Russian Railways

Joint Stock Company "Russian Railways"

Unaudited Interim Condensed Consolidated Financial Statements

As of 30 June 2010 and for the six-month period then ended

Open Joint Stock Company "Russian Railways"

Unaudited Interim Condensed Consolidated Financial Statements

As of 30 June 2010 and for the six-month period then ended

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Report on Review of Interim Condensed Consolidated Financial Statements

To the Shareholder of
Open Joint Stock Company (OJSC) "Russian Railways"

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of OJSC "Russian Railways" and its subsidiaries ("the Group"), comprising interim consolidated statement of financial position as at 30 June 2010 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

ERNST & YOUNG

Basis for Qualified Conclusion

(i) In accordance with the Group's accounting policy, property, plant and equipment are carried at revalued amounts. In accordance with IAS 16 "Property, Plant and Equipment", revaluations should be made with sufficient regularity such that the carrying amount of property, plant and equipment does not differ materially from that which would be determined using fair value at the reporting date. The Group has not been able to complete recent revaluations of the property, plant and equipment categories, other than the roadbed. Therefore, we were unable to determine whether the carrying value of the other categories of property, plant and equipment totaling 2,051,827 and 1,922,799 million rubles as of 30 June 2010 and 31 December 2009, respectively, complies with the requirement referred to above. Similarly, we could not determine whether the impairment reserves provided by the Group, are adequate to reflect the value of the Group's total property, plant and equipment at its recoverable value in accordance with IAS 36 "Impairment of Assets". The effects of these departures from International Financial Reporting Standards on the interim condensed consolidated financial statements have not been determined.

(ii) In accordance with requirements of IAS 16, regarding accounting for subsequent expenditures on property, plant and equipment, starting from 1 January 2005 the Group commenced the application of a more comprehensive approach to components accounting for property, plant and equipment by re-defining certain significant components and revising its accounting estimates regarding their useful lives. However, the Group has not consistently applied these new policies for component accounting, including capitalization and determination of useful lives, to certain property, plant and equipment during six months ended 30 June 2010 and in the year ended 31 December 2009. The effects of this departure from International Financial Reporting Standards on the interim condensed consolidated financial statements have not been determined.

Qualified Conclusion

Based on our review, except for the effects on the interim condensed consolidated financial statements of the matters described in the Basis for Qualified Conclusion paragraphs, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

14 February 2011

Open Joint Stock Company "Russian Railways"

Interim Consolidated Statement of Financial Position

(All amounts are in millions of Russian Rubles)

	Notes	30 June 2010 Unaudited	31 December 2009* Audited
ASSETS			
Non-current assets			
Property, plant and equipment	6	**2,433,387**	2,305,227
Goodwill	5	**2,305**	2,305
Intangible assets other than goodwill		**19,409**	18,589
Investments in associates	7	**9,385**	9,407
Venture capital investments	8	**1,645**	–
Other financial assets	9	**130,114**	108,641
Deferred tax asset	29	**3,121**	2,091
Derivative financial assets	32	**4,261**	6,031
Investment property		**2,393**	1,880
Other non-current assets	10	**13,436**	13,447
Total non-current assets		**2,619,456**	2,467,618
Current assets			
Inventories	11	**93,866**	83,620
Prepayments and other current assets	12	**36,153**	34,344
Income tax receivable		**1,241**	1,091
Receivables	13	**69,146**	34,931
Obligatory reserve with Central Bank of Russia		**2,176**	1,247
Securities at fair value through profit or loss	14	**51,775**	22,749
Other financial assets	9	**76,154**	70,371
Derivative financial assets	32	**3,079**	2,320
Cash and cash equivalents	15	**73,278**	74,457
Non-current assets classified as held for sale		**475**	498
Total current assets		**407,343**	325,628
Total assets		**3,026,799**	2,793,246

* *The amounts shown here do not correspond to the 2009 financial statements as previously issued and reflect adjustments made in connection with the completion of initial accounting for business combinations (Note5).*

Continued on next page

Open Joint Stock Company "Russian Railways"

Interim Consolidated Statement of Financial Position (continued)

(All amounts are in millions of Russian Rubles)

	Notes	30 June 2010 Unaudited	31 December 2009* Audited
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	21	**1,654,516**	1,594,516
Additional paid-in capital		**2,808**	2,808
Revaluation reserve		**172,051**	172,051
Unrealised gain on available-for-sale securities, net of tax		**1,335**	568
Retained earnings/(Accumulated deficit) and other reserves		**8,821**	(97,978)
		1,839,531	1,671,965
Non-controlling interests		**23,118**	23,138
Total equity		**1,862,649**	1,695,103
Non-current liabilities			
Deferred tax liabilities	29	**57,494**	40,766
Long-term borrowings	18	**307,714**	293,174
Finance lease obligations, net of current portion		**24,649**	29,279
Employee benefit obligations		**206,059**	198,489
Liabilities to customers	16	**31,106**	19,963
Derivative financial liability	32	**3,388**	331
Other long-term liabilities	19	**15,738**	20,347
Total non-current liabilities		**646,148**	602,349
Current liabilities			
Trade and other payables		**116,890**	99,578
Advances received for transportation		**46,394**	43,843
Liabilities to customers	16	**124,866**	109,078
Finance lease obligations, current portion		**15,931**	16,946
Income tax payable		**655**	1,375
Taxes and similar charges payable	17	**39,439**	29,264
Short-term borrowings	18	**80,903**	111,944
Derivative financial liabilities	32	**3,737**	1,087
Provisions and other current liabilities	20	**89,187**	82,679
Total current liabilities		**518,002**	495,794
Total equity and liabilities		**3,026,799**	2,793,246

* *The amounts shown here do not correspond to the 2009 financial statements as previously issued and reflect adjustments made in connection with the completion of initial accounting for business combinations (Note5).*

Yakunin V.I. President

Kraft G.V. Chief Accountant

11 February 2011

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

Open Joint Stock Company "Russian Railways"

Interim Consolidated Income Statement

(All amounts are in millions of Russian Rubles)

	Notes	Six-month period ended 30 June 2010	Six-month period ended 30 June 2009*
		Unaudited	Unaudited
Revenues			
Cargo revenues		495,983	388,692
Passenger revenues		73,540	71,863
Interest income, fees and commission income (banking operations)		14,038	14,471
Other revenues	23	67,408	56,947
Total revenues	4	650,969	531,973
Operating expenses			
Wages, salaries and related contributions		(259,735)	(220,876)
Materials, repairs and maintenance		(68,398)	(76,610)
Fuel		(28,939)	(22,133)
Electricity		(45,545)	(32,219)
Depreciation and amortization	6	(53,328)	(45,779)
Taxes other than income tax	24	(17,019)	(19,071)
Commercial expenses		(961)	(557)
Bad debt expense	22	(3,808)	(11,794)
Social expenses		(3,801)	(3,666)
Loss on impairment of property, plant and equipment	6	(3,019)	(602)
Interest expense, fees and commission expense (banking operations)		(5,786)	(6,170)
Recovery of loss/(loss) on construction contract		4,153	(7,623)
Other operating expenses	25	(45,731)	(37,488)
Total operating expenses		(531,917)	(484,588)
Operating profit before subsidies from federal and municipal budgets		119,052	47,385
Subsidies from federal and municipal budgets	26	32,376	17,369
Income from operations after subsidies from federal and municipal budgets		151,428	64,754
Interest expense and similar items		(7,718)	(15,149)
Interest income and similar items		2,194	686
Interest expense and similar items, net	28	(5,524)	(14,463)
Changes in fair value and (loss) on disposals of financial assets		(5,583)	(3,096)
Other income, net	27	6,958	1,613
Foreign exchange gain/(loss), net		2,774	(6,803)
Income before taxation	4	150,053	42,005
Income taxes			
Current taxes		(24,279)	(8,559)
Deferred taxes		(15,289)	(10,498)
Total income taxes	29	(39,568)	(19,057)
Net income for the period		110,485	22,948
Attributable to:			
Equity holders of the parent		110,029	22,471
Non-controlling interests		456	477

* *The amounts shown here do not correspond to the interim condensed consolidated financial statements as at 30 June 2009 and for six-month period then ended as previously issued and reflect adjustments made in connection with the completion of initial accounting for business combinations (Note5) and associates (Note 7).*

Yakunin V.I. — President
Kraft G.V. — Chief Accountant
11 February 2011

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

Open Joint Stock Company “Russian Railways”

Interim Consolidated Statement of Comprehensive Income

(All amounts are in millions of Russian Rubles)

	Notes	Six-month period ended 30 June 2010	2009*
		Unaudited	
Net income for the period		**110,485**	22,948
Net gains on available-for-sale financial assets		**200**	157
Income tax effect		**(40)**	(31)
Other comprehensive income attributable to investments in associates		**680**	475
Translation difference		**384**	–
		1,224	601
Other comprehensive income for the period, net of tax		**1,224**	601
Total comprehensive income for the period, net of tax		**111,709**	23,549
Attributable to:			
Equity holders of the parent		**111,180**	23,015
Non-controlling interests		**529**	534

* *The amounts shown here do not correspond to the interim condensed consolidated financial statements as at 30 June 2009 and for six-month period then ended as previously issued and reflect adjustments made in connection with the completion of initial accounting for business combinations (Note 5) and associates (Note 7).*

Yakunin V.I. — President

Kraft G.V. — Chief Accountant

11 February 2011

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

Open Joint Stock Company "Russian Railways"

Interim Consolidated Statement of Changes in Equity

(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	Revaluation reserve	Unrealized gain on available-for-sale securities, net of tax	Retained earnings/ (Accumulated deficit) and other reserves	Total	Non-controlling interests	Total equity
As at 31 December 2009 (as previously reported) audited		**1,594,516,219**	**1,594,516**	**2,808**	**172,051**	**568**	**(97,903)**	**1,672,040**	**23,145**	**1,695,185**
Adjustments to provisional values	5						(75)	(75)	(7)	(82)
As at 31 December 2009 (as restated)*		**1,594,516,219**	**1,594,516**	**2,808**	**172,051**	**568**	**(97,978)**	**1,671,965**	**23,138**	**1,695,103**
Net income for the period		–	–	–	–	–	110,029	110,029	456	110,485
Other comprehensive income		–	–	–	–	767	384	1,151	73	1,224
Total comprehensive income		–	–	–	–	**767**	**110,413**	**111,180**	**529**	**111,709**
Capital contribution by shareholder	21	60,000,000	60,000	–	–	–	–	60,000	–	60,000
Acquisition of non-controlling interests in existing subsidiaries		–	–	–	–	–	(2)	(2)	(191)	(193)
Dividends	21	–	–	–	–	–	(3,612)	(3,612)	(358)	(3,970)
As at 30 June 2010 (unaudited)		**1,654,516,219**	**1,654,516**	**2,808**	**172,051**	**1,335**	**8,821**	**1,839,531**	**23,118**	**1,862,649**

* *The amounts shown here do not correspond to the interim condensed consolidated financial statements as at 30 June 2009 and for six-month period then ended as previously issued and reflect adjustments made in connection with the completion of initial accounting for business combinations (Note5).*

Continued on next page

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

Open Joint Stock Company "Russian Railways"

Interim Consolidated Statement of Changes in Equity (continued)

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

	Notes	Attributable to equity holders of the parent: Share capital: Common shares	Share capital: Amount	Additional paid-in capital	Revaluation reserve	Unrealized gain (loss) on available-for-sale securities, net of tax	Accumulated deficit and other reserves	Total	Non-controlling interests	Total equity
As at 31 December 2008		**1,583,197,819**	**1,583,198**	**2,808**	**172,051**	**(212)**	**(249,267)**	**1,508,578**	**17,612**	**1,526,190**
Net income for the period*	7	–	–	–	–	–	22,471	22,471	477	22,948
Other comprehensive income*	7	–	–	–	–	544	–	544	57	601
Total comprehensive income		–	–	–	–	**544**	**22,471**	**23,015**	**534**	**23,549**
Acquisition of non-controlling interests in existing subsidiaries		–	–	–	–	–	(586)	(586)	(824)	(1,410)
Non-controlling interests arising from acquisition of subsidiary		–	–	–	–	–	(828)	(828)	2,033	1,205
Capital contribution to share capital of subsidiaries by non-controlling shareholders		–	–	–	–	–	–	–	612	612
Sale of non-controlling interest in existing subsidiaries (net of income tax)		–	–	–	–	–	–	–	338	338
Dividends		–	–	–	–	–	–	–	(56)	(56)
As at 30 June 2009 (unaudited)		**1,583,197,819**	**1,583,198**	**2,808**	**172,051**	**332**	**(228,210)**	**1,530,179**	**20,249**	**1,550,428**

** The amounts shown here do not correspond to the interim condensed consolidated financial statements as at 30 June 2009 and for six-month period then ended as previously issued and reflect adjustments made in connection with the completion of initial accounting for business combinations (Note5) and associates (Note 7).*

Yakunin V.I. — President

Kraft G.V. — Chief Accountant

11 February 2011

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

Open Joint Stock Company "Russian Railways"

Interim Consolidated Statement of Cash Flows

(All amounts are in millions of Russian Rubles)

	Notes	Six-month period ended 30 June 2010	2009*
		Unaudited	
Cash flows from operating activities			
Income before taxation		**150,053**	42,005
Adjustments to reconcile income to cash generated from operations			
Depreciation and amortization		**53,328**	45,779
Gain on bargain purchase of TGK-14	27	**–**	(959)
Impairment of goodwill	27	**–**	956
Share of profit in associate	27	**(2,141)**	(4,069)
Impairment of investments in associates	27	**2,992**	4,663
Changes in fair value and loss on disposals of financial assets		**5,583**	3,096
Bad debt expense	22	**3,808**	11,794
(Gain) on disposal of property, plant and equipment, net	27	**(992)**	(1,441)
Recovery of loss/(loss) on construction contracts		**(4,153)**	5,965
Loss on impairment of property, plant and equipment	6	**3,019**	602
Interest expense and similar items, net	28	**5,524**	14,463
Accrual of provision for obsolete and damaged inventory		**316**	1,015
Change in provision for legal claims	20,27	**558**	(502)
Change in provision for tax liabilities, net	20	**719**	2,321
Foreign exchange (gain)/loss, net		**(2,774)**	6,803
Loss/(gain) on reusable spare parts		**4,281**	(2,433)
Operating income before working capital changes		**220,121**	130,058
(Increase) in receivables		**(34,841)**	(7,398)
(Increase)/Decrease in prepayments and other current assets		**(2,064)**	3,310
(Increase) in inventories		**(12,335)**	(6,246)
Increase/(Decrease) in trade and other payables		**6,713**	(5,072)
Increase in advances received for transportation		**2,551**	62
Increase in liabilities to customers		**27,613**	5,504
Increase in taxes and similar charges payable		**10,175**	6,132
Increase/(Decrease) in other current liabilities		**5,298**	(897)
(Increase) in obligatory reserves in Central Bank		**(929)**	(276)
(Decrease) in short-term borrowings of banking subsidiary		**(11,139)**	(30,044)
Increase in employee benefit obligations		**7,570**	6,010
Decrease/(Increase) in other non-current assets		**333**	(457)
(Decrease) in other long-term liabilities		**(3,950)**	(2,498)
(Increase) in securities at fair value through profit or loss		**(28,631)**	(5,174)
(Increase) in other financial assets of banking subsidiary, including non-current part		**(31,162)**	(1,947)
Net cash from operating activities before income taxes		**155,323**	91,067
Income taxes paid		**(24,950)**	(7,946)
Net cash from operating activities		**130,373**	83,121

** The amounts shown here do not correspond to the interim condensed consolidated financial statements as at 30 June 2009 and for six-month period then ended as previously issued and reflect adjustments made in connection with the completion of initial accounting for business combinations (Note5) and associates (Note 7).*

Continued on next page

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

(All amounts are in millions of Russian Rubles)

	Notes	Six-month period ended 30 June 2010	Six-month period ended 30 June 2009*
		Unaudited	
Cash flows from investing activities			
Capital expenditures		(159,129)	(150,492)
Proceeds from disposal of property, plant and equipment		1,344	1,567
Purchase of intangibles		(2,917)	(2,116)
Proceeds from disposal of/advances received for disposal of groups classified as assets held for sale		23	46
Loans repaid(given), deposits repaid (placed), net		2,263	(1,738)
Proceeds from/(Acquisition) of other financial assets		2,516	(529)
Purchase of venture capital investments		(1,298)	–
Acquisition of subsidiaries, net of cash acquired	5	–	(115)
Acquisition of investments in associates /advances paid in respect of acquisition of interest in associates		(407)	–
Interest received		1,330	688
Net cash (used in) investing activities		(156,275)	(152,689)
Cash flows from financing activities			
Proceeds from long-term borrowings		67,814	114,356
(Repayment) of long-term borrowings		(44,022)	(46,536)
(Repayment) of short-term borrowings, net		(31,312)	(47,111)
(Repayment) of finance lease obligations, including finance charges		(9,673)	(11,133)
Proceeds from/(Repayment) under derivative contracts		222	(1,234)
Acquisition of non-controlling interests in existing subsidiaries		(193)	(1,106)
Interest paid		(17,428)	(16,120)
Dividends paid		(358)	(56)
Proceeds from disposal of non-controlling share in existing subsidiaries		–	338
Contribution to share capital from shareholder	21	60,000	16,925
Net cash from financing activities		25,050	8,323
Net (decrease) in cash and cash equivalents		(852)	(61,245)
Net foreign exchange differences		(327)	4,502
Cash and cash equivalents at the beginning of the period	15	74,457	117,182
Cash and cash equivalents at the end of the period	15	73,278	60,439

**The amounts shown here do not correspond to the interim condensed consolidated financial statements as at 30 June 2009 and for six-month period as previously issued and reflect adjustments made in connection with the completion of initial accounting for business combinations (Note5) and associates (Note 7).*

Yakunin V.I. — President

Kraft G.V. — Chief Accountant

11 February 2011

1. Description of Business and Operating Environment

Corporate information

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 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 Government of Russian Federation.

These interim condensed consolidated financial statements of RZD and its subsidiaries (the "Group") for the six-month period ended June 30, 2010 were authorized for issue by the management of RZD on 11 February 2011.

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

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 a decline in the gross domestic product, capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity to Russian banks and companies, there continues to be uncertainty at Russian capital markets regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects. However the positive trend of moderate growth was shown by the Russian economy in 2010, in particular, the GDP growth comprised 4% compared to 2009, refinancing rate of the Central Bank of Russian Federation decreased by 1% as of 30 June 2010 in comparison with 31 December 2009, rates on the Russian debt market relatively decreased in 2010 in comparison with 2009.

Also, factors including increased unemployment in Russia, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the Group's borrowers' ability to repay the amounts due to the Group. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held by the Group against loans and other obligations. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment. These circumstances primary relate to the banking subsidiary of the Group.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

1. Description of Business and Operating Environment (continued)

Currency exchange

The exchange rate of the Ruble to 1 US dollar equated to 31.20 and 30.24 as of 30 June 2010 and 31 December 2009, accordingly. The exchange rate of the Ruble to 1 EUR equated to 38.19 and 43.39 as of 30 June 2010 and 31 December 2009, correspondingly.

As of 11 February 2011 the exchange rate was Rubles 29.35 to 1 US dollar and Rubles 40.14 to 1 Euro.

Liquidity

As of 30 June 2010, the Group's current liabilities exceeded its current assets by Rbls 110,659 (31 December 2009: 170,166). 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:

- Attracting borrowings from lending institutions,
- Raising funds by issuing bonds at domestic and foreign markets.

Management believes that through 12 months after the date of authorization of these financial statements for issuance, there will be sufficient funding from existing cash balances, cash generated from operations and debt financing.

2. Basis of Preparation and Accounting Policies

Basis of preparation

The interim condensed consolidated financial statements for the six-month period ended 30 June 2010 have been prepared in accordance with International Accounting Standard ("IAS") 34 *"Interim Financial Reporting"*. Accordingly, the interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2009. Operating results for the six-month period ended 30 June 2010 are not necessarily indicative of the results that may be expected for the year ending 31 December 2010.

2. Basis of Preparation and Accounting Policies (continued)

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2009, except that the Group has adopted those new and revised standards mandatory for financial years beginning on or after 1 January 2010.

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

- IFRS 2 *"Share-based Payment"* – Group Cash-settled Share-based Payment Transactions (effective from 1 January 2010);
- IFRS 3 *"Business Combinations"* (Revised) (effective for annual periods beginning on or after 1 July 2009);
- IAS 27 *"Consolidated and Separate Financial Statements"* (effective for annual periods beginning on or after 1 July 2009);
- IAS 39 *"Financial Instruments: Recognition and Measurement"* – Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009);
- IFRIC 17 *"Distributions of Non-Cash Assets to Owners"* (effective for annual periods beginning on or after 1 July 2009);
- Improvements to IFRS.

IFRS 2 "Group Cash-settled Share-based Payment Transactions"
The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IFRS 3 "Business Combinations" (Revised)
The revised standard introduced changes in the accounting for business combinations that impact the valuation of non-controlling interests, the accounting of transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. The adoption of this amendment did not have any material impact on the financial position or performance of the Group.

IAS 27 "Consolidated and Separate Financial Statements"
The amended standard requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions do not give rise to goodwill, nor they give rise to a gain or loss. Furthermore, the amended standard changed the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The adoption of this amendment did not have any material impact on the financial position or performance of the Group.

2. Basis of Preparation and Accounting Policies (continued)

Significant accounting policies (continued)

IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible Hedged Items
The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment had no effect on the financial position or performance of the Group.

IFRIC 17 "Distributions of Non-cash Assets to Owners"
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position or performance of the Group.

Improvements to IFRSs (issued May 2008)
In May 2008 IASB issued its first omnibus of amendments to IFRS. All amendments issued are effective for the Group as at December 2009, apart from the following:

- *IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"*
  The amendment clarifies when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and had no impact on the financial position or financial performance of the Group.

Improvements to IFRSs (issued April 2009)
In April 2009 IASB issued its second omnibus of amendments to IFRS, 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.

- IAS 7 *"Statement of Cash Flows"*
  The amended standard explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. The amendment had no material impact on the statement of cash flows of the Group.

- IAS 36 *"Impairment of Assets"*
  The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no any impact on the financial position or performance of the Group.

2. Basis of Preparation and Accounting Policies (continued)

Significant accounting policies (continued)

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 2 *"Share-based Payment"*
- IFRS 5 *"Non-current Assets Held for Sale and Discontinued Operations"*
- IAS 1 *"Presentation of Financial Statements"*
- IAS 17 *"Leases"*
- IAS 38 *"Intangible Assets"*
- IAS 39 *"Financial Instruments: Recognition and Measurement"*
- IFRIC 9 *"Reassessment of Embedded Derivatives"*
- IFRIC 16 *"Hedge of a Net Investment in a Foreign Operation"*

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

3. Seasonality of Operations

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

4. Segment Reporting

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

- *Cargo* segment includes cargo transportation services provided by the Company.
- *Long-distance* passenger segment comprises all cross-regional passenger transportation services provided by the Company. Starting April 2010 substantial part of cross-regional passenger transportation was transferred to OJSC "Federal Passenger Company", 100% subsidiary of the Company. These operations were segregated in a separate operating segment reported within *All other segments* described below. The Company did not restate the corresponding information the earlier periods and did not disclose segment information for the current period on both old and new basis of segmentation as the necessary information is not available.
- *Suburban passenger* segment includes intraregional rail passenger transportation services.
- *Banking* segment includes operations of TransCreditBank, the Company's banking subsidiary.

4. Segment Reporting (continued)

- *Auxiliary operations* segment include repair and maintenance of rolling stock, energy re-sale, construction and other services provided by the Company's branches.
- *All other segments* include activities of the Company's subsidiaries which provide services related to cargo transportation, long-distance and 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.

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.

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;
- gain from sale of assets held for sale;
- penalties charged to customers;
- 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 property, plant and equipment;

(All amounts are in millions of Russian Rubles, unless stated otherwise)

4. Segment Reporting (continued)

- loss from sale of assets held for sale;
- loss on impairment of property, plant and equipment (PP&E);
- contributions to finance activities of trade union, membership in professional organizations;
- bank charges;
- income tax expense;
- bad debt expense;
- social expenses;
- other expenses.

Segment result is measured as segment revenue less segment expense.

The following table presents measures of segment results of the Group's reportable operating segments:

Six-month period ended 30 June 2010

	Cargo	Long-distance passenger	Suburban passenger	Auxiliary operations	Banking	All other segments	Eliminations (A)	Adjustments (B)	Total
Sales to third parties	438,301	25,504	8,491	35,443	14,161	133,304	–	(4,235)	650,969
Inter-segment sales	29,819	–	–	44,200	1,606	73,745	(149,370)	–	–
Total revenue	**468,120**	**25,504**	**8,491**	**79,643**	**15,767**	**207,049**	**(149,370)**	**(4,235)**	**650,969**
Segment result	**96,086**	**(21,380)**	**(15,239)**	**10,415**	**3,724**	**1,985**	**(1,893)**	**76,355**	**150,053**

Six-month period ended 30 June 2009

	Cargo	Long-distance passenger	Suburban passenger	Auxiliary operations	Banking	All other segments	Eliminations (A)	Adjustments (B)	Total
Sales to third parties	348,486	54,861	9,033	37,278	14,472	74,916	–	(7,073)	531,973
Inter-segment sales	21,029	–	–	13,018	889	54,392	(89,328)	–	
Total revenue	**369,515**	**54,861**	**9,033**	**50,296**	**15,361**	**129,308**	**(89,328)**	**(7,073)**	**531,973**
Segment result	**37,610**	**(19,133)**	**(12,670)**	**3,295**	**994**	**(1,049)**	**(1,183)**	**34,141**	**42,005**

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

(All amounts are in millions of Russian Rubles, unless stated otherwise)

4. Segment Reporting (continued)

(B) The segment result of each operating segment does not include the following adjustments related to differences between management accounts and financial statements prepared in accordance with IAS 34 as for the six-month period ended 30 June 2010 and 2009:

	2010	2009
Income from rent of cargo cars and other property classified as other income	**(4,553)**	(4,594)
Other adjustments to revenue	**318**	(2,479)
	(4,235)	(7,073)
PP&E adjustments (C)	**71,359**	79,813
Adjustments to bad debt expense	**1,399**	(6,080)
Additional long-term employee benefits obligations	**(10,185)**	(5,872)
Subsidies from federal and municipal budgets not included in segment results (Note 26)	**32,376**	17,369
Interest expense and similar items, net not included in segment results (Note 28)	**(5,524)**	(14,463)
Changes in fair value and (loss) on disposal of financial assets not included in segment results	**(5,583)**	(3,096)
Foreign exchange gain/(loss), net not included in segment results	**2,774**	(6,803)
Recovery of loss/(loss) on construction contract	**4,153**	(5,965)
Loss on impairment of property, plant and equipment	**(3,019)**	(602)
Provision for tax liabilities (Note 20)	**(719)**	(2,321)
Other adjustments	**(6,441)**	(10,766)
Total adjustments to income before taxation	**76,355**	34,141

(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 financial statements prepared in accordance with IAS 34.

5. Acquisitions of Ownership Interests in Subsidiaries

Acquisition of CJSC "West Bridge"

In November 2009 the Group through its 54.4% owned banking subsidiary (the Bank) purchased 96.36% shares of CJSC "West Bridge" for cash consideration of Rbls 1,207. The amounts recognised in the consolidated financial statements for assets and liabilities of CJSC "West Bridge" and respective non-controlling interests as of 31 December 2009 have been determined provisionally.

(All amounts are in millions of Russian Rubles, unless stated otherwise)

5. Acquisitions of Ownership Interests in Subsidiaries (continued)

Acquisition of CJSC "West Bridge" (continued)

As of the date of authorisation of these interim condensed consolidated financial statements for issuance, the Company completed assessment of the fair values of assets and liabilities of CJSC "West Bridge" and respective non-controlling interests. As a result of completion of initial accounting for this business combination the amounts previously reported in annual IFRS consolidated financial statements as of and for the year ended 31 December 2009 were restated as follows:

	Provisional fair values as previously reported	Final estimation of fair values as restated	Adjustments to provisional values
CJSC "West Bridge"			
Cash and cash equivalents	74	74	–
Investment property	1,880	1,880	–
Other assets	39	36	(3)
	1,993	**1,990**	**(3)**
Amounts due to the Bank	581	581	–
Amounts due to customers	22	22	–
Current tax liabilities	10	10	–
Deferred tax liabilities	–	196	196
Other liabilities	50	50	–
	663	**859**	**196**
Net assets	1,330	1,131	(199)
Less: non-controlling interests	(48)	(41)	7
Net assets acquired	**1,282**	**1,090**	**(192)**
Consideration paid by the Group	**1,207**	**1,207**	–

As a result of completion of initial accounting of business combination the goodwill was recognized in the amount of 117. The excess of the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of CJSC "West Bridge" over cost of acquisition, which was previously recognized in the Consolidated Income statement in the amount of Rbls 75, was retrospectively reversed.

(All amounts are in millions of Russian Rubles, unless stated otherwise)

6. Property, Plant and Equipment

Property, plant and equipment as of 30 June 2010 and 31 December 2009 comprised the following:

30 June 2010

Gross book value	Balance as of 1 January 2010	Additions	Disposals	Transfers	Balance as of 30 June 2010
Land	5,795	133	(68)	–	5,860
Buildings	186,248	695	(573)	4,472	190,842
Constructions	457,993	2,757	(2,366)	11,037	469,421
Roadbed	419,249	391	(12)	1,570	421,198
Superstructure	312,628	17,521	(10,367)	2,465	322,247
Operating equipment	510,815	56	(2,907)	14,759	522,723
Locomotives	190,671	5	(1,055)	12,170	201,791
Rolling stock, cargo	186,122	2,167	(8,018)	9,556	189,827
Rolling stock, passenger	168,021	2,151	(1,163)	10,307	179,316
Other fixed assets	122,522	148	(380)	6,984	129,274
Construction-in-progress	257,557	160,043	(637)	(73,320)	343,643
Less: impairment	(23,966)	(3,242)	223	–	(26,985)
Total	**2,793,655**	**182,825**	**(27,323)**	–	**2,949,157**

Accumulated depreciation

	Balance as of 1 January 2010	Depreciation charge for the period	Accumulated depreciation on disposals	Balance as of 30 June 2010
Land	–	–	–	–
Buildings	(16,008)	(1,559)	124	(17,443)
Constructions	(58,916)	(5,368)	809	(63,475)
Roadbed	(32,529)	(2,943)	1	(35,471)
Superstructure	(18,903)	(7,541)	10,067	(16,377)
Operating equipment	(147,032)	(18,026)	3,233	(161,825)
Locomotives	(62,469)	(4,226)	1,056	(65,639)
Rolling stock, cargo	(74,475)	(3,998)	7,310	(71,163)
Rolling stock, passenger	(41,419)	(4,272)	1,096	(44,595)
Other fixed assets	(36,677)	(3,299)	194	(39,782)
Total	**(488,428)**	**(51,232)**	**23,890**	**(515,770)**

Net book value	Balance as of 30 June 2010	Balance as of 31 December 2009
Land	**5,860**	5,795
Buildings	**173,399**	170,240
Constructions	**405,946**	399,077
Roadbed	**385,727**	386,720
Superstructure	**305,870**	293,725
Operating equipment	**360,898**	363,783
Locomotives	**136,152**	128,202
Rolling stock, cargo	**118,664**	111,647
Rolling stock, passenger	**134,721**	126,602
Other fixed assets	**89,492**	85,845
Construction-in-progress	**343,643**	257,557
Less impairment	**(26,985)**	(23,966)
Total	**2,433,387**	2,305,227

(All amounts are in millions of Russian Rubles, unless stated otherwise)

6. Property, Plant and Equipment (continued)

Borrowing costs capitalized as property, plant and equipment during the six-month period ended 30 June 2010 using a capitalization rate of 10.9% amounted to Rbls 15,060 (six-month period ended 30 June 2009: Rbls 6,916 using capitalization rate of 8.3%).

7. Investments in Associates

The Group holds investments in a number of associates, with ownership interests varying from 20% to 50%. The Group accounted for investments in joint ventures and associates under the equity method. Investments in associates comprised the following as of 30 June 2010 and 31 December 2009:

	30 June 2010	31 December 2009
The Breakers Investments B.V. (TransMashHolding)	**6,960**	6,960
Other	**2,425**	2,447
	9,385	9,407

Acqusition of associates, engaged in provision of banking and financial services

On 30 December 2008, the Group acquired significant influence over KIT Finance Holding company LLC (45% interest), OJSC KIT Finance Investment bank (45% interest) and Web-invest.ru Ltd. (45% interest) (jointly also – Associated Investment Companies) for nominal consideration of 45 roubles each.

Associated Investment Companies are engaged in provision of banking and financial services and asset management. Associated Investment Companies are related parties and their business activities are significantly interrelated. In 2009, the Central Bank of Russia approved a financial restructuring plan (hereinafter – the Plan) with regard to OJSC KIT Finance Investment bank (hereinafter also – the Associated Bank), aimed at improvement of the Associated Bank's financial position.

As of 30 June 2009 and 30 June 2010, all Associated Investment Companies have negative net assets and need to continue attracting external financing and sell non-core assets to maintain their liquidity.

At December 31, 2008, the acquisition of Associated Investment Companies was accounted for based on provisional values as the Group, at the date of authorisation for issuance of the financial statements for the six-month period ended 30 June 2009, did not complete initial accounting for acquisition in accordance with IFRS 3 *"Business Combinations"*.

7. Investments in Associates (continued)

In 2009, the Group finalised its initial accounting on the acquisition of Associated Investment Companies. The Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities of Associated Investment Companies at the date of acquisition which resulted in restatement of the Group's consolidated statements of income and comprehensive income for the six-month period ended 30 June 2009 reported in the previously issued interim condensed consolidated financial statements for the six-month period ended 30 June 2009. As a result, for the six-month period ended 30 June 2009, share of net loss and other comprehensive income of OJSC KIT Finance Investment bank increased by Rbls 594 and Rbls 594, respectively, and share of net income of KIT Finance Holding company LLC increased by Rbls 4,663. As of 30 June 2009 the Group also recognized additional impairment of its investment in KIT Finance Holding company LLC (refer to Note 27). As a result, carrying value of the Group's investment into KIT Finance Holding company LLC was written down to nil. There was no effect of restatement on accounting for investment in Web-invest.ru Ltd, as RZD has not recognised its share in losses of Web-invest.ru amounting to Rbls 289 million. At 30 June 2009 the accumulated loses not recognised were Rbls 289 and carrying value of the Group's investment into this associate is nil.

For the six-month period ended 30 June 2010, RZD recognized its share of net income and other comprehensive income of OJSC KIT Finance Investment bank of Rbls 2,141 and Rbls 851.

At 30 June 2010 the Group recognized impairment of its investment in OJSC KIT Finance Investment bank (refer to Note 27). As a result, carrying value of the Group's investment into OJSC KIT Finance Investment bank was written down to nil.

For the six-month period ended 30 June 2010 RZD has not recognised losses amounting to Rbls 313 million for KIT Finance Holding company LLC. At 30 June 2010 the accumulated loses not recognised were Rbls 330 and carrying value of the Group's investment into this associate is nil.

For the six-month period ended 30 June 2010, the Group's share of net income of Web-invest.ru Ltd. comprised Rbls 1,090. Due to the fact that there were previously accumulated losses of Web-invest.ru Ltd not recognized by the Group, this share of net income was not recognized. As a result, at 30 June 2010, the accumulated losses not recognized for Web-invest.ru Ltd. were Rbls 5 (31 December 2009: Rbls 1,095) and carrying value of the Group's investment into this associate is nil (31 December 2009: nil).

8. Venture Capital Investment

As at 30 June 2010 the Group through its 54.4% owned banking subsidiary (the Bank) obtained 25% plus 1 unit in LLC "Integrirovannaya Vagonostroitelnaya Company" in exchange for Rbls 1,298 in cash and 30% in JSC "Transmash" with the carrying amount of Rbls 491, which as at 31 December 2009 was included in investments in associates. LLC "Integrirovannaya Vagonostroitelnaya Company" is a holding company with controlling shareholdings in two industrial enterprises – JSC "PO "Bezhickaya stal" and JSC "Transmash". As at 30 June 2010, 60% of LLC "Integrirovannaya Vagonostroitelnaya Company" was owned by 100% subsidiary of The Breakers Investments B.V., the Group's 25% owned associate.

(All amounts are in millions of Russian Rubles, unless stated otherwise)

8. Venture Capital Investment (continued)

As at 30 June 2010, the Group applied an exemption to IAS 28 *"Investments in associates"* and treated the above investment as held by venture capital organizations, and measured it at fair value through profit or loss in accordance with IAS 39 *"Financial Instruments: Recognition and Measurement"*.

9. Other Financial Assets

Other financial assets as of 30 June 2010 and 31 December 2009 comprised the following:

Current

	30 June 2010	31 December 2009
Bank deposits	**1,284**	3,278
Loans issued, net of impairment reserve (B)	**72,442**	53,224
Reverse repurchase agreements with banks (A)	**–**	11,041
Other	**2,428**	2,828
Total	**76,154**	70,371

(A) As at 31 December 2009 the Group entered into reverse repurchase agreements amounting to Rbls 11,041 with related parties. The subjects of these agreements were marketable bonds issued by the Company with a fair value of Rbls 10,790 and marketable shares of a Russian company with a fair value of Rbls 1,830. Settlements under this reverse repurchase agreements were completed as of 30 June 2010.

Non-current

	30 June 2010		
	Cost	Impairment provision	Carrying value
Bank deposits	2,873	–	2,873
Loans issued, net of impairment reserve (B)	120,024	(5,415)	114,609
Other (C)	13,064	(432)	12,632
Total	**135,961**	**(5,847)**	**130,114**

	31 December 2009		
	Cost	Impairment provision	Carrying value
Bank deposits	8,387	–	8,387
Loans issued, net of impairment reserve (B)	99,032	(4,536)	94,496
Other (C)	6,084	(326)	5,758
Total	**113,503**	**(4,862)**	**108,641**

(All amounts are in millions of Russian Rubles, unless stated otherwise)

9. Other Financial Assets (continued)

Non-current (continued)

(B) As of 30 June 2010 and 31 December 2009 loans issued comprised primarily the loans extended by TransCreditBank as follows:

	30 June 2010		31 December 2009	
	Current	**Non-Current**	**Current**	**Non-current**
Loans to corporate customers	**75,445**	**66,995**	57,129	46,758
Loans to individuals	**4,095**	**53,029**	2,645	52,274
Total	**79,540**	**120,024**	59,774	99,032
Less – allowance for loans impairment	**(7,098)**	**(5,415)**	(6,550)	(4,536)
Loans to customers	**72,442**	**114,609**	53,224	94,496

As at 30 June 2010, long-term loans to corporate customers of Rbls 24,844 (31 December 2009: Rbls 14,992) were extended to related parties, whose ability to repay these loans substantially depends on cash flows receivable by these related parties from RZD. These related parties in certain instances act as lessors in transactions with RZD (refer to Note 30).

Included in loans to individuals as of 30 June 2010 are consumer loans of Rbls 19,759 (31 December 2009: Rbls 19,874) and mortgage loans of Rbls 23,844 (31 December 2009: Rbls 23,522) provided to RZD employees.

Loans to corporate customers also include two long-term loans issued by RZD to OJSC KIT Finance Investment bank in the contractual amount of Rbls 22,000 (31 December 2009: Rbls 22,000) bearing interest at 7.5% per annum (31 December 2009: 7.5% per annum), payable on quarterly basis and repayable during the period from 2010 till 2014 (Note 30).

(C) Other non-current financial assets as of 30 June 2010 and 31 December 2009 comprise primarily corporate bonds, and bonds issued by local and regional governments. The bonds bear interest of LIBOR plus 0.9% to 2.2% and the fixed rate 6,0% to 13,3% (31 December 2009: 7-15%) and mature during the period not exceeding 6 years (31 December 2009: up to 8 years).

10. Other Non-Current Assets

Other non-current assets as of 30 June 2010 and 31 December 2009 comprised the following:

	30 June 2010	**31 December 2009**
Long-term real estate projects	**9,779**	8,871
Other	**3,657**	4,576
Total other non-current assets	**13,436**	13,447

Long-term real estate projects as of 30 June 2010 and 31 December 2009 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 are included in other long-term liabilities (Note 19).

(All amounts are in millions of Russian Rubles, unless stated otherwise)

11. Inventories

Inventories as of 30 June 2010 and 31 December 2009 comprised the following:

	30 June 2010	31 December 2009
Raw materials	**31,594**	30,298
Spare parts and construction materials	**45,175**	36,264
Fuel and lubricants	**5,862**	6,542
Merchandise inventories	**5,791**	5,158
Other	**9,039**	8,637
Total	**97,461**	86,899
Less: provision for obsolete and damaged inventory	**(3,595)**	(3,279)
Total inventories, net	**93,866**	83,620

12. Prepayments and Other Current Assets

Prepayments and other current assets as of 30 June 2010 and 31 December 2009 comprised the following:

	30 June 2010	31 December 2009
Input VAT	**16,640**	15,878
Less: allowance for impairment (A)	**(967)**	(1,008)
	15,673	14,870
Advances paid to suppliers	**12,565**	12,974
Less: allowance for impairment	**(3,807)**	(2,768)
	8,758	10,206
Prepaid other taxes	**8,480**	6,061
Other current assets	**3,242**	3,207
Total prepayments and other current assets	**36,153**	34,344

(A) 100% allowance for impairment was recognized by the Company as of 30 June 2010 and 31 December 2009 with respect of input VAT related to abandoned construction projects.

(All amounts are in millions of Russian Rubles, unless stated otherwise)

13. Receivables

Receivables as of 30 June 2010 and 31 December 2009 comprised the following:

	30 June 2010	31 December 2009
Receivables for transportation services (A)	**27,351**	9,430
Other accounts receivable (B)	**41,795**	25,501
Total receivables	**69,146**	34,931

(A) Receivables for transportation services as of 30 June 2010 and 31 December 2009 comprised the following:

	30 June 2010	31 December 2009
Receivables for transportation services	**50,635**	31,300
Less: allowance for impairment	**(23,284)**	(21,870)
Total receivables for transportation services	**27,351**	9,430

(B) Other accounts receivable as of 30 June 2010 and 31 December 2009 comprised the following:

	30 June 2010	31 December 2009
Other accounts receivable	**45,023**	28,907
Less: allowance for impairment	**(3,228)**	(3,406)
Total other accounts receivable	**41,795**	25,501

14. Securities at Fair Value through Profit or Loss

Securities at fair value through profit or loss are held by TransCreditBank and comprised the following as of 30 June 2010 and 31 December 2009:

30 June 2010	Amount	Interest (%)	Original maturity
Russian state bonds	33,948	5.8% - 12%	1-4 years
Corporate bonds	13,619	7.8% - 18%	1-10 years
Bonds of local and regional authorities	1,769	8% - 12.5%	1-4 years
Corporate shares	2,439		
Total	**51,775**		

31 December 2009	Amount	Interest (%)	Original maturity
Russian state bonds	9,378	5.8% - 11.3%	1-6 years
Corporate bonds	8,683	8.4% - 16%	1-8 years
Bonds of local and regional authorities	2,258	8% - 12.5%	1-2 years
Corporate shares	2,430		
Total	**22,749**		

(All amounts are in millions of Russian Rubles, unless stated otherwise)

14. Securities at Fair Value through Profit or Loss (continued)

Russian state bonds include mainly Federal loan bonds (OFZ). OFZ are Rouble-denominated government securities issued and guaranteed by the Ministry of Finance of the Russian Federation.

Corporate bonds represent primarily bonds of leading Russian companies.

15. Cash and Cash Equivalents

Cash and cash equivalents as of 30 June 2010 and 31 December 2009 comprised the following:

	30 June 2010	31 December 2009
Cash in local currency	**41,042**	28,474
Bank deposits and other cash equivalents	**26,645**	35,263
Cash in foreign currencies (primarily in US Dollars, Euro, Libyan Dinars)	**5,591**	10,720
Total cash and cash equivalents	**73,278**	74,457

16. Liabilities to Customers

Liabilities to customers as of 30 June 2010 and 31 December 2009 represented liabilities related to activities of the banking subsidiary and comprised the following:

	30 June 2010		31 December 2009	
	Current	Non-current	Current	Non-current
Legal entities				
Current accounts	**43,613**	–	24,370	–
Time deposits	**32,644**	**17,368**	45,008	6,591
Subordinated debts	**–**	**13,738**	–	13,372
	76,257	**31,106**	69,378	19,963
Individuals				
Current accounts	**21,820**	–	19,175	–
Time deposits	**26,789**	–	20,525	–
	48,609	–	39,700	
Amounts due to customers	**124,866**	**31,106**	109,078	19,963

In accordance with the current legislation, the Group is obliged to repay time deposits of individuals upon demand of a depositor. Accordingly, such deposits were classified as short-term liabilities.

As of 30 June 2010, customer accounts amounting to Rbls 934 (2009: Rbls 1,608) were held as collateral against letters of credit and guarantees.

(All amounts are in millions of Russian Rubles, unless stated otherwise)

17. Taxes and Similar Charges Payable

Taxes and similar charges payable as of 30 June 2010 and 31 December 2009 comprised the following:

	31 June 2010	31 December 2009
VAT	**15,432**	8,250
Settlements with social funds	**12,892**	9,995
Property tax	**6,555**	6,357
Personal income tax	**4,000**	3,272
Other taxes	**560**	1,390
Total taxes and similar charges payable	**39,439**	29,264

18. Long-Term and Short-Term Borrowings

The outstanding balances of short-term and long-term borrowings as of 30 June 2010 and 31 December 2009 comprised the following:

30 June 2010	Original currency	Principal amount in original currency	Interest rate	Maturity	Current	Non-current
Short-term bank loans						
Fixed rates						
Vnesheconombank	RUR	2,600	2.25%		2,600	–
Other banks	RUR	6,788	2-17%		6,788	–
Other banks	Other		2.9-3.8%		199	–
Variable rates						
LIBOR +	USD	33	[1.7-4.5%]		1,017	–
EURIBOR +	EUR	35	[0.3-5.25%]		1,330	–
Long-termbank loans						
Fixed rates						
Deposit Insurance Agency	RUR	22,000	6.50%	2014	2,500	16,459
Other banks	USD	250	7.50%	2013	–	7,769
Other banks	RUR	1,224	17%	2012	–	1,224
Other banks	EUR	7	2.4-4.8%	2011-2013	–	251
Variable rates						
MosPrime+	RUR	1,608	[2.3%-5.25%]	2011-2012	1,048	560
EURIBOR+ (B)	EUR	399	[0.09%-1.8%]	2011-2020	1,056	13,667
LIBOR+						
EBRD (G)	USD	426	[3-3.5%]	2019	927	12,113
WEST LB (C)						
Tranche A	USD	385	(C)	2011	11,881	–
Tranche B	USD	550	(C)	2011-2013	1,716	15,312
Other banks	USD	39	[0.2-4.5%]	2011-2013	1	1,203
CBR	RUR	2,792	[2.5%]	2016	432	2,360
Debt securities issued						
Bonds (D)	RUR	228,079	7.35-18%	2011-2025	36,094	189,567
Promissory notes	RUR	2,241	0-20%	2011-2020	1,859	382
Loan participation notes *(H)*	USD	1,850	5.74%-9%	2017	10,385	46,627
Other borrowings(E)	Other		3.25-11.5%	2011-2019	1,070	220
Total					**80,903**	**307,714**

(All amounts are in millions of Russian Rubles, unless stated otherwise)

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

31 December 2009	Original currency	Principal amount in original currency	Interest rate	Maturity	Current	Non-current
Short-term bank loans						
Fixed rates						
Central Bank (A)	RUR	5,000	9.00%		5,000	–
Other banks	RUR	9,977	3.75-18%		9,977	–
Other banks	Other		7%-15.5%		873	–
Variable rates						
LIBOR +	USD	195	[1-3%]		5,891	–
EURIBOR +	EUR	46	[0.01-3%]		1,984	–
MosPrime+	RUR	895	[2.8-5.25%]		895	–
Long-term bank loans						
Fixed rates						
Deposit Insurance Agency	RUR	22,000	6.50%	2014	2,500	15,938
Vnesheconombank (I)	RUR	6,300	8.75%	2018	382	5,918
Other banks	USD	250	7.50%	2013	–	7,561
Other banks (F)	RUR	19,167	8-17%	2011-2014	–	19,167
Other banks	Other		2.91-8.00%	2011-2013	–	198
Variable rates						
MosPrime+	RUR	267	[5.25%]	2011	–	267
EURIBOR+ (B)	EUR	338	[0.09-1.6%]	2012-2020	656	12,979
LIBOR+						
EBRD (G)	USD	630	[3-3.5%]	2019	116	18,660
WEST LB (C)						
Tranche A	USD	550	(C)	2011	9,981	6,654
Tranche B	USD	550	(C)	2011-2013	–	16,635
Other banks	USD	42	[0.74-7.65%]	2011-2019	454	834
CBR (H)	RUR	3,000	[2.5%]	2016	432	2,568
Debt securities issued						
Bonds (D)	RUR	237,506	7.29-17.5%	2011-2024	61,377	174,079
Promissory notes	RUR	1,088	0-20%	2011-2020	988	100
Promissory notes	USD	4	0-12.79%		109	–
Loans participation notes	USD	698	7-9%	2011	10,267	10,464
Other borrowings(E)	Other		2-19%	2011-2019	62	1,152
Total					**111,944**	**293,174**

(A) In 2009 the Group obtained a ruble denominated secured loan from a Central Bank of Russian Federation. The loan bears interest at 9% p.a. The loan was fully repaid in January 2010.

(B) Long-term euro denominated loans as of 30 June 2010 and 31 December 2009 comprised primarily the loans obtained from Calyon and Deutsche Bank to finance the acquisition of high-speed trains from Siemens AG.

In February 2010, the Group received a tranche in the total amount of EUR 82.8 million (Rbls 3,162 at CBR exchange rate as of 30 June 2010) under long-term loan agreement with Deutsche Bank related to purchase contracts with Siemens AG. New tranche matures in 10 years and attracts interest at the floating rate of EURIBOR increased by the margin 0.09%.

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

(C) 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.

(D) In February 2010, the Group issued ruble denominated bonds seria 23 in the amount of Rbls 15 billion maturing in 2025. The bonds grant a put option to the bondholders in February 2015. The coupon rate is 9% and is fixed for the first ten semi-annual interest periods.

In May 2010, under the put options granted to the holders of bonds series 9 and 11, the the Group bought back at par Rbls 14,895 of bonds series 9 and Rbls 11,695 of bonds series 11. Bonds series 9 and 11 were issued in November 2008 in the nominal amount of Rbls 15 billion each with original maturities of 4 and 7 years, respectively. The bonds seria 9 grant a put option to the bondholders in November 2010 and May 2011. Bonds series 9 in the amount of Rbls 105 and bonds series 11 in the amount of Rbls 3,305 were classified as short-term borrowing and long-term borrowings as of 30 June 2010, respectively.

(E) Included in the amount of other borrowings as of 30 June 2010 are borrowings in the amount of Rbls 1,019 (31 December 2009: 988) secured by shares of TGK-14 comprising 37.12 % of its share capital (31 December 2009: 37.12%).

(F) Other banks ruble denominated long-term loans as of 31 December 2009 comprised primarily loans obtained from Standard Bank plc, Alfa-Bank and Bank of Moscow. Loans interest varyed from 8% to 17% p.a.. In the amount were included loans in aggregate amounting to Rbls 1,520 secured by the Group's rolling stock with a carrying value of Rbls 1,552. Loans were fully repaid as of 30 June 2010.

(G) During six-month 2010, the Group early repaid a part of US dollar denominated loan from EBRD in the amount of USD 204 million (Rbls 6,364 at the exchange rate as of 30 June 2010).

(H) In April 2010, the Company placed loan participation notes at Irish Stock Exchange with the nominal value of USD 1.5 billion (Rbls 46,793 at the exchange rate as of 30 June 2010) with the maturity of 7 years and initial coupon rate 5.739%. The Company signed cross currency and interest rate swap agreements with several banks for notional amount denominated in Swiss francs and average interest rate of approximately 4.3% p.a.

In May 2010, the Group's banking subsidiary fully redeemed loan participation notes in the amount of 348 mln USD (Rbls 10,856 mRUR at the exchange rate as of 30 June 2010).

(I) In 2008 the Group obtained long-term ruble denominated bank loan from Vnesheconombank. The loan bears interest at 8.75% p.a. During six-month 2010, the Group performed early repayment of the loan.

(All amounts are in millions of Russian Rubles, unless stated otherwise)

19. Other Long-Term Liabilities

Other long-term liabilities as of 30 June 2010 comprise prepayment received with regard to long-term construction project of Rbls 10,533 (31 December 2009: Rbls 13,378), prepayments received from the buyers with regard to real estate projects of Rbls 3,316 (31 December 2009: Rbls 4,697) and other liabilities of Rbls 441 (31 December 2009: Rbls 438), for which the term of their settlements exceeds twelve-month period after the date of financial statements (refer to Note 10).

Further, included in this balance is the amount of liability of Rbls 1,448 as of 30 June 2010 (31 December 2009: Rbls 1,834) assumed by the Group in connection with a service concession agreement signed.

20. Provisions and Other Current Liabilities

Provisions and other current liabilities as of 30 June 2010 and 31 December 2009 comprised the following:

	30 June 2010	**31 December 2009**
Provision for tax liabilities	**27,413**	26,694
Settlements with employees	**41,992**	37,388
Provision for legal claims	**2,103**	2,030
Accrued liabilities in connection with expected loss on construction contract	–	4,153
Accrued interest on loans	**7,019**	6,828
Dividends payable (Note 21)	**3,612**	–
Other liabilities	**7,048**	5,586
Total provisions and other current liabilities	**89,187**	82,679

The movements of provisions for the six month period ended 30 June 2010 were as follows:

	Tax liabilities	**Legal claims**
As of 1 January	26,694	2,030
Change in provision during the period, net	719	558
Utilised during the period	–	(485)
As of 30 June 2010	**27,413**	**2,103**

21. Equity

Share Capital

The share capital of the Company as of 30 June 2010 consists of 1,654,516,219 (31 December 2009: 1,594,516,219) authorized, issued and outstanding common shares with par value of Rbls 1 thousand.

In March 2010 the Company issued 60,000,000 additional shares to the sole shareholder with par value of Rbls 1 thousand. Cash consideration received for these shares amounted Rbls 60,000.

In June 2010 shareholder of the Company declared the dividends for the year 2009 in the amount of Rbls 3,612. As at 30 June 2010 the dividends were outstanding (Note 20).

22. Bad Debt Expense

Bad debt expense comprise primarily impairment loss in relation to accounts receivable and advances paid to suppliers in the amount of Rbls 2,234 (six month period ended 30 June 2009: Rbls 6,107) and loans receivable and other financial assets in the amount of Rbls 1,533 (six month period ended 30 June 2009: Rbls 5,584). It includes direct write-off of accounts receivable of Rbls 41 (six month period ended 30 June 2009: Rbls 27).

23. Other Revenues

Included in other revenues for the six-month period ended 30 June 2010 are revenues primarily from telecommunication services of Rbls 10,303 (2009: Rbls 10,281), healthcare services of Rbls 9,818 (2009: Rbls 9,295), repair of rolling stock of Rbls 10,920 (2009: Rbls 7,396), transit and sale of electricity of Rbls 7,329 (2009: Rbls 3,740), construction services and real estate projects of Rbls 6,684 (2009: Rbls 7,658) and social services (housing, utilities) of Rbls 3,276 (2009: Rbls 2,682).

24. Taxes Other than Income Tax

Included in Taxes Other than Income Tax for the six-month periods ended 30 June 2010 and 2009 are property tax of Rbls 11,606 (six month period ended 30 June 2009: Rbls 11,443), land tax of Rbls 793 (six month period ended 30 June 2009: Rbls 788), non-refundable VAT of Rbls 851 (six month period ended 30 June 2009: Rbls 1,020) and provision for tax liabilities recognised by the Company of Rbls 719 (six month period ended 30 June 2009: Rbls 2,321), refer to Note 20.

(All amounts are in millions of Russian Rubles, unless stated otherwise)

25. Other Operating Expenses

Included in the amount of other operating expenses for the six-month period ended 30 June 2010 are security costs of Rbls 6,853 (six month period ended 30 June 2009: Rbls 5,870), telecommunication fees of Rbls 3,684 (six month period ended 30 June 2009: Rbls 3,977), rolling stock servicing of Rbls 2,000 (six month period ended 30 June 2009: Rbls 2,052), services of other sub-contractors and other operating expenses.

26. Subsidies from Federal and Municipal Budgets

Subsidies from federal and municipal budgets for the six month periods ended 30 June 2010 and 2009 comprised the following:

	2010	2009
Subsidies received from federal budget for compensation of the effects of tariffs' regulation with regard to cargo transportation	**11,799**	–
Subsidies received from federal budget for compensation of the effects of regulation with regard to third- and fourth class passenger transportation tariffs	**19,469**	16,433
Subsidies received from regional and municipal budgets and other subsidies	**1,108**	936
Total	**32,376**	17,369

27. Other Income, Net

Other income, net for the six-month periods ended 30 June 2010 and 2009 comprised the following:

	2010	2009
Income from rent of cargo cars and other property	**6,271**	5,185
Penalties charged to customers	**1,873**	1,828
Gain on disposal of property, plant and equipment, net	**992**	1,441
Share of profits in associates (Note 7)	**2,141**	4,069
Gain on bargain purchase of TGK-14	–	959
Change in provision for legal claims (Note 20)	**(558)**	502
Contributions to trade union, membership in professional associations	**(1,187)**	(1,466)
Rent expenses	**(952)**	(1,218)
Impairment of investments in associates (Note 7)	**(2,992)**	(4,663)
Bank charges	**(446)**	(714)
Impairment of goodwill	–	(956)
Other income	**5,321**	1,252
Other expense	**(3,505)**	(4,606)
Total other income, net	**6,958**	1,613

(All amounts are in millions of Russian Rubles, unless stated otherwise)

28. Interest Expense and Similar Items, Net

Interest expense and similar items, net for the six-month periods ended 30 June 2010 and 2009 comprised the following:

	2010	2009
Interest income	**2,194**	686
Interest expense	**(4,456)**	(11,115)
Finance charge and other	**(3,262)**	(4,034)
Total interest expense and similar items, net	**(5,524)**	(14,463)

29. Income Taxes

Income taxes for the six-month periods ended 30 June 2010 and 2009 comprised the following:

	2010	2009
Current tax charge	**22,973**	8,364
Deferred tax charge, net	**15,289**	10,498
	38,262	18,862
Current tax charge–prior periods	**1,180**	–
Penalties related to income tax, net	**126**	195
Total income taxes	**39,568**	19,057

Deferred Tax (Liability) / Asset, Net

	31 June 2010	31 December 2009
Valuation of property, plant and equipment	**(105,092)**	(91,610)
Valuation of intangible assets	**(985)**	(704)
Payables / Accruals	**14,504**	18,367
Employee benefit obligations	**28,359**	27,626
Valuation of accounts receivable	**4,770**	4,949
Valuation of inventory and related reserves	**1,156**	1,398
Valuation of derivative financial instruments	**1,662**	–
Other	**1,253**	1,299
Total deferred tax (liability), net	**(54,373)**	(38,675)
Deferred tax asset	**3,121**	2,091
Deferred tax liability	**(57,494)**	(40,766)

30. Related Party Transactions

As defined by IAS 24 *"Related Party Disclosures"* the counter parties, which meet the following criteria, are treated as related parties of the reporting company:

a. enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);

b. associates - enterprises in which the company has significant influence and which is neither a subsidiary nor a joint venture of the investor;

c. individuals owning, directly or indirectly, an interest in the voting power of the company that gives them significant influence over the company, and anyone expected to influence, or be influenced by, that person in their dealings with the company;

d. key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the company, including directors and officers of the company and close members of the families of such individuals;

e. enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the company and enterprises that have a member of key management in common with the company;

f. the party is a post-employment benefit plan for the benefit of employees of the entity.

(All amounts are in millions of Russian Rubles, unless stated otherwise)

30. Related Party Transactions (continued)

The Group entered into a variety of transactions with related parties during the six-month periods ended 30 June 2010 and 2009. 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):

Six-month period ended 30 June 2010

Related party	Nature of relations	Type of service / product	Six-month period ended 30 June 2010 Sales / income (A)	(Purchases) / (expenses) (A)	At 30 June 2010 Amounts receivable	(Amounts payable)
1. Services rendered						
State controlled companies	(a)	Cargo transportation	67,829	–	–	(4,387)
	(a)	Construction	2	–	–	–
	(a)	Telecom services	644	–	244	(17)
	(a)	Other	689	–	501	(90)
Ministries of the Russian Federation	(a)	Cargo transportation, telecom services	8,959	–	3,504	–
Financing received from Regional and Federal budgets	(a)	Subsidies for passenger transportation	11,799	–	–	–
	(a)	Subsidies for cargo transportation	19,469	–	–	–
	(a)	Other subsidies	–	–	–	(1,000)
Associates	(b)	Cargo transportation and other services	8,722	–	3,977	(403)
	(b)	Research and development works	101	–	25	(13)
2. Purchases						
State controlled companies	(a)	Electricity	–	(2,245)	18	(14)
	(a)	Fuel, oil	–	(4,312)	279	(242)
	(a)	Security services	–	(5,625)	1	(568)
	(a)	Rolling stock	–	(2,654)	–	(7)
	(a)	Research and development works	–	(4)	–	(3)
	(a)	Other services	–	(1,398)	74	(75)
Associates	(b)	Equipment	–	(1,922)	143	(704)
	(b)	Maintenance services	–	(99)	–	(25)
	(b), (f)	Rolling stock	–	(28,434)	4,752	(3,767)
	(b)	Other	–	(2,443)	227	(997)
Parties related to pension funds	(f)	Insurance premiums received/(paid)	2,585	(2,911)	–	(259)

(All amounts are in millions of Russian Rubles, unless stated otherwise)

30. Related Party Transactions (continued)

Six-month period ended 30 June 2010 (continued)

			Six-month period ended 30 June 2010		At 30 June 2010	
Related party	**Nature of relations**	**Type of service / product**	**Sales / income (A)**	**(Purchases) / (expenses) (A)**	**Amounts receivable**	**(Amounts payable)**
3. Financial services						
3.1 Financial liabilities						
Deposit Insurance Agency	(a)	Loans payable	–	–	–	(18,959)
State controlled companies	(a)	Loans payable	–	–	–	(3,081)
	(a)	Liabilities to customers	–	–	–	(20,905)
Ministries of the Russian Federation	(a)	Other payables	–	–	–	(1,654)
Pension funds and their related parties	(f)	Liabilities to customers	–	–	–	(31,532)
	(a)	Loans payable	–	–	–	(9,188)
Associates	(b)	Loans payable	–	–	–	(1,142)
	(b)	Liabilities to customers	–	–	–	(4,267)
Other entities	(b), (e)	Liabilities to customers	–	–	–	(31)
3.2 Loans issued						
State controlled entities	(a)	Loans issued	–	–	46,353	–
Associates (B)	(b)	Loans issued	–	–	24,035	–
Other entities	(b), (e)	Loans issued	–	–	2,616	–
3.3 Securities held to maturity						
State controlled companies	(a)		–	–	934	–
Associates	(b)		–	–	–	–
3.4 Securities at fair value through profit and loss	(a)		–	–	43,902	–
3.5 Other financial assets						
Central Bank	(a)	Obligatory reserve	–	–	2,175	–
Other	(a)	Securities available for sale and derivatives	–	–	5,782	(9)
4. Pension funds	(f)	Pension contribution and contribution to finance activities	–	(10,801)	–	(336)
			–	–	–	–

(All amounts are in millions of Russian Rubles, unless stated otherwise)

30. Related Party Transactions (continued)

Six-month period ended 30 June 2009

Related party	Nature of relations	Type of service / product	Six-month period ended 30 June 2009: Sales / income (A)	Six-month period ended 30 June 2009: (Purchases) / (expenses) (A)	At 31 December 2009: Amounts receivable	At 31 December 2009: (Amounts payable)
1. Services rendered						
State controlled companies	(a)	Cargo transportation	49,866	–	–	(6,885)
	(a)	Construction	1,744	–	–	–
	(a)	Telecom services	644	–	103	(17)
	(a)	Other	1,514	–	324	–
Ministries of the Russian Federation	(a)	Cargo transportation, telecom services	8,554	–	1,786	–
Financing received from Regional and Federal budgets	(a)	Subsidies for passenger transportation	16,433	–	–	–
	(a)	Subsidies for cargo transportation	–	–	–	–
	(a)	Other subsidies	–	–	–	(1,039)
Associates	(b)	Cargo transportation and other services	5,283	–	1,672	–
	(b)	Research and development works	73	–	49	–
2. Purchases						
State controlled companies	(a)	Electricity	–	(1,771)	–	(20)
	(a)	Fuel, oil	–	(4,745)	–	(153)
	(a)	Security services	–	(5,226)	–	(576)
	(a)	Rolling stock	–	(5,187)	–	(234)
	(a)	Research and development works	–	–	–	(454)
	(a)	Other services	–	(1,323)	–	(136)
Associates	(b)	Equipment	–	(1,148)	–	(356)
	(b)	Maintenance services	–	–	–	(431)
	(b), (f)	Rolling stock	–	(30,128)	2,062	(2,553)
Parties related to pension funds	(f)	Insurance premiums received/(paid)	2,311	(2,807)	–	(288)

(All amounts are in millions of Russian Rubles, unless stated otherwise)

30. Related Party Transactions (continued)

Six-month period ended 30 June 2009 (continued)

Related party	Nature of relations	Type of service / product	Six-month period ended 30 June 2009: Sales / income (A)	Six-month period ended 30 June 2009: (Purchases) / (expenses) (A)	At 31 December 2009: Amounts receivable	At 31 December 2009: (Amounts payable)
3. Financial services						
3.1 Financial liabilities						
Deposit Insurance Agency	(a)	Loans payable	–	–	–	(18,438)
State controlled companies	(a)	Loans payable	–	–	–	(8,909)
	(a)	Liabilities to customers	–	–	–	(10,631)
Central Bank	(a)	Loans payable			–	(5,000)
Ministries of the Russian Federation	(a)	Other payables	–	–	–	(1,568)
Pension funds and their related parties	(f)	Liabilities to customers	–	–	–	(22,440)
	(a)	Loans payable	–	–	–	(9,044)
Associates	(b)	Loans payable	–	–	–	(63)
	(b)	Liabilities to customers	–	–	–	(4,811)
Other entities	(b), (e)	Liabilities to customers	–	–	–	(75)
3.2 Loans issued						
State controlled entities	(a)	Loans issued	–	–	26,703	–
Associates (B)	(b)	Loans issued	–	–	39,167	–
Other entities	(b), (e)	Loans issued	–	–	5,668	–
3.3 Securities held to maturity						
State controlled companies	(a)		–	–	1,369	–
Associates	(b)		–	–	75	–
3.4 Securities at fair value through profit and loss	(a)		–	–	15,908	–
3.5 Other financial assets						
Central Bank	(a)	Obligatory reserve	–	–	1,247	–
Other	(a)	Securities available for sale and derivatives	–	–	487	(4)
4. Pension funds	(f)	Pension contribution and contribution to finance activities	–	(11,715)	–	(2,931)

(A) Amounts are reported before elimination of VAT.

(B) Loans issued to associates as at 30 June 2010 included loan issued by RZD to OJSC KIT Finance Investment Bank for the contractual amount of Rbls 22,000 (31 December 2009: 22,000) maturing in 5 years (31 December 2009: 5) and bearing 7.5 % interest rate p.a. (31 December 2009: 7.5%) (Note 9).

(All amounts are in millions of Russian Rubles, unless stated otherwise)

30. Related Party Transactions (continued)

In the period ended 30 June 2010 the Group's companies maintained several bank accounts in state-controlled credit institutions. The amount of cash and deposits held in these institutions as of 30 June 2010 equated to Rbls 17,922 (31 December 2009: Rbls 17,931), which comprised the following:

	30 June 2010	31 December 2009
Cash and cash equivalents	**16,556**	14,653
Short-term deposits	**1,366**	3,278
Total	**17,922**	17,931

Interest income, fees and commission income (banking operations) from related parties comprised Rbls 4,044 for the six-month period ended 30 June 2010 (six-month period ended 30 June 2009: Rbls 2,825). Interest expenses, fee and commission expense (banking operations) from related parties comprised Rbls 2,183 for six-month period ended 30 June 2010 (six-month period ended 30 June 2009: Rbls 4,570). Interest expense from related parties comprised Rbls 1,045 for the six-month period ended 30 June 2010 (six-month period ended 30 June 2009: Rbls 5,626).

Loans obtained by the Group from related parties attract interest varying during six-month period ended 30 June 2010 from 1% to 18% (six-month period ended 30 June 2009: 2.5% to 16.5%).

The Group issued guarantees with regard to related parties obligations in the amount of Rbls 10,546 as of 30 June 2010 (31 December 2009: Rbls 8,583). Guaranties received from related parties as of 30 June 2010 equated to Rbls 14,640 (31 December 2009: Rbls 12,942).

Further, for period ended 30 June 2010 the Company is entitled to receive tariff compensation of Rbls 2,748 (six-month period ended 30 June 2009: Rbls 5,816) for transportation of certain categories of passengers from Health Care and Social Development Agency of Russia. Accounts receivable balance outstanding regarding the tariff compensation for transportation of certain categories of passengers as of 30 June 2010 are Rbls 21,058 (31 December 2009: Rbls 19,776): The Company recognized an impairment of Rbls 20,460 relating to this accounts receivable balance outstanding as of 30 June 2010 (31 December 2009: Rbls 19,776).

The aggregate amount of finance lease liabilities on agreements signed with the Group's related parties) equated to Rbls 30,228 as of 30 June 2010 (31 December 2009: 36,677). Effective interest rate on these agreements varies from 7% to 21% (31 December 2009: from 7% to 21%). The Group's banking subsidiary is in certain instances involved in providing loan financing to the lessors under lease agreements signed by the Company.

31. 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 these risks, which generally are not covered by insurance, as well as their effect on future operations and earnings are not predictable.

In particular, the implementation of the Program of railway transportation restructuring during the period 2001-2010 developed by the Company, the Ministry of Economic Development and Trade of the Russian Federation, Antimonopoly Ministry, Ministry of State Property of the Russian Federation and certain other ministries and approved by the Government of the Russian Federation, is likely to have a significant effect on the operations of the Company.

This Program's ultimate purpose is the attraction of capital investments necessary to upgrade and replace existing property, plant and equipment. It is planned that the Company's activities will be focused solely on provision of transportation services and maintenance of railroads infrastructure, whilst auxiliary business activities and the related facilities will be transferred to independent newly established entities. Further, a part of the Company's employees will also be transferred to such entities.

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 Russian Federation. However, such attempts to increase transportation tariffs are opposed by the Company's customers. It is currently uncertain whether any further changes will be introduced in the tariff setting policy. The interim condensed consolidated financial statements do not include any adjustments that might result from these uncertain effects. Such adjustments, if any, will be reported in the Group's consolidated financial statements in the period when they become known and estimable.

Taxation

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

31. Commitments and Contingencies (continued)

Taxation (continued)

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 statement of financial position as of 30 June 2010 (refer also to Note 20). However, the general risk remains that relevant authorities could take different positions with regard to interpretative issues and the effect could be significant.

Claims and potential claims against the group

The Group is a defendant in a number of legal proceedings arising out of the normal circumstances of its business. These proceedings primarily relate to the application of transportation tariffs. As of 30 June 2010 a provision with respect to such proceedings of Rbls 2,103 (31 December 2009: Rbls 2,030) was recognized by the Group (refer also to Note 20).

Insurance

The Russian insurance industry is in a developing stage and many forms of insurance protection common in other parts of the world are not yet available. Although during six months ended 30 June 2010 the Group continued to maintain insurance coverage regarding major categories of its property, the Group did not maintain insurance coverage on business interruption. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Purchase commitments

(1) In December 2009 The Company entered into a long-term contract with Siemens Group (Siemens AG and LLC Siemens) for purchase of electric trains for suburban passenger transportation in the amount of EUR 412 million (Rbls 15,744 million at the exchange rate as of 30 June 2010). The outstanding commitment under this contract as of 30 June 2010 amounted to EUR 392 million (Rbls 14,958 million at the exchange rate as of 30 June 2010).

In April 2007 the Company signed a long-term technical maintenance contract with Siemens AG with regard to high-speed trains for Moscow – St. Petersburg and Moscow – Nizhniy Novgorod lines purchased and launched in 2009. The aggregate amount of this contract equated to EUR 354 million (Rbls 13,524 at the exchange rate as of 30 June 2010). Under the terms of the agreement, technical maintenance will be provided over 30 years from the date of putting the last of trains ordered in use. The contract expires not later than 1 January 2041. The amount of prepayment made by the Company under this contract amounted to Rbls 587 as of 30 June 2010. This prepayment is included within other non-current assets as of 30 June 2010. The outstanding purchase commitment of the Group under this contract comprises Rbls 12,937 as of 30 June 2010.

31. Commitments and Contingencies (continued)

(2) The Group has several long-term contracts signed with OJSC "Torgovy Dom RZD", a related party, for purchase of locomotives for the aggregate amount of approximately Rbls 62.4 billion. Purchase commitments under these contracts as of 30 June 2010 amounted to Rbls 31.2 billion.

(3) In August 2009 RZD signed agreement with Tver rail car construction plant (TVZ) for purchase of 200 passenger cars within 5 years. The contract's value including VAT is EUR 668 million (Rbls 25,512 million at the exchange rate as of 30 June 2010). According to the contract, Siemens Transportation Systems GmbH acts as a main subcontractor of TVZ. As of 30 June 2010 the Group has paid an advance to contractor under this agreement in the amount of Rbls 4,697. Net of the advance the Group has commitments under this agreement of Rbls 20,815 as at 30 June 2010.

(4) The Company has a long-term contract signed with Unified Metallurgical Company (OMK-Stal) for purchase of rail wheels. The original value of the contract amounted to approximately USD 1,3 billion. The approximate value of deliveries under the contract expected after 30 June 2010 amounts to Rbls 6 billion.

(5) The Company has long-term contracts for construction of a joint motorway and railroad in Sochi signed with USK-Most and TransYuzhStroy for the aggregate amount of approximately Rbls 57 billion and Rbls 33 billion, respectively. As at 30 June 2010 the Company has commitments under these contracts amounted of Rbls 21 billion and Rbls 11 billion respectively. Further, the Company has commitments under long-term contracts relating to construction of the joint motorway and railroad in Sochi with other parties in the aggregate amount of approximately Rbls 11 billion.

(6) In 2010 the Company entered into long-term agreement with LLC RSP-M for maintenance of 437,240 km of rail track until 2019 in the amount of Rbls 10 billion. As of 30 June 2010 the Company has commitment under this contract amounting Rbls 10 billion.

(7) OJSC Freight One, the subsidiary of the Company, si gned seve ral long-term contracts to purchase rolling stock in the total amount of Rbls 29 billions. The outstanding commitment as of 30 June 2010 is Rbls 24 billions.

(8) OJSC Zarubezhstroytekhnologiya, the subsidiary of the Company, has signed several long-term contracts with regard to construction of railroad in Libya for the aggregate amount of approximately Rbls 20 billion. The outstanding commitment as of 30 June 2010 amounted to approximately Rbls 14 billion.

Undrawn Loan Commitments, Guarantees and Letters of Credit

Financial commitments as at 30 June 2010 primarily represent commitments of the banking subsidiary and comprise commitments and guarantees issued with regard to obligations in the amount of Rbls 30,433 (31 December 2009: Rbls 35,114), undrawn loan commitments and letters of credit issued by the Group of Rbls 23,533 (31 December 2009: Rbls 15,168). As at 30 June 2010, letters of credit were secured by clients' funds in the amount of Rbls 934 (31 December 2009: Rbls 1,608).

(All amounts are in millions of Russian Rubles, unless stated otherwise)

32. Derivative Financial Instruments

The principal amounts and fair values of derivative instruments held as of 30 June 2010 and 31 December 2009 are set out in the following table.

	30 June 2010			31 December 2009		
	Notional amount	Fair values		Notional amount	Fair values	
		Asset	Liability		Asset	Liability
Interest rate contracts						
Swaps – foreign	29,168	–	(1,183)	36,898	–	(1,251)
Foreign exchange contracts						
Swaps – foreign	52,689	7,291	(2,951)	26,021	8,227	–
Forwards – domestic	61,841	37	(107)	25,946	101	(102)
Forwards – foreign	5,557	12	(17)	5,319	16	(65)
Options – foreign	38,994	–	(2,859)	–	–	–
Securities contracts						
Forwards – domestic	718	–	(8)	43	7	–
Total derivative assets/(liabilities)		**7,340**	**(7,125)**		**8,351**	**(1,418)**

33. Events After the Reporting Period

Borrowings

RZD

- Subsequent to 30 June 2010, the Company performed early repayment of long-term loan received from European Bank for Reconstruction and Development in the amount of USD 296 million (Rbls 9.2 billion at the exchange rate as of 30 June 2010).

Freight One

- In December 2010, OJSC "Freight One", the subsidiary of the Company, signed a sale-leaseback agreement with Alfa-Leasing LLC to supply the rolling stock for the total amount of lease payments of Rbls 3.65 billion maturing in 2017.

33. Events After the Reporting Period (continued)

Borrowings (continued)

TransCreditBank

- In July 2010, TransCreditBank , the subsidiary of the Company, registered 3 series of non-convertible interest bearing bonds in the aggregated amount of Rbls 15 billion maturing in 2013. In November 2010, the bonds of series BO-1 in the amount of Rbls 5 billion were placed by open subscription on the MICEX stock exchange at 7.8% coupon rate.
- In October 2010, TransCreditBank attracted syndicated loan from 18 banks including Barclays Capital, BNP Paribas, Citibank, Commerzbank Aktiengesellschaft, ING Bank, JPMorgan Chase Bank, RZB Group, UniCredit Group, WestLB in the amount of USD 325 million (Rbls 10 billion at the exchange rate as of the reporting date) at Libor+2.75% p.a. maturing in 2012.

Subsidiaries and other investments

- In September 2010, the Company established a new 100% less one share owned subsidiary OJSC Freight Two, with the share capital of Rbls 46.4 billion. The Company's contribution in the share capital of OJSC "Freight Two" is primarily represented by cargo rolling stock.
- In November 2010, the Company sold 35% minus 2 shares of its subsidiary OJSC "TransContainer" through Initial Public Offering (IPO) at London and Moscow Stock Exchanges. Total consideration received by the Company from TransContainer IPO amounted to approximately USD 388 million (Rbls 12 billion at the exchange rate as of 30 June, 2010). After the transaction the Group retained control over OJSC "TransContainer".
- In October 2010 Board of Directors of the Company approved sale of 10% interest in its subsidiary OJSC "TransCreditBank" subject to approval of Government of Russian Federation.
- In December 2010, the Company's Board of Directors included sale of controlling stake in OJSC "Freight One", a subsidiary of the Company, into the year 2011 plans.
- In July 2010 and January 2011, OJSC "KIT Finance Investment Bank", an associate of the Company, performed private offering of shares in favor of a related party of the Company. Each of two issues included 200 million of shares with Rbls 10 par value. As a result, the Company's interest in OJSC "KIT Finance Investment Bank" decreased to 19.29%.
- In December 2010, the Company signed an agreement to sell 50% minus 2 shares of its 100% less one share subsidiary OJSC "Elteza" to a third party for consideration of Rbls 1.99 billion.
- Subsequent to 30 June 2010, the Group increased its ownership in and obtained significant influence over OJSC "Torgovy Dom RZD".

33. Events After the Reporting Period (continued)

Share capital

- In December 2010 the Company issued 43,611,848 additional common shares with par value of 1 thousand rubles in the aggregate amount of Rbls 43.6 billion. The issue was approved by the Company's shareholder for the purpose of financing of construction and reconstruction of transport infrastructure of the Company and objects for the Sochi Olympic Games. Cash received for these shares in December 2010 equated to the whole amount of the issue.

- In De cember 2010, the Government of Russian Federation approved additional issue of 40 million of additional common shares with par value of 1 thousand rubles in the aggregate amount of Rbls 40 billion for the purposes of financing construction of transport infrastructure for the Sochi Olympic Games 2014.

Government grants and assistance

- During the second half of 2010, the Company received subsidies to compensate the effects of tariffs' regulation with regard to cargo and passenger transportation in the approximate amount of Rbls 46 billion and subsidies for implementation of public safety measures on railway transportation in the amount of Rbls 2.6 billion.

- In December 2010, the Government of Russian Federation approved the provision of subsidy to RZD and its subsidiaries in the amount up to Rbls 30 billion to compensate for the effects of tariffs' regulation with regard to passenger transportation in 2011.

Tariffs' regulation

- Subsequent to 30 June 2010 Federal Tariffs' Agency approved Methodology on calculation of economically justified costs and standard profit considered in determination of economically justified index applied to actual level of tariffs for cargo transportation and Methodology on calculation of economically justified costs considered in determination of tariffs for suburban passenger transportation.

Commitments

- In September 2010, the Company signed an agreement with Siemens Aktiengesellschaft and Siemens LLC for the purchase of 16 electric passenger trains and provision of respective installation services for the total amount of EUR 173.6 million (Rbls 6.6 billion at the exchange rate as of 30 June 2010).

- In October 2010, the Company signed a contract with Mitsui & Co Ltd for the supply of 200 thousands metric tons of high speed rails for the total amount of approximately USD 248.5 million (Rbls 7.8 billion at the exchange rate as of 30 June 2010).

33. Events After the Reporting Period (continued)

Commitments

- Subsequent to June 2010, Freight One, the subsidiary of the Company, signed several agreements to purchase rolling stock in the aggregate amount of approximately Rbls 4 billion.

- In August 2010, OJSC "Zarubezhstroytechnologiya", the subsidiary of the Company, signed several supply agreements for the total amount of approximately EUR 420 million (Rbls 16 billion at the exchange rate as of 30 June 2010) in relation to construction of Libyan Railway.

- In November 2010, OJSC "Federal Passenger Company", the subsidiary of the Company, signed agreement with the Group's associate for the purchase of double-stage railway cars in the amount of Rbls 4 billion.