force, which allows the Russian tax authorities to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all “controlled” transactions if the transaction price differs from the market price.

In the six months ended 30 June 2014, the Group determined its tax liabilities arising from “controlled” transactions using actual transaction prices.

Due to the uncertainty and limited current practice of application of the current Russian transfer pricing legislation, Russian tax authorities may challenge the level of prices applied by the Group under “controlled” transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to “controlled” transactions and provide transfer pricing documentation as an evidence of the required reporting to the Russian tax authorities.

Management believes that it has adequately provided for tax liabilities in these interim condensed consolidated financial statements as at 30 June 2014 and for the six months then ended (refer also to Notes 17 and 24). However, the general risk remains that relevant authorities could take different positions with regard to interpretative issues and the effect on the Group’s financial statements could be significant.

**Claims and Potential Claims against the Group**

The Group is a defendant in a number of court proceedings arising out of the normal course of its business. These proceedings primarily relate to application of transportation tariffs. As at 30 June 2014, a provision in respect of such proceedings of Rbls 13,261 million (31 December 2013: Rbls 12,468 million) was recognized by the Group (Note 17).

**Significant Purchase Commitments**

Purchase commitments are disclosed including VAT, where applicable.

Starting 2007, the Group has signed several long-term contracts for reconstruction of railroads, tunnels, bridges, contact system and telecommunication networks and for purchase of electric trains, rail track materials and other equipment with the local and foreign providers, including contracts with related parties, for the total amount of Rbls 789,898 million (including EUR 2,380 million (Rbls 109,075 million at the exchange rate as at 30 June 2014)). Contracts concluded with related parties amounted to Rbls 261,139 million. The outstanding commitment under these contracts as at 30 June 2014 amounted to Rbls 492,532 million (including EUR 1,817 million (Rbls 83,273 million at the exchange rate as at 30 June 2014)). The outstanding commitment under contracts with related parties as at 30 June 2014 amounted of Rbls 147,274 million.



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**26. Commitments and Contingencies (continued)**

**Operating Lease Commitments**

The Groups’ subsidiaries have entered into non-cancellable operating lease contracts comprising mainly lease of office space and manufacturing buildings, production facilities and equipment, and vehicles. Future minimum lease payments under contracted operating leases are as follows:

	<b>30 June 2014</b>	<b>31 December 2013</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>
Not later than one year	6,583	6,996
Later than one year and not later than five years	10,577	10,568
Later than five years	2,259	2,656
<b>Total minimum lease payments</b>	<b>19,419</b>	<b>20,220</b>

**27. Derivative Financial Instruments**

The notional amounts and fair values of derivative instruments held as at 30 June 2014 and 31 December 2013 are set out in the following table.

	<b>30 June 2014</b>			<b>31 December 2013</b>		
	<b>Notional amount</b>	<b>Fair values</b>		<b>Notional amount</b>	<b>Fair values</b>	
		<b>Asset</b>	<b>Liability</b>		<b>Asset</b>	<b>Liability</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>
<b>Foreign exchange contracts</b>						
Swaps – domestic	164,745	3,080	(18,018)	129,987	970	(16,396)
<b>Foreign exchange – interest rate contracts</b>						
Swaps – domestic	5,557	–	(787)	5,413	–	(801)
<b>Securities contracts</b>						
Forwards – domestic	5,139	–	(3,230)	4,295	–	(2,759)
Options – domestic	5,637	349	–	2,638	–	–
<b>Commodity trading contracts</b>						
Commodity options	2,154	5	–	–	–	–
<b>Total derivative assets/(liabilities)</b>		<b>3,434</b>	<b>(22,035)</b>		<b>970</b>	<b>(19,956)</b>

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**28. Fair Value of Financial Instruments**

The carrying amounts of financial instruments that are liquid or have a short term maturity (less than three months), such as cash and cash equivalents, short-term deposits, short-term accounts receivable and payable, short-term loans receivable and payable, are assumed to approximate their fair value. This assumption is also applicable to all variable interest financial instruments.

As no readily available market exists for a part of the Group’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument.

With regard to fixed rate financial instruments, the fair value was estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. For CPI-linked bonds, the fair value at initial recognition was estimated using market interest rate at the date of recognition. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for deposits with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Fair value of derivative financial instruments is calculated based on market conditions with adjustment for credit risk, i.e. including credit default swap (“CDS”) curves of banks and countries which are used as the basis for CDS curve of the Company.

The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The following table summarizes differences between the carrying amounts and fair values of financial assets and liabilities of the Group as at 30 June 2014.

	<b>Carrying value excluding accrued interest</b>	<b>Accrued interest</b>	<b>Fair value</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>
<i>Financial assets</i>			
Loans issued	12,045	203	12,248
Derivative financial assets (Note 27)	3,434	–	3,434
<i>Financial liabilities</i>			
Long-term fixed rate loans excluding short-term part	32,090	3	32,131
Debt securities issued:			
- Bonds	175,042	3,469	172,666
- Loan participation notes	267,350	3,580	272,947
Finance lease obligations	39,752	–	40,091
Derivative financial liabilities (Note 27)	22,035	–	22,035
Other non-current liabilities	646	–	609

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**28. Fair Value of Financial Instruments (continued)**

As at 30 June 2014, the Group held the following financial instruments measured at fair value:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>
<b>Assets valued at fair value</b>			
Derivative financial instruments	–	3,434	–
<b>Liabilities valued at fair value</b>			
Derivative financial instruments	–	22,035	–

The following table summarizes differences between the carrying amounts and fair values of financial assets and liabilities of the Group as at 31 December 2013.

	<b>Carrying value excluding accrued interest</b>	<b>Accrued interest</b>	<b>Fair value</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>
<i>Financial assets</i>			
Loans issued	11,793	258	12,406
Derivative financial assets (Note 27)	970	–	970
<i>Financial liabilities</i>			
Long-term fixed rate loans excluding short-term part	42,787	74	41,766
Debt securities issued:			
- Bonds	190,778	4,001	193,173
- Loan participation notes	238,145	4,205	244,105
Finance lease obligations	38,221	–	38,766
Derivative financial liabilities (Note 27)	19,956	–	19,956
Other non-current liabilities	1,233	–	1,429

As at 31 December 2013, the Group held the following financial instruments measured at fair value:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<i>Rbls mln</i>	<i>Rbls mln</i>	<i>Rbls mln</i>
<b>Assets valued at fair value</b>			
Derivative financial instruments	–	970	–
<b>Liabilities valued at fair value</b>			
Derivative financial instruments	–	19,956	–

Management believes that the carrying values of other financial assets and liabilities not detailed in the above tables approximate their fair values as at both 30 June 2014 and 31 December 2013.

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**29. Events after the Reporting Period**

**Borrowings**

In July 2014, the Company partially repaid bonds series 18 in the amount of Rbls 6,256 million presented by bondholders for redemption in accordance with their early redemption right. The total nominal amount of this bonds issue comprised Rbls 15,000 million (Note 15).

In July 2014, the Company repaid the loan of Rbls 10,000 million obtained from Deposit Insurance Agency, a related party of the Group (Notes 15 and 25), in 2009, for the purpose of providing financing to OJSC “KIT Finance Investment bank”. The related loan provided by the Company to OJSC “KIT Finance Investment bank” was repaid by OJSC Commercial Bank “Absolut Bank” in July 2014.

In September 2014, CJSC “Zheldoripoteka”, a subsidiary of the Group, redeemed bonds series BO-01 of Rbls 1,400 million.

Subsequent to 30 June 2014, the Group entered into a number of credit facility agreements with OJSC “VTB Bank”, a related party of the Group, with total available facility of Rbls 2,650 million. The loans under these credit facilities are available for the period from one to three years.

**Subsidiaries, Associates and Joint Ventures**

As at 30 June 2014, Gefco S.A., a subsidiary of the Group, was notified by French Competition Authority (FCA) of the violations of antimonopoly regulations. The violations identified relate to the years 2004-2010. As at the date these interim consolidated financial statements were authorized for issue, the fine has not yet been quantified and imposed by the FCA, and the reliable estimate of respective liability cannot be made.

In September 2014, the Company entered into an agreement for the sale of 50% less two shares in OJSC “BetEITrans”, subsidiary of the Group, for total cash consideration of Rbls 3,025 million and contingent consideration to be received in 2014-2017.

In September 2014, the Group sold its 100% equity stake in CJSC “Olminea” for cash consideration of Rbls 1,331 million. Assets and liabilities of CJSC “Olminea” were classified as held for sale as at 30 June 2014 (Note 13).

**Tariffs**

In September 2014, the Ministry of the Economic Development of the Russian Federation published the “Forecast of Socio-Economic Development of the Russian Federation for 2015 and the planning period of 2016 and 2017” which sets an increase in regulated cargo and passenger transportation tariffs in 2015-2017 as follows:

- in 2015 – 10%;
- in 2016 – 5.5%;
- in 2017 – 4.5%.

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**29. Events after the Reporting Period (continued)**

**Share capital**

In July 2014, the Government of the Russian Federation approved additional issue of 12,070,500 ordinary shares with par value of Rbls 1 thousand in the aggregate amount of Rbls 12,070,500 thousand. Contribution to share capital was fully paid in August 2014.

**Dividends**

In July 2014, the Government of the Russian Federation approved dividends for 2013 in the amount of Rbls 185 million.

**Commitments**

Subsequent to 30 June 2014, the Group has signed several contracts for purchase of rolling stock and railway equipment for total amount of Rbls 152,626 million (including VAT).