Russian Railways

Joint Stock Company "Russian Railways"
Consolidated Financial Statements

As of 31 December 2011 and for the year then ended

Open Joint Stock Company "Russian Railways"

Consolidated Financial Statements

As at 31 December 2011 and for the year then ended

Contents

Independent Auditors' Report 1

Consolidated Financial Statements:

Consolidated Statement of Financial Position 3
Consolidated Income Statement 5
Consolidated Statement of Comprehensive Income 6
Consolidated Statement of Changes in Equity 7
Consolidated Statement of Cash Flows 9

Notes to the Consolidated Financial Statements 11

ERNST & YOUNG

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent auditors' report

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

We have audited the accompanying consolidated financial statements of OJSC "Russian Railways" and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

ERNST & YOUNG

Basis for qualified opinion

In 2010 the Group changed its accounting policy for property, plant and equipment from revaluation model to historic cost model. However, the Group was not able to bring accounting of property, plant and equipment into compliance with the revised accounting policy. Our audit opinion on the consolidated financial statements for the year ended 31 December 2010 was qualified in respect of departures from IAS 16 *Property Plant and Equipment* and IAS 36 *Impairment of Assets*. As described in Note 3, in 2011, the Group has completed its property, plant and equipment registers as at 1 January 2010 in accordance with its new accounting policy and restated the respective balances of assets, liabilities and equity as at that date. However, the Group did not finalize its property, plant and equipment registers for the movements in its property, plant and equipment, including the effects of impairment and accounting for components, for 2010 and 2011. The effects of these departures from IAS 16 *Property Plant and Equipment* and IAS 36 *Impairment of Assets* on the financial position and results of operations as of and for the years ended 31 December 2010 and 31 December 2011 have not been determined.

Qualified opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

30 August 2012

Open Joint Stock Company "Russian Railways"

Consolidated Statement of Financial Position as at 31 December 2011

(All amounts are in millions of Russian Rubles)

	Notes	2011	2010 Restated*	As at 1 January 2010 Restated*
ASSETS				
Non-current assets				
Property, plant and equipment	7	2,609,968	2,338,802	2,042,504
Investment property		12,918	10,987	12,001
Goodwill		1,374	434	2,305
Intangible assets other than goodwill	8	24,904	20,905	20,872
Investments in associates	6	58,227	36,043	9,407
Other non-current financial assets	9	25,273	19,830	108,641
Deferred tax assets	31	5,107	4,284	15,587
Derivative financial assets	34	678	3,176	6,031
Other non-current assets	10	8,349	17,320	13,447
Total non-current assets		**2,746,798**	**2,451,781**	**2,230,795**
Current assets				
Inventories	11	111,106	92,388	82,314
Prepayments and other current assets	12	36,643	40,387	34,344
Income tax receivable		1,972	3,159	1,091
Receivables	13	44,830	48,334	34,931
Obligatory reserve with Central bank of Russia		–	–	1,247
Securities at fair value through profit or loss		–	–	22,749
Other current financial assets	9	8,915	14,858	70,371
Derivative financial assets	34	4,415	911	2,320
Cash and cash equivalents	14	218,386	100,010	74,457
		426,267	**300,047**	**323,824**
Assets classified as held for sale	15	13,579	8,197	516
Total current assets		**439,846**	**308,244**	**324,340**
Total assets		**3,186,644**	**2,760,025**	**2,555,135**

* Certain amounts do not correspond to the 2010 financial statements and reflect adjustments and reclassifications made as detailed in Note 3.

Continued on next page

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

Open Joint Stock Company "Russian Railways"

Consolidated Statement of Financial Position as at 31 December 2011 (continued)

(All amounts are in millions of Russian Rubles)

	Notes	2011	2010 Restated*	As at 1 January 2010 Restated*
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital	22	1,786,716	1,698,128	1,594,516
Additional paid-in capital		–	–	2,808
Unrealised gain/(loss) on available-for-sale financial assets, net of tax		(252)	1,428	568
Retained earnings/ (accumulated deficit) and other reserves		259,344	73,904	(134,987)
		2,045,808	**1,773,460**	**1,462,905**
Non-controlling interests		7,537	15,312	18,278
Total equity		**2,053,345**	**1,788,772**	**1,481,183**
Non-current liabilities				
Deferred tax liabilities	31	66,510	42,124	16,575
Long-term borrowings	17	246,492	218,827	293,174
Finance lease obligations, net of current portion	21	4,140	19,415	29,279
Employee benefit obligations	20	204,336	201,197	198,489
Banking customers accounts		–	–	19,963
Derivative financial liabilities	34	11,039	11,838	331
Other non-current liabilities	18	4,596	16,988	20,347
Total non-current liabilities		**537,113**	**510,389**	**578,158**
Current liabilities				
Trade and other payables		210,653	161,561	99,578
Advances received for transportation		63,228	59,333	43,843
Banking customers accounts		–	–	109,078
Finance lease obligations, current portion	21	6,907	15,825	16,946
Income tax payable		17,799	840	1,375
Taxes and similar charges payable (other than income tax)	16	31,828	32,346	29,264
Short-term borrowings	17	160,754	104,221	111,944
Derivative financial liabilities	34	2,330	2,162	1,087
Provisions and other current liabilities	19	102,687	83,897	82,679
		596,186	**460,185**	**495,794**
Liabilities, directly associated with the assets classified as held for sale		–	679	–
Total current liabilities		**596,186**	**460,864**	**495,794**
Total equity and liabilities		**3,186,644**	**2,760,025**	**2,555,135**

* Certain amounts do not correspond to the 2010 financial statements and reflect adjustments and reclassifications made as detailed in Note 3.

Yakunin V.I. President

Kraft G.V. Chief Accountant

30 August 2012

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

Open Joint Stock Company "Russian Railways"

Consolidated Income Statement for the year ended 31 December 2011

(All amounts are in millions of Russian Rubles)

	Notes	2011	2010 Restated*
Continuing operations			
Revenues			
Cargo revenues		1,103,565	1,004,700
Passenger revenues		173,812	172,764
Other revenues	23	203,502	178,390
Total revenues		**1,480,879**	**1,355,854**
Operating expenses			
Wages, salaries and related contributions		(594,571)	(511,614)
Materials, repairs and maintenance		(226,396)	(168,223)
Fuel		(73,691)	(57,774)
Electricity		(106,326)	(93,021)
Depreciation and amortization		(173,846)	(162,443)
Taxes other than income tax, net	24	(32,599)	(31,089)
Commercial expenses		(4,201)	(6,299)
Bad debt expense		(8,568)	(6,272)
Social expenses		(10,733)	(8,143)
Loss on impairment of property, plant and equipment		(8,481)	(3,919)
Other operating expenses	25	(120,607)	(88,966)
Total operating expenses		**(1,360,019)**	**(1,137,763)**
Operating profit before subsidies from federal and municipal budgets		**120,860**	**218,091**
Subsidies from federal and municipal budgets	26	61,150	82,304
Income from operations after subsidies from federal and municipal budgets		**182,010**	**300,395**
Interest expense and similar items		(10,455)	(12,188)
Interest income and similar items		6,762	3,873
Interest expense and similar items, net	29	**(3,693)**	**(8,315)**
Gain on disposal of controlling interest in subsidiaries, net	5	83,743	–
Equity income from associates, net	6	4,513	5,271
Changes in fair value and loss on disposals of financial assets, net	30	3,323	(14,562)
Other income	27	24,710	17,563
Other expenses	28	(20,683)	(20,417)
Foreign exchange loss, net		(5,521)	(104)
Income before taxation		**268,402**	**279,831**
Income taxes			
Current taxes		(60,923)	(51,195)
Deferred taxes		(24,492)	(33,481)
Total income taxes	31	**(85,415)**	**(84,676)**
Net income for the period from continuing operations		**182,987**	**195,155**
Discontinued operations			
Net income for the period from discontinued operations	15	–	13,169
Net income for the period		**182,987**	**208,324**
Attributable to:			
Equity holders of the parent		184,565	204,429
Non-controlling interests		(1,578)	3,895

* Certain amounts do not correspond to the 2010 financial statements and reflect reclassifications made as detailed in Note 3.

Yakunin V.I. President

Kraft G.V. Chief Accountant

30 August 2012

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

Open Joint Stock Company "Russian Railways"

Consolidated Statement of Comprehensive Income for the year ended 31 December 2011

(All amounts are in millions of Russian Rubles)

	Notes	2011	2010 Restated*
Net income for the period		**182,987**	**208,324**
Other comprehensive income			
Net (loss)/gain on available-for-sale financial assets		(290)	399
Other comprehensive (loss)/income attributable to investments in associates		(96)	721
Revaluation of investment property		3,107	1,987
Translation difference		308	225
Income tax effects		58	(224)
Reclassification of other comprehensive income attributable to associate	6	(1,352)	–
Other comprehensive income for the period, net of tax		**1,735**	**3,108**
Total comprehensive income for the period, net of tax		**184,722**	**211,432**
Attributable to:			
Equity holders of the parent		186,214	207,501
Non-controlling interests		(1,492)	3,931

* Certain amounts do not correspond to the 2010 financial statements and reflect adjustments made as detailed in Note 3.

Yakunin V.I. President

Kraft G.V. Chief Accountant

30 August 2012

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

Open Joint Stock Company "Russian Railways"

Consolidated Statement of Changes in Equity for the year ended 31 December 2011

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

		Attributable to equity holders of the parent						
		Share capital						
	Notes	Common shares	Amount	Unrealized gain/(loss) on available-for-sale financial assets, net of tax	Retained earnings and other reserves	Total	Non-controlling interests	Total equity
As at 1 January 2011		**1,698,128,067**	**1,698,128**	**1,428**	**73,904**	**1,773,460**	**15,312**	**1,788,772**
Net income for the period		–	–	–	184,565	184,565	(1,578)	182,987
Other comprehensive income		–	–	(1,680)	3,329	1,649	86	1,735
Total comprehensive income		–	–	**(1,680)**	**187,894**	**186,214**	**(1,492)**	**184,722**
Capital contribution by shareholder	22	88,587,521	88,588	–	–	88,588	–	88,588
Acquisition of non-controlling interests in existing subsidiaries		–	–	–	(177)	(177)	(503)	(680)
Disposal of controlling interests in subsidiaries	5	–	–	–	–	–	(5,942)	(5,942)
Non-controlling interests arising from acquisition of subsidiary	5	–	–	–	–	–	810	810
Capital contribution to share capital of subsidiaries by non-controlling shareholders		–	–	–	196	196	104	300
Sale of non-controlling interests in existing subsidiaries (net of income tax of Rbls 288)	5	–	–	–	1,512	1,512	202	1,714
Dividends	22	–	–	–	(3,985)	(3,985)	(954)	(4,939)
As at 31 December 2011		**1,786,715,588**	**1,786,716**	**(252)**	**259,344**	**2,045,808**	**7,537**	**2,053,345**

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

Open Joint Stock Company "Russian Railways"

Consolidated Statement of Changes in Equity for the year ended 31 December 2010 Restated*

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

		Attributable to equity holders of the parent							
		Share capital							
	Notes	Common shares	Amount	Additional paid-in capital	Unrealized gain on available-for-sale financial assets, net of tax	Retained earnings/ (Accumulated deficit) and other reserves	Total	Non-controlling interests	Total equity
As at 1 January 2010		**1,594,516,219**	**1,594,516**	**2,808**	**568**	**(122,389)**	**1,475,503**	**23,138**	**1,498,641**
Effect of adjustments (Note 3)		–	–	–	–	(12,598)	(12,598)	(4,860)	(17,458)
As at 1 January 2010 as restated		**1,594,516,219**	**1,594,516**	**2,808**	**568**	**(134,987)**	**1,462,905**	**18,278**	**1,481,183**
Net income for the period		–	–	–	–	204,429	204,429	3,895	208,324
Other comprehensive income as restated		–	–	–	860	2,212	3,072	36	3,108
Total comprehensive income as restated		–	–	–	**860**	**206,641**	**207,501**	**3,931**	**211,432**
Capital contribution by shareholder	22	103,611,848	103,612	–	–	–	103,612	–	103,612
Acquisition of non-controlling interests in existing subsidiaries		–	–	–	–	(128)	(128)	(85)	(213)
Non-controlling interest in subsidiaries newly established		–	–	–	–	–	–	392	392
Transfer of control over OJSC "TransCreditBank"	5	–	–	(2,808)	–	2,808	–	(13,664)	(13,664)
Sale of non-controlling interests in existing subsidiaries (net of income tax of Rbls 2,088)	5	–	–	–	–	3,182	3,182	6,791	9,973
Dividends	22	–	–	–	–	(3,612)	(3,612)	(331)	(3,943)
As at 31 December 2010 as restated		**1,698,128,067**	**1,698,128**	**–**	**1,428**	**73,904**	**1,773,460**	**15,312**	**1,788,772**

* Certain amounts do not correspond to the 2010 financial statements and reflect adjustments made as detailed in Note 3.

Yakunin V.I. President

Kraft G.V. Chief Accountant

30 August 2012

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

Open Joint Stock Company "Russian Railways"

Consolidated Statement of Cash Flows for the year ended 31 December 2011

(All amounts are in millions of Russian Rubles)

	Notes	2011	2010
Cash flows from operating activities			
Income before taxation from continuing operations		268,402	279,831
Income before taxation from discontinued operations	15	–	19,491
Income before taxation		**268,402**	**299,322**
Adjustments to reconcile income to cash generated from operations			
Depreciation and amortization		173,846	163,283
Gain on disposal of controlling interest in subsidiaries, net	5	(83,743)	(8,441)
Goodwill impairment		–	598
Equity income from associates, net		(4,513)	(5,271)
Impairment of investments in associates	28	950	5,550
Changes in fair value and loss on disposal of financial assets, net		(3,323)	12,511
Bad debt expense		8,568	6,589
Gain on disposal of assets held for sale	27	(9,658)	(301)
Gain on disposal of property, plant and equipment, net	27	(3,843)	(6,512)
Loss/(recovery of loss) on uncompleted construction contracts	25	6,675	(4,153)
Loss on impairment of property, plant and equipment		8,481	3,919
Interest expense and similar items, net	29	3,693	8,315
Change in provision and write-off of obsolete and damaged inventory		2,030	397
Change in provision for legal claims, net	19,27,28	821	(746)
Change in provision for guarantees	19,28	2,680	766
Change in provision for tax liabilities, net	24	–	(1,858)
Foreign exchange loss, net		5,521	104
Gain on decrease in equity interest in associate	6	(1,628)	–
Change in employee benefit obligations	20	3,139	2,708
Other gains, net		(2,456)	(1,217)
Operating income before working capital changes		**375,642**	**475,563**
Increase in receivables		(14,233)	(13,958)
Increase in prepayments and other current assets		(2,409)	(15,391)
Increase in inventories		(17,466)	(7,064)
Increase in trade and other payables		24,593	30,779
Increase in advances received for transportation		9,093	15,490
Increase in taxes and similar charges payable (other than income tax payable)		985	3,417
Increase in other current liabilities		5,463	9,965
Decrease/(increase) in other non-current assets		55	(3,730)
Increase/(decrease) in other non-current liabilities		257	(4,759)
Increase in banking customers accounts		–	54,830
Decrease in short-term borrowings of OJSC "TransCreditBank"		–	(8,353)
Increase in securities at fair value through profit or loss		–	(32,863)
Increase in other financial assets of OJSC "TransCreditBank", including non-current part		–	(61,731)
Increase in obligatory reserves in Central bank		–	(657)
Net cash from operating activities before income taxes		**381,980**	**441,538**
Income taxes paid		(48,117)	(60,213)
Net cash from operating activities		**333,863**	**381,325**

Continued on next page

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

Open Joint Stock Company "Russian Railways"

Consolidated Statement of Cash Flows for the year ended 31 December 2011 (continued)

(All amounts are in millions of Russian Rubles)

	Notes	2011	2010
Cash flows from investing activities			
Purchases of property, plant and equipment		(483,675)	(412,995)
Proceeds from disposal of property, plant and equipment		2,782	9,406
Purchases of intangible assets		(8,010)	(7,787)
Proceeds from disposal of assets classified as held for sale		8,090	532
Loans given, deposits placed and acquisition of other financial assets, net		8,704	7,741
Acquisition of associates, venture capital investments, and contributions to share capital of associates		(2,618)	(1,511)
Acquisition of subsidiaries, net of cash acquired	5	(1,412)	(611)
Interest received		4,946	2,230
Proceeds from disposal of controlling interest in subsidiaries, net of cash disposed of Rbls 9,317	5	119,883	1,375
Proceeds from decrease in equity interest in associate	6	18,138	–
Set-up of new subsidiaries – contribution received from non-controlling shareholders		–	392
Net cash used in investing activities		**(333,172)**	**(401,228)**
Cash flows from financing activities			
Proceeds from long-term borrowings		68,517	94,377
Repayment of long-term borrowings		(72,660)	(112,299)
Proceeds from/(repayment of) short-term borrowings, net		86,684	(1,058)
Interest paid		(29,865)	(31,421)
Repayment of finance lease obligations, including finance charges		(23,118)	(17,500)
Proceeds from sale-leaseback		1,623	–
Proceeds under derivative contracts, net		1,435	2,854
Acquisition of non-controlling interests in existing subsidiaries		(680)	(213)
Contribution to share capital from shareholder	22	88,588	103,612
Dividends paid		(4,939)	(3,943)
Cash contributions from non-controlling shareholders		300	–
Proceeds from disposal of non-controlling interests in existing subsidiaries	5	1,992	12,061
Net cash from financing activities		**117,877**	**46,470**
Net increase in cash and cash equivalents		**118,568**	**26,567**
Net foreign exchange loss		(538)	(668)
Cash and cash equivalents at the beginning of the period	14	100,356	74,457
Cash and cash equivalents at the end of the period	14	**218,386**	**100,356**

Yakunin V.I. President

Kraft G.V. Chief Accountant

30 August 2012

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

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 RZD" dated 18 September 2003 and in connection with implementation of the Program of Railway Transportation Industry Restructuring ("the Program"). The Company is 100% owned by the Russian Government.

The legal address of RZD is Novaya Basmannaya Street, 2, 107174, Moscow, the Russian Federation.

These consolidated financial statements of RZD and its subsidiaries (the "Group") for the year ended 31 December 2011 were authorized for issue by the management of RZD on 30 August 2012.

The principal activities of the Group are described in Note 4.

The RZD's major subsidiaries included in the consolidation as at 31 December 2011 and for the year then ended are as follows:

Name of Company	Nature of business	Group's equity interest
OJSC "TransContainer"	Forwarding agent	50.76%
OJSC "Freight Two"	Forwarding agent	100%
OJSC "Refservice"	Forwarding agent	100%
OJSC "RailTransAuto"	Forwarding agent	51%
OJSC "Federal Passenger Company"	Passenger transportation	100%
OJSC "High-speed Rail Lines"	High-speed rail lines	100%
OJSC "RZDstroy"	Construction works	100%
OJSC "Roszheldorproject"	Research and development	55.56%
NO "Zhilsotsipoteka"	Residential construction	100%
CJSC "Zheldoripoteka"	Residential construction	50% +1 common share
OJSC "TransWoodService"	Manufacturing	100%
OJSC "BetElTrans"	Manufacturing	100%
Repair factories "Remputmash" (C)	Repair works	100%
OJSC "First nonmetallic Company"	Extraction, processing and sale of nonmetallic minerals	100%
OJSC "Zeleznodorozhnaya Torgovaya Kompaniya"	Trading	100%
CJSC "Company TransTeleCom"	Telecommunication services	100%
OJSC "The Incorporated electrotechnical plants" (D)	Manufacturing of electrical engineering equipment	50% +1 common share
OJSC "Carriage Repair Company – 1" (A)	Rolling stock repair and maintenance	100%
OJSC "Carriage Repair Company – 2" (A)	Rolling stock repair and maintenance	100%
OJSC "Carriage Repair Company – 3" (A)	Rolling stock repair and maintenance	100%
OJSC "RZD Trading Company" (B)	Supply of rolling stock, railway equipment and spare parts	50% + 1 common share

1. Description of Business and Operating Environment (continued)

Corporate Information (continued)

Major subsidiaries of RZD are registered in the Russian Federation.

A. In April 2011 RZD established three subsidiaries engaged in repair and maintenance of the rolling stock:
   - OJSC "Carriage Repair Company – 1" with the share capital of Rbls 11,777 million;
   - OJSC "Carriage Repair Company – 2" with the share capital of Rbls 8,960 million, and
   - OJSC "Carriage Repair Company – 3" with the share capital of Rbls 7,016 million.

   The Group owns 100% stake in these subsidiaries. RZD mainly contributed property, plant and equipment to the share capitals of these new subsidiaries.

B. In the second half of 2011, the Group's interest in OJSC "RZD Trading Company" has increased up to 50% plus one share (as at 31 December 2010: 25% plus one share) as a result of the shares buy back by OJSC "RZD Trading Company" followed by the decrease of its share capital.

C. Repair factories "Remputmash" comprise nine separate legal entities. All entities were established as joint stock companies on the basis of previously existing branches of RZD.

D. In March and June 2011, the Group sold 50% less one share of equity stake in OJSC "The Incorporated Electrotechnical Plants" (OJSC "Elteza") for a total consideration of Rbls 1,992 million. As a result the Group's interest in share capital of OJSC "Elteza" decreased from 100% to 50% plus one share.

In December 2011, the Group sold 75% less two shares of OJSC "Freight One" (as at 31 December 2010: 100%) for cash consideration of Rbls 125,500 million. As a result, the Group's interest in OJSC "Freight One" decreased to 25% plus two shares and the Group lost control over OJSC "Freight One" (Note 5).

1. Description of Business and Operating Environment (continued)

Corporate Information (continued)

The Group's major subsidiaries included in the consolidation as at 31 December 2010 and for the year then ended are as follows:

Name of Company	Nature of business	Group's equity interest
OJSC "TransContainer" (A)	Forwarding agent	50% + 3 common shares
OJSC "Freight One"	Forwarding agent	100%
OJSC "Freight Two" (D)	Forwarding agent	100%
OJSC "Refservice"	Forwarding agent	100%
OJSC "RailTransAuto"	Forwarding agent	51%
OJSC "Federal Passenger Company"	Passenger transportation	100%
OJSC "High-speed Rail Lines" (B)	High-speed rail lines	100%
OJSC "RZDstroy"	Construction works	100%
OJSC "Roszheldorproject"	Research and development	50% +1 common share
NO "Zhilsotsipoteka"	Residential construction	100%
CJSC "Zheldoripoteka"	Residential construction	50% +1 common share
OJSC "TransWoodService"	Manufacturing	100%
OJSC "BetElTrans"	Manufacturing	100%
Repair factories "Remputmash" (C)	Repair works	100%
OJSC "First nonmetallic Company"	Extraction, processing and sale of nonmetallic minerals	100%
OJSC "Zeleznodorozhnaya Torgovaya Kompaniya"	Trading	100%
CJSC "Company TransTeleCom"	Telecommunication services	100%
OJSC "The Incorporated Electrotechnical Plants"	Manufacturing of electrical engineering equipment	100%
OJSC "TGC-14"	Production of electrical and heat energy	83.62%

A. In November 2010, the Group sold 35% less two shares of its subsidiary OJSC "TransContainer" through Initial Public Offering (IPO) at London and Moscow Stock Exchanges. After this transaction the Group retained control over OJSC "TransContainer".

B. In October 2010 the Group acquired 249 shares of OJSC "High-speed Rail Lines" increasing ownership interest in this subsidiary up to 100%.

C. Repair factories "Remputmash" comprise nine separate legal entities. All entities were established as joint stock companies on the basis of previously existing branches of RZD.

D. OJSC "Freight Two" was established in September 2010. Its main business activities are provision of rolling-stock for transportation, forwarding and other services. OJSC "Freight Two" started operations in October 2010.

1. Description of Business and Operating Environment (continued)

Factors Affecting Financial Position of the Company

Operating Environment

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which 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.

Pricing Policy

The Government of Russian Federation sets certain tariffs for the Group's transportation services based on anticipated macroeconomic indicators and the Group's projected funding requirements targeted to cover operating expenditures, capital expenditures and repayment of borrowings. The Federal Tariff Service (FTS) sets the Company's tariffs for cargo (other than cargo- in-transit through Russia) transportation and the tariffs of OJSC "Federal Passenger Company", a subsidiary of the Group, for certain classes of passenger transportation (third- and fourth-class long-distance passenger transportation). Cargo-in-transit tariffs are agreed annually between the interested countries and are fixed in international agreements. The Ministry of Transportation of Russian Federation represents Russia in such negotiations.

The Company and OJSC "Federal Passenger Company" are required to price their regulated cargo and third- and fourth-class long-distance passenger transportation services on the basis of a detailed price lists set out in Tariff 10-01 and Tariff 10-02-16, respectively. Prices set out in Tariff 10-01 and 10-02-16 are subject to annual, and occasionally supplemental, indexation.

Generally, the total cargo transportation price payable by a shipper of cargo consists of the following components: a charge for locomotive traction and infrastructure services and a charge for the use of a railcar. If a customer uses a railcar owned by the Company, railcar component is also subject to tariff regulation (as opposed to when a railcar is owned by a private railcar operator). These tariffs are binding on the Company as a natural monopoly.

Private railcar operators which do not have a status of a natural monopoly (including the Company's subsidiaries) are free to set their own prices for the railcar component of cargo transportation costs, while infrastructure and locomotive components that are fixed by Tariff 10-01 are paid to the Company either directly by the shippers or on their behalf by private railcar operators.

As discussed above, the Government regulates tariffs of OJSC "Federal Passenger Company" for third- and fourth-class long distance transportation", while deluxe-, first- and second-class long distance passenger transportation is unregulated and subject to market pricing. Tariffs for suburban passenger transportation are regulated by regional authorities. International tariffs for passenger transportation are set according to inter-governmental and interagency agreements, and vary depending on the countries involved.

1. Description of Business and Operating Environment (continued)

Factors Affecting Financial Position of the Company (continued)

It is currently uncertain whether any changes will be introduced in the tariff setting policy. The 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.

Foreign Exchange

The exchange rate of the Ruble to 1 US dollar equated to 32.20 and 30.48 as at 31 December 2011 and 31 December 2010, accordingly. The exchange rate of the Ruble to 1 EUR equated to 41.67 and 40.33 as at 31 December 2011 and 31 December 2010, accordingly. The exchange rate of the Ruble to 1 Pound Sterling equated to 49.63 and 47.26 as at 31 December 2011 and 31 December 2010, accordingly. The exchange rate of the Ruble to 1 Swiss Franc equated to 34.24 and 32.41 as at 31 December 2011 and 31 December 2010, accordingly.

As at 30 August 2012 the exchange rate was Rubles 32.09 to 1 US dollar, Rubles 40.28 to 1 Euro, Rubles 50.74 to 1 Pound Sterling and Rubles 33.52 to 1 Swiss Franc.

Government Subsidies

The Company continued to receive subsidies from federal and local governments to compensate the effects of passenger and cargo transportation tariffs’ regulation. These subsidies are shown as a separate item in the consolidated income statement (Note 26).

Liquidity

As at 31 December 2011, the Group’s current liabilities exceeded its current assets by Rbls 156,340 million (31 December 2010: Rbls 152,620 million). As a result, uncertainties exist as to the Group’s liquidity.

The Group is investing in expansion, modernization and maintenance of its property, plant and equipment. The Group financed investment activities through cash generated from operations and current and non-current borrowings.

Management is addressing the Group’s liquidity needs by implementing the following measures:

- Further revision of debt portfolio to refinance current liabilities with long-term borrowings;
- 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.

Through 2012, management believes that there will be sufficient funding from (a) existing cash balances, (b) cash generated from operations, and (c) debt financing.

2. Summary of Significant Accounting Policies

Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB). The Russian Ruble is used as functional currency of all significant entities of the Group as it is the currency of the primary economic environment in which these entities operate. These consolidated financial statements are presented in Russian Rubles ("Rbls"), unless otherwise indicated.

The Company and most of its subsidiaries are required to maintain their accounting records and prepare their statutory accounting reports in Russian Rubles and in accordance with the Regulations on Accounting and Reporting in the Russian Federation. These consolidated financial statements are based upon the statutory accounting records, as adjusted and reclassified in order to comply with IFRS. The principle adjustments relate to revenues recognition, valuation of property, plant and equipment, finance leases, financial instruments, provisions, deferred income taxes and accounting for subsidiaries and associates.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

Changes in Accounting Policy and Disclosures

New and Amended Standards and Interpretations

The accounting policies adopted are consistent with those of 2010 except that the Company has adopted those new and revised standards and interpretations mandatory for financial years beginning on or after 1 January 2011.

The Group has adopted the following new and amended IFRS and IFRIC interpretations:

- IAS 24 *Related Party Disclosures (amendment)* effective 1 January 2011
- IAS 32 *Financial Instruments: Presentation (amendment)* effective 1 February 2010
- IFRIC 14 *Prepayments of a Minimum Funding Requirement (amendment)*
- Improvements to IFRS (May 2010).

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The Group chose not to apply the specified exemption. The adoption of the amendment resulted in the change to accounting policies, but did not have any impact on the financial position or performance of the Group.

2. Summary of Significant Accounting Policies (continued)

Changes in Accounting Policy and Disclosures (continued)

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements; therefore the amendment of the interpretation has no effect on the financial position or performance of the Group.

Improvements to IFRSs (issued May 2010)

In May 2010 IASB issued the third omnibus of the amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group:

- *IFRS 3 Business Combinations:* The measurement options available for non-controlling interest have been amended. Only components of non-controlling interest that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- *IAS 1 Presentation of Financial Statements:* The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- *IFRS 7 Financial Instruments – Disclosures:* The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- *IFRS 3 Business Combinations*: Clarification that contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008) are accounted for in accordance with IFRS 3 (2005).
- *IFRS 3 Business Combinations:* Unreplaced and voluntarily replaced share-based payment awards and its accounting treatment within a business combination.

2. Summary of Significant Accounting Policies (continued)

Changes in Accounting Policy and Disclosures (continued)

- *IAS 27 Consolidated and Separate Financial Statements:* Applying the IAS 27 (as revised in 2008) transition requirements to consequentially amended standards.
- *IAS 34 Interim Financial Reporting:* The amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements.

The following interpretations and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group.

- *IFRIC 13 Customer Loyalty Programmes* (determining the fair value of award credits)
- *IFRIC 19 Extinguishing financial liabilities with equity instruments.*

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

IFRSs and IFRIC Interpretations not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects potentially to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 *Investment Property* should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 *Property, Plant and Equipment* always be measured on a sale basis of the asset. The Group is currently assessing the impact of the amendment on its financial position and performance. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

2. Summary of Significant Accounting Policies (continued)

Changes in Accounting Policy and Disclosures (continued)

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group expects that adoption of these amendments will have a material impact on the Group's employee benefit obligation and is currently assessing the full impact of the amendments on its consolidated financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities*, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interest in Other Entities*, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 *Financial Instruments: Recognition and Measurement* and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The issued standard is effective for annual periods beginning on or after 1 January 2015.

In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Group is currently assessing the impact of adoption of the first phase of IFRS 9 will have on the classification and measurement of the Group's financial assets and liabilities. The Group will also quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

2. Summary of Significant Accounting Policies (continued)

Changes in Accounting Policy and Disclosures (continued)

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group is assessing the impact of this standard on its consolidated financial statements.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will not impact the accounting policy, financial position or performance of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interest in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities and Amendments to IAS 32 Financial instruments: Presentation

In December 2011, IASB issued Amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* and Amendments to IAS 32 *Financial Instruments: Presentation*. These amendments are intended to clarify existing application issues relating to the offsetting rules, reduce the level of diversity in current practice and to overcome the differences in the offsetting requirements under IFRS and US GAAP. The clarifying amendments to IAS 32 are effective for the annual periods beginning on or after 1 January 2014. The new disclosures in IFRS 7 are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Both require retrospective application for comparative periods. The Group is currently assessing the impact of these amendments on the financial position and performance.

2. Summary of Significant Accounting Policies (continued)

Changes in Accounting Policy and Disclosures (continued)

IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine

In October 2011, the IASB issued *IFRIC Interpretation* 20 *Stripping Costs in the Production Phase of a Surface Mine*. The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The Interpretation is effective for annual periods beginning on or after 1 January 2013 with earlier application permitted. The application of IFRIC 20 will not impact the accounting policy, financial position or performance of the Group.

Improvements to IFRS (issued in May 2012)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after 1 January 2013. The Group is currently assessing the impact of these amendments on its consolidated financial statements. The amendments listed below are considered to have a reasonably possible impact on the Group:

- IAS 1 *Presentation of Financial Statements*
- IAS 16 *Property, Plant and Equipment*
- IAS 32 *Financial Instruments: Presentation*
- IAS 34 *Interim Financial Reporting.*

Principles of Consolidation

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2011.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as a parent company. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

2. Summary of Significant Accounting Policies (continued)

Principles of Consolidation (continued)

Acquisition of subsidiaries

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

Transactions under common control

The transactions with associates and entities under common control are measured at the actual consideration stated in any agreement related to the each transaction, provided that there is no requirement of IFRS to measure the transaction at fair value.

Special purpose entities

In certain instances, the Group sponsors the formation of special purpose entities for the purpose of issuance of debt securities. The Group consolidates special purpose entities it controls. In assessing and determining if the Group controls such special purpose entities, judgment is made about the Group’s exposure to the risks, rewards and its ability to make operational decisions with regard to such entities.

Interest in joint ventures - jointly controlled entities

The Group recognises its interest in the jointly controlled entities using equity method of accounting. The Group’s share of profits or losses in jointly controlled entities is recognised in the consolidated income statement, and its share in changes in net assets recognised directly in equity is recognised in equity. Adjustments are made in the Group's financial statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

Property, Plant and Equipment

Property, plant and equipment are recognized at historical cost of acquisition or construction less accumulated depreciation and impairment (the Group’s approach to the accounting for impairment is described in *Significant Judgment, Estimations and Assumptions* section below). Construction-in-progress comprises costs directly related to construction and acquisition of property, plant and equipment plus an appropriate allocation of directly attributable variable and fixed overheads that are incurred in construction. Depreciation commences once the asset becomes available for use.

Subsequent expenditures relating to an item of property, plant and equipment, which qualify for recognition as assets in accordance with provisions of IAS 16 *Property, Plant and Equipment*, are capitalized. Major renewals and improvements are capitalised, and the assets replaced are retired. When each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

2. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

Costs other than those referred to above are recognized as an expense when incurred.

When assets are sold or retired, their carrying value is eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Land occupied by the Group’s facilities is owned by the Russian Federation. In 2003, some of such land plots were contributed as in-kind contribution to the Company’s newly established share capital and, consequently, were included in Property, Plant and Equipment as at 31 December 2011 and 2010. The land is not depreciated.

Depreciation is calculated on a straight-line basis over the asset's estimated useful life. Depreciation is charged to operating expenses in the respective period.

The useful lives used to calculate depreciation are as follows (years):

Buildings	46-80
Constructions	27-50
Roadbed	60-100
Superstructure	10-21
Locomotives	7-25
Rolling stock, passenger	10-28
Rolling stock, cargo	7-25
Operating equipment	7-15
Other fixed assets	14-61

The residual values and useful lives are reviewed at each financial year end and adjusted prospectively, if appropriate.

Investment Property

Investment property is initially recognized at cost, including directly attributable expenditure, and subsequently remeasured at fair value which reflects market conditions at the end of the reporting period.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, that necessarily takes a substantive period of time to get ready for its intended use or sale, are capitalized as part of the cost of respective asset. All other borrowing costs are expensed in the period they occur. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are ready for their intended use. Borrowing costs include the interest charge and other costs incurred in connection with the borrowing of funds.

2. Summary of Significant Accounting Policies (continued)

Intangible Assets Other than Goodwill

Initially intangible assets (primarily software) are measured at cost. Intangible assets are recognised if it is probable that the future economic benefits attributable to the asset will flow to the enterprise. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses (the Group's approach to the accounting for impairment is described in *Significant Judgment, Estimations and Assumptions* section below).

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the estimated useful lives of the related assets. Useful lives of 3 to 10 years are used in regard to intangible assets owned by the Group. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Financial Assets and Liabilities

The Group's financial assets include:

- cash and cash equivalents
- receivables and loans issued classified as loans and receivables
- derivative financial instruments classified as financial assets at fair value through profit or loss
- financial assets classified as available-for-sale investments.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset.

The Group's financial liabilities include:

- trade and other payables and interest bearing loans and borrowings classified as loans and borrowings
- derivative financial instruments classified as financial liabilities at fair value through profit or loss
- financial guarantees contracts.

Financial Guarantee Contracts

Financial guarantee contracts issued by the Group are these contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specific debtor fails to make a payment when due in accordance with the terms of a debt instruments. Financial guarantees are initially recognised as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the best estimate of expenditure required to settle present obligation at the reporting date and the amount recognized less cumulative amortization.

2. Summary of Significant Accounting Policies (continued)

Financial Assets and Liabilities (continued)

Derivative Financial Instruments

The Group uses derivative financial instruments such as share purchase forward contracts, forward currency contracts and interest rate and currency swaps to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

Inventories

Inventories, which include materials, fuel and spare parts, are valued at the lower of cost as determined by the weighted average method and net realizable value. Inventories are reported net of provision for damaged or obsolete items.

Cash and Cash Equivalents

Cash consists of cash on hand and balances with banks. Cash equivalents comprise highly liquid investments with original maturities of three months or less.

Revenue and Expense Recognition

Revenues are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenues can be measured reliably.

Revenues and expenses are accounted for at the time the actual flow of related goods and services occurs and transfer of risks and rewards has been completed, regardless of when cash or its equivalent is received or paid, and are reported in the income statement in the period to which they relate. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or an agent.

Transportation services

In respect of services related to cargo transportation, revenue is recognised by reference to the stage of completion of the transportation at the reporting date provided that the stage of completion of the transportation and the amount of revenue can be measured reliably. In the event that either of the conditions above is not met as at the reporting date, the recognition of revenue is deferred to the date when transportation is completed, i.e. cargo delivered to the place of destination. The stage of completion is determined as a percentage of services performed to date to total services to be performed.

In respect of services related to passenger transportation, revenue is recognized when transportation is completed.

2. Summary of Significant Accounting Policies (continued)

Revenue and Expense Recognition (continued)

Revenue from Construction Services

The Group renders significant construction services to third parties under long-term construction contracts.

Revenue from construction services rendered is recognised in the income statement on a monthly basis in accordance with the actual volume of works completed. The stage of completion is assessed monthly. When the outcome of the contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. The Group provides for estimated losses on uncompleted contracts in the period, in which such losses are identified.

Service concession arrangements

Revenues from construction or upgrade services rendered by the Group acting as operator under service concession arrangements are recognized by reference to the stage of completion of the construction or upgrade activity at the reporting date provided that the stage of completion of the activity and the amount of revenue can be measured reliably. Otherwise, revenues are recognized only to the extent of costs incurred. These costs are recognized as an expense in the period in which they were incurred.

Revenues from operation services rendered are recognized using principles described for "Transportation services" above.

Interest and similar income and expense

Interest income and expense are recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of such an instrument, taking into consideration all contractual terms of the instrument.

Government Subsidies

Government subsidies related to an expense item are recognised as income over the periods necessary to match them on the systematic basis with the related cost, which they are intended to compensate. Income relating to government subsidies is presented separately in the income statement. Subsidies contributed towards the acquisition of assets are deducted from the cost of those assets. Such subsidies are then recognized as income over the useful life of a depreciable asset by way of reduced depreciation charge.

2. Summary of Significant Accounting Policies (continued)

Employee Benefits

Defined benefit plans

The Group operates defined benefit pension plans. The obligation and cost of benefits under the plans are determined separately for each plan using the projected unit credit method. This method considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The cost of providing pensions is charged to the income statement, so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula of the plan. This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit plan. Actuarial gains and losses are recognised as income or expense in full as they arise.

In addition, the Group provides certain other retirement and post retirement benefits to its employees. These benefits are unfunded.

Upon introduction of a new plan or improvement of an existing plan past service costs are recognised on a straight-line basis over the average period until the amended benefits become vested. To the extent that the benefits are already vested immediately, past service cost is immediately expensed.

Defined contribution plans

In addition to the defined benefit plans described above, the Group also sponsors a defined contribution plan for certain of its employees. The plan provides for contributions by the Company ranging from 0.6% to 4.6% of salary, and by employees ranging from 1.2% to 10.7% of salary. The Group's contributions relating to the defined contribution plan are expensed in the year to which they relate.

State plan

In addition, the Group is legally obliged to make contributions to the Pension Fund of Russian Federation (a multi-employer defined contribution plan). The Group's only obligation is to pay the contributions as they fall due. As such, the Group has no legal obligation to pay and does not guarantee any future benefits to its Russian employees. The Group's contributions to the State Pension Fund relating to defined contribution plans are expensed in the year to which they relate.

Contributions to the State Pension Fund together with other social contributions are calculated as 30% (2010: 34%) on the annual gross salary of each employee. Excess of annual gross salary of employee over Rbls 463 thousand (2010: Rbls 415 thousand) is not taxed.

2. Summary of Significant Accounting Policies (continued)

Employee Benefits (continued)

Other long-term benefits

In 2008 the Group introduced a number of long-term employee benefits, including loyalty bonus. The obligation and cost of benefits are determined separately for each benefit using the projected unit credit method. This method considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The cost is charged to the income statement, so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula, which considers that these benefits are periodically paid to employees. Accordingly, the cost is recognized and obligation is accumulated on the basis of the ratio of years of service from the last payment date (or employment date in case there were no prior payments) till the reporting date divided by the total years of service from the last payment date (or employment date in case there were no prior payments) till the next payment date.

This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit obligation. Actuarial gains and losses are recognised as income or expense in full as they arise.

Past service cost with regard to these benefits was recognised in the income statement immediately.

Service Concession Arrangements

Infrastructure received by the Group acting as operator of service concession arrangements from the grantor is not recognized as property, plant and equipment. Items provided by the grantor, which the Group can keep or deal with at its discretion are recognized as assets of the Group, measured at fair value on initial recognition.

Consideration received or receivable by the Group acting as operator under service concession arrangements is recognized as follows:

- *as a financial asset* – to the extent that the Group has an unconditional contractual right to receive cash or another financial asset from the grantor;
- *as an intangible asset* – to the extent that the Group receives a right to charge users of the public service rendered.

Contractual obligations of the Group stipulated in the service concession agreement to maintain infrastructure and/or to restore infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement is recognized in a manner identical to recognition of provisions (refer below), and is measured at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. As at 31 December 2011, the amount of intangible asset recognized by the Group with regard to service concession agreement comprised Rbls 2,179 million (2010: Rbls 1,928 million). The liabilities assumed by the Group in connection with this agreement of Rbls 1,339 million (2010: Rbls 1,344 million) are included in other non-current liabilities as at 31 December 2011.

2. Summary of Significant Accounting Policies (continued)

Provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligations.

If the effect of time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contractual Commitments

Contractual commitments comprise legally binding trading or purchase agreements with stated amount, price and date or dates in the future.

The Group discloses significant contractual commitments for major types of purchases in the notes to the financial statements.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and disclosure of contingent liabilities during the reporting period.

As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest information available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

The most significant estimates relate to the depreciable lives of property, plant and equipment, impairment of non-financial and financial assets, determination of defined benefit obligations and the related current service costs with regard to pension plans and other long-term employee benefits, fair value of financial instruments, provision for obsolete inventory, provision for tax and legal contingencies and deferred taxation. Actual results could differ from these estimates.

2. Summary of Significant Accounting Policies (continued)

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Accounting for non-production property, plant and equipment

Included in property, plant and equipment are social infrastructure assets. Management believes that expenditures incurred in respect of acquisition or construction of such assets qualify for the recognition as an asset on the premises that such expenditures are capable of contributing indirectly to the flow of cash and cash equivalents to the Group through a reduction of cash benefits to employees. This is driven by the fact that such non-production assets are employed by the Group to provide in-kind benefits to its employees.

Accounting for leases

A lease is classified as finance lease if it transfers substantially all the risks and rewards incidental to ownership, otherwise it is classified as operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. In determining the accounting treatment of transactions that involve the legal form or a lease, all aspects and implications of an arrangement are evaluated to determine the substance of such transactions with weight given to those aspects and implications that have an economic effect. If the lease term is for the major part of the economic life of the asset even if title is not transferred, or if at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset, the lease is classified by the Group as finance lease, unless it is clearly demonstrated otherwise.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Assets classified as held for sale

In 2011, the Group's equity stake in OJSC "TransCreditBank" previously accounted as an investment in associate was classified as asset held for sale and accounted for in accordance with IFRS 5 *Assets Held for Sale and Discontinued Operations* based on considerations described in Note 15.

2. Summary of Significant Accounting Policies (continued)

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Useful life of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in profit or loss.

Impairment of property, plant and equipment and other non-financial assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units (CGU) to which the individual asset is allocated. These budgets and forecast calculations generally cover the period of five years. For longer periods, a long-term growth rate is determined and applied to project future cash flows after the fifth year.

Due to significant uncertainties regarding future changes in the tariff-setting policy and further implementation of the Program of railway transportation restructuring, as more fully described in Note 33, management cannot predict what effect changes in fiscal and political policies may have on the Group's remaining investment or ability to make future investments in property, plant and equipment, which may affect the recoverable amount of such investments. Management plans to revisit such an assessment at the time more certainty regarding factors outlined above exist and upon finalization of Group's property, plant and equipment registers for the movements in property, plant and equipment, including the effects of impairment and accounting for components, for the years 2010 and 2011, in accordance with its accounting policy. Accordingly, the amount of impairment loss may be revised.

These estimates, including the methodologies used, may have a material impact on the amount of any property, plant and equipment and other non-financial assets impairment.

2. Summary of Significant Accounting Policies (continued)

Estimates and Assumptions (continued)

Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate (EIR).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

2. Summary of Significant Accounting Policies (continued)

Estimates and Assumptions (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Although 'significant' and 'prolonged' are determined in each particular case, generally a less than a 10% decline in fair value is unlikely to be considered significant, whereas a decline in fair value of greater than 20% is often considered significant; a period of less than 6 months is unlikely to be considered prolonged, while a period longer than 12 months is normally considered as prolonged. When there is an evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that instrument previously recognised in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Long-term employee benefits – defined benefit plans

The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuations, which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefits levels and, to a limited extent, expected return on plan assets. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially. All assumptions are reviewed at each reporting date. More details are provided in Note 20.

2. Summary of Significant Accounting Policies (continued)

Estimates and Assumptions (continued)

Litigations

The Group exercises considerable judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as legal counsel. Revisions to the estimates may significantly affect future operating results.

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group’s entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group’s entities may be assessed additional taxes, penalties and interest, which can be significant. Periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As at 31 December 2011, the management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Notes 19 and 31.

Deferred tax assets

Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from the estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be materially affected. Further details are provided in Note 31.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 35.

2. Summary of Significant Accounting Policies (continued)

Estimates and Assumptions (continued)

Development costs

Development costs are capitalised in accordance with the Group’s accounting policy. Initial capitalisation of costs is based on management’s judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits.

Construction contract

When the outcome of a construction contract cannot be estimated reliably revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable; and contract costs are recognised as an expense in the period in which they are incurred. An expected loss on the construction contract is recognised as an expense immediately. The expected loss is assessed based on analysis performed by the management of the Group in accordance with approved project budget.

Service Concession Agreement

In 2008 the Group commenced activities under the service concession agreement signed with the government of the Republic of Armenia (Armenia) ("the Grantor"). Under the terms of this agreement, the Group is obligated to upgrade and operate railways infrastructure of Armenia and further to acquire new rolling stock. The aggregate amount of these expenditures equates to approximately US$ 570 million (Rbls 19,836 million at the exchange rate as at the date of entering into this agreement or Rbls 18,354 million at the exchange rate as at 31 December 2011). Under the terms of the agreement the Grantor received a call option with regard to purchase of the rolling stock at the end of concession agreement. However, the agreement does not contain any specifications as to the value and/or quantity of the rolling stock covered by this call option.

On the basis of the analysis performed, the management concluded that such rolling stock cannot be considered to be within the scope of IFRIC 12 *Service Concession Agreements*, because of (i) absence of any restrictions specified in the agreement limiting the ability of the Group to deal with this rolling stock at its discretion, and (ii) absence of provisions sufficient to determine the quantity of rolling stock to which call option apply. Respectively, such rolling stock is not within the scope of IFRIC 12 and is recognized within the assets of the Group.

3. Correction of Errors and Reclassifications

Correction of errors

In 2011, the Group has finalized its property, plant and equipment registers as at 1 January 2010, bringing accounting for property, plant and equipment, including accounting for impairment and components accounting, in accordance with IAS *16 Property, Plant and Equipment* and IAS 36 *Impairment of Assets* as of that date.

In the course of completing its property, plant and equipment registers as at 1 January 2010, the Group identified certain items of investment property represented primarily by the rented out premises, and hired an independent appraiser to determine their fair value.

As a result of above, the Group identified certain errors in the carrying values of property, plant and equipment and investment property relating to periods prior to 1 January 2010. In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, these errors were corrected retrospectively by restating appropriate balances of assets, liabilities and equity as following:

As at 1 January 2010:

Property, plant and equipment decreased by	Rbls 16,329 million
Investment property increased by	Rbls 10,121 million
Intangible assets increased by	Rbls 2,283 million
Inventories decreased by	Rbls 1,306 million
Deferred tax assets increased by	Rbls 2,485 million
Deferred tax liabilities increased by	Rbls 14,730 million
Accumulated deficit and other reserves increased by	Rbls 12,598 million
including	
Revaluation reserve reported within *Accumulated deficit and other reserves* increased by	Rbls 5,537 million
Non-controlling interest decreased by	Rbls 4,860 million

As at 31 December 2010:

Property, plant and equipment decreased by	Rbls 16,200 million
Investment property increased by	Rbls 10,987 million
Intangible assets increased by	Rbls 1,969 million
Deferred tax assets increased by	Rbls 2,485 million
Deferred tax liabilities increased by	Rbls 14,730 million
Retained earnings and other reserves decreased by	Rbls 10,611 million
including	
Revaluation reserve reported within *Retained earnings and other reserves* increased by	Rbls 7,524 million
Non-controlling interest decreased by	Rbls 4,860 million

3. Correction of Errors and Reclassifications (continued)

Reclassifications

Certain prior period amounts have been reclassified to conform to the current year presentation. The major reclassifications are described below:

- Movement in provision for income tax liabilities previously included in the line *Taxes other than income tax, net* of consolidated income statement was reclassified to the line *Current taxes* of consolidated income statement
- Certain capital repair expenses previously reported within the line *Other operating expenses* of consolidated income statement were reclassified to the line *Materials, repairs and maintenance* of consolidated income statement
- Non operating incomes and expenses previously included in the line *Other income, net* of consolidated income statement were presented separately in the lines *Other income, Other expenses* and *Equity income from associates, net* of consolidated income statement
- Revenue from rent of cargo cars and other property previously included in the line *Other income, net* of consolidated income statement was reclassified to the line *Other revenues* of consolidated income statement.

Disclosures in related notes to consolidated financial statements were amended respectively.

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

4. Segment Reporting

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

- *RZD cargo segment* includes cargo transportation services provided by the Company.
- *Long-distance passenger reportable operating segment* comprises all cross-regional passenger transportation services provided by the Group and aggregates two operating segments: *Long-distance passenger transportation* provided by the Company and *Long-distance passenger transportation* provided by OJSC "Federal Passenger Company", a subsidiary of the Company.
- *Suburban passenger segment* includes intraregional rail passenger transportation services.
- *Auxiliary operations segment* include repair and maintenance of rolling stock, energy re-sale, construction and other services provided by the Company's branches.
- *Subsidiaries cargo segment* includes cargo transportation services provided by the Company's subsidiaries
- *All other segments* include activities of the Company's subsidiaries which provide services related to suburban passenger transportation, telecommunication, research and development services, construction, reconstruction and modernization of railways and railway transport infrastructure, repair and maintenance of different railway-related equipment; real estate construction for external customers and other companies within the Group. None of these operations are of a sufficient size to be reported separately. None of these operations can be aggregated with reportable operating segments described above due to dissimilar economical characteristics.

4. Segment Reporting (continued)

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated on a basis of segment operating profit or loss determined based on management accounts that differ from the IFRS consolidated financial statements for the reason that the management accounts are based on local GAAP figures. The operating segment results do not include effects of certain non-recurring transactions, such as business acquisitions, and the effects of some adjustments that may be considered necessary to reconcile the management accounts to IFRS consolidated financial statements.

Prices between operating segments are generally set on the basis described in Note 1 other than for services outside of domestic and international regulations where prices are set by the management on a basis, where applicable, similar to transactions with third parties.

Substantially all of the Group's operating assets are located and most of the services are provided in the Russian Federation.

Segment revenue is revenue that is directly attributable to a segment, whether from sales to external customers or from transactions with other segments. Segment revenue does not include:

- subsidies from federal and municipal budgets;
- interest income;
- foreign exchange gains;
- gain on disposals, changes in fair value and recoverable amounts of financial assets;
- gain on disposal of property, plant and equipment (PP&E);
- gain on disposal of assets held for sale;
- penalties charged to customers;
- gain on disposal of controlling interest in subsidiaries;
- other income.

Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments. Segment expense does not include:

- interest expense;
- foreign exchange losses;
- loss on disposals, changes in fair value and recoverable amounts of financial assets;
- loss on disposal of PP&E;
- loss on disposal of assets held for sale;
- loss on impairment of PP&E;
- contributions to trade union, membership in professional associations;
- bank charges;
- income tax expense;
- bad debt expense;
- social expenses;
- other expenses.

Segment result is measured as segment revenue less segment expense.

4. Segment Reporting (continued)

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

Year ended 31 December 2011

	RZD cargo	Long-distance passenger	Suburban passenger	Auxiliary operations	Subsidiaries cargo	All other segments	Eliminations (A)	Adjustments (B)	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Sales to third parties	948,373	170,562	12	110,661	169,294	116,536	–	(34,559)	1,480,879
Inter-segment sales	66,120	5,314	–	155,750	22,513	265,526	(515,223)	–	–
Total revenue	**1,014,493**	**175,876**	**12**	**266,411**	**191,807**	**382,062**	**(515,223)**	**(34,559)**	**1,480,879**
Wages, salaries and related contributions	(399,356)	(36,856)	(42)	(97,288)	–	–	–	**(61,029)**	(594,571)
Fuel	(61,879)	(1,143)	(10)	(10,244)	–	–	–	**(415)**	(73,691)
Electricity	(84,445)	(631)	(1)	(20,966)	–	–	–	**(283)**	(106,326)
Depreciation	(141,332)	(16,627)	(9)	(34,530)	–	–	–	**18,652**	(173,846)
Segment result	**72,812**	**(22,073)**	**(64)**	**(487)**	**56,577**	**25,658**	**(36,703)**	**172,682**	**268,402**

Year ended 31 December 2010

	RZD Cargo	Long-distance passenger	Suburban passenger	Auxiliary operations	Banking operations	Subsidiaries cargo	All other segments	Eliminations (A)	Adjustments (B)	Total	Discontinued operations (Note 15)	Continued activity
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Sales to third parties	881,339	156,930	13,799	81,038	31,630	124,226	109,202	–	(10,680)	1,387,484	31,630	1,355,854
Inter-segment sales	66,700	4,779	–	123,204	2,837	7,924	186,759	(392,203)	–	–	–	–
Total revenue	**948,039**	**161,709**	**13,799**	**204,242**	**34,467**	**132,150**	**295,961**	**(392,203)**	**(10,680)**	**1,387,484**	**31,630**	**1,355,854**
Wages, salaries and related contributions	(328,769)	(42,283)	(16,026)	(69,816)	–	–	–	–	(60,728)	(517,622)	(6,008)	(511,614)
Fuel	(44,822)	(2,265)	(1,315)	(5,871)	–	–	–	–	(3,501)	(57,774)	–	(57,774)
Electricity	(71,760)	(3,735)	(3,380)	(13,042)	–	–	–	–	(1,104)	(93,021)	–	(93,021)
Depreciation	(140,954)	(16,884)	(6,061)	(24,743)	–	–	–	–	25,359	(163,283)	(840)	(162,443)
Segment result	**145,898**	**(48,558)**	**(29,114)**	**20,787**	**8,755**	**36,431**	**18,575**	**(5,893)**	**152,441**	**299,322**	**19,491**	**279,831**

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

4. Segment Reporting (continued)

(B) The operating profit of each operating segment does not include the following adjustments representing differences between management accounts and consolidated financial statements for the years ended 31 December:

	2011	2010
	Rbls mln	*Rbls mln*
Reclassification of subsidies	(25,000)	–
Sale of metal scrap classified as other income	(8,701)	(5,038)
Sale of property, plant and equipment classified as other income	–	(6,075)
Adjustments to revenue on construction contract	–	4,348
Other adjustments to revenue	(858)	(3,915)
	(34,559)	**(10,680)**
PP&E adjustments (C)	134,577	129,068
Adjustments to bad debt expense	(8,756)	4,383
Additional long-term employee benefit obligations	(3,599)	(4,972)
Subsidies from federal and municipal budgets not included in segment results (Note 26)	61,150	82,304
Interest expense and similar items, net, not included in segment results (Note 29)	(3,693)	(8,315)
Changes in fair value and (loss) on disposal of financial assets not included in segment results (Note 30)	3,323	(14,562)
Foreign exchange gain, net, not included in segment results	(5,521)	(104)
Recovery of loss/(loss) on uncompleted construction contract (Note 25)	(6,675)	4,153
Commercial expenses	(4,201)	(6,299)
Bank charges (Note 28)	(3,528)	(1,617)
Impairment loss of investments in associates (Note 28)	(950)	(5,550)
Payments under collective agreement	(6,578)	(5,752)
Loss on impairment of property, plant and equipment	(8,481)	(3,919)
Provision for guarantees (Notes 19 and 28)	(2,680)	(766)
Penalties charged to customers (Note 27)	731	2,930
Contributions to trade union, membership in professional associations (Note 28)	(3,225)	(2,649)
Gain on disposal of assets held for sale (Note 27)	9,658	301
Social expenses	(10,733)	(8,143)
Gain on disposal of controlling interest in subsidiaries, net (Notes 5 and 15)	83,743	8,441
Other adjustments	(17,321)	(5,811)
Total adjustments to income before taxation	**172,682**	**152,441**

(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 consolidated financial statements prepared in accordance with IFRS.

5. Acquisitions, Disposals and Changes in Ownership Interests in Subsidiaries

Acquisitions in 2011

Acquisition of controlling interest in JSC Kedentransservice

In March 2011, the Group through its subsidiary, OJSC "TransContainer", acquired 67% of shares of JSC "Kedentransservice" ("Kedentransservice"), one of the leading private operators of railway terminals in Kazakhstan.

Total consideration payable for this acquisition amounts to US$ 68 million (Rbls 1,955 million at the exchange rate as at transaction date), of which US$ 64.5 million (Rbls 1,855 million at the exchange rate at the date of cash transfer) has been paid in 2011.

In March 2011, the Group also entered into a joint venture agreement with the second shareholder of Kedentransservice, which stipulates that after certain conditions are met, the second shareholder obtains a right to purchase a 17% interest in Kedentransservice from the Group. As at 31 December 2011, those specified conditions were not met.

The information about the fair values of identifiable assets and liabilities of Kedentransservice as at the date of acquisition is presented below:

	Fair value as recognised on acquisition
	Rbls mln
Intangible assets	545
Property, plant and equipment	2,336
Trade accounts receivable	177
Cash and cash equivalents	304
Other assets	149
Total assets	**3,511**
Long-term debt	323
Deferred tax liabilities	334
Trade and other payables	152
Other liabilities	107
Total liabilities	**916**
Net assets	**2,595**
Less non-controlling interest	*(856)*
Net assets acquired	**1,739**
Goodwill	216
Cost of acquisition	**1,955**

For the period from the date of acquisition to 31 December 2011, the revenue and income before taxation contributed to the Group by the acquired subsidiary were Rbls 1,507 million and Rbls 78 million, respectively. The non-controlling interest is measured at the proportionate share of the identifiable net assets of Kedentransservice at the date of acquisition.

5. Acquisitions, Disposals and Changes in Ownership Interests in Subsidiaries (continued)

Acquisitions in 2011 (continued)

Acquisition of controlling interest in OJSC "RZD Trading Company"

As at 31 December 2010, the Group's investment in OJSC "RZD Trading Company" was accounted for using equity method in accordance with IAS 28 *Investments in associates*.

In October 2011, OJSC "RZD Trading Company" repurchased 398 of 795 of its shares from shareholders for cash consideration of Rbls 1,174 million and decreased its share capital. As a result the Group's share in OJSC "RZD Trading Company" increased from 25% plus one share up to 50% plus one share and the Group obtained control over OJSC "RZD Trading Company".

The information about the fair values of identifiable assets and liabilities of OJSC "RZD Trading Company" as at the date of acquisition is presented below:

	Fair value as recognised on acquisition
	Rbls mln
Property, plant and equipment	1,520
Long-term loans provided	465
Inventory	1,276
Trade accounts receivable	17,421
Cash and cash equivalents	1,086
Other assets	254
Total assets	**22,022**
Long-term debt	910
Short-term debt	4,068
Trade and other payables	17,385
Other liabilities	9
Total liabilities	**22,372**
Net assets	**(350)**
Less non-controlling interest	*385*
Net assets acquired	**35**
Goodwill	137
Cost of acquisition (fair value of equity interest of the Group in OJSC "RZD Trading Company" at the date of acquisition)	**172**

The non-controlling interest is measured at the proportionate share of the identifiable net assets of OJSC "RZD Trading Company" at the date of acquisition.

Disposals in 2011

Loss of control over CJSC "Rusagrotrans"

As at 31 December 2010, CJSC "Rusagrotrans" was classified as a disposal group held for sale.

In March 2011, CJSC "Rusagrotrans" issued 870,000 thousand common shares with a par value of Rbls 1 each in favour of another shareholder in the course of private offering. As a result, the Group's interest in CJSC "Rusagrotrans" decreased from 51% to 46%.

5. Acquisitions, Disposals and Changes in Ownership Interests in Subsidiaries (continued)

Disposals in 2011 (continued)

As a result of the loss of control over CJSC "Rusagrotrans", a gain of Rbls 2,668 million was recognised in the consolidated income statement (Note 27).

The calculation of the gain on disposal of CJSC "Rusagrotrans" is presented in the table below:

	At the transaction date
	Rbls mln
Fair value of investment in associate	4,158
Carrying value of net assets disposed	(6,293)
Non-controlling interests	4,803
Gain on loss of control over CJSC "Rusagrotrans"	**2,668**

The carrying amounts and fair values of the identifiable assets and liabilities of CJSC "Rusagrotrans" as at the transaction date are as set out below:

	Carrying amount at the transaction date	**Fair value at the transaction date**
	Rbls mln	*Rbls mln*
Total assets	7,794	11,518
Total liabilities	(1,501)	(1,964)
Total identifiable net assets	**6,293**	**9,554**
Share of the Group in net assets of associate		4,366
Fair value of 46% retained interest in associate		(4,158)
Excess of the Group's share in net fair value of identifiable assets and liabilities of associate over fair value of investment		**208**

In December 2011, the remaining stake in CJSC "Rusagrotrans" was disposed of as a result of the disposal of controlling interest in OJSC "Freight One".

Disposal of controlling interest in OJSC "Freight one"

In 2011, the Company sold 75% less two shares of OJSC "Freight One" through the open tender for cash consideration of Rbls 125,500 million. In December 2011, the Group's interest in OJSC "Freight One" decreased to 25% plus two shares and the Group lost control over OJSC "Freight One". Consequently, the Group also lost significant influence over CJSC "Rusagrotrans", a 46% associate of OJSC "Freight One". As a result of the disposal of controlling interest in OJSC "Freight One", a gain of Rbls 86,529 million was recognised in the consolidated income statement within *Gain on disposal of controlling interest in subsidiaries, net*.

5. Acquisitions, Disposals and Changes in Ownership Interests in Subsidiaries (continued)

Disposals in 2011 (continued)

The calculation of the gain on disposal of controlling interest in OJSC "Freight One" is presented in the table below:

	At the transaction date
	Rbls mln
Proceeds from disposal	125,500
Investment in associate OJSC "Freight One" at fair value (Note 6)	41,615
Carrying value of net assets disposed	(80,586)
Gain on disposal of controlling interest in OJSC "Freight One"	**86,529**

As at 31 December 2011, the Group's retained investment in OJSC "Freight One" is accounted for using equity method in accordance with IAS 28 *Investments in associates* (Note 6).

Other disposals

In December 2011, the Group sold its share of 100% less one share in OJSC "Barnaulskiy vagonoremontniy zavod" and 100% equity stake of OJSC "Roslavlskiy vagonoremontniy zavod" for cash consideration of Rbls 1,250 million and Rbls 2,450 million, respectively.

In the second half of 2011, the Group's share in OJSC "TGC-14" decreased to 39.8% through the loans settlement. As a result, and in the course of implementation of the Company's plans regarding the divestment of auxiliary businesses, the disposed stake was transferred to a related party of the Group. The retained investment in OJSC "TGC-14" was recognized at its fair value at the date when control was lost in the amount of Rbls 331 million.

During 2011 the Group sold 1,184,467 common shares of its subsidiary OJSC "Elteza" to BT Signaling B.V. for cash consideration of Rbls 1,992 million. As a result, the Group's interest in OJSC "Elteza" decreased to 50% plus one share.

Disposals in 2010

Sale of non-controlling interest in OJSC "Transcontainer"

In November 2010, the Company sold a 35% less two shares equity stake in TransContainer through an IPO with a listing of global depositary receipts in respect of its ordinary shares on the London Stock Exchange and a listing of its ordinary shares on Russian stock exchanges. This was the first such offering of shares in a subsidiary of the Company and is a key part of the on-going Russian rail industry reform. The Company received approximately US$ 388 million (Rbls 11,952 million at the exchange rate as at the date of cash receipt) from the IPO. As a result, the Group's interest in the share capital of TransContainer decreased to 50% plus three shares.

5. Acquisitions, Disposals and Changes in Ownership Interests in Subsidiaries (continued)

Disposals in 2010 (continued)

Transfer of control over OJSC "TransCreditBank"

On 31 December 2010, the Company lost control over OJSC "TransCreditBank" based on the potential voting rights existing on that date. Accordingly, assets and liabilities of OJSC "TransCreditBank" were not included in the consolidated statement of financial position as at 31 December 2010, results of operations and cash flows were consolidated up to the date when control was lost.

Respectively the Group derecognized assets and liabilities of OJSC "TransCreditBank" at their carrying amounts of Rbls 392,684 million and Rbls 363,333 million, respectively, as at 31 December 2010. The Group also derecognized the carrying amount of non-controlling interest of OJSC "TransCreditBank" in the amount of Rbls 13,664 million. Investment retained in the OJSC "TransCreditBank" was recognized at its fair value at the date when control was lost and accounted for in accordance with IAS 28 *Investments in Associates* (refer to Note 6). The Group concluded that potential voting rights existing on 31 December 2010 did not result in loss of access to economic benefits and thus investment in this associate was recognized based on current ownership interest of 54.39%. The Group reclassified the amounts recognized in other comprehensive income in relation to OJSC "TransCreditBank" on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

The calculation of the gain on loss of control over OJSC "TransCreditBank" is presented in the table below:

	31 December 2010
	Rbls mln
Goodwill	(1,273)
Investment in associate OJSC "TransCreditBank" at fair value (Note 6)	25,401
Net assets disposed	(29,351)
Non-controlling interests disposed	13,664
Gain on loss of control over subsidiary	**8,441**

6. Investments in Associates

Investments in associates as at 31 December 2011 and 31 December 2010 comprised the following:

	31 December 2011	**31 December 2010**
	Rbls mln	*Rbls mln*
OJSC "Freight One"	41,615	–
The Breakers Investments B.V. (CJSC "TransMashHolding")	9,383	8,239
OJSC "TransCreditBank"	–	25,401
OJSC "Moscow Rail Ring"	2,505	–
OJSC "Central exurban passenger company"	2,295	–
Other	2,429	2,403
	58,227	**36,043**

6. Investments in Associates (continued)

OJSC "Freight One"

In December 2011, the Group lost control over OJSC "Freight One" (Note 5). The Group's retained 25% interest in OJSC "Freight One" was recognized at its fair value at the date when control was lost and accounted for in accordance with IAS 28 *Investments in associates*. The management assessed that goodwill related to this transaction amounted to Rbls 7,560 million.

The following table presents summarised financial information for OJSC "Freight One" as at 31 December 2011:

	31 December 2011
Share of the associate's:	
Non-current assets	37,867
Current assets	6,054
Non-current liabilities	(5,918)
Current liabilities	(3,948)
Net assets	**34,055**

The Breakers Investments B.V. (CJSC "TransMashHolding")

The following table presents summarized financial information for the Breakers Investments B.V. as at 31 December 2011 and 31 December 2010:

	31 December 2011	**31 December 2010**
	Rbls mln	*Rbls mln*
Share of the associate's:		
Non-current assets	9,657	8,744
Current assets	12,274	10,321
Non-current liabilities	(3,929)	(2,725)
Current liabilities	(8,526)	(8,008)
Net assets	**9,476**	**8,332**
Share of the associate's revenue	26,566	19,358
Share of the associate's net income	1,501	1,279
Dividends declared	(357)	–
Carrying amount of investment	**9,383**	**8,239**

6. Investments in Associates (continued)

OJSC "TransCreditBank"

During 2011, the Group completed its initial accounting for the retained interest in this associate. As a result, provisional fair values reported in the Group's annual financial statements as at and for the year ended 31 December 2010 were restated as follows:

	Final estimation of fair values as at 31 December 2010	**Provisional fair values as at 31 December 2010**
	Rbls mln	*Rbls mln*
Share of the associate's:		
Total assets	215,572	213,581
Total liabilities	(198,898)	(197,348)
Non-controlling interest	(269)	(269)
Net assets	**16,405**	**15,964**

Upon completion of initial accounting for this acquisition, the management assessed that goodwill related to this transaction amounted to Rbls 8,996 million.

In July 2011, the Company signed an agreement to sell its entire equity stake in OJSC "TransCreditBank" to OJSC "VTB Bank". The sale is executed in two stages. The first stage was completed in July 2011. The Company sold 29.39% of its interest in the share capital of OJSC "TransCreditBank" for cash consideration of Rbls 16,399 million and recognized a gain from decrease in equity interest in associate in amount of Rbls 1,628 million in the consolidated income statement within *Other income.*

At the second stage the remaining stake of 25% plus one share will be sold during the period starting from the fourth quarter of 2012 until the end of 2013. As a result, the Group's remaining interest in OJSC "TransCreditBank" was classified as asset held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (Note 15).

The Group's share in the revenue and net income of OJSC "TransCreditBank" for 2011 until the classification as an asset held for sale amounted to Rbls 15,183 million and Rbls 2,359 million, respectively.

OJSC "Moscow Rail Ring"

In June 2011, the Company established OJSC "Moscow Rail Ring". The Company's interest in OJSC "Moscow Rail Ring" amounts to 50%. Contribution to the share capital was made in cash and amounted to Rbls 5 million. In December 2011, the share capital of OJSC "Moscow Rail Ring" was increased by Rbls 5,000 million. Additional share issue was purchased by existing shareholders proportionally to their interest in OJSC "Moscow Rail Ring". As a result the carrying value of the Group's investment in this associate increased to Rbls 2,505 million.

6. Investments in Associates (continued)

OJSC "KIT Finance Investment Bank"

In December 2008, the Group acquired significant influence over LLC "KIT Finance Holding Company" (45% interest), OJSC "KIT Finance Investment Bank" (45% interest) and LLC "Web-invest.ru" (45% interest) for nominal consideration of Rbls 45 each.

In January 2011, the Group has lost significant influence over OJSC "KIT Finance Investment Bank" as a result of additional issue of shares in favor of shareholders other than the Group.

The Group's interest retained in OJSC "KIT Finance Investment Bank" decreased to 19% (31 December 2010: 27%). The Group's retained investment was recognised at its fair value of Rbls 908 million at the date of loss of significant influence and accounted for as a financial asset available-for-sale in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

On the loss of significant influence, other comprehensive income previously recognised in the amount of Rbls 1,352 million and attributable to OJSC "KIT Finance Investment Bank", was reclassified from equity to the consolidated income statement. As a result of the loss of significant influence, a gain of Rbls 2,260 million was recognized by the Group within *Other income* (Note 27).

7. Property, Plant and Equipment

Property, plant and equipment as at 31 December 2011 and 31 December 2010 comprised the following:

31 December 2011

Gross book value	**Balance as at 1 January 2011**	**Additions**	**Disposals**	**Transfers**	**Additions through business combina-tions**	**Disposal of subsidiaries**	**Balance as at 31 December 2011**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Land	**9,288**	259	(230)	–	–	(6)	**9,311**
Buildings	**289,266**	1,954	(3,623)	28,313	1,535	(3,235)	**314,210**
Constructions	**1,129,786**	8,868	(12,827)	74,708	–	(790)	**1,199,745**
Roadbed	**344,363**	1,982	(1,646)	27,463	–	–	**372,162**
Superstructure	**638,682**	53,648	(47,357)	47,354	–	–	**692,327**
Operating equipment	**467,687**	497	(11,470)	74,813	154	(4,145)	**527,536**
Locomotives	**291,846**	3,561	(11,057)	47,832	–	–	**332,182**
Rolling stock, cargo	**244,000**	5,943	(14,346)	32,920	528	(98,595)	**170,450**
Rolling stock, passenger	**283,689**	4,427	(6,677)	14,920	–	–	**296,359**
Other fixed assets	**130,585**	1,507	(4,192)	15,402	419	(437)	**143,284**
Construction-in-progress	**371,847**	465,119	(3,319)	(363,725)	1,389	(6,875)	**464,436**
Total	**4,201,039**	**547,765**	**(116,744)**	**–**	**4,025**	**(114,083)**	**4,522,002**

7. Property, Plant and Equipment (continued)

Accumulated depreciation

	Balance as at 1 January 2011	Depreciation charge for the period	Accumulated depreciation on disposals	Disposal of subsidiaries	Balance as at 31 December 2011
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Land	–	–	–	–	–
Buildings	(100,320)	(5,537)	1,258	(1)	**(104,600)**
Constructions	(542,277)	(26,026)	11,564	71	**(556,668)**
Roadbed	(164,890)	(3,607)	1,612	–	**(166,885)**
Superstructure	(358,253)	(38,953)	36,302	–	**(360,904)**
Operating equipment	(222,948)	(46,975)	8,145	1,479	**(260,299)**
Locomotives	(137,776)	(12,905)	10,344	–	**(140,337)**
Rolling stock, cargo	(127,734)	(15,593)	12,860	27,225	**(103,242)**
Rolling stock, passenger	(158,160)	(12,004)	6,162	–	**(164,002)**
Other fixed assets	(47,548)	(8,064)	2,766	80	**(52,766)**
Impairment	(2,331)	–	–	–	**(2,331)**
Total	**(1,862,237)**	**(169,664)**	**91,013**	**28,854**	**(1,912,034)**

During 2011, the Group recognised impairment loss of Rbls 10,068 million (2010: Rbls 5,863 million) for individual items of PP&E on the basis of management's assessment of probability of future sale or use of PP&E and construction-in-process projects, including impairment of Rbls 6,452 million on construction in progress and PP&E items related to construction in Libya. Impairment loss on assets in Libya was recognized by the Group taking into account adverse effects of civil war in Libya and in the absence of reliable information about assets condition as of 31 December 2011 (as described also in Notes 10,11,13 and 14).

31 December 2010 as restated

	Balance as at 1 January 2010	Additions	Disposals	Transfers	Disposal of subsidiaries	Transfer to assets classified as held for sale	Balance as at 31 December 2010
Gross book value	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Land	8,872	674	(206)	-	(2)	(50)	**9,288**
Buildings	270,890	2,313	(2,184)	24,469	(5,563)	(659)	**289,266**
Constructions	1,074,199	8,374	(9,502)	56,781	-	(66)	**1,129,786**
Roadbed	333,038	3,610	(3,994)	11,709	-	-	**344,363**
Superstructure	600,880	49,982	(46,418)	34,272	-	(34)	**638,682**
Operating equipment	421,200	605	(7,222)	55,622	(2,442)	(76)	**467,687**
Locomotives	258,084	5,200	(5,541)	34,103	-	-	**291,846**
Rolling stock, cargo	246,051	3,148	(14,723)	23,929	-	(14,405)	**244,000**
Rolling stock, passenger	266,917	3,853	(2,916)	15,835	-	-	**283,689**
Other fixed assets	114,245	16	(2,079)	18,576	(77)	(96)	**130,585**
Construction-in-progress	246,833	404,816	(3,738)	(275,296)	(742)	(26)	**371,847**
Total	**3,841,209**	**482,591**	**(98,523)**	**-**	**(8,826)**	**(15,412)**	**4,201,039**

7. Property, Plant and Equipment (continued)

Accumulated depreciation	**Balance as at 1 January 2010** *Rbls mln*	**Depreciation charge for the period** *Rbls mln*	**Transfer to assets classified as held for sale** *Rbls mln*	**Accumulated depreciation on disposals** *Rbls mln*	**Disposal of subsidiaries** *Rbls mln*	**Balance as at 31 December 2010** *Rbls mln*
Land	–	–	–	–	–	–
Buildings	(96,337)	(5,418)	262	733	440	**(100,320)**
Constructions	(526,899)	(24,252)	38	8,836	–	**(542,277)**
Roadbed	(164,597)	(3,211)	–	2,918	–	**(164,890)**
Superstructure	(359,981)	(37,131)	26	38,833	–	**(358,253)**
Operating equipment	(188,828)	(42,410)	33	6,832	1,425	**(222,948)**
Locomotives	(131,755)	(11,359)	–	5,338	–	**(137,776)**
Rolling stock, cargo	(137,758)	(14,416)	10,934	13,506	–	**(127,734)**
Rolling stock, passenger	(150,558)	(10,147)	–	2,545	–	**(158,160)**
Other fixed assets	(39,661)	(9,443)	–	1,546	10	**(47,548)**
Impairment	(2,331)	–	–	–	–	**(2,331)**
Total	**(1,798,705)**	**(157,787)**	**11,293**	**81,087**	**1,875**	**(1,862,237)**

Net book value	**Balance as at 31 December 2011** *Rbls mln*	**Balance as at 31 December 2010, as restated** *Rbls mln*	**Balance as at 1 January 2010, as restated** *Rbls mln*
Land	9,311	9,288	8,872
Buildings	209,610	188,946	174,553
Constructions	643,077	587,509	547,300
Roadbed	205,277	179,473	168,441
Superstructure	331,423	280,429	240,899
Operating equipment	267,237	244,739	232,372
Locomotives	191,845	154,070	126,329
Rolling stock, cargo	67,208	116,266	108,293
Rolling stock, passenger	132,357	125,529	116,359
Other fixed assets	90,518	83,037	74,584
Construction-in-progress	464,436	371,847	246,833
Impairment	(2,331)	(2,331)	(2,331)
Total	**2,609,968**	**2,338,802**	**2,042,504**

Property, plant and equipment as at 31 December 2011, 2010 and 2009 include borrowing costs incurred in connection with the construction of certain PP&E. Borrowing costs capitalized as PP&E during 2011 using a capitalization rate of 10.1% amounted to Rbls 27,209 million (2010: Rbls 28,175 million using capitalization rate of 10.3%, 2009: Rbls 20,348 million using capitalization rate of 9.2%).

As at 31 December 2011, government financing received by the Company amounted to Rbls 3,225, million (2010: Rbls 1,708 million, 2009: Rbls 1,423 million) related to the acquisition of PP&E.

7. Property, Plant and Equipment (continued)

Leased assets as at 31 December 2011 and 2010 included above, where the Group is a lessee under a finance lease comprised the following:

	2011	2010
	Rbls mln	*Rbls mln*
Cost – capitalized finance leases	43,318	98,915
Accumulated depreciation	(8,846)	(15,459)
Net book value	**34,472**	**83,456**

Included in leased assets above are assets with the aggregate cost of Rbls 27,019 million as at 31 December 2011 (2010: Rbls 72,643 million), which were obtained from related parties (Note 32). Refer to Note 21 for further details regarding finance leases.

8. Intangible assets other than goodwill

Intangible assets other than goodwill as at 31 December 2011 and 31 December 2010 comprised the following:

31 December 2011

	Balance as at 1 January 2011	Additions	Additions relating to acquisition of subsidiaries	Transfer	Disposals	Balance as at 31 December 2011
Gross book value	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Software	21,025	2,797	–	1,839	(5,512)	20,149
Other intangible assets	10,103	2,723	724	578	(1,607)	12,521
Intangible assets under development	1,969	3,026	–	(2,417)	(28)	2,550
Total	**33,097**	**8,546**	**724**	**–**	**(7,147)**	**35,220**

	Balance as at 1 January 2011	Amortization charge for the year	Accumulated amortization on disposals	Balance as at 31 December 2011
Accumulated amortization	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Software	(8,808)	(2,528)	5,143	**(6,193)**
Other intangible assets	(3,384)	(2,051)	1,312	**(4,123)**
Total	**(12,192)**	**(4,579)**	**6,455**	**(10,316)**

8. Intangible assets other than goodwill (continued)

31 December 2010 as restated

	Balance as at 1 January 2010	Additions	Disposal of subsidiary	Transfer	Disposals	Balance as at 31 December 2010
Gross book value	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Software	16,957	2,910	–	1,211	(53)	**21,025**
Other intangible assets	11,652	2,773	(2,600)	848	(2,570)	**10,103**
Intangible assets under development	2,268	1,855	–	(2,059)	(95)	**1,969**
Total	**30,877**	**7,538**	**(2,600)**	**–**	**(2,718)**	**33,097**

	Balance as at 1 January 2010	Amortization charge for the year	Accumulated amortization on disposals	Disposal of subsidiary	Balance as at 31 December 2010
Accumulated amortization	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Software	(5,722)	(3,139)	53	–	**(8,808)**
Other intangible assets	(4,298)	(2,357)	2,430	841	**(3,384)**
Total	**(10,020)**	**(5,496)**	**2,483**	**841**	**(12,192)**

	Balance as at 31 December 2011	Balance as at 31 December 2010
Net book value	*Rbls mln*	*Rbls mln*
Software	13,956	12,217
Other intangible assets	8,398	6,719
Intangible assets under development	2,550	1,969
Total	**24,904**	**20,905**

9. Other Financial Assets

Other financial assets as at 31 December 2011 and 31 December 2010 comprised the following:

Current

	31 December 2011	31 December 2010
	Rbls mln	*Rbls mln*
Bank deposits (A)	4,233	11,559
Loans issued to legal entities, net of impairment (B)	4,661	2,899
Other	21	400
Total other current financial assets	**8,915**	**14,858**

(A) Bank deposits as at 31 December 2011 included short-term deposits of Rbls 2,728 million placed with the OJSC "TransCreditBank" (2010: Rbls 11,559 million).

9. Other Financial Assets (continued)

Non-current

	31 December 2011		
	Cost	**Impairment**	**Carrying value**
	Rbls mln	*Rbls mln*	*Rbls mln*
Bank deposits, including interest accrued	3,000	–	3,000
Loans issued to legal entities, net of impairment (B)	11,410	(236)	11,174
Other	14,890	(3,791)	11,099
Total other non-current financial assets	**29,300**	**(4,027)**	**25,273**

	31 December 2010		
	Cost	**Impairment**	**Carrying value**
	Rbls mln	*Rbls mln*	*Rbls mln*
Bank deposits, including interest accrued	3,714	–	3,714
Loans issued to legal entities, net of impairment (B)	13,880	(552)	13,328
Other	3,170	(382)	2,788
Total other non-current financial assets	**20,764**	**(934)**	**19,830**

(B) As at 31 December 2011, short-term and long-term loans to legal entities included loans to OJSC "KIT Finance Investment bank" (refer to Note 6) in the amount of 3,000 (2010: Rbls 2,500 million) and Rbls 10,344 million (2010: Rbls 11,698 million), respectively.

10. Other Non-Current Assets

Other non-current assets as at 31 December 2011 and 31 December 2010 comprised the following:

	31 December 2011	**31 December 2010**
	Rbls mln	*Rbls mln*
Advances, issued for projects in Libya (A)	1,045	7,728
Long-term real estate projects (B)	6,451	8,886
Other	2,883	4,466
Total	**10,379**	**21,080**
Less impairment	(2,030)	(3,760)
Total other non-current assets	**8,349**	**17,320**

(A) In 2011, the Group recognized impairment of advances issued for projects in Libya in the amount of Rbls 1,045 million taking into account uncertainties existing as to whether the project for construction in Libya will be continued (see also Notes 7, 11, 13 and 14).

(B) Long-term real estate projects as at 31 December 2011 and 31 December 2010 represent projects, which will be sold in the normal course of business, and for which management assessed the period of realization to exceed twelve-month period after the reporting date. Prepayments received from buyers in respect of these projects in amount of Rbls 2,479 million (2010: Rbls 2,574 million) are included in other non-current liabilities (Note 18).

11. Inventories

Inventories as at 31 December 2011 and 31 December 2010 comprised the following:

	31 December 2011	31 December 2010
	Rbls mln	*Rbls mln*
Raw materials	37,371	30,920
Spare parts and construction materials	51,768	43,886
Fuel and lubricants	10,191	7,253
Merchandise inventories	1,410	5,017
Other	15,099	8,988
Total	**115,839**	**96,064**
Less: provision for obsolete and damaged inventory	(4,733)	(3,676)
Total inventories, net	**111,106**	**92,388**

Taking into account adverse effects of civil war in Libya and the absence of reliable information about assets condition as at 31 December 2011 (as described also in Notes 7, 10, 13 and 14), inventories related to Libyan construction project of Rbls 1,407 million were written off to the net realizable value which is estimated to be nil.

12. Prepayments and Other Current Assets

Prepayments and other current assets as at 31 December 2011 and 31 December 2010 comprised the following:

	31 December 2011	31 December 2010
	Rbls mln	*Rbls mln*
Input VAT	14,352	14,874
Less: impairment (A)	(911)	(1,171)
	13,441	**13,703**
Advances paid to suppliers	11,594	13,482
Less: impairment	(1,791)	(3,419)
	9,803	**10,063**
Prepaid other taxes	11,450	13,082
Other current assets	1,949	3,539
Total prepayments and other current assets	**36,643**	**40,387**

(A) 100% allowance for impairment was recognized by the Group as at 31 December 2011 and 31 December 2010 with respect to input VAT related to abandoned construction projects.

13. Receivables

Receivables as at 31 December 2011 and 31 December 2010 comprised the following:

	31 December 2011	31 December 2010
	Rbls mln	*Rbls mln*
Receivables for transportation services, net (A)	5,833	8,188
Other accounts receivable, net (B)	38,997	40,146
Total receivables	**44,830**	**48,334**

(A) Receivables for transportation services as at 31 December 2011 and 31 December 2010 comprised the following:

	31 December 2011	31 December 2010
	Rbls mln	*Rbls mln*
Receivables for transportation services	31,888	27,123
Less: allowance for impairment	(26,055)	(18,935)
Total receivables for transportation services	**5,833**	**8,188**

(B) Other accounts receivable as at 31 December 2011 and 31 December 2010 comprised the following:

	31 December 2011	31 December 2010
	Rbls mln	*Rbls mln*
Other accounts receivable	43,973	43,976
Less: allowance for impairment	(4,976)	(3,830)
Total other accounts receivable	**38,997**	**40,146**

As at 31 December 2011, an uncertainty exists as to whether the Group's project for construction of a railway between Sirt and Benghazi in Libya will be continued (as described also in Notes 7, 10, 11 and 14). The management believes that the outcome of respective contract cannot be reliably estimated and as such, collectability of the amounts already included in contract revenue is less than probable. Respectively, receivables of Rbls 6,675 million due from Libyan counterparty as at 31 December 2010 were recognized as expense in the consolidated income statement for the year ended 31 December 2011 (Note 25).

14. Cash and Cash Equivalents

Cash and cash equivalents as at 31 December 2011 and 31 December 2010 comprised the following:

	31 December 2011	31 December 2010
	Rbls mln	*Rbls mln*
Cash in Russian Rubles	55,816	26,610
Bank deposits and other cash equivalents in local currencies	160,603	71,092
Cash in foreign currencies (primarily in US Dollars, Euro) (A)	1,967	2,308
Total cash and cash equivalents presented in the statement of Financial position	**218,386**	**100,010**
Cash and cash equivalents attributable to assets classified as held for sale	–	346
Total cash and cash equivalents presented in the statement of cash flow	**218,386**	**100,356**

(A) The amount reported does not include cash denominated in Libyan dinars placed on bank accounts in Libyan banks in the amount of Rbls 1,323 million (2010: Rbls 866 million) which was written off by the Group taking into account adverse effects of civil war in Libya and the absence of reliable information about assets condition as at 31 December 2011 (as described also in Notes 7, 10, 11 and 13).

15. Discontinued Operations and Assets Classified as Held for Sale

Assets classified as held for sale as at 31 December 2011 included rolling stock and other property, plant and equipment in the amount of Rbls 686 million (2010: Rbls 2,132 million).

OJSC "TransCreditBank"

On 31 December 2010, the Group transferred control over OJSC "TransCreditBank" to a related party (Note 5) and classified it as a discontinued operation. Results of OJSC "TransCreditBank" for the year ended 31 December 2010 are presented below:

	2010
	Rbls mln
Revenue	31,630
Expenses	(21,018)
Gross Profit	**10,612**
Other non-operating gains	438
Gain on loss of control over OJSC "TransCreditBank" (Note 5)	8,441
Income before taxation from discontinued operations	**19,491**
Income tax expense	(6,322)
Net income for the period from discontinued operations	**13,169**

15. Discontinued Operations and Assets Classified as Held for Sale (continued)

OJSC "TransCreditBank" (continued)

The net cash outflow incurred by OJSC "TransCreditBank" is as follows:

	2010
	Rbls mln
Operating	(42,935)
Investing	(208)
Financing	8,609
Net cash (outflow)	**(34,534)**

In July 2011, the Company sold 29.39% interest in OJSC "TransCreditBank" to OJSC "VTB Bank" and the sale of remaining stake of 25% plus one share will be completed during the period starting from the fourth quarter of 2012 until the end of 2013 (Note 6). As a result, the Group's remaining interest in OJSC "TransCreditBank" was classified as asset held for sale in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations*.

At the date of initial classification as asset held for sale, this investment was recognized at its carrying value of Rbls 12,893 million being the lower of the carrying amount and fair value less cost to sell. As at 31 December 2011, no impairment was identified.

Included in assets held for sale and related liabilities as at 31 December 2010 are assets and liabilities of CJSC "Rusagrotrans" in the amount of Rbls 6,065 million and Rbls 679 million, respectively.

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

Taxes and similar charges payable (other than income tax) as at 31 December 2011 and 31 December 2010 comprised the following:

	31 December 2011	**31December 2010**
	Rbls mln	*Rbls mln*
Settlement with social funds	16,227	13,393
VAT	3,934	7,231
Property tax	6,627	6,965
Personal income tax	4,256	3,819
Other tax	784	938
Total taxes and similar charges payable (other than income tax)	**31,828**	**32,346**

17. Long-Term and Short-Term Borrowings

The outstanding balances of short-term and long-term borrowings as at 31 December 2011 and 31 December 2010 comprised the following:

31 December 2011	Original currency	Principal amount in original currency	Interest rate	Maturity of non-current portion	Current	Non-current
		mln			*Rbls mln*	*Rbls mln*
Short-term bank loans						
Fixed rates						
Other banks (A)	RUR	84,701	5.85%-13.5%		84,701	–
Variable rates						
LIBOR+	CHF	100	1.6%		3,301	–
EURIBOR+	EUR	2	0.2%		64	–
Long-term bank loans						
Fixed rates						
Other banks (D)	RUR	6,815	8.25%-15%	2013-2021	2,407	4,408
Deposit Insurance Agency	RUR	17,000	6.50%	2014	3,000	12,136
Other banks	USD	250	7.50%	2013	–	8,040
Variable rates						
MosPrime+	RUR	1,303	2.85%-5.25%	2014	303	1,000
EURIBOR+	EUR	265	0.09%-0.8%	2014-2020	1,544	9,173
LIBOR+						
WEST LB (B)						
Tranche B	USD	385	0.75%	2013	7,083	5,280
Other banks	USD	44	2.45%-4.5%	2013	875	528
Debt securities issued						
Bonds (C)	RUR	178,139	0.1%-15%	2013-2025	53,279	124,477
Loan participation notes (E)	USD	1,500	5.739%	2017	–	48,170
Loan participation notes (E)	GBP	650	7.487%	2031	–	32,192
Other borrowings (G)	Other		0%-20%	2013-2021	4,197	1,088
Total					**160,754**	**246,492**

17. Long-Term and Short-Term Borrowings (continued)

31 December 2010	Original currency	Principal amount in original currency	Interest rate	Maturity of non-current portion	Current	Non- current
		mln			*Rbls mln*	*Rbls mln*
Short-term loans from banks						
Fixed rates						
Other banks	RUR	4,815	6.5%-18%		4,815	–
Other banks	EUR	2	3%		75	–
Variable rates						
MosPrime+	RUR	47	2.3%		47	–
LIBOR +	USD	1	2.3%		23	–
Long-term loans from banks						
Fixed rates						
Other banks (D)	RUR	2,875	9%-12%	2012-2015	2,251	624
Deposit Insurance Agency	RUR	19,500	6.50%	2014	2,500	14,419
Other banks	USD	250	7.50%	2013	–	7,596
Variable rates						
MosPrime+	RUR	1,407	4.4%-5.25%	2012	1,107	300
EURIBOR+	EUR	307	0.09%-0.8%	2012-2020	1,619	10,378
LIBOR+						
WEST LB (B)						
Tranche A	USD	220	0.55%		6,619	–
Tranche B	USD	550	0.75%	2012-2013	5,029	11,630
EBRD	USD	142	3%-3.5%	2012-2019	760	3,349
Other banks	USD	36	4.5%	2013	25	1,082
CBR+						
Other banks (F)	RUR	2,583	2.5%	2016	432	2,151
Debt securities issued						
Bonds (C)	RUR	197,803	7.55%-17.5%	2012-2025	74,341	121,682
Loan Participation Notes (E)	USD	1,500	5.739%	2017	–	45,583
Promissory notes	RUR	321	0%-20%		321	–
Other borrowings (G)	*Other*		2%-20%	2012-2019	4,257	33
Total					**104,221**	**218,827**

(A) In October – December 2011 the Group has obtained an unsecured short-term loan, denominated in rubles, from JSC "VTB Bank" in the amount of Rbls 80,000 million, which was fully repaid in March 2012.

(B) In April 2008 the Group obtained a US dollar denominated unsecured loan from a consortium of international banks led by West LB. The loan bears interest calculated as LIBOR plus 0.55% for Tranche A and LIBOR plus 0.75% for Tranche B. The Company signed cross-currency and interest rate SWAP agreements with LLC "J.P. Morgan Bank International" and Morgan Stanley banks for the full amount of the loan. Tranche A was fully repaid in February 2011.

17. Long-Term and Short-Term Borrowings (continued)

(C) Bonds, outstanding as at 31 December 2011, comprised series of bonds with face value of Rbls 1 thousand with a coupon rate varying from 0.1% to 15% per annum and maturity varying from 2012 to 2025. (2010: coupon rate varying from 7.55% to 17.5% p.a. and maturity varying from 2011 to 2025). 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 31 December 2011. The bonds of Rbls 30,732 million were classified as current as at 31 December 2011 (31 December 2010: Rbls 54,533 million).

In May 2011 the Group reissued bonds series 9 at 100.15% above par (with total proceeds of Rbls 14,937 million) and series 11 at 101.20% above par (with total proceeds of Rbls 11,754 million), previously bought back in 2010 under the put options granted to the bondholders at Rbls 14,915 million and Rbls 11,615 million, respectively. As at 31 December 2011, the outstanding principal amounts of bonds series 9 and 11 comprised Rbls 15,000 million and Rbls 15,000 million, respectively.

(D) Other ruble denominated long-term loans as at 31 December 2010 primarily comprised loans obtained from OJSC "Sviaz-Bank". The total amount of these long-term loans as at 31 December 2011 comprised mainly loans obtained from OJSC "Gazprombank" in the amount of Rbls 2,855 million, OJSC "Alfa-Bank" in the amount of Rbls 2,323 million, OJSC "Sviaz-Bank" in the amount of Rbls 750 million and OJSC "Sberbank of Russia" in the amount of Rbls 450 million.

(E) In April 2010, the Group placed Loan Participation Notes at Irish Stock Exchange with the nominal value of US$ 1.5 billion (Rbls 48,294 million at the exchange rate as at 31 December 2011) with the maturity of 7 years and initial coupon rate 5.739%. The Group signed cross currency (US Dollar to Swiss Franc) and interest rate SWAP agreements with CJSC "BNP Paribas", LLC "J.P. Morgan Bank International", OJSC "VTB Bank" and LLC "Goldman Sachs Bank" for the full amount of Loan Participation Notes.

In March (initial issue) and in June 2011 (additional issue) the Group placed Loan Participation Notes at the Irish Stock Exchange with an aggregate nominal value of GBP 650 million (Rbls 32,262 million at exchange rate as at 31 December 2011) with the maturity of 20 years and coupon rate 7.487%. The Group has signed cross currency (Pound Sterling to Swiss Franc) and interest rate SWAP agreements with OJSC "Rosbank", LLC "J.P.Morgan Bank International" and OJSC "VTB Bank" for the full amount of Loan Participation Notes.

(F) Long-term loans from other banks as at 31 December 2010 include a loan in the amount of Rbls 2,583 million, secured by Group's rolling stock with a carrying value of Rbls 2,423 million. In February 2011 the Group early repaid this loan.

(G) Included in the amount of other borrowings as at 31 December 2011 are several borrowings in the aggregate amount of Rbls 3,000 million secured by the shares of OJSC "TGC-14" comprising 39.8 % of its share capital.

18. Other Non-Current Liabilities

Other Non-Current Liabilities as at 31 December 2011 and 31 December 2010 comprised:

	31 December 2011	31 December 2010
	Rbls mln	*Rbls mln*
Advances received for long-term construction contract (A)	–	12,649
Advances received for real-estate projects	2,479	2,574
Liabilities under service concession agreement	1,339	1,344
Other	778	421
Total other non-current liabilities	**4,596**	**16,988**

(A) Taking into account uncertainty regarding continuance of the Group's project for construction of railway between Sirt and Benghazi in Libya, the Group derecognized advances received for long-term construction contract and recognized current liabilities in the total amount of advances received (Note 19).

19. Provisions and Other Current Liabilities

Provisions and other current liabilities as at 31 December 2011 and 31 December 2010 comprised the following:

	31 December 2011	31 December 2010
	Rbls mln	*Rbls mln*
Settlements with employees	48,437	42,926
Provision for tax liabilities	17,375	22,439
Current liabilities under construction contract (Note 18)	15,162	–
Accrued interest on loans	7,000	6,487
Provision for guarantees (A)	3,446	766
Provision for legal claims	2,447	1,915
Other liabilities	8,820	9,364
Total provisions and other current liabilities	**102,687**	**83,897**

The movements of provisions and current liabilities under construction contract for the year ended 31 December 2011 were as follows:

	Tax liabilities	Legal claims	Provision for Guarantees (A)	Current liabilities under construction contract
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
As at 1 January 2011	**22,439**	**1,915**	**766**	**–**
Arising during the reporting period	3,651	1,800	2,680	15,162
Utilised	–	(289)	–	–
Unused amounts reversed	(8,715)	(979)	–	–
As at 31 December 2011	**17,375**	**2,447**	**3,446**	**15,162**

(A) Includes provision for guarantee of Rbls 2,680 million securing performance of Group's obligations under agreement for construction works in Libya. The guarantee is exercisable at any time before 20 September 2012.

20. Employee Benefits

The Group provides benefits to its employees through defined benefit and defined contribution pension plans. The plans require contributions to be made to a separately administered non-state pension fund "Blagosostoyanie" and not-for-profit fund "Pochet". Pension entitlements under defined benefit plans are accrued using the projected unit credit method.

In order to be entitled to pension through the non-state pension fund "Blagosostoyanie" a person should meet a number of criteria, including the following:

1) active participants in defined benefit plan(A) born before 1967 and joined pension plan before 1 July 2007– 15 years of past service with the Group;
2) all other employees who are not active participants in the defined benefit plan(A) referred to above or in defined contribution plans:
   i. joined pension plan before 1 January 2005 – 15 years of past service with the Group, including 5 years of continuing service before retirement;
   ii. joined pension plan after 1 January 2005 – 15 – 20 years (15 years for women, 20 years for men) of continuing service before retirement;
3) employees (including active participants in defined benefit plan(A)) should retire from the Group.

(A) An active participant in defined benefit plan is a person, making contributions to the pension plan at his/her own expense. Such contributions are matched by the Group.

Not-for-profit fund "Pochet" provides pensions to employees of the Company retired before the defined benefit plans provided through the non-state pension fund "Blagosostoyanie" referred to above were introduced.

Benefits accrued through pension plan administered by non-state pension fund "Blagosostoyanie" are partially funded, whilst benefits administered by not-for-profit fund "Pochet" are unfunded.

In addition, the Group provides other retirement, post employment and other long-term benefits to its employees, which comprise a once per year free of charge transportation on long-distance trains and one-time bonus on retirement ranging from 1 to 6 monthly salaries and depending on the duration of the service period, free of charge sanatorium therapy to retired employees and some other. These benefits are unfunded.

In 2008, the Company introduced a number of long-term employee benefits, such as long-service (loyalty) bonus. In accordance with the plan, periodic payment of accumulated bonus is made after three, five, ten, fifteen and each next five years of service. Loyalty bonus plan provides for a benefit of approximately one monthly salary for each year of service subsequent to the last payment of accumulated bonus.

Similarly to defined benefit obligation pension plan, entitlements to such additional benefits are accrued using the projected unit credit method.

20. Employee Benefits (continued)

There were approximately 1,242 and 1,252 thousand employees eligible to some part of the post employment and post retirement benefit program of the Group as at 31 December 2011 and 2010 respectively, of which 90 thousand employees were considered active participants in the defined benefit pension plan as at 31 December 2011 (2010: 104 thousand). In addition, there are approximately 436 thousand retired employees eligible for the post retirement benefit program provided through not-for-profit fund "Pochet" as at 31 December 2011 (2010: 471 thousand).

The amounts recognised in the consolidated statement of financial position are as follows:

As at 31 December 2011:

	Blago-sostoyanie	**Pochet**	**Other long-term benefits**	**Other post-employment benefits**	**Total**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Present value of defined benefit obligations	51,319	19,322	55,524	89,653	**215,818**
Fair value of plan assets	(10,455)	–	–	–	**(10,455)**
Present value of unfunded defined benefit obligations	**40,864**	**19,322**	**55,524**	**89,653**	**205,363**
Unrecognised past service cost	(64)	–	–	(963)	**(1,027)**
Net pension liability in the statement of financial position	**40,800**	**19,322**	**55,524**	**88,690**	**204,336**

As at 31 December 2010:

	Blago-sostoyanie	**Pochet**	**Other long-term benefits**	**Other post-employment benefits**	**Total**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Present value of defined benefit obligations	53,858	21,017	52,672	85,927	**213,474**
Fair value of plan assets	(9,157)	–	–	–	**(9,157)**
Present value of unfunded defined benefit obligations	**44,701**	**21,017**	**52,672**	**85,927**	**204,317**
Unrecognised past service cost	(1,963)	–	–	(1,157)	**(3,120)**
Net pension liability in the statement of financial position	**42,738**	**21,017**	**52,672**	**84,770**	**201,197**

The amounts recognised in the consolidated income statement, which are included in *Wages, salaries and related contributions*, are as follows:

20. Employee Benefits (continued)

For the year ended 31 December 2011:

	Blago-sostoyanie	Pochet	Other long-term benefits	Other post-employment benefits	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Current service cost	1,724	–	19,668	3,819	**25,211**
Interest on benefit obligations	3,886	1,592	4,481	6,966	**16,925**
Expected return on plan assets	(824)	–	–	–	**(824)**
Loss on settlement	1,717	–	–	–	**1,717**
Net actuarial loss/ (gain) recognised in the year	3,076	(1,064)	(8,285)	(1,200)	**(7,473)**
Disposal of subsidiaries	(370)	–	(71)	(506)	**(947)**
Past service cost vested immediately	171	–	46	559	**776**
Amortization of past service cost	1,899	–	–	194	**2,093**
Net expense for the year	**11,279**	**528**	**15,839**	**9,832**	**37,478**

Actual return on plan assets: 370

For the year ended 31 December 2010:

	Blago-sostoyanie	Pochet	Other long-term benefits	Other post-employment benefits	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Current service cost	2,125	–	18,284	4,126	**24,535**
Interest on benefit obligations	4,962	1,790	4,496	6,983	**18,231**
Expected return on plan assets	(889)	–	–	–	**(889)**
Loss on settlement	2,109	–	–	–	**2,109**
Net actuarial (gain)/loss recognised in the year	1,132	1,252	(11,654)	(314)	**(9,584)**
Past service cost vested immediately	682	–	–	125	**807**
Amortization of past service cost	2,747	–	–	194	**2,941**
Net expense for the year	**12,868**	**3,042**	**11,126**	**11,114**	**38,150**

Actual return on plan assets: 778

In addition, in 2011 the Group recognized Rbls 5,152 million as an expense under defined contribution plan (2010: Rbls 4,920 million).

20. Employee Benefits (continued)

Changes in the present value of the defined benefit obligation are as follows:

	Blago-sostoyanie	Pochet	Other long-term benefits	Other post-employment benefits	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Defined benefit obligation at 1 January 2010	57,701	20,817	52,282	81,200	**212,000**
Current service cost	2,125	–	18,284	4,126	**24,535**
Interest on benefit obligations	4,962	1,790	4,496	6,983	**18,231**
Settlement of liability	(16,187)	–	–	–	**(16,187)**
Benefits paid	–	(2,842)	(10,736)	(6,193)	**(19,771)**
Past service cost	1,445	–	–	–	**1,445**
Actuarial (gain)/loss	3,130	1,252	(11,654)	(314)	**(7,586)**
Past service cost vested immediately	682	–	–	125	**807**
Defined benefit obligation at 31 December 2010	**53,858**	**21,017**	**52,672**	**85,927**	**213,474**
Current service cost	1,724	–	19,668	3,819	**25,211**
Interest on benefit obligations	3,886	1,592	4,481	6,966	**16,925**
Settlement of liability	(12,282)	–	–	–	**(12,282)**
Benefits paid	–	(2,223)	(12,987)	(5,912)	**(21,122)**
Actuarial (gain)/loss	4,339	(1,064)	(8,285)	(1,200)	**(6,210)**
Disposal of subsidiaries	(377)	–	(71)	(506)	**(954)**
Past service cost vested immediately	171	–	46	559	**776**
Defined benefit obligation at 31 December 2011	**51,319**	**19,322**	**55,524**	**89,653**	**215,818**

Movements in the net assets of defined benefit pension plans during 2011 and 2010 were as follows:

	2011	2010
	Rbls mln	*Rbls mln*
Fair value of plan assets at 1 January	**9,157**	**8,895**
Actuarial loss on plan assets	(454)	(111)
Expected return on plan assets	824	889
Employer contributions	34,339	35,442
Settlement of liability	(12,282)	(16,187)
Disposal of subsidiaries	(7)	–
Benefits paid	(21,122)	(19,771)
Fair value of plan assets at 31 December	**10,455**	**9,157**

The Group expects to contribute approximately Rbls 36,367 million to its defined benefit pension plans in 2012.

20. Employee Benefits (continued)

The major categories of plan assets administered by non-state pension fund "Blagosostoyanie" as a percentage of the fair value of total plan assets were as follows as at 31 December 2011 and 2010:

	2011	2010
Corporate bonds and stocks of Russian legal entities	44%	43%
Shares in closed investment funds	34%	29%
Cash equivalents and bank deposits	18%	19%
Russian Federal government and municipal bonds	–	1%
Other	4%	8%
Total	**100%**	**100%**

As at 31 December 2011 and 2010 actuarial assumptions used were as follows:

	2011	2010
Discount rate	8.2%	8.0%
Rate used for calculation of annuity value	4%	4%
Average remaining working life	17.7 years	17.5 years
Expected return on plan assets	7.0%	9.0%
Mortality tables	Year 2009	Year 2009

The Group assumed that salary will increase by 7.6% in 2012, 6.7% in 2013, 8.6% in 2014 and 6.9% in 2015 and in subsequent years the salary will increase in line with inflation rate in Russia. The Group estimates future inflation rates in line with the assessments made by Economist Intelligence Unit.

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligations are to be settled. The increase in discount rate in 2011 resulted from an insignificant increase noted in the reporting period in the market yields of high quality corporate and government bonds.

Amounts for the current and previous four periods are presented in the table below, as follows:

Blagosostoyanie

	2011	2010	2009	2008	2007
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Present value of defined benefit obligations	**51,319**	53,858	57,701	59,146	43,654
Fair value of plan assets	**(10,455)**	(9,157)	(8,895)	(7,866)	(5,929)
Present value of unfunded defined benefit obligations	**40,864**	44,701	48,806	51,280	37,725
Experience adjustment on plan liabilities: loss	**304**	2,065	5,330	6,682	6,014
Experience adjustment on plan assets: loss/(gain)	**454**	111	171	199	(249)

20. Employee Benefits (continued)

Pochet

	2011	2010	2009	2008	2007
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Present value of unfunded defined benefit obligations	**19,322**	21,017	20,817	22,186	19,300
Experience adjustment on plan liabilities: loss	**128**	308	550	718	–

Other post-employment benefits

	2011	2010	2009	2008	2007
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Present value of unfunded defined benefit obligations	**89,653**	85,927	81,200	78,910	45,651
Experience adjustment on plan liabilities: (gain)/loss	**(1,221)**	(1,894)	(1,035)	11,701	4,960

Other long-term benefits

	2011	2010	2009	2008	2007
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Present value of unfunded defined benefit obligations	**55,524**	52,672	52,282	–	–
Experience adjustment on plan liabilities: (gain)/loss	**(387)**	(4,441)	(1,522)	–	–

21. Finance Lease Obligations

The Group entered into several finance lease agreements for cargo and passenger transport, locomotives and other operating equipment. The lease agreements are for periods from 5 to 9 years with the effective interest rate varying from 7% to 26% p.a (2010: 7% to 23%). Future minimum lease payments together with the present value of the net minimum lease payments as at 31 December 2011 and 2010 are as follows:

	2011		2010	
	Minimum lease payments	**Present value of lease payments**	**Minimum lease payments**	**Present value of lease payments**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Finance lease liabilities – minimum lease payments				
Not later than 1 year	7,500	6,194	17,196	13,026
Later than 1 year and not later than 5 years	5,844	4,499	24,541	19,420
Later than 5 years	492	354	4,017	2,794
Total minimum lease payments	**13,836**	**11,047**	**45,754**	**35,240**
Less: interest	(2,789)	–	(10,514)	–
Present value of minimum lease payments	**11,047**	**11,047**	**35,240**	**35,240**

Representing lease liabilities	2011	2010
	Rbls mln	*Rbls mln*
Current	6,907	15,825
Non-current	4,140	19,415

21. Finance Lease Obligations (continued)

Finance charges for the year ended 31 December 2011 amounted to Rbls 2,607 million (2010: Rbls 5,511 million) and are included in *Interest expense and similar items* in the consolidated income statement (Note 29).

The aggregate amount of finance lease liabilities on agreements signed with the Group’s related parties (refer to Note 32 for definition) equated to Rbls 6,013 million as at 31 December 2011 (2010: Rbls 29,634 million). Effective interest rate on these agreements varies from 7% to 24%; weighted average rate is approximately 14.78%.

In the year ended 31 December 2011, the Group has terminated 28 finance lease agreements through the early purchase of leased assets.

Due to disposal of controlling interest in OJSC “Freight One”, in 2011 the Group’s lease liabilities decreased by Rbls 6,247 million.

22. Equity

Share Capital

The share capital of the Company as at 31 December 2011 consists of 1,786,715,588 (2010: 1,698,128,067) authorized, issued and outstanding common shares with par value of Rbls 1 thousand.

During 2010 the Company issued 103,611,848 additional shares with par value of Rbls 1 thousand. Cash received for these shares during 2010 equated to Rbls 103,612 million.

During 2011 the Company issued 88,587,521 additional shares with par value of Rbls 1 thousand. Cash received for these shares during 2011 equated to Rbls 88,588 million.

In accordance with the Russian legislation, dividends may only be declared to the shareholders of the Company from accumulated undistributed and unreserved earnings as shown in the Company's Russian statutory financial statements.

In 2010 the shareholder of the Company approved dividends for 2009 in the amount of Rbls 3,612 million, which were fully paid during 2010.

In 2011 the shareholder of the Company approved dividends for 2010 in the amount of Rbls 3,985 million, which were fully paid during 2011.

In December 2011, the Government of Russian Federation approved additional issue of 40,460,952 ordinary shares with par value of Rbls 1 thousand in the aggregate amount of Rbls 40,461 million. The issue was approved by the shareholder for the purposes of financing construction of the transport infrastructure for Sochi XXII Olympic Games 2014, reconstruction of other transportation infrastructure and development of transportation system in Moscow region. Contribution made by the Company’s shareholder in March-June 2012 amounted to Rbls 40,161 million (Note 36).

23. Other Revenues

Other revenues for the years 2011 and 2010 comprised the following:

	2011	2010
	Rbls mln	*Rbls mln*
Rent of cargo cars and other property	33,959	21,614
Healthcare services	21,233	18,723
Sale of goods	20,651	15,614
Repair of rolling stock	17,962	15,930
Telecommunication services	14,837	15,081
Transit and sales of electricity	11,564	14,236
Utility services	10,694	8,961
Rolling stock operation and maintenance services, use of railway tracks	8,975	3,679
Construction services	5,660	9,899
Logistic services	4,861	4,108
Information and IT services	4,045	2,919
Infrastructure services	1,504	8,210
Other	47,557	39,416
Total other revenues	**203,502**	**178,390**

24. Taxes Other than Income Tax, net

Taxes other than income tax, net for the years 2011 and 2010:

	2011	2010
	Rbls mln	*Rbls mln*
Property tax	24,384	24,428
Non-refundable VAT	4,077	3,529
Land tax	1,763	2,062
Other taxes	2,375	2,928
Provision for tax liabilities	–	(1,858)
Total taxes other than income tax, net	**32,599**	**31,089**

25. Other Operating Expenses

Included in other operating expenses for the years 2011 and 2010:

	2011	2010
	Rbls mln	*Rbls mln*
Rolling stock servicing and handling	17,199	15,464
Security costs	13,410	12,613
Services related to construction	12,615	2,778
Foreign railroads services	12,206	9,264
Business trips and personnel education	8,107	5,016
Telecommunication fees	7,612	7,519
Loss on uncompleted construction contract (Note 13)	6,675	–
Cost of premises sold	5,301	6,762
Railtrack and right-of-way maintenance expenses	4,598	2,031
Fire safety maintenance	2,978	2,001
Consulting services	2,604	2,449
Insurance costs	1,558	1,725
Other	25,744	21,344
Total other operating expenses	**120,607**	**88,966**

26. Subsidies from Federal and Municipal Budgets

Subsidies from federal and municipal budgets for the years ended 31 December 2011 and 2010 comprised the following:

	2011	2010
	Rbls mln	*Rbls mln*
Subsidies received from federal budget for compensation of the effects of tariffs' regulation – cargo transportation	1,352	23,000
Subsidies received from federal budget for compensation of the effects of tariffs' regulation – long distance passenger transportation	29,946	35,751
Subsidies for compensation for the effects of tariffs' regulation – suburban transportation	25,000	–
Subsidies for capital repair of railway infrastructure in common use	–	19,099
Subsidies received from regional and municipal budgets and other subsidies	4,852	4,454
Total subsidies from federal and municipal budgets	**61,150**	**82,304**

27. Other Income

Other income for the years ended 31 December 2011 and 2010 comprised the following:

	2011	2010
	Rbls mln	*Rbls mln*
Gain on disposal of assets held for sale (A)	9,658	301
Gain on disposal of property, plant and equipment, net	3,843	6,512
Gain on loss of significant influence (Note 6)	2,260	–
Gain on disposal of inventory	1,770	2,047
Decrease in provision for legal claims, net	–	746
Penalties charged to customers	731	2,930
Other income	6,448	5,027
Total other income	**24,710**	**17,563**

(A) Gain on disposal of assets held for sale comprised the gain on loss of control over CJSC "Rusagrotrans", a subsidiary, in the amount of Rbls 2,668 million (Note 5) and gain on disposal of cargo cars in the amount of Rbls 6,990 million.

28. Other Expenses

Other expenses for the years ended 31 December 2011 and 2010 comprised the following:

	2011	2010
	Rbls mln	*Rbls mln*
Rent expenses	6,014	5,789
Bank charges	3,528	1,617
Contributions to trade union, membership in professional associations	3,225	2,649
Provision for guarantees (Note 19)	2,680	766
Impairment of investments in associates	950	5,550
Change in provision for legal claims, net (Note 19)	821	–
Other expenses	3,465	4,046
Total other expenses	**20,683**	**20,417**

29. Interest Expense and Similar Items, net

Interest expense and similar items, net for the years ended 31 December 2011 and 2010 comprised the following:

	2011	2010
	Rbls mln	*Rbls mln*
Interest income and similar items	6,584	3,873
Interest expense and similar items	(7,848)	(6,677)
Finance income and other	178	
Finance expense and other	(2,607)	(5,511)
Total interest expense and similar items, net	**(3,693)**	**(8,315)**

30. Changes in Fair Value and Loss on Disposal of Financial Assets, net

Changes in fair value and loss on disposal of financial assets for the years ended 31 December 2011 and 2010 comprised the following:

	2011	2010
	Rbls mln	*Rbls mln*
Gain/(loss) from changes in fair value and transactions involving derivative instruments	3,158	(15,087)
Other gains, net	165	525
Total changes in fair value and loss on disposal of financial assets, net	**3,323**	**(14,562)**

31. Income Taxes

The major components of income tax expense for the years ended 31 December 2011 and 2010 comprised the following:

	2011	2010
Consolidated income statement	*Rbls mln*	*Rbls mln*
Current income tax:		
Current income tax charge	(65,187)	(54,594)
Adjustments in respect of current income tax of previous periods and penalties related to income tax, net	(800)	1,002
Provision for income tax liabilities	5,064	2,397
Deferred tax:		
Relating to origination and reversal of temporary differences	(24,492)	(33,481)
Income tax expense reported in the income statement	**(85,415)**	**(84,676)**
Income tax recognized in other comprehensive income	58	(224)
Total income tax from continuing operations	**(85,357)**	**(84,900)**

31. Income Taxes (continued)

Deferred tax, in millions of Russian Rubles, relates to the following:

	31 December 2010, as restated	Arising on business combinations	Disposal of subsidiaries	Recognized in other comprehen-sive income	Recognition and reversal of temporary differences in profit or loss	31 December 2011
Tax effects of taxable temporary differences						
Valuation of property, plant and equipment	(64,612)	(294)	2,386	–	(12,745)	**(75,265)**
Valuation of investments in subsidiaries and associates	(18,252)	(4)	76	–	1,669	**(16,511)**
Valuation of investment property	(1,385)	–	–	–	–	**(1,385)**
Tax effects of deductible temporary differences						
Employee benefit obligations (Note 20)	28,525	–	(187)	–	(9,646)	**18,692**
Valuation of intangible assets	796	–	–	–	–	**796**
Valuation of accounts receivable	4,013	(12)	323	–	17	**4,341**
Payables/Accruals	12,578	47	(1,114)	–	(5,053)	**6,458**
Valuation of derivative financial instruments	1,107	(10)	–	–	558	**1,655**
Valuation of inventory	(188)	(127)	–	–	661	**346**
Other	(422)	(25)	(188)	58	47	**(530)**
Total net deferred tax (liability)/asset	**(37,840)**	**(425)**	**1,296**	**58**	**(24,492)**	**(61,403)**

	1 January 2010, as restated	Transfer to liabilities directly associated with assets classified as held for sale	Disposal of subsidiaries	Recognized in other comprehen-sive income	Recognition and reversal of temporary differences in profit or loss arising on		31 December 2010, as restated
					discontinued operations	continuing operations	
Tax effects of taxable temporary differences							
Valuation of property, plant and equipment	(48,464)	371	276	–	–	(16,795)	**(64,612)**
Valuation of investments in subsidiaries and associates	769	–	–	(144)	(3,891)	(14,986)	**(18,252)**
Valuation of inventory	1,398	–	–	–	–	(1,586)	**(188)**
Valuation of investment property	(1,385)	–	–	–	–	–	**(1,385)**
Tax effects of deductible temporary differences							
Employee benefit obligations (Note 20)	27,626	–	–	–	–	899	**28,525**
Valuation of intangible assets	(704)	–	400	–	112	988	**796**
Valuation of accounts receivable	4,949	–	–	–	–	(936)	**4,013**
Payables/Accruals	14,293	–	–	–	–	(1,715)	**12,578**
Valuation of derivative financial instruments	54	–	327	–	(204)	930	**1,107**
Other	476	–	(129)	(80)	(409)	(280)	**(422)**
Total net deferred tax (liability)/asset	**(988)**	**371**	**874**	**(224)**	**(4,392)**	**(33,481)**	**(37,840)**

31. Income Taxes (continued)

As at 31 December 2011 the Group has recognized deferred tax liability arising on taxable temporary differences associated with investments in subsidiaries and associates considered for disposal in foreseeable future in the aggregate amount of Rbls 17,745 million (2010: Rbls 19,030 million).

As discussed in Note 22, dividends may only be declared from accumulated undistributed and unreserved earnings as shown in the Company's Russian statutory financial statements.

Management concluded that it is impracticable to assess the remaining amount of temporary differences associated with investments in subsidiaries and associates.

As at 31 December 2011, the Group did not recognize deferred tax assets in amount of Rbls 5,662 million (2010: Rbls 4,319 million).

There are no income tax consequences attached to the payment of dividends by the Group to its shareholder.

A reconciliation of theoretical income tax expense to the actual income tax expense recorded in the consolidated income statements for the years ended 31 December 2011 and 2010 is as follows:

	2011	**2010**
	Rbls mln	*Rbls mln*
Income before taxation from continuing operations	268,402	279,831
Income before taxation discontinued operations	–	19,491
Accounting profit before income tax	**268,402**	**299,322**
At statutory income tax rate of 20% (2010: 20%)	53,680	59,864
Adjustments in respect to current income tax of previous years and penalties related to income tax, net	800	(1,002)
Provision for income tax liabilities	(5,064)	(2,397)
Non-deductible expenses for tax purposes and other effects:		
non-deductible employee benefits	15,010	3,375
non-deductible social expenses	4,680	4,283
non-deductible expenses relating to use of re-usable spare parts	1,494	1,485
other non-deductible expenses and other effects, net	12,729	8,048
Effect of recognition of deferred tax liability related to investments in subsidiaries and associates	2,086	17,342
At the effective income tax rate of 32% (2010: 30%)	**85,415**	**90,998**
Income tax expense reported in the consolidated income statement	85,415	84,676
Income tax attributable to discontinued operations	–	6,322
	85,415	**90,998**

32. 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.

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.

32. Related Party Transactions (continued)

The Group entered into a variety of transactions with related parties during the years ended 31 December 2011 and 2010. The most significant of these transactions are as follows (for description of the nature of relationships between the Group and its related parties refer to definitions in a.-f. above):

Year ended 31 December 2011

			Year ended 31 December 2011		At 31 December 2011	
Related party	**Nature of relations**	**Type of service / product**	**Sales / income (A)**	**(Purchases) / (expenses) (A)**	**Amounts receivable**	**(Amounts payable)**
			Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
1. Services rendered						
State controlled companies	(a)	Cargo transportation	156,751	–	57	(11,631)
	(a)	Construction	1,072	–	213	(2,533)
	(a)	Telecom services	1,667	–	240	(18)
	(a)	Other	7,946	–	647	(298)
Ministries of the Russian Federation	(a)	Cargo transportation, telecom services	24,887	–	1,922	(207)
Financing received from regional and federal budgets	(a)	Subsidies for passenger transportation	54,946	–	–	–
	(a)	Subsidies for cargo transportation	1,352	–	–	–
	(a)	Other subsidies	4,852	–	–	–
Associates	(b)	Cargo transportation and other services	51,520	–	3,865	(4,321)
	(b)	Research and development works	83	–	–	(1)
Rusenergosbit	(f)	Electricity	553		12	–
2. Purchases						
State controlled companies	(a)	Electricity	–	(2,623)	11	(99)
	(a)	Fuel, oil	–	(33,178)	60	(1,787)
	(a)	Security services and other	–	(13,889)	4	(777)
	(a)	Rolling stock	–	(3,846)	9	(13)
	(a)	Other services	–	(3,815)	4,222	(544)
Associates	(b)	Equipment	–	(8,015)	11	(2,331)
	(b)	Maintenance services	–	(955)	–	(109)
	(b)	Rolling stock	–	(62,164)	7,508	(5,712)
	(b)	Other	–	(25,342)	954	(7,176)
Rusenergosbit	(f)	Electricity	–	(111,376)	304	(476)
Parties related to pension funds	(e)	Insurance premiums received / (paid)	5,218	(6,171)	156	(62)

32. Related Party Transactions (continued)

Year ended 31 December 2011 (continued)

Related party	Nature of relations	Type of service / product	Year ended 31 December 2011 Sales / income (A)	Year ended 31 December 2011 (Purchases) / (expenses) (A)	At 31 December 2011 Amounts receivable	At 31 December 2011 (Amounts payable)
			Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
3. Financial services						
3.1 Financial liabilities						
Deposit Insurance Agency	(a)	Loans payable	–	–	–	(15,136)
State controlled companies	(a)	Loans payable	–	–	–	(84,401)
Ministries of Russian Federation	(a)	Other payables	–	–	–	(1,497)
Associates	(b)	Loans payable	–	–	–	(7,330)
3.2 Other financial assets						
Other	(a)	Securities available for sale and derivatives	1,980	–	–	–
4. Pension funds	(e)	Pension contribution and contribution to finance activities	521	(24,322)	236	(183)

Year ended 31 December 2010

Related party	Nature of relations	Type of service / product	Year ended 31 December 2010 Sales / income (A)	Year ended 31 December 2010 (Purchases) / (expenses) (A)	At 31 December 2010 Amounts receivable	At 31 December 2010 (Amounts payable)
			Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
1. Services rendered						
State controlled companies	(a)	Cargo transportation	147,566	–	88	(10,785)
	(a)	Construction	1,401	–	42	(1,267)
	(a)	Telecom services	2,292	–	198	(2)
	(a)	Other	4,692	–	288	(34)
Ministries of the Russian Federation	(a)	Cargo transportation, telecom services	25,623	–	1,727	(726)
Financing received from Regional and Federal budgets	(a)	Subsidies for passenger transportation	35,751	–	–	–
	(a)	Subsidies for cargo transportation	23,000	–	–	–
	(a)	Other subsidies	20,170	–	–	–
Associates	(b)	Cargo transportation and other services	22,680	–	3,076	(978)
	(b)	Research and development works	240	–	20	(28)

32. Related Party Transactions (continued)

Year ended 31 December 2010 (continued)

Related party	Nature of relations	Type of service / product	Year ended 31 December 2010 Sales / income (A)	Year ended 31 December 2010 (Purchases) / (expenses) (A)	At 31 December 2010 Amounts receivable	At 31 December 2010 (Amounts payable)
			Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
2. Purchases						
State controlled companies	(a)	Electricity	–	(3,222)	10	(97)
	(a)	Fuel, oil	–	(17,169)	13	(2,218)
	(a)	Security services and other	–	(12,713)	5	(682)
	(a)	Rolling stock	13	(5,677)	1,381	–
	(a)	Other services and purchases of Property Plant and Equipment	–	(3,558)	4,277	(447)
Associates	(b)	Equipment	–	(8,225)	5	(2,403)
	(b)	Maintenance services	–	(154)	–	(13)
	(b)	Rolling stock	2,134	(52,206)	6,927	(5,513)
	(b)	Other	–	(11,068)	431	(840)
Rusenergosbit	(f)	Electricity	–	(43,855)	241	–
Parties related to pension funds	(e)	Insurance premiums received / (paid)	5,012	(5,522)	–	(365)
3. Financial services						
3.1 Financial liabilities						
Deposit Insurance Agency	(a)	Loans payable	–	–	–	(17,239)
State controlled companies	(a)	Loans payable	–	–	–	(736)
Ministries of Russian Federation	(a)	Other payables	–	–	–	(1,656)
Associates	(b)	Loans payable	–	–	–	(6,569)
3.2 Loans issued						
Associates (B)	(b)	Loans issued	–	–	17,398	–
4. Pension funds	(e)	Pension contribution and contribution to finance activities	–	(22,170)	–	(966)

(A) Amounts include VAT, where applicable.

(B) Loans issued to associates as at 31 December 2010 include loans issued by RZD to OJCS KIT Finance Investment Bank with the carrying amount of Rbls 14,198 million. In 2011, OJCS KIT Finance Investment Bank ceased to be an associate of the Group (Note 6).

32. Related Party Transactions (continued)

In the year ended 31 December 2011 the Group's companies maintained several accounts in state-controlled banks and in the banking associate. The amount of cash and short term deposits held in these banks as at 31 December 2011 equated to Rbls 213,359 million (2010: Rbls 95,221 million), which comprised the following:

	2011	2010
	Rbls mln	*Rbls mln*
Cash and cash equivalents in banking associate	87,854	79,238
Cash and cash equivalents in state-controlled banks	122,584	646
Short term deposits in banking associate	2,728	15,239
Short term deposits in state-controlled banks	193	98
Total	**213,359**	**95,221**

Interest income from related parties comprised Rbls 1,248 million for the year ended 31 December 2011 (2010: Rbls 4,353 million) and interest expense from related parties comprised Rbls 2,937 million for the year ended 31 December 2011 (2010: Rbls 3,395 million).

Loans obtained by the Group from related parties attract interest varying during year ended 31 December 2011 from 1% to 20% (year ended 31 December 2010: 1% to 20%).

Guaranties issued in favor of related parties equated to Rbls 3,334 million as at 31 December 2011 (2010: Rbls 3,226 million). Guaranties received from related parties as at 31 December 2011 equated to Rbls 17,392 million (2010: Rbls 20,077 million).

Further, for year ended 31 December 2011 the Company is entitled to receive tariff compensation of Rbls 6,130 million (2010: Rbls 5,200 million) for transportation of certain categories of passengers from the Ministry of Health Care and Social Development of Russia. Accounts receivable balance outstanding regarding to the tariff compensation for transportation of certain categories of passengers as at 31 December 2011 is Rbls 12,851 million (2010: Rbls 18,319 million). The Company recognized an impairment of Rbls 12,851 million relating to this accounts receivable balance outstanding as at 31 December 2011 (2010: Rbls 18,319 million).

The aggregate amount of finance lease liabilities on agreements signed with the Group's related parties equated to Rbls 6,013 million as at 31 December 2011 (2010: Rbls 29,634 million). Effective interest rate on these agreements varies from 7% to 24% p.a. Leased assets with the aggregate cost of Rbls 27,019 million as at 31 December 2011 (2010: Rbls 72,643 million) were obtained from state-controlled and other entities considered related to the Company.

Key management personnel comprise members of the Management Board and the Board of Directors of the Company. Total remuneration paid to the members of the Management Board amounted to Rbls 1,041 million plus Rbls 156 million of related personal income tax for year ended 31 December 2011 (2010: Rbls 920 million plus Rbls 138 million of related personal income tax) and consists of short-term benefits.

33. 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.

In particular, implementation of the Program of railway transportation restructuring for the period 2001-2010 approved by the Government in 2001, as well as its further stages to be completed by the end of 2015 as a part of implementation of the Strategy of the development of railway transportation till the year 2030 approved by the Government in 2008, (together – Reform Program), is likely to have a significant effect on the operations of the Company.

The Reform Program’s ultimate purpose is the attraction of financing necessary to upgrade and replace existing property, plant and equipment and construct new railway lines and formation of competitive environment in passenger and cargo railway transportation and operation of cargo rolling stock. Upon completion of the Reform Program, the Company is expected to remain the sole owner and operator of its railway infrastructure network focused on the following activities: public cargo transportation services; infrastructure services to local cargo transportation companies as well as suburban and long-distance passenger transportation companies; services to cargo railcar operators in organization of transportation using private railcars; technical maintenance and support of infrastructure, locomotive fleet, cargo terminals and stations, electricity power supply and network. Other business activities and the related facilities will be transferred to independent newly established entities. During the year ended 31 December 2011 the Company continued the process of incorporation of such entities, preparation for divestment in auxiliary business activities and attracted additional financing by issuance of loan participation notes and sale of shares in subsidiaries (Notes 5 and 17).

Tariff Regulation Policy

Potential reforms in tariff-setting policy, including abandonment of cross subsidy practices, may have a significant effect on the Company. 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 any changes will be introduced in the tariff setting policy. These 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.

33. Commitments and Contingencies (continued)

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, payroll 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 and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking 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.

Management believes that it has adequately provided for tax liabilities in the consolidated financial statements as at 31 December 2011 (refer also to Notes 19 and 31). 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 subject to 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 31 December 2011 a provision in respect of such proceedings of Rbls 2,447 million (2010: Rbls 1,915 million) was recognised by the Group (Note 19).

In December 2011, Federal Antimonopoly Service (hereinafter also - “FAS”) has issued a ruling against the Company for violating antimonopoly legislation by not providing cargo transportation services to certain customers during the year 2011. In accordance with Russian legislation, the Company could be assessed with fines at 0.3-3% of cargo revenues, determined on the basis of standalone statutory financial statements of the Company for the year ending 31 December 2011.

The management of the Company is vigorously defending its position and is appealing this FAS ruling at court. The management believes that probability of unfavorable outcome of court proceedings for the Company is remote. Respectively, no provision with regard to the outcome for this case was recognized in consolidated financial statements as at 31 December 2011 and for the year then ended.

33. Commitments and Contingencies (continued)

Insurance

The Russian insurance industry is in a developing stage: insurance market capacity and low variety of product line does not completely meet customers' requirements. Compulsory insurance common in other parts of the world is being introduced in stages and may not be available for some types of insurance.

The management has approved insurance policy for the Group. This policy sets general principles for the Group in respect of major terms of insurance contracts.

During 2011, the Group continued to maintain insurance coverage regarding major categories of its property. The Group did not maintain insurance coverage on business interruption as management assessed insurance expenses to be significantly higher than potential losses associated with this risk.

Events in Libya

Destabilization of political situation in Libya resulted in the Group's management decision to suspend the project for construction of a railway line between Sirt and Benghazi and to evacuate the Group's personnel from the country. After situation in Libya is stabilized, the management plans to hold negotiations with Libyan counterparty regarding the construction project continuation. Depending on the outcome of such negotiations, contract terms and conditions may be significantly changed resulting in the reassessment of project's budgeted costs and revenues in a manner not currently determinable.

Significant Purchase Commitments

Purchase commitments are disclosed including VAT, where applicable.

(1) In the years 2008 - 2011 the Group has signed several long-term contracts for reconstruction of railroads, tunnels, bridges and contact system for the total amount of Rbls 59,735 million. The outstanding commitment under these contracts as at 31 December 2011 amounted to Rbls 25,848 million.

(2) In the years 2007 - 2011 the Group has entered into several long-term contracts for purchase and technical maintenance of locomotives, electric trains and rails with the local and foreign providers for the total amount of Rbls 127,271 million (including commitments in foreign currencies in amount of EUR 2,241 million (Rbls 93,386 million) and US$ 280 million (Rbls 9,007 million)). The outstanding commitments under these contracts as at 31 December 2011 amounted to Rbls 98,042 million (including commitments in foreign currencies in amount of EUR 1,814 million (Rbls 75,592 million) and US$ 84 million (Rbls 2,709 million)).

(3) In 2003 the Company entered into long-term contract for purchase of railcar wheels in 2003-2015. As prescribed by the contract, the price of railcar wheels is annually indexed in accordance with the changes in industrial products price index in the Russian Federation. The approximate amount of deliveries under the contract expected after 31 December 2011 amounts to Rbls 51,185 million measured at current prices.

(4) The Group has long-term contracts for construction of a joint motorway and railroad in Sochi for the aggregate amount of approximately Rbls 276,267 million. As at 31 December 2011, the Company has outstanding commitments under these contracts in the amount of Rbls 198,742 million.

33. Commitments and Contingencies (continued)

Significant Purchase Commitments (continued)

(5) In 2010 the Company entered into long-term contract for rail track polishing services to be provided till the year 2019. The aggregate value of this contract is Rbls 8,771 million. Outstanding commitment as at 31 December 2011 is Rbls 7,353 million.

(6) OJSC "Zarubezhstroytechnology", a 100% subsidiary of the Company, has long-term contracts with regard to construction of railroad in Libya in the aggregate amount of Rbls 46,888 million. Outstanding commitments under these contracts amounted to Rbls 40,804 million as at 31 December 2011.

(7) OJSC "RZD Trading Company", a subsidiary of the Company starting October 2011, had capital commitments under several contracts amounting to Rbls 3,565 million as at 31 December 2011.

34. Derivative Financial Instruments

The notional amounts and fair values of derivative instruments held as at 31 December 2011 and 31 December 2010 are set out in the following table.

	31 December 2011			31 December 2010		
	Notional amount	Fair values		Notional amount	Fair values	
		Asset	Liability		Asset	Liability
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Interest rate contracts						
Swaps – foreign	12,395	–	(337)	33,525	–	(864)
Foreign exchange contracts						
Swaps – foreign (A)		–	–	16,762	4,087	–
Swaps – domestic (B)	80,556	1,907	(10,613)	46,249	–	(11,559)
Foreign exchange – interest rate contracts						
Swaps – domestic	5,050	–	(381)	–	–	–
Securities contracts						
Forwards – domestic (C)	26,927	3,186	(2,038)	3,746	–	(1,577)
Total derivative assets/ (liabilities)		**5,093**	**(13,369)**		**4,087**	**(14,000)**

(A) In 2011, cross currency SWAP agreement with J.P. Morgan Chase Bank was sold to OJSC "TransCreditBank" for Rbls 1,980 million including VAT.

(B) During the year ended 31 December 2011 the Company entered into a number of derivative contracts with OJSC "VTB Bank", LLC "J.P. Morgan Bank International" and OJSC "Rosbank" to hedge the loan participation notes in the amount of GBP 650 million (Note 17).

(C) As at 31 December 2011 the Company recognized an asset of 3,186 million with regard to the forward contract related to the sale of 25% plus one share in OJSC "TransCreditBank" to OJSC "VTB Bank" (Note 6).

35. Financial Instruments and Risk Management Objectives and Policies

The Group's principal financial instruments comprise bank loans, finance leases, bonds, cash and bank deposits. The main purpose of these instruments is to raise finance for the Group's operations. The Group has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Group also holds available-for-sale investments and enters into derivative transactions.

The Group is exposed to credit and liquidity risks and market risk.

Financial risks are monitored by Financial Risks Management Committee and Corporate Finance Department of the Company. Credit, currency and interest rate risks are regulated by corporate financial risks management code and policies. The Company also maintains centralized financial risk management policy at all subsidiaries.

Credit Risk

Credit risk is the risk that a counter party will fail to discharge an obligation and cause the Group to incur a financial loss.

Cash is placed in financial institutions, which are considered at a time of deposit to have minimal risk of default. Management monitors the creditworthiness of the banks in which it deposits cash and ensures that the deposits placed by RZD in each financial institution do not exceed approved upper limit. These limits are recalculated quarterly in accordance with corporate policies, which include qualitative and quantitative analysis of financial institutions' performance. These limits are monitored and approved by the Company's Financial Risks Management Committee.

Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables and loans given. The carrying amount of these financial assets, net of impairment, represents the maximum amount exposed to credit risk. With the exception for the matters discussed below, the Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the impairment already recorded.

35. Financial Instruments and Risk Management Objectives and Policies (continued)

Credit Risk (continued)

The largest part of the Company's sales of transportation services are made on prepayment basis. Accordingly, the Group's trade receivables are originated by a limited number of customers, primarily governmental agencies. Further, certain of the Group's debtors for auxiliary products, such as heat and electricity, represent municipal enterprises and governmental organisations that experience financial difficulties. The largest debtor of the Group is Ministry of Health Care and Social Development, which administers compensation to RZD for rail transportation tariff for certain categories of passengers (refer to Note 32). Impairment allowance recognised by the Group primarily consists of receivables from such customers. The Group has no practical ability to amend the legislation governing provisions of benefits to certain categories of passengers, or to terminate the supply to these counterparties. The Group continuously negotiates with federal, regional and municipal authorities the terms of these receivables collection.

The maximum exposure to credit risk is equal to the carrying amount of financial assets as at 31 December 2011 and 2010 which is disclosed below:

	2011	**2010**
	Rbls mln	*Rbls mln*
Cash and cash equivalents (excluding cash on hand)	218,313	99,960
Bank deposits	7,233	15,273
Loans issued	15,835	16,227
Receivables	35,341	48,334
Derivatives	5,093	4,087
Other	9,641	2,444
Total credit risk exposure	**291,456**	**186,325**

The table below summarizes the ageing analysis of financial assets that are either past due or individually determined to be impaired as at 31 December 2011 and 2010.

	2011		**2010**	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Not past due	**78,509**	**(5,366)**	**87,560**	**(1,195)**
Past due	**28,727**	**(28,727)**	**22,504**	**(22,504)**
less than one year	9,768	(9,768)	3,775	(3,775)
more than one year	18,959	(18,959)	18,729	(18,729)
Total	**107,236**	**(34,093)**	**110,064**	**(23,699)**

35. Financial Instruments and Risk Management Objectives and Policies (continued)

Credit Risk (continued)

In the years ended 31 December 2011 and 2010, the movement in allowance for impairment was as follows:

Year ended 31 December 2011

	Balance as at 1 January 2011	Reclassification from allowance on other non-current assets	Charge for the year	Reversed	Utilized	Disposal of subsidiary	Balance as at 31 December 2011
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Allowance on Current financial assets							
Receivables for transportation services	(18,935)	–	(7,420)	252	48	–	(26,055)
Other accounts receivable	(3,830)	–	(4,005)	1,891	501	467	(4,976)
	(22,765)	**–**	**(11,425)**	**2,143**	**549**	**467**	**(31,031)**
Allowance on Non-current financial assets							
Loans issued	(552)	–	–	316	–	–	(236)
Other financial assets	(382)	(1,875)	(610)	41	–	–	(2,826)
	(934)	**(1,875)**	**(610)**	**357**	–	–	**(3,062)**
Total	**(23,699)**	**(1,875)**	**(12,035)**	**2,500**	**549**	**467**	**(34,093)**

Year ended 31 December 2010

	Balance as at 1 January 2010	Charge for the year	Reversed	Utilized	Disposal of subsidiary	Balance as at 31 December 2010
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Allowance on Current financial assets						
Receivables for transportation services	(21,870)	(1,188)	909	3,214	–	(18,935)
Other accounts receivable	(3,406)	(2,320)	1,699	197	–	(3,830)
Loans issued	(6,550)	–	1,388	74	5,088	–
Investment securities held-to-maturity	(738)	–	150	65	523	–
	(32,564)	**(3,508)**	**4,146**	**3,550**	**5,611**	**(22,765)**
Allowance on Non-current financial assets						
Loans issued	(4,536)	(1,799)	–	574	5,209	(552)
Other financial assets	(326)	(562)	–	–	506	(382)
	(4,862)	**(2,361)**	–	574	**5,715**	**(934)**
Total	**(37,426)**	**(5,869)**	**4,146**	**4,124**	**11,326**	**(23,699)**

35. Financial Instruments and Risk Management Objectives and Policies (continued)

Credit Risk (continued)

Bad debt expense recognized in the consolidated income statement comprised effect of allowance for impairment relating to financial assets charged or reversed for the year 2011 of Rbls 9,535 million (2010: Rbls 1,723 million), direct write-off of accounts receivable and other financial assets of Rbls 700 million (2010: Rbls 292 million) and allowance for impairment of advances issued, input VAT and other non-financial assets accrued, reversed or written off for the year 2011 resulting in net gain of Rbls 1,667 million (2010: net loss of Rbls 4,574 million).

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The management monitors net debt to EBITDA and EBITDA to net interest costs as key financial ratios in accordance with the Group's debt management policy.

The Group prepares a financial plan on a monthly basis which ensures that the Group has sufficient cash on demand to finance expected operational expenses, financial obligations and investing activities. The Group developed standard payment periods in respect of trade accounts payable and monitors the timeliness of payments to its suppliers and contractors.

The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, incluing interest payments. Repayments, which are subject to notice, are treated as if notice were to be given immediately. Accordingly, the related liabilities were reported as payable within less than 1 year.

As at 31 December 2011	**Less than 1 year**	**1 to 3 year**	**Over 3 years**	**Total**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Fixed- rate debts				
Loans and borrowings	180,458	119,494	195,393	495,345
Derivative financial instruments				
- Contractual amounts payable	7,900	14,866	180,973	203,739
- Contractual amounts receivable	(5,621)	(10,867)	(155,218)	(171,706)
Finance lease liabilities	7,500	4,883	1,453	13,836
	190,237	**128,376**	**222,601**	**541,214**
Variable -rate debts				
Loans and borrowings	14,537	10,082	6,831	31,450
	14,537	**10,082**	**6,831**	**31,450**
Non-interest bearing debts				
Trade and other payables	192,114	–	–	192,114
Other liabilities	53,192	–	–	53,192
	245,306	**–**	**–**	**245,306**
Total	**450,080**	**138,458**	**229,432**	**817,970**

35. Financial Instruments and Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

As at 31 December 2010	Less than 1 year	1 to 3 year	Over 3 years	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Fixed- rate debts				
Loans and borrowings	116,014	116,326	122,593	354,933
Derivative financial instruments				
- Contractual amounts payable	4,609	5,587	5,583	15,779
- Contractual amounts receivable	(2,746)	(5,886)	(6,309)	(14,941)
Finance lease liabilities	17,196	20,517	8,041	45,754
	135,073	**136,544**	**129,908**	**401,525**
Variable -rate debts				
Loans and borrowings	16,185	19,625	12,180	47,990
	16,185	**19,625**	**12,180**	**47,990**
Non-interest bearing debts				
Trade and other payables	142,871	12,649	–	155,520
Other liabilities	46,958	–	–	46,958
	189,829	**12,649**	**–**	**202,478**
Total	**341,087**	**168,818**	**142,088**	**651,993**

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. Market risk comprises equity, currency and interest rate risks.

Currency risk

The currency risk is the risk of losses due to adverse changes in foreign exchange rates with regard to the Group's assets and liabilities denominated in foreign currencies.

The Group maintains centralized currency risk management system, which establishes risk policy towards certain currencies and prescribes regular analysis of foreign currency risk exposure. This analysis includes the assessment of open foreign exchange position, forecast modeling of exchange rates and the analysis of deviations between forecast and budget rates. The Group aims at maintaining a neutral open foreign exchange position through offset of outflows in a foreign currency by inflows in corresponding currency.

The Group is exposed to currency risk on selected receivables, payables and borrowings that are denominated in a currency other than the Group's functional currency. The currencies in which these transactions are denominated are primarily CHF, US dollars, GBP and Euro.

The Group manages its foreign currency risk by economically hedging material transactions, such as borrowings. It is the Group's policy to negotiate the terms of the hedge derivatives to match as close as possible the terms of the hedged instrument.

35. Financial Instruments and Risk Management Objectives and Policies (continued)

Market Risk (continued)

In 2011 the Company signed cross currency SWAP agreements (Pound Sterling to Swiss Franc) with OJSC "Rosbank", LLC "J.P.Morgan Bank International" and OJSC "VTB Bank" for the full amount of Loan participation notes issued with notional amount denominated in Swiss Francs. In addition, the Group hedges its exposure to fluctuations on the US dollar denominated borrowings by using foreign currency SWAP agreements. As at 31 December 2011, the Group had hedged approximately 86% (2010: 76%) of its US dollar denominated borrowings.

Sensitivity analysis

The following table demonstrates the sensitivity of the Group's income before taxation (IBT) to reasonably possible changes in the respective currencies with regard to its net monetary position[1] as at 31 December 2011 and 2010 after consideration of currency SWAPs referred to above, with all other variables held constant:

	2011		**2010**	
	Change in exchange rate	**Effect on IBT**	**Change in exchange rate**	**Effect on IBT**
	(%)	*Rbls mln*	*(%)*	*Rbls mln*
USD/Rbls	+10.0	(1,058)	+10.0	(645)
	- 10.0	1,058	- 10.0	645
EUR/Rbls	+10.0	(1,195)	+10.0	(1,518)
	- 10.0	1,195	- 10.0	1,518
CHF/Rbls	+10.0	(9,780)	+10.0	(3,029)
	-10.0	9,780	-10.0	3,029
Libyan Dinar / Rbls	+10.0	(468)	+10.0	(189)
	-10.0	468	-10.0	189

Interest rate risk

The interest rate risk is the risk of financial losses due to adverse changes in the interest rates of the Group's financial assets and liabilities.

The Group borrows on both a fixed and variable rate basis and has other interest-bearing liabilities, such as finance lease liabilities. The Group incurs interest rate risk on assets and liabilities with variable interest rate.

In May 2011, the Group had adopted a formal policy with regard to acceptable exposure to fixed and variable interest rates. The Group periodically reviews current interest rates and uses the results of this analysis to decide whether attraction of fixed-rate or variable-rate borrowings is more beneficial for the Group. Further, the Group manages its exposure to variable interest rates by entering into interest rate SWAPs, in which the Group agrees to exchange, at specified intervals, the difference between variable and fixed rate interest calculated by reference to an agreed notional principal amount. At 31 December 2011, after taking into account the effect of interest rate SWAPs, approximately 96% of the Group's borrowings, including finance lease obligations, were at a fixed rate of interest (2010: 94%).

[1] Net monetary position comprises financial assets net of financial liabilities as at 31 December 2011 and 2010.

35. Financial Instruments and Risk Management Objectives and Policies (continued)

Market Risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before taxation (IBT) (through the impact on variable-rate borrowings) for the years ended 31 December 2011 and 2010.

	2011		2010	
	Change in rate	**Effect on IBT**	**Change in rate**	**Effect on IBT**
	(%)	*Rbls mln*	*(%)*	*Rbls mln*
Variable interest financial liabilities	+1.5%	(252)	+1.5%	(319)
	-1.5%	252	-1.5%	319

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 investments, 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, their fair value was estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts 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. 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.

35. Financial Instruments and Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments (continued)

The following table summarizes differences between the carrying amounts and fair values of financial assets and liabilities of the Group as at 31 December 2011.

	Carrying value excluding accrued interest	Fair value	Unrecognised gain / (loss)
	Rbls mln	*Rbls mln*	*Rbls mln*
Financial assets			
Loans issued	15,835	16,915	1,080
Bank deposits	7,233	7,233	–
Other financial assets	11,120	11,120	–
Derivative financial assets	5,093	5,093	–
Financial liabilities			
Long-term fixed rate loans	29,991	29,133	858
Debt securities issued:		–	
- Bonds	177,756	182,608	(4,852)
- Loan participation notes	80,362	80,134	228
Finance lease obligations	11,047	11,546	(499)
Derivative financial liabilities	13,369	13,369	–
Total			**(3,185)**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2011 the Group held the following financial instruments measured at fair value:

	Level 1	Level 2	Level 3	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Assets valued at fair value				
Derivative financial instruments	–	5,093	–	**5,093**
Liabilities valued at fair value				
Derivative financial instruments	–	13,369	–	**13,369**

35. Financial Instruments and Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments (continued)

The following table summarizes differences between the carrying amounts and fair values of financial assets and liabilities of the Group as at 31 December 2010.

	Carrying value excluding accrued interest	Fair value	Unrecognised gain / (loss)
	Rbls mln	*Rbls mln*	*Rbls mln*
Financial assets			
Loans issued	16,227	19,002	2,775
Bank deposits	15,273	15,273	–
Other financial assets	3,188	3,188	–
Derivative financial assets	4,087	4,087	–
Financial liabilities			
Long-term fixed rate loans	27,390	26,994	396
Debt securities issued:			
- Bonds	196,023	210,209	(14,186)
- Loan participation notes	45,583	47,544	(1,961)
Finance lease obligations	35,240	35,115	125
Derivative financial liabilities	14,000	14,000	–
Total			**(12,851)**

Management believes that the carrying values of other financial assets and liabilities not detailed in the above table approximate their fair values as at both 31 December 2011 and 2010.

As at 31 December 2010 the Group held the following financial instruments measured at fair value:

	Level 1	Level 2	Level 3	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Assets valued at fair value				
Derivative financial instruments	–	4,087	–	**4,087**
Liabilities valued at fair value				
Derivative financial instruments	–	14,000	–	**14,000**

Capital Management

Capital includes equity attributable to the equity holders of the parent entity.

The Group manages its capital structure in light of changes in economic conditions and may adjust it by issue of new shares and dividend payments to the shareholder.

36. Events after the Reporting Period

Borrowings

In April 2012, the Group placed 7 years loan participation notes on the Irish stock exchange with the nominal value of Rbls 25,000 million maturing in April 2019 and 10 years loan participation notes with the nominal value of US$ 1,000 million (Rbls 32,196 million at the exchange rate as at 31 December 2011) maturing in April 2022.

In May 2012, the Company placed bonds with the nominal value of Rbls 10,000 million at domestic market.

In July 2012, the Company reissued bonds series 14 at par in the amount of Rbls 9,063 million. These bonds were bought back in April 2012 under the put options granted to the bondholders at Rbls 9,063 million.

In July 2012 RZD entered into a credit line agreement with Royal Bank of Scotland with a credit limit of US$ 500 million available during a period of one year after first loan is obtained by the Company under this credit line.

In June 2012 RZD entered into a credit line agreement with J.P. Morgan Europe Limited with a credit limit of CHF 480 million available during a period of one year after first loan is obtained by the Company under this credit line.

In January 2012, OJSC "Federal Passenger Company", a subsidiary of the Group, signed a credit line agreement with OJSC "VTB Bank" with a credit limit of Rbls 4,700 million. The credit line is available up to 2019.

During the first half of 2012, CJSC "Company TransTeleCom" signed two credit line agreements with OJSC "Sviaz-Bank" and OJSC "Sberbank" with the credit limit up to Rbls 2,300 million each. The credit lines are available during 5 years.

Subsequent to 31 December 2011, the subsidiaries of the Group obtained loans from OJSC "TransCreditBank", an associate of the Group, in total amount of Rbls 6,854 million.

Subsidiaries

In February 2012, CJSC "Company TransTeleCom" acquired 100% shares of CJSC "Electro-com", an operator with a subscriber base of 196 thousand households in several Russian regions, for cash consideration of Rbls 2,350 million.

Share Capital

In March – June 2012, the Company received cash contribution from the shareholder in the amount of Rbls 40,161 million with regard to 40,460,952 of ordinary shares authorized by the Government in December 2011 (Note 22).

36. Events after the Reporting Period

Dividends

In June 2012, the shareholder approved dividends for 2011 in the amount of Rbls 4,205 million for the year 2011. These dividends will be reported in the Group's consolidated financial statements for the year 2012.

Government Subsidies

Russian Government approved provision of the following subsidies to the Group for the year 2012:

- in the amount up to Rbls 30,000 million as a compensation for the effects of tariffs' regulation with regard to long distance passenger transportation;
- in the amount up to Rbls 25,000 million as a compensation for the effects of tariffs' regulation with regard to suburban transportation;
- in the amount up to Rbls 22,242 million as subsidies for capital repairs of the Company's infrastructure;
- other subsidies in amount up to Rbls 4,808 million.

Subsequent to 31 December 2011, certain suburban companies of the Group signed agreements with regional and local authorities for compensation of tariffs' regulation in suburban transportation in the amount up to Rbls 5,081 million for the period 2012-2014.

Commitments

Subsequent to 31 December 2011, the Group signed several agreements mainly for the purchase of locomotives, cargo cars and platforms and for providing maintenance and repair of passenger cars in the total amount of Rbls 191,798 million (including VAT).

Other

In March 2012, RZD signed the frame agreement with JSC "Serbian railways" for participation in a number of railway projects in Serbian Republic for the amount of proceeds up to US$ 920 million.