PROSPECTUS DATED 20 JUNE 2011

Russian Railways

£300,000,000 7.487 percent Loan Participation Notes due 2031

to be consolidated and form a single series with the £350,000,000 7.487 per cent. Loan Participation Notes due 2031 issued by, but with limited recourse to,

RZD CAPITAL LIMITED

for the sole purpose of financing a loan to

JOINT STOCK COMPANY "RUSSIAN RAILWAYS"

Issue Price: 101.75 percent

(plus interest accrued from and including 25 March 2011 to, but excluding, 22 June 2011)

RZD Capital Limited, a company organised and existing as a private limited company under the laws of Ireland (the "**Issuer**"), is issuing an aggregate principal amount of £300,000,000 7.487 percent Loan Participation Notes due 2031 (the "**Further Notes**") to be consolidated and form a single series with the £350,000,000 7.487 percent Loan Participation Notes due 2031 (the "**Original Notes**" and together with the Further Notes, the "**Notes**") for the sole purpose of financing a loan (the "**Further Loan**") to Joint Stock Company "Russian Railways", a joint stock company organised under the laws of the Russian Federation (the "**Company**" or the "**Borrower**") to be consolidated with an original loan of £350,000,000 (the "**Original Loan**" and, together with the Further Loan, the "**Loan**"). The Loan is granted, pursuant to a loan agreement dated 23 March 2011 (the "**Original Loan Agreement**") between the Issuer, as lender, and the Borrower as amended and restated on 20 June 2011 by virtue of an amended and restated Loan Agreement (the "**Loan Agreement**") between the same parties.

Interest on the Further Notes will be payable at the rate of 7.487 percent per annum semi-annually in arrear on 25 March and 25 September in each year, commencing on 25 September 2011, as described under "*Terms and Conditions of the Notes—5 Interest*". The issue price of the Further Notes is 101.75 percent of their principal amount (plus accrued interest from, and including, 25 March 2011, to, but excluding, 22 June 2011 (the "**Accrued Interest**")). For the avoidance of doubt, provided the Accrued Interest has actually been received by or for the account of the Issuer on or before the issue date of the Further Notes and paid into the Account (as defined in the Loan Agreement) in accordance with the terms of the Trust Deed (as defined herein), holders of the Further Notes will receive, on the first Interest Payment Date an amount representing accrued interest on the Further Notes in respect of the period from and including 25 March 2011 to (but excluding) 25 September 2011. The Loan will bear interest of 7.487 percent per annum.

Subject to the provisions of the Trust Deed (as defined herein), the Issuer has charged (in respect of the Original Notes) or will charge (in respect of the Further Notes) as security for its payment obligations in respect of the Notes and under the Trust Deed (i) its rights to all payments of principal, interest and additional amounts (if any) payable by the Borrower under the Loan Agreement; (ii) its rights to receive all sums which may be or become payable by the Borrower under any claim, award or judgment relating to the Loan Agreement; and (iii) its rights, title and interest in and to all sums of money held from time to time in an account of the Issuer pursuant to the Loan Agreement, in each case to Deutsche Trustee Company Limited (the "**Trustee**"), as trustee for the benefit of the holders of the Notes (the "**Noteholders**"). Furthermore, under the terms of the Trust Deed, the Issuer (i) has assigned (in respect of the Original Notes) or will assign (in respect of the Further Notes) all of its rights, interests and benefits under the Loan Agreement, except for any Reserved Rights (as defined in the Trust Deed) and rights subject to the charge, to the Trustee for the benefit of the Noteholders.

The Notes are limited recourse obligations of the Issuer. In each case, where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make such payment will constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Loan Agreement, excluding amounts paid in respect of Reserved Rights. The Issuer will have no other financial obligation under the Notes. **Further Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of the Company in respect of the financial servicing of the Further Notes**.

Except as set forth herein under "*Taxation*", payments in respect of the Notes (and the Loan) will be made without any deduction or withholding on account of taxes. As set forth more fully in the Loan Agreement, the Company may prepay the Loan at its principal amount, in whole but not in part, together with accrued interest, if (i) the Company or the Issuer must deduct or withhold certain taxes from payments they make in respect of the Loan or the Notes, respectively; or (ii) it becomes illegal for the Notes or the Loan to remain outstanding. Upon such occurrence, the Issuer will, subject to the receipt of the relevant funds from the Company, prepay the principal amount of all Notes outstanding, together with accrued interest.

Except as otherwise expressly provided in this Prospectus and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement, or in any rights that the Issuer may receive by way of assignment in respect of the Loan, exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will be entitled to enforce any provisions of the Loan Agreement or have direct recourse to the Borrower.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" ON PAGE 11.

The Further Notes and the Loan have not been, and will not be, registered under the US Securities Act of 1933, as amended (the "**Securities Act**"), and, subject to certain exceptions, may not be offered and sold within the United States. The Further Notes are not eligible for "offering", "advertisement", "placement" and "circulation" in the Russian Federation unless and to the extent otherwise permitted under Russian law.

The Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**") as competent authority under Directive 2003/71/EC (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange (the "**Irish Stock Exchange**") for the Further Notes to be admitted to the official list and trading on its regulated market (the "**Market**"). The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. There is no assurance that a trading market in the Further Notes will develop or be maintained.

The Further Notes will be offered and sold in the minimum denomination of £100,000 and integral multiples of £1,000 in excess thereof. The Further Notes will initially be represented by interests in a further global unrestricted Note in registered form (the "**Further Global Certificate**"), which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") on 22 June 2011 (the "**Issue Date**"). Interests in the Further Global Certificate will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. See "*Summary of the Provisions Relating to the Notes in Global Form*". Individual definitive Notes in registered form ("**Definitive Certificates**") will only be available in certain limited circumstances as described herein.

Joint Lead Managers

Barclays Capital **Goldman Sachs International** **VTB Capital**

Co-Manager

TransCreditBank

This Prospectus comprises a prospectus for the purposes of the Prospectus Directive as implemented in Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005 (the "**Prospectus Regulations**") and for the purpose of giving information with respect to the Issuer, the Company, the Company and its subsidiaries taken as a whole (the "**Group**"), the Loan and the Further Notes, which, according to the particular nature of the Issuer, the Company, the Group, the Loan and the Further Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, the Company and the Group and of the rights attaching to the Further Notes.

Each of the Issuer and the Company accepts responsibility for the information given in this Prospectus. To the best of the knowledge and belief of each of the Issuer and the Company (having taken all reasonable care to ensure that such is the case), each of the Issuer and the Company confirms that the information given in this Prospectus is in accordance with the facts and does not omit anything likely to affect its import.

The Company's legal name is Joint Stock Company "Russian Railways" and the address of its registered office is 2, Novaya Basmannaya St., 107174 Moscow, Russian Federation. The telephone number of the Company's registered office is +7 499 262 99 01. The Issuer's legal name is RZD Capital Limited and the address of its registered office is 5 Harbourmaster Place, IFSC, Dublin 1, Ireland. The telephone number of the Issuer's registered office is +353 1 680 6000.

Each of the Company and the Issuer has derived certain information in this Prospectus, including certain information concerning its competitors from publicly available information, including annual reports, industry publications, market research, press releases, filings under various securities laws and official data published by certain Russian government agencies, such as the Central Bank of the Russian Federation (the "**CBR**") and the Russian Federal Service for State Statistics ("**Rosstat**"). Each of the Company and the Issuer has accurately reproduced such information. As far as each of the Company and the Issuer is aware and is able to ascertain from the relevant publicly available information, no facts have been omitted that would render the reproduced information inaccurate or misleading.

The Issuer and the Company have, pursuant to a subscription agreement dated 20 June 2011 (the "**Subscription Agreement**"), appointed Barclays Bank PLC, Goldman Sachs International and VTB Capital plc as joint lead managers for the Further Notes (the "**Joint Lead Managers**") and the Issuer has, pursuant to a subscription side letter dated 20 June 2011 (the "**Subscription Side Letter**"), appointed Open Joint Stock Company TransCreditBank ("**TransCreditBank**") as a co-manager for the Further Notes (together with the Joint Lead Managers, the "**Managers**") and has authorised and requested the Managers to circulate this Prospectus in connection with the Further Notes, subject as provided in the Subscription Agreement and the Subscription Side Letter.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of, any of the Issuer, the Company or any Manager to subscribe for or purchase any Further Notes. The distribution of this Prospectus and the offer or sale of the Further Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Company and the Managers to inform themselves about and to observe any such restrictions.

The Further Notes and the Loan have not been and will not be registered under the Securities Act, and, subject to certain exemptions, may not be offered or sold within the United States. For a description of these and certain further restrictions on offers, sales and transfers of the Further Notes and the distribution of this Prospectus, see "*Subscription and Sale*".

In making an investment decision, prospective investors must rely on their own examination of the Issuer and the Company and the terms of this Prospectus, including the risks involved.

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Company or the Managers. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Company since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Company since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Further Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

To the fullest extent permitted by law, the Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Manager or on its behalf in connection

with the Issuer, the Company or the issue and offering of the Further Notes. Each Manager accordingly disclaims all and any liability, whether arising in tort or contract or otherwise (save as referred to above), which it might otherwise have in respect of this Prospectus or any such statement. The websites of the Company and its subsidiaries do not form any part of the contents of this Prospectus.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Further Notes or possess this Prospectus. Any consents or approvals that are needed in order to purchase any Further Notes must be obtained. The Issuer, the Company and the Managers are not responsible for compliance with these legal requirements. The appropriate characterisation of the Further Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase the Further Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which the Further Notes constitute a legal investment for investors whose investment authority is subject to legal restrictions. Such investors should consult their legal advisers regarding such matters.

EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN THE FURTHER NOTES MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF THE ISSUER, THE COMPANY AND THE GROUP AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT, WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE, AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

The information provided in this Prospectus is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the Further Notes in the Russian Federation or to, or for the benefit of, any Russian person or entity. No person should at any time carry out any activities in breach of the restrictions set out in "*Subscription and Sale—Russian Federation*".

In connection with the issue of the Further Notes, Barclays Bank PLC (or persons acting on its behalf) may over-allot Further Notes or effect transactions with a view to supporting the market price of the Further Notes at a level higher than that which might otherwise prevail. However, there is no assurance that Barclays Bank PLC (or persons acting on its behalf) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Further Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Further Notes and 60 days after the date of the allotment of the Further Notes. Any stabilisation action or over-allotment must be conducted by Barclays Bank PLC (or person(s) acting on its behalf) in accordance with all applicable laws and rules.

This document has been filed with and approved by the Central Bank. The Prospectus approved by the Central Bank will be filed with the Irish Companies Registration Office in accordance with Regulation 38(l)(b) of the Prospectus Regulations.

Any investment in the Further Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank. The Issuer is not and will not be regulated by the Central Bank as a result of issuing the Further Notes. The Issuer does not intend to provide post-issuance reporting with respect to the Further Notes or the Loan.

ENFORCEABILITY OF JUDGMENTS

The Company is a joint stock company incorporated under the laws of the Russian Federation. All the Company's directors and executive officers named in this Prospectus reside in the Russian Federation. Moreover, the majority of the assets of the Company and substantially all of the assets of its directors and officers are located in the Russian Federation. As a result, it may not be possible for the Noteholders to:

- effect service of process within the United Kingdom upon any of the Company's directors or executive officers named in this Prospectus; or
- enforce, in the English courts, judgments obtained outside England against the Company or any of its directors and executive officers named in this Prospectus in any action.

In addition, it may be difficult for the Noteholders to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom, liabilities predicated upon English laws. Courts in the Russian Federation will generally recognise judgments rendered by a court in any jurisdiction outside the Russian Federation if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered and/or a federal law is adopted in Russia that provides for the recognition and enforcement of foreign court awards. No such treaty for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between the Russian Federation and certain other jurisdictions (including the United Kingdom) and no relevant federal law on enforcement of foreign court judgments has been adopted in Russia, as a result of which new proceedings may have to be brought in the Russian Federation in respect of a judgment already obtained in any such jurisdiction against the Company or its officers or directors. However, the Company is also aware of at least two instances in which Russian courts have recognised and enforced foreign court judgments (including a judgment of an English court), on the basis of the principle of reciprocity and (in the case of enforcement of an English court judgment) the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. The courts determined that such treaties constituted grounds for the recognition and enforcement of the relevant English court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce an English court judgment on these grounds.

In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above, including the general procedural grounds set out in Russian legislation for the refusal to recognise and enforce foreign court judgments in the Russian Federation, may significantly delay the enforcement of such judgment or deprive the Issuer and/or the Noteholders of effective legal recourse for claims related to the investment in the Further Notes.

The Loan Agreement will be governed by English law and will provide for disputes, controversies and causes of action brought by any party thereto against the Company to be settled by arbitration in accordance with the rules of the LCIA (formerly the London Court of International Arbitration) (the "**LCIA Rules**"). The place of such arbitration shall be London, England. The Russian Federation and the United Kingdom are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation).

The Arbitrazh Procedural Code of the Russian Federation (the "**Arbitrazh Procedural Code**") sets out the procedure for the recognition and enforcement of foreign arbitral awards by Russian courts. The Arbitrazh Procedural Code also contains an exhaustive list of grounds for the refusal of recognition and enforcement of foreign arbitral awards by Russian courts, which grounds are broadly similar to those provided by the New York Convention.

The Arbitrazh Procedural Code and other Russian procedural legislation could change, and other grounds for Russian courts to refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the LCIA Rules and the application of English law to the Loan Agreement may be limited by the mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The Group's financial information set forth herein has, unless otherwise indicated, been derived from its audited consolidated financial statements as at and for the years ended 31 December 2009 and 2008 (the "**2009 and 2008 Consolidated Financial Statements**") and from its unaudited reviewed interim condensed consolidated financial statements as at and for the six months ended 30 June 2010 (the "**2010 Unaudited Interim Condensed Consolidated Financial Statements**", together with the 2009 and 2008 Consolidated Financial Statements, the "**IFRS Financial Statements**"), starting on pages F-1 of this Prospectus, prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board.

The Rouble is the functional and reporting currency for the IFRS Financial Statements.

Auditors

The 2009 and 2008 Consolidated Financial Statements have been audited in accordance with International Standards on Auditing by Ernst & Young LLC, independent auditors, who have expressed a qualified opinion on the 2009 and 2008 Consolidated Financial Statements and a qualified conclusion on the 2010 Unaudited Interim Condensed Consolidated Financial Statements as stated in their reports appearing herein. See also "*Risk Factors—Risks Relating to the Group—The Group's independent auditors qualified their opinion in their report on the Group's 2009 and 2008 Consolidated Financial Statements, and their conclusion on the 2010 Unaudited Interim Condensed Consolidated Financial Statements, which should be considered when making an assessment of the Group's financial performance*" and "*Operating and Financial Review—Significant Factors Affecting Results of Operations—Key Accounting Issues*". The address of Ernst & Young LLC is Sadovnicheskaya Naberezhnaya 77, Building 1, Moscow 115035, Russian Federation. Ernst & Young LLC is a member of the Audit Chamber of Russia.

Non-IFRS Measures

In this Prospectus, the Group uses EBITDA and EBITDA margin in the analysis of its business, financial position and results of operations. EBITDA and EBITDA margin are non-IFRS financial measures that are calculated by the Group as follows:

- EBITDA is income from operations after subsidies from federal and municipal budgets plus depreciation and amortisation.
- EBITDA margin is EBITDA divided by total revenues.

EBITDA and EBITDA margin are presented as supplemental measures of the Group's operating performance, which the Group believes are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the railway transportation sector. All of these supplemental measures have limitations as analytical tools, and investors should not consider any one of them in isolation, or any combination of them together, as a substitute for analysis of the Group's operating results as reported under IFRS.

Some of these limitations are as follows:

- EBITDA and EBITDA margin do not reflect the impact of financing costs, which can be significant and could further increase if the Group incurs more borrowings, on the Group's operating performance;
- EBITDA and EBITDA margin do not reflect the impact of income taxes on the Group's operating performance;
- EBITDA and EBITDA margin do not reflect the impact of depreciation and amortisation on the Group's performance. The assets of the Group's business that are being depreciated, depleted or amortised will need to be replaced in the future and such depreciation and amortisation expense may approximate the cost of replacing these assets in the future. By excluding this expense from EBITDA and EBITDA margin, those measures do not reflect the Group's future cash requirements for these replacements. EBITDA and EBITDA margin also do not reflect the impact of interest expense and similar items, net, loss on disposals, changes in fair value and recoverable amounts of financial assets, other income, net, and foreign exchange (loss)/gain, net; and
- EBITDA and EBITDA margin exclude items that the Group considers to be one-offs or unusual, but such items may in fact recur.

Other companies in the railway transportation industry may calculate EBITDA and EBITDA margin differently or may use each of them for different purposes than the Group, limiting their usefulness as comparative measures.

The Group relies primarily on its IFRS operating results and uses EBITDA and EBITDA margin only supplementally. See the IFRS Financial Statements included elsewhere in this Prospectus. EBITDA and EBITDA margin are not defined by, or presented in accordance with, IFRS. EBITDA and EBITDA margin are not measurements of the Group's operating performance under IFRS and should not be considered as alternatives to revenues, profit, operating profit, net cash provided by operating activities or any other measures of performance under IFRS or as alternatives to cash flow from operating activities or as measures of the Group's liquidity. In particular, EBITDA and EBITDA margin should not be considered as measures of discretionary cash available to the Group to invest in the growth of its business.

See Note 1 in "*Selected Consolidated Financial Information—Additional Financial Data*" for a reconciliation of EBITDA to income.

Currency

In this Prospectus, the following currency terms are used:

- "**RUR**" or "**Rouble**" means the lawful currency of the Russian Federation;
- "**US Dollar**" or "**US$**" means the lawful currency of the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia (the "**United States**" or "**US**");
- "**€**", "**EUR**" or "**Euro**" means the single currency of the participating Member States in the third stage of the European and Economic Monetary Union pursuant to the Treaty establishing the European Community, as amended from time to time; and
- "**£**" or "**Sterling**" means the lawful currency of the United Kingdom.

References to the Russian Federation and Government

In this Prospectus, references to the "**State**" or "**Russia**" are to the Russian Federation and/or the Russian federal government as the context requires. References to the "**Government**" are to the Russian federal government.

References to "Freight" and "Cargo"

In this Prospectus, "freight" and "cargo" have the same meaning and are used interchangeably.

Legal Entities Abbreviations

In this Prospectus, "**LLC**" means a Limited Liability Company, "**OJSC**" or "**JSC**" means an Open Joint Stock Company and "**CJSC**" means a Closed Joint Stock Company.

Rounding

Some numerical figures included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.

CURRENCY PRESENTATION AND EXCHANGE RATE INFORMATION

In this Prospectus, certain amounts have been translated from local currencies into US Dollars on a convenience basis. With respect to information extracted from the IFRS Financial Statements, the exchange rate is as at the end of the relevant reporting period. With respect to other information, the exchange rate is as at the relevant date noted.

The following table sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Rouble and the US Dollar. This information is based on the official exchange rate quoted by the CBR, which is set by the CBR without the CBR assuming any obligations to buy or sell the foreign currency at the exchange rate. Fluctuations in the exchange rate between the Rouble and the US Dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used to convert foreign currencies into Roubles to prepare the IFRS Financial Statements and other information presented in this Prospectus. The Group's inclusion of the exchange rates is not meant to suggest that the Rouble amounts actually represent such US Dollar amounts or that such amounts could have been converted into US Dollars at any particular rate, or at all.

	RUR per US$1.00			
	High	Low	Period[1] average	Period end
Year ended 31 December				
2006	28.48	26.18	27.09	26.33
2007	26.58	24.26	25.49	24.55
2008	29.38	23.13	24.98	29.38
2009	36.43	28.67	31.93	30.24
2010	31.78	28.93	30.38	30.48
Month Ended				
January 2011	30.63	29.67	29.99	29.67
February 2011	29.80	28.94	29.32	28.94
March 2011	28.90	28.16	28.46	28.43
April 2011	28.52	27.50	28.08	27.50
May 2011	28.48	27.26	27.94	27.97

Source: CBR

Note:

(1) The period average in respect of a year is calculated as the average of the exchange rates on the last business day of each month for the relevant annual period. The period average in respect of a month is calculated as the average of the exchange rates for each business day in the relevant month.

The official exchange rate quoted by the CBR per US$1.00 on 20 June 2011 was RUR 28.18.

FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are "forward-looking" statements. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words "believe", "expect", "anticipate", "intend", "estimate", "forecast", "project", "will", "may", "should" and similar expressions identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements appear, without limitation, under the headings "*Overview*", "*Risk Factors*", "*Operating and Financial Review*" and "*Business*". The Company or the Group may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of the Company's or the Group's plans, objectives or goals, including those related to its strategy, products or services;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Forward-looking statements that may be made by the Company or the Group from time to time (but that are not included in this Prospectus) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital expenditures, capital structure or other financial items or ratios.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Prospective investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- the performance of the Russian economy;
- the effects of, and changes in, the policy of the Government;
- the effects of changes in laws, regulations, taxation or accounting standards or practices in Russia;
- the Group's ability to successfully implement the Government's planned Railway Structural Reform Programme and its ability to operate effectively in the Russian railway transportation industry after the completion of that programme;
- the Group's ability to control expenses;
- the Group's ability to integrate planned business acquisitions into its existing operations or to complete planned divestitures;
- inflation, interest rate and exchange rate fluctuations in Russia; and
- the Group's success at managing the risks associated with the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Company and the Group operate. Such forward-looking statements speak only as at the date on which they are made, and are not subject to any continuing obligations under the listing rules of the Irish Stock Exchange. Accordingly, the Company does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. The Company does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

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OVERVIEW

The following summary should be read in conjunction with, and is qualified in its entirety by reference to, the more detailed information and the financial statements which are set out elsewhere in this Prospectus. See "Risk Factors" for a discussion of certain factors that should be considered by potential investors prior to an investment in the Further Notes.

Overview

The Group is one of the largest transportation companies in the world. It is the owner and operator of Russia's approximately 85,000 kilometre-long rail system ("**Rail System**") and related infrastructure. See "*Business—The Rail System*". The Rail System is the world's third longest railway network, the world's third largest railway in terms of freight turnover (measured in tonne-kilometres) and the world's fourth largest railway in terms of passenger turnover (measured in passenger-kilometres). The Company has been state-owned since its creation in 2003. The Group is the second largest property owner in Russia behind the Russian Federation itself. In addition to the Rail System, the Group owns and operates nearly all of the locomotives in Russia; is the largest Russian owner, operator and lessor of freight rolling stock; is the largest Russian freight rail operator; and carries virtually all suburban (under 200 kilometres) and long-haul (over 200 kilometres) rail passengers.

The Group engages in full-service freight transportation, locomotive traction, infrastructure operations, rolling stock repair and maintenance, long-haul and suburban passenger transportation, container transportation and logistics and engineering, research and construction. The Group is also engaged in a number of other activities primarily relating to telecommunications, banking services, real estate development, housing and commercial construction, engineering and research and development. The Group also participates in cross-border railway joint ventures and railway construction and management projects in Armenia, China, Finland, Germany, Iran, Libya, Mongolia and North Korea. See "*Business—International Joint Ventures and Cooperation*".

The Group is one of the largest single contributors to Russian GDP, representing approximately 2.4 percent of the GDP in each of 2009 and 2010. As at 31 December 2010, the Company was the largest commercial employer in Russia, with approximately 976 thousand employees (with approximately 1.2 million employees in the Group). In 2009, the Group generated total revenues of RUR 1,154 billion and EBITDA of RUR 330.2 billion, with an EBITDA margin of 28.6 percent. See "*Presentation of Financial and Other Information—Non-IFRS Measures*".

In 2010, the Group began to recover from the adverse effects of the recent global economic downturn, such as decreased revenues. The Group's total revenues for the six months ended 30 June 2010 increased by approximately 22 percent to RUR 651 billion from RUR 532 billion for the six months ended 30 June 2009. For the six months ended 30 June 2010, 76.2 percent of the Group's total revenues derived from freight transportation services, 11.3 percent from passenger transportation services, 2.2 percent from banking operations and 10.3 percent from its other business activities, which includes the Group's rail-related operations and revenues generated by the Group's non-core subsidiaries.

On 17 May 2011, the Company's board of directors resolved to recommend the general meeting of shareholders to declare and pay out dividends for 2010 in the amount of RUR 3.99 billion. The relevant decision is subject to approval by the Government acting on behalf of the Russian Federation as the sole shareholder.

Relationship with the Government

The Government exercises substantial influence over the Group through its share ownership, tariff and subsidy policies as well as regulatory and legislative powers. The Russian Federation owns 100 percent of the Company's shares and, as the sole shareholder, appoints the chairman and all ten members of the Company's board of directors (the "**Board of Directors**") as well as the president. See "*Description of the Company Management*". The Government also approves the Company's budget and capital expenditures programme and otherwise participates in the operations of the Company.

The Government regulates tariffs that the Company charges for freight transportation and, specifically, for access to the railway infrastructure, locomotive traction and the use of Company-owned railcars. For passenger services, the Government regulates tariffs for third- and fourth-class long-haul and suburban passenger transportation. See "Business—*Tariff Regulation and Pricing*". The Group also receives subsidies from the Government's budget. The Government's tariff and subsidy policies are influenced by social and political considerations. Also see "*Risk Factors—The Company is heavily dependent on the continued support of the Government, which controls the Company and may cause it to engage in business practices that may be in conflict with its commercial interests and the interests of Noteholders*".

Under Russian law, the Company is a natural monopoly in respect to railway transportation in Russia. As a natural monopoly, the Company is required to provide access to the railway infrastructure, locomotive services and Company-owned railcars on a non-discriminatory basis to all market participants. The Company is also a

"strategic" entity, and as such is subject to a special insolvency and bankruptcy regime and a sale or dilution of the Russian Federation's interest in the voting share capital of the Company (or its subsidiaries) is restricted. See "*Regulation of Railway Transportation in Russia*".

The Government's initiatives relating to the reform of Russian railway industry also significantly affect the Company and its operations. Since 2001, the reform has been implemented through a series of initiatives set out in certain reform-related documents. See "*Business—History and Corporate Structure of the Group and the Reform Programme*".

Competitive Strengths

The Group believes that, as a key strategic component of the Russian economic infrastructure, it is well placed to benefit from, and contribute to, the continued growth and development of the Russian economy.

Vital Importance for the Russian Federation and the Russian Economy. The Group plays a strategic role in freight and passenger transportation and in the overall Russian economy. The Group owns and operates the Rail System which is the primary mode of freight transportation in Russia for all major types of freight (excluding oil and gas) by freight turnover. The overall freight turnover on the Rail System was 2,502 billion tonnes-kilometres in 2010, which represented approximately 85 percent of total freight shipments in Russia (excluding oil and gas carried through pipelines). The Group is also the primary mode of domestic passenger travel in Russia, with an overall passenger turnover of approximately 139 billion passenger-kilometres in 2010. Given the size and reach of the Rail System across Russia's territory and the significant distances between suppliers of raw materials and their intermediate or end customers, the Group believes that railway transportation will continue to be the primary mode of freight (excluding oil and gas) and long-haul passenger transportation.

This leading position in the Russian transportation sector positions the Group to benefit from the expected growth of the Russian economy in the medium term. The Company believes that growth in freight turnover historically has been strongly correlated with growth in GDP and industrial production in Russia. As Russia's economy continues to recover from the effects of the recent global economic downturn, the Group expects to benefit from the anticipated growth in the industrial production, foreign trade expansion and the population's increasing mobility, which together are expected to translate into increases in freight and passenger traffic.

Wide Geographic Reach. The geographic reach of the Rail System also allows the Group to take advantage of evolving regional economic centres, as the Group can divert resources (including rolling stock, locomotives and timetabled passenger services) and traffic routing to areas with increasing transport demand. The Group believes that this geographic reach also allows it to grow and evolve simultaneously with the development of the Russian economy and develop and exploit new trade routes, which increase the Rail System's throughput capacity and efficiency by reducing the frequency of empty runs.

Strong Relationship with the Government. The Government, on behalf of the Russian Federation as the sole shareholder of the Company, appoints all members of its Board of Directors. The Group is integral to the Government's reform of the railway transportation industry. The Government has continued to support the Group by providing subsidies and capital injections for railway infrastructure development and operations, as well as by committing to invest substantial funds alongside the Group's capital expenditures plans. See "*Business—Investment Projects and Expansion*".

Leading Market Position in Freight Transportation. The Group has the leading position in the Russian railway freight transportation market. The Company owns and operates the Rail System and related infrastructure as well as virtually all of the locomotives in Russia. All private freight railcar operators, including the Company's subsidiaries, pay the Company for access to the Rail System and locomotive traction, which together represent approximately 85 percent of the total cost of freight transportation for freight carried in the Company's rolling stock. In addition, the Group is the largest railcar operator in Russia, with about 519,000 units of freight rolling stock (including subsidiaries), as of 31 December 2010. The Company's subsidiary, OJSC Freight One ("**Freight One**"), is Russia's largest private rail transport operator. As at 31 December 2010, Freight One owned and operated more than 196,000 railcars, which represented approximately 24 percent of all freight rolling stock in Russia. In 2010, the Company also established OJSC Freight Two ("**Freight Two**") to operate the remainder of its freight rolling stock. After the Company completes the contribution of its freight rolling stock to Freight Two, the subsidiary is expected to become the second largest rail-based freight transportation company in Russia, operating a fleet of over 180,000 railcars, although the completion of this process may be subject to the disposal of the Company's controlling stake in Freight One. See "*Business—Business Operations—Freight—Freight Two*".

Tariff and Subsidy Regulation Providing Financial Stability and Predictable Cash Flows. The Government, through its tariff regulation and subsidy policy, has enabled the Company to generate sufficient cash flows to support the Company's operations, capital expenditures (primarily relating to the modernisation of the Company's rolling stock and railway infrastructure maintenance), and repayment of borrowings. The rail infrastructure and

locomotive services provided by the Company, as well as certain services provided by its subsidiaries (such as the third- and fourth-class long-haul passenger transportation services provided by Federal Passenger Company) are tariff regulated. Generally, the Government sets tariffs on the annual basis. If tariffs initially set during an annual indexation process are insufficient, the Company may seek supplemental tariff adjustments to cover increases in projected operating costs or to undertake additional capital expenditures that were not projected during annual tariff indexation process. In addition, the Government may also provide subsidies to supplement insufficient tariff indexation. A recent Government initiative proposed to limit indexation of tariffs to the level of inflation. The final decision has not been made yet but, if the restrictions on the level of indexation are adopted, the Company expects that the Government will increase subsidies or otherwise provide additional funds to the Company to ensure that the Company has sufficient investment budget to renovate and develop railway infrastructure. See "*Business—Tariff Regulations and Pricing*" and "*Business—Tariff Regulation and Pricing—Government Subsidiaries and Contributions to the Company's Share Capital*". Beginning in 2009, if annual and supplemental tariff indexation was insufficient to cover the relevant operating expenses, the Government provided subsidies. In 2009, the Government's freight tariffs indexation was below the level required by the Company, primarily in order to increase freight transportation and thereby to stimulate recovery of the Russian economy during the financial turmoil, but the Government provided subsidies to compensate the Company for the effects of tariff regulation. In 2010, the Government revised its tariff-setting methodology for freight and suburban passenger transportation, which it intends to implement in 2012. In setting tariffs, the Government's primary objective is on the one hand to set economically justifiable tariffs that ensure the Company's obtaining sufficient financial resources required for stable and effective operation of the Rail System, but on the other hand to minimise the adverse effect of tariff growth on users of the Rail System. However, if tariffs are set below the economically justifiable tariffs (which are intended to cover costs of providing transportation services and a predetermined profit margin) determined by the FTS, the Government typically provides the Company with subsidies to offset the adverse effect of tariff regulation.

The Government also lends financial support to the Group's passenger transportation business. For social and political reasons, tariffs for suburban passenger transportation as well as for third- and fourth-class long-haul passenger service are set at levels insufficient to cover the costs of providing these services. See "*Business—Tariff Regulation and Pricing—Regulated Tariffs for Long-Haul Passenger Service*". However, the Government provides subsidies for a significant portion of the difference between applicable tariffs and economically justifiable tariffs as determined by the FTS (for long-haul passenger transportation), and between applicable tariffs and the costs of providing the transportation services (for suburban passenger transportation). In 2009 and 2010, subsidies for long-haul passenger transportation were 100 percent of the difference, and a certain portion of the difference between the applicable tariffs and the costs of providing the services for suburban passenger transportation. The recent amendments to the budget law approved the subsidy to the Company in the amount of RUR 25 billion to partially cover the Group's costs of providing the services for suburban passenger transportation. The Company expects that a subsidy of a similar amount will be approved for 2012. In accordance with the Government's Directive, the Ministry of Economy shall develop a mechanism to provide sufficient funding for suburban rail transportation going forward. The Company, therefore, believes that the Government will continue to provide similar support in the future.

Key Role in Facilitating Eurasian Transportation and Trade. The Group plays an integral role in Eurasian trade by facilitating freight transportation not only within Russia, but also with and among other European countries, Central Asian countries and countries on the Caspian Sea, Persian Gulf and Indian Ocean. Three of the ten pan-European international transport corridors pass through the Russian Federation using the Rail System. Similarly, the railway track network forms a component of several of the North-South transportation corridors that link Russia and Europe with countries of the Caucasus, the Caspian Sea, the Persian Gulf and the Indian Ocean. The Group's East-West corridor provides an overland rail route between Europe and East Asia that reduces by 20 days or more the average journey compared with sea routes through the Suez Canal.

The Group has made significant investments in recent years to increase the efficiency and competitiveness of its network for Eurasian freight customers, including improving the organisation of container shipments and container routes through technology that meets the demands of the international transport market, and participating in the international coordination of transport procedures within the Eurasian transport system to simplify and speed up customs procedures. In particular, the Group has been active in demonstration projects, including an on-going pilot programme for a cross-border (Beijing to Hamburg) container train service.

Strategy

Following the collapse of the Soviet Union in 1991, the Russian railway system experienced a significant underinvestment in respect of the maintenance and repair of rolling stock, track and stations, as well as railway infrastructure. The Government subsequently recognised the need for massive reconstruction of the railway sector through investment and modernisation efforts aimed at meeting the demands of Russia's growing economy.

Representatives of the railway sector, other ministries and agencies together with the assistance of international advisers developed the Reform Programme, which was approved in May 2001. See "*Business—History and Corporate Structure of the Group and the Reform Programme*". The Reform Programme aims to improve the efficiency and stability of the transportation sector as well as to balance the interests of the end users of railway transportation, the Russian railway transportation sector and the Government. The Group has also actively participated in the development of the Government Railway Development Strategy 2030, which outlines the main guidelines for modernisation and expansion of the Rail System, modernisation of rolling stock, improvement of railway transportation safety and scientific and technical development of the Russian railway sector.

Certain key elements of the Group's strategy are as follows:

Infrastructure Investments in the Rail System and Rolling Stock. To increase the efficiency of railway transportation, the Company plans to continue investing in railway infrastructure development projects aimed at increasing the Rail System's throughput capacity, reducing bottlenecks to increase freight turnover and increasing railway transportation safety. In many cases, these investments are expected to be supplemented by direct investment by the Government, including through the arrangement referred to as the Network Contract. See "*Business—History and Corporate Structure of the Group and the Reform Programme*". The Company's investment budget was approximately RUR 317.4 billion in 2010, with a projected budget of approximately RUR 349 billion for 2011, RUR 358 billion for 2012 and RUR 315 billion for 2013. A substantial portion of the Company's investment budget is expected to be devoted to projects relating to the 2014 winter Olympic games in Sochi (the "**Winter Olympics**"), modernisation of the Company's infrastructure and renovation (acquisition and modernisation) of its rolling stock. In 2010, Russia was selected as the host of the 2018 Football World Cup (the "**World Cup**"). The Group expects to participate in the development of rail infrastructure for the World Cup, in particular by developing a high-speed transportation network between the cities where the World Cup games will take place. The Company is currently working on a plan to develop the rail network for the World Cup, which will be subject to Government approval. In 2008, the Company issued additional shares in the amount of approximately RUR 41.5 billion, with these funds received from the Government in 2008 and 2009. In 2009, the Government has contributed further RUR 11.3 billion to the share capital of the Company. In 2010, the Government has contributed an additional RUR 103.6 billion to the share capital of the Company. In 2011, the Government has contributed to the share capital of the Company approximately RUR 40 billion for the purpose of financing the Winter Olympics related projects. Also see "*Business—Investment Projects and Expansion*" and "*Risk Factors—The Company is heavily dependent on the continued support of the Government, which controls the Company and may cause it to engage in business practices that may be in conflict with its commercial interests and the interests of Noteholders*".

Promoting the Creation of a Fully Integrated Eurasian Network and Increasing the Volume of Eurasian Transportation. In order to take advantage of Russia's geographic position as a bridge between Asia and Europe, the Group intends to continue modernising and expanding its railway and related infrastructure, establishing new routes and addressing regulatory aspects relating to freight transportation with the aim of increasing trans-Eurasian freight transportation volumes.

One of the Group's key initiatives for improving railway infrastructure is the reconstruction and extension of the North-South international transport corridor. This route provides rail transportation between countries on the Persian Gulf and the Indian Ocean and Russia. The Group intends to integrate these transport corridors with the Group's three pan-European international transport corridors to improve railway freight transportation to Northern European countries.

Other significant domestic projects relate to the improvement of infrastructure on the Baikal-Amur Mainline, at the port of St. Petersburg, at the port of Vladivostok, in Krasnodar Krai and on Zabaikalskaya Railroad in the vicinity of the Russian-Chinese border.

The Group's efforts with respect to regulatory matters include coordinating, in conjunction with Russian and foreign transport regulators, transport legislation within the Eurasian transport system, implementing simplified border and customs procedures, organising the creation of unified information and logistics centres and developing improved technology for rolling stock operation.

Reducing Losses in Regulated Fare Passenger Transportation and Increasing the Attractiveness of Unregulated Fare Passenger Transportation. The provision of third- and fourth-class long-haul transportation and the operation of most suburban railway networks are unlikely to become profitable in the near term due to the Government's commitment to provide ready access to passenger transportation. However, the Government has continuously provided the Company with the subsidies to reduce the Company's losses from long-haul and suburban rail transportation. The Company has already separated its long-haul and suburban passenger transportation activities into subsidiaries in order to continue to minimise its losses by ensuring that the federal, regional and municipal government budgets provide for sufficient reimbursement for loss-making regulated fare traffic and partnering with regional authorities to share responsibility for suburban passenger services and otherwise

to provide for a more economically sound pricing structure for these services. However, in practice regional authorities do not always have necessary funds to reimburse the Group for the losses from suburban rail transportation services, and additional funding may be required. For example, recent amendments to the budget law approved the subsidy to the Group in the amount of RUR 25 billion to partially cover the Group's costs of providing the services for suburban passenger transportation. The Company expects that a subsidy of a similar amount will be approved for 2012. In accordance with the Government's Directive, the Ministry of Economy shall develop a mechanism to provide sufficient funding for suburban rail transportation going forward. Also see "*Business—History and Corporate Structure of the Group and the Reform Programme—Reform Programme—Fourth Stage: the Final Stage—The Group's Key Initiatives in Passenger Transportation*".

The Group is also committed to increasing the attractiveness of unregulated fare passenger transportation by improving passenger rolling stock, introducing luxury class services and developing new high-speed routes in the short- to medium-term. The Group has implemented various measures to improve its existing railway line between Moscow and St. Petersburg. In December 2009, the first high-speed train, "Sapsan", completed a journey between Moscow and St. Petersburg in 3 hours and 45 minutes. Currently, the Group is developing other high-speed routes, including lines between Moscow and Sochi, Nizhny Novgorod, Samara, Kursk, Smolensk and Krasnoe. In the medium- to long-term, the Group intends to construct high-speed railway lines with speeds up to 400 kilometres per hour between key Russian cities with possible future extension to reach international destinations.

Continued Reorganisation of the Group. The Group continues to reorganise by divesting non-core businesses and establishing separate operating subsidiaries that are able to maintain and increase the Group's market share and revenues in competitive markets. In 2007, the Group established Freight One as a wholly-owned subsidiary and contributed a significant amount of rolling stock to compete in the private railcar operators' market. In 2006, the Group established OJSC TransContainer ("**TransContainer**") to better serve the growing container traffic and related infrastructure needs. In 2006, the Group established OJSC Refservice ("**Refservice**") to compete in the refrigerated service railcar market. The controlling stakes in each of Freight One, TransContainer and Refservice are expected to be sold to private investors in 2011-2012. During the reform of the railway transportation sector, the Group has established 84 branches and subsidiaries to operate in suburban and long-haul passenger transportation, railcar repair and maintenance and logistics. Because the Company's subsidiaries are not (or will not be) subject to tariff regulation or have a commitment to provide services to all customers, these subsidiaries have potential to generate additional revenue streams for the Group.

To continue developing free market competition and reforming the freight railcar operators' segment, in 2010, the Company established a new subsidiary, Freight Two, to operate the remainder of its freight railcars of approximately 180,000 units intended to be contributed to the share capital of Freight Two, although the completion of this process may be subject to the disposal of the Company's controlling stake in Freight One. See "*Business—Business Operations—Freight—Freight Two*". In the passenger transportation segment, in 2009 the Company formed OJSC Federal Passenger Company ("**Federal Passenger Company**") to operate in its long-haul passenger transportation business and completed the separation of its suburban transportation business into subsidiaries. Also, in 2008 and in 2010 the Company sold a total of 50 percent (less two shares) interest in TransContainer in a private placement to institutional investors and an initial public offering (an "**IPO**"), respectively. See "*Business—History and Corporate Structure of the Group and the Reform Programme—Reform Programme—Third Stage: Formation and Development of a Competitive Marke*t".

Continuing to Improve Operating Efficiency. The Group intends to continue to implement measures aimed at improving its operating efficiency and productivity, and reducing costs. The Group plans to improve and modernise the asset production processes, increase the productivity and efficiency of its workforce. Additionally, the Group plans to improve management of its fuel and electricity costs. LLC RZDsnab ("**RZDsnab**"), the Group's procurement division, intends to continue delivering cost savings to the Group through its public tender process and its ability to purchase supplies in bulk volumes from suppliers since it is one of the largest purchasers of various commodities and other consumables in Russia. In 2009 and 2010, the Group continued to realise its cost reduction programme, which significantly reduced growth in its operating costs, and the Group intends to continue implementing cost-reduction measures in the future. See "*Business—Recent Developments—Global economic downturn and the Company's measures to mitigate its effects*".

SUMMARY OF THE OFFERING

*The following summary contains basic information about the Further Notes, the Notes (where applicable) and the Loan and should be read in conjunction with, and is qualified in its entirety by, the information set forth under "The Loan Agreement" and "Terms and Conditions of the Notes" (the "**Conditions**") appearing elsewhere in this Prospectus.*

The Issuer	RZD Capital Limited (the "**Issuer**"), a private company organised and existing as a limited liability company under the laws of Ireland.
The Offer	£300,000,000 7.487 percent Loan Participation Notes due 2031 to be consolidated and form a single series with the £350,000,000 7.487 percent Loan Participation Notes due 2031.
Issue Price of the Notes	101.75 percent of the principal amount of the Further Notes plus the Accrued Interest.
Issue Date	22 June 2011.
Maturity Date	25 March 2031.
Interest	On each Interest Payment Date, or as soon thereafter as the same is received, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement, save as provided in Condition 5, which interest under the Loan is equal to 7.487 percent per annum. For the avoidance of doubt, provided the Accrued Interest has actually been received by or for the account of the Issuer on or before the Issue Date of the Further Notes and paid into the Account (as defined In the Loan Agreement) in accordance with the terms of the Trust Deed, holders of the Further Notes will receive, on the first Interest Payment Date an amount representing accrued interest on the Further Notes in respect of the period from and including 25 March 2011 to (but excluding) 25 September 2011.
Form of the Notes	The Further Notes will be issued in registered form in minimum denominations of £100,000 and integral multiples of £1,000 in excess thereof. The Further Notes will be represented by the Further Global Certificate, without interest coupons. The Further Global Certificate will be exchangeable for Definitive Certificates in the limited circumstances specified in the Further Global Certificate.
Trustee	Deutsche Trustee Company Limited.
Registrar	Deutsche Bank Luxembourg SA.
Principal Paying Agent	Deutsche Bank AG, London Branch.
Initial Delivery of Notes	On or before the Issue Date, the Further Global Certificate will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg and will be registered in the name of a nominee of Euroclear and Clearstream, Luxembourg.
Limited Recourse	The Further Notes are secured limited recourse obligations of the Issuer. The Further Notes are secured by a charge and assignment of certain contractual rights, interests and benefits of the Issuer as set out below. The sole purpose of the issue of the Further Notes is to provide the funds for the Issuer to finance the Further Loan. The Further Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Further Notes solely for financing the Further Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, save as provided in Condition 5, less any amount in respect of the Reserved Rights (as defined in the Trust Deed). See "*Terms and Conditions of the Notes—1 Status*".

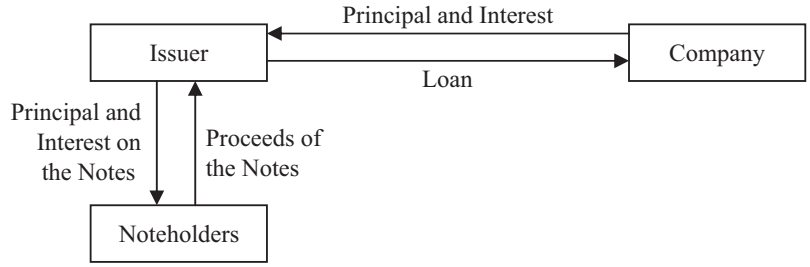
Security	Pursuant to the Trust Deed, the Notes are secured (in respect of the Original Notes) and will be secured (in respect of the Further Notes) by a charge (the "**Charge**") in favour of the Trustee for the benefit of the Noteholders, of: (a) all rights to principal, interest and additional amounts (if any) payable by the Company to the Issuer under the Loan Agreement; (b) the right to receive all sums that may be or may become payable by the Company under any claim, award or judgment relating to the Loan Agreement; and (c) all the rights, title and interest in and to all sums of money held from time to time in an account specified in the Loan Agreement, together with the debts represented thereby (including interest earned on the account, if any), provided, in each case, that Reserved Rights (as defined in the Trust Deed), and any amounts in respect thereof, are excluded from the Charge. Furthermore, under the terms of the Trust Deed, the Issuer has assigned (in respect of the Original Notes) and will assign (in respect of the Further Notes) absolutely all of its rights, interests and benefits, which have accrued or may accrue to the Issuer under the Loan Agreement, except for rights, title, interests and benefits subject to the Charge, any Reserved Rights (as defined in the Trust Deed) and any amounts relating to the Reserve Rights, to the Trustee for the benefit of the Noteholders.
Redemption by the Issuer	If the Company prepays the Loan pursuant to the Loan Agreement, whether for tax reasons or by reason of increased costs or illegality, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at 100 percent of the principal amount, together with the accrued and unpaid interest and additional amounts (if any) all as more fully described in "*Terms and Conditions of the Notes—6 Redemption*".
Optional Redemption by the Noteholders upon a Change of Control	Upon the occurrence of a Change of Control (as defined in "*Terms and Conditions of the Notes—6 Redemption*") the Notes may be redeemed at the option of a Noteholder at 100 percent of their principal amount together with accrued interest, if any, all as more fully described in the "*Terms and Conditions of the Notes*".
Withholding Tax or Increased Costs	All payments in respect of the Loan and the Notes by or on behalf of the Borrower and the Issuer, as the case may be, will be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Russian Federation, Ireland or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law. In such event, the sum payable by the Borrower or the Issuer will be required (subject to certain exceptions) to be increased to the extent necessary to ensure that the Noteholders receive the sum which they would have received had no such deduction or withholding been required. See "*Terms and Conditions of the Notes—8 Taxation*".
Events of Default and Relevant Events	If either an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined in the Trust Deed) occurs, the Trustee may, subject to the provisions of the Trust Deed: (a) in the case of an Event of Default, declare all amounts payable by the Company under the Loan Agreement to be due and payable

	and to do all such other acts in connection therewith that the Trustee may direct; or (b) in the case of a Relevant Event, enforce the security created by the Trust Deed. Upon repayment of the Loan following an Event of Default, the Notes will be redeemed and repaid at their principal amount, together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.
Selling Restrictions	United Kingdom, United States, Ireland and Russia. See "*Subscription and Sale*".
Further Issuances	The Issuer may, from time to time and without the consent of the Noteholders, create and issue further notes on the same terms as the existing Notes (except for the first payment of interest). Such further notes may be consolidated and form a single series with such existing Notes.
Ratings	The Notes have been provisionally rated "BBB" by Fitch Ratings Limited ("**Fitch**") and "Baa1" by Moody's Investors Service Ltd ("**Moody's**"), in each case with a stable outlook. Upon a conclusive review of the transaction and associated documentation, Fitch and Moody's will assign a definitive rating to the Notes. A definitive rating may differ from a provisional rating. The Company expects the Notes to be rated "BBB" by Standard & Poor's Ratings Services ("**Standard & Poor's**"). Each of Moody's, Fitch and Standard and Poor's, is established in the European Union and has applied to be registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid or paid on a particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.
Use of Proceeds	The proceeds of the Further Notes will be used by the Issuer for the purpose of financing the Further Loan to the Company and paying certain expenses in connection with the issue of the Further Notes. The proceeds of such Further Loan will be used by the Company in the ordinary course of its business.
Negative Pledge	The Issuer will have the benefit of a negative pledge granted by the Company, as fully described in the Loan Agreement.
Listing	Application has been made to the Irish Stock Exchange for the Further Notes to be admitted to the official list and trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.
Security Codes	ISIN: XS0609017917. Common Code: 060901791.
Governing Law	The Further Notes, the Loan Agreement and the Trust Deed, and any non-contractual obligations arising out of or in connection with them, shall be governed by and construed in accordance with English law.

An investment in the Further Notes involves a high degree of risk. See "*Risk Factors*".

DESCRIPTION OF THE TRANSACTION

The following summary contains basic information about the Further Notes, the Notes (where applicable) and the Loan and should be read in conjunction with, and is qualified in its entirety by, the information set forth under "The Loan Agreement" and "Terms and Conditions of the Notes" appearing elsewhere in this Prospectus.



The transaction will be structured such that the proceeds of the issue of the Further Notes will be lent by the Issuer as lender to the Company as borrower. The Issuer will issue the Further Notes, which will be secured limited recourse loan participation notes issued for the sole purpose of funding the Further Loan to the Company. The Notes are limited recourse obligations and the Issuer will not have any obligation to the Noteholders other than the obligation to account to the Noteholders for payment of principal, interest and additional amounts (if any) received and retained (net of tax) by it under the Loan, except as provided in Condition 5. In the event that the amount due and payable by the Issuer under such Notes exceeds the sums so received or recovered and retained (net of tax), the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

The Further Notes will have the benefit of, and be constituted by, the Trust Deed. As provided in the Trust Deed, the Issuer has charged (in respect of the Original Notes) and will charge (in respect of the Further Notes), by way of a charge in favour of the Trustee, for the benefit of the Noteholders as continuing security for its payment obligations in respect of the Notes (the "**Charge**"):

- all rights to principal, interest and additional amounts (if any) payable to the Issuer by the Company under the Loan Agreement;
- the right to receive all sums that may be or become payable by the Company under any claim, award or judgment relating to the Loan Agreement; and
- all the rights, title and interest in and to all sums of money held from time to time in an account specified in the Loan Agreement, together with the debts represented thereby (including interest earned on the account, if any),

provided, in each case, that Reserved Rights (as defined in the Trust Deed), and any amounts in respect thereof, are excluded from the Charge. In addition, the Issuer has assigned (in respect of the Original Notes) and will assign (in respect of the Further Notes) absolutely to the Trustee for the benefit of itself and the Noteholders all the rights, title, interest and benefits, both present and future, that have accrued (in respect of the Original Notes) or may accrue (in respect of the Further Notes) to the Issuer as lender under or pursuant to the Loan Agreement (including, without limitation, the right to declare the Loan immediately due and payable and to commence proceedings to enforce the obligations of the Company thereunder), other than any rights, interests or benefits that are subject to the Charge and other than Reserved Rights (as defined in the Trust Deed), and any amounts relating to the Reserved Rights. As a consequence of such assignment, the Trustee will assume the rights of the Issuer under the Loan Agreement, as set forth in the relevant provisions of the Trust Deed.

The Issuer agrees in the Trust Deed not to agree to any amendments to or modification or waiver of, and not to authorise any breach of, the Loan Agreement unless the Trustee has given its prior written consent or unless authorised to do so by an Extraordinary Resolution or a Written Resolution (as defined in the Trust Deed) of the Noteholders, except in respect of Reserved Rights. The Issuer agrees to act at all times in accordance with any instructions of the Trustee with respect to the Loan Agreement, except as provided in the Trust Deed and except in respect of Reserved Rights. The Trustee agrees to notify the Noteholders of any amendments, modifications, waivers or authorisations made with the Trustee's consent in accordance with "*Terms and Conditions of the Notes—Condition 14 Notices*", which amendments, modifications, waivers or authorisations will be binding on the Noteholders. The Issuer does not intend to provide post-issuance transaction information regarding the Notes or the performance of the Loan.

Payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes imposed and levied by or on behalf of the Russian Federation or Ireland, except as required by law. If any deduction or withholding is required by law, the Issuer must, except in certain limited circumstances, pay additional amounts to the extent it receives corresponding amounts from the Company pursuant to the Loan Agreement. In addition, payments under the Loan Agreement will be made without deduction or withholding for or on account of Taxes (as defined in the Loan Agreement), except as required by law. If any deduction or withholding is required by law with respect to payments under the Notes or the Loan Agreement, the Company must, except in certain limited circumstances, increase the amounts payable under the Loan Agreement to ensure that the Issuer receives a net amount equal to the full amount it would have received had payment not been made subject to Taxes.

The Company may prepay the Loan at its principal amount, together with accrued and unpaid interest and additional amounts (if any) if the Company must increase the amount payable or pay additional amounts on account of the Taxes in respect of which it is required to pay additional amounts under the Loan Agreement or if it must pay additional amounts on account of certain costs incurred by the Issuer. As set forth in the Loan Agreement, the Issuer may, at its own discretion, require the Company to prepay the Loan if it becomes unlawful for the Loan or the Notes to remain outstanding. The Loan has characteristics that demonstrate a capacity to produce funds to service any payments due and payable on the Notes.

RISK FACTORS

An investment in the Further Notes involves a high degree of risk. Prospective investors should consider carefully, among other things, the risks set forth below and the other information contained in this document prior to making any investment decision with respect to the Further Notes. The risks highlighted below could have a material adverse effect on the Group's business, financial position, results of operations or prospects which, in turn, could have a material adverse effect on the Company's ability to service payment obligations under the Loan Agreement and, as a result, the Issuer's ability to service payment obligations under the Further Notes. In addition, the value of the Further Notes could decline due to any of these risks, and the Noteholders may lose some or all of their investment. Prospective investors should note that the risks described below are not the only risks the Group and the Issuer face. The Group has described only the risks it considers to be material. However, there may be additional risks that the Group currently considers immaterial or of which it is currently unaware, and any of these risks could have the effects set forth above. The order in which the following risks are presented is not intended to be an indication of the probability of their occurrence or the magnitude of their potential effects.

Risks Relating to The Group

The Group's results of operations and financial position have been and could continue to be adversely affected by a decline in railway freight transportation volumes resulting from a deterioration in economic conditions.

The Group's results of operations are significantly influenced by the general economic conditions in Russia. Specifically, railway freight transportation volumes in Russia are strongly correlated with the GDP and industrial production. Prior to mid-2008, Russian GDP had experienced strong growth, increasing from US$432 billion in 2003 to US$1,677 billion in 2008, which has also caused railway freight transportation volumes to increase by a compound annual growth rate of 5.5 percent, according to Rosstat. However, beginning from the fourth quarter of 2008, the Russian economy experienced a sharp decline in GDP and industrial production as a result of a global economic downturn. According to Rosstat, Russian GDP decreased by 7.9 percent between 2008 and 2009, while industrial production decreased by 9.3 percent over the same period. As the largest provider of railway transportation services in Russia, the Group has been significantly affected by the decline in industrial production and trade. The economic slowdown has impacted the Group's principal customers causing a decline in demand for railway freight transportation services. For example, railway freight transportation turnover decreased by approximately 6.3 percent in 2009 compared with 2008, measured in tonne-kilometres, which had a significant adverse effect on the Group's revenues and operations. To support demand for its freight transportation services, the Company's subsidiaries that were not subject to tariff regulation reduced prices for their services, which also contributed to a decline in the Group's revenues. In addition, the Company's investment programme was significantly reduced in 2009 from the initially approved budget of RUR 433.3 billion to RUR 265.6 billion, while in 2010, the investment programme was only approximately RUR 316 billion, which was insufficient to finance all infrastructure projects it originally planned to implement in 2009 and 2010.

Although economic conditions in Russia and consequently railway freight transportation volumes began to recover in the second half of 2009, demonstrating further improvement in 2010 and an increase in the freight transport turnover in 2010 compared with 2008 of 3.2 percent, there can be no assurance that the Group's railway freight transportation volumes will continue to increase. In particular, while Russian GDP has increased by 4.2 percent in the first half of 2010, it has increased by only 2.7 percent in the third quarter of 2010, according to Rosstat. Furthermore, as a result of the global economic crisis the Government had to maintain or impose, as the case may be, lower tariffs for particular freight transportation in order to support certain industries heavily affected by the crisis. If economic uncertainty and depressed demand for railway freight transportation services continue, the Group's revenues will continue to be adversely affected, which in turn will have a material adverse effect on the Group's business, operating results, financial position, prospects and the value of the Further Notes.

The Company is heavily dependent on the continued support of the Government, which controls the Company and may cause it to engage in business practices that may be in conflict with its commercial interests and the interests of Noteholders.

As at the date of this Prospectus, the Russian Federation owns 100 percent of the Company's shares. The chairman of the Company's ten-member Board of Directors is a Deputy Prime Minister of the Government, and all ten members of the Board of Directors, including the president of the Company, were nominated and appointed by the Government. Through its share ownership, representation on the Board of Directors as well as tariff regulation, taxation and legislative powers, the Government exercises substantial influence over the Company's operations.

The Government approves the Company's budget, capital expenditures and investment programme, the amount of state subsidies available to the Company and otherwise participates in the operations of the Company.

The Company, as a natural monopoly, is subject to tariff regulation. The Federal Tariff Service (the "**FTS**") regulates tariffs that the Company charges its customers for freight transportation (using its rolling stock) and the provision of rail infrastructure and locomotive traction. The Government also regulates tariffs for third- and fourth-class long-haul passenger services. See "*Business—Tariff Regulation and Pricing*". Each year the Company makes a request to the FTS for an increase in tariffs, however, the final decision is made by the FTS. Pursuant to the tariff setting methodology, the FTS permits the Company to factor its projected operating expenses, capital expenditures and debt service expenses, into its tariff increase requests. These projections may not be accurate as a result of unanticipated increases in operating costs, including wage expenses, materials costs or energy expenses, and accordingly the Company may not be able to recover these costs through the tariff system in the financial period in which they are incurred, if at all. Beginning in 2012, a new methodology for setting tariffs for freight transportation is expected to be implemented. See "*Business—Tariff Regulation and Pricing—Freight Tariffs*". However, there can be no assurance that the application of the new methodology will result in the Company's recovering all costs and/or generating profits.

In addition, in setting tariffs, the Government's decisions may be influenced by factors other than maximisation of the economic efficiency of the Company's operations, including macro-economic, social and political factors. For example, tariffs for freight transportation were frequently kept below economically justified rates to control the level of inflation or stimulate industrial production by reducing transportation costs for producers. Further, the Government has recently proposed that the increase in Company's tariffs should not be above the level of inflation for a particular year. In 2009, the Government approved tariff indexation of 8 percent instead of the initially planned 14 percent, in order to support the national economy and domestic manufacturing during the global economic downturn. The Company's freight revenues decreased by approximately 6 percent in 2009 compared with 2008. Although the negative impact of the lower indexation for the year ended 31 December 2009 has been partially offset by additional subsidies of approximately RUR 41 billion to compensate for insufficient indexation of tariffs for freight transportation and approximately RUR 36 billion to compensate the effects of tariff regulation on long-haul passenger transportation, there can be no assurance that the Company will receive such additional subsidies from the Government in the future. Also, in order to support freight transportation in certain regions or for the benefit of certain industries, the Government sets tariffs below the Company's actual transportation costs, which results in a net loss incurred by the Company while transporting freight in such regions or freight of a particular nature. In setting tariffs for passenger transportation, the Government has been and may continue to be influenced by social and political considerations, providing certain passenger transportation services (such as third- and fourth-class as well as suburban passenger transportation) at prices below their cost. As a natural monopoly, the Company must also provide its freight transportation services on a non-discriminatory basis, and therefore, may not refuse to transport freight on its rolling stock even if such transportation would result in a net loss.

The Company anticipates achieving a more efficient allocation of costs between itself and federal and regional budgets by way of entering into a so-called "network contract" (the "**Network Contract**"). See "*Business—History and Corporate Structure of the Group and the Reform Programme—Reform Programme—Fourth Stage: the Final Stage*". However, there can be no assurance that the Network Contract will be approved and entered into by the Government. Traditionally, the Company provided long-haul and suburban passenger transportation services at prices below the costs of providing these services, as well as maintained certain infrastructure assets that have social function (such as educational and medical facilities). While the Group is seeking to dispose of such assets, and to cover its losses for the provision of passenger transportation services from subsidies provided by federal and regional governments, the Group expects to continue to bear these responsibilities. The Group believes that losses generated by providing passenger services will adversely affect the Group's operations, if they continue to be incurred by the Group, and if the Government discontinues its support to the Company without relieving it of the social function. Moreover, the Government may cause the Group to maintain services or routes that become uneconomical, divest profitable lines of business and refuse to provide adequate subsidies for the Group's operations, financial position or prospects.

Accordingly, the Group is heavily dependent upon the continued support of the Government, including due to its control over the Company's management bodies, tariff regulation, granting of subsidies required to compensate shortfalls in the Company's revenues constrained by tariffs and the ability to set the legal framework for the Company's operations and potentially restrict the disposal of some of the Company's assets. For example, see "*Business—Business Operations—Freight—Freight Two*". There can be no assurance that the control or other

influence the Government has on the Group will not cause it to engage in business practices that may be in conflict with the Group's commercial interests or the interests of Noteholders. If the Government were to control or otherwise influence the Group's operations in such a manner, this could have a material adverse effect on the Company's business, financial position, results of operations, prospects and the value of the Further Notes.

The Group is undergoing restructuring pursuant to the Reform Programme developed in cooperation with the Government, which may have unintended consequences that could materially affect the Group's business.

From 2006 to 2010, the Group has been undergoing the third phase of the Reform Programme, which entailed significant changes to the structure of the Group, including establishment of subsidiaries for operations in competitive markets and subsequent sale of equity stakes in such subsidiaries as well as divesting certain non-core businesses. Due to the recent global economic downturn, the Reform Programme, which was originally designed as a three-stage process, was not fully completed in 2010 as initially planned. Therefore, the fourth stage of the Reform Programme has been launched in 2011 and will be continued until 2015. See "*Business—History and Corporate Structure of the Group and the Reform Programme—Reform Programme—Fourth Stage: the Final Stage*". In the freight transportation sector, the Company has already established Freight One and Freight Two which will be operating the Group's freight rolling stock and compete against other operators of freight rolling stock. However, the Company may be required to dispose of its controlling equity stake in Freight One to private investors before Freight Two launches its full-scale business operations. See "*Business—Business Operations—Freight—Freight Two*". There can be no assurance that competition between Freight One and Freight Two and other operators as well as between two of them would not adversely impact the Group's revenues or have other negative unintended consequences. In the passenger transportation sector, the Group has established Federal Passenger Company to operate its long-haul passenger transportation. The Group is also in the process of restructuring its suburban passenger transportation. See "*Business—History and Corporate Structure of the Group and the Reform Programme—Reform Programme—Third Stage: Formation and Development of a Competitive Market*".

The success of the newly established operating subsidiaries may depend on the Group's ability to restructure and adapt its management structure and managerial personnel to reflect the significant change in the Group's operational structure. There is no assurance that the Group's management will be able to manage and to compete effectively or to capture the desired level of market share or revenues from these operations, given the Government's continued efforts to foster competition in the freight and passenger transportation sectors. If the Group is unable to implement these restructuring and adaptation efforts in an efficient manner, it may result in disruptions, difficulties and discrepancies between management and operations, which if they occur, may cause the Group to fail to realise the revenue enhancement and other benefits that it currently expects to result from the restructuring. Moreover, the completion of the Reform Programme is subject to obtaining additional approvals from various government agencies, which may have different priorities. The pursuit of such approvals may delay or otherwise hinder the reform progress and result in other unintended consequences.

Under the Reform Programme, the Company intends to dispose of majority stakes in a wide range of its subsidiaries, including Freight One, TransContainer and TransCreditBank. See "*Operating and Financial Review—Recent Developments—Disposal of Subsidiaries*" and "*Business—History and Corporate Structure of the Group and the Reform Programme—Fourth Stage: the Final Stage*". While the proceeds from such disposals are intended to be applied for funding of the Company's investment programme, the proposed disposal of such subsidiaries may have substantial impact on the composition of the Group's revenues and, as consequence, on its financial results of operation as well as on its balance sheet. Furthermore, a failure to generate sufficient proceeds from the disposal of certain subsidiaries, or a delay in the anticipated timing of any such disposal may result in an underfunding of the investment programme, which the Company may not be able to obtain from other sources such as Government subsidiaries.

The approved Reform Programme, and certain other policy documents, have been and continue to be developed based on certain assumptions about Russian economic growth, international trade, technological advancement, commodity price levels, inflation, demographics, geopolitical developments, and similar factors that are inherently susceptible to uncertainty and changes in circumstances. In particular, the recent economic crisis and credit crunch were not anticipated at the time of the Reform Programme approval. Therefore, the Group (and the Government) may be required to revise its business expansion and capital expenditure plans, which may result in significant sunk costs or loss of opportunity. The Group may be unable to successfully revise the Reform Programme, and/or obtain Government approval of such amendments, or may otherwise fail to realise the Reform Programme causing the

Group to suffer certain unintended consequences, all of which could have a material adverse effect on the Group's business, results of operations, financial position and prospects.

Furthermore, clause 10.3.3 of the Loan Agreement permits the Company to dispose any of its assets pursuant to the Reform Programme and/or any other legislative or applicable regulatory acts adopted by Russian authorities irrespective of the terms of such disposal or whether such disposal individually or together with other disposals could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Further Notes.

Russia's railway infrastructure is in poor condition and requires significant investment in its maintenance and modernisation.

Russia's rail infrastructure and related assets that the Company inherited upon formation have generally not been adequately maintained or modernised since the break-up of the Soviet Union in the early 1990s. Particularly affected were the Group's rail networks, road networks, power generation and transmission, communication systems and buildings. The Company has already made, and intends to continue to make, substantial investments to modernise and expand its rail infrastructure and related assets. However, further implementation of maintenance and modernisation projects involves many potential risks and uncertainties, including work stoppages and interruptions resulting from inclement weather, unforeseen engineering difficulties, environmental and geological problems and unanticipated cost increases and claims, any of which could give rise to delays or cost overruns. Moreover, modernisation and expansion projects are capital-intensive and may be possible only in favourable market conditions and/or with the support of the Government. In 2009, poor market conditions and insufficient Government support caused the Company's investment programme to be significantly reduced. The size of the investment programme for 2010 was also far less than initially requested by the Company, which means that the Company may be unable to fund its infrastructure maintenance and modernisation projects in a timely manner or at all. There can be no assurance that the market conditions will be favourable or that the Group will be able to obtain, from the Government or other sources, financial support sufficient to continue its maintenance and modernisation projects.

The Group anticipates raising funds for its investment programme through sale of its assets and equity stakes in a number of subsidiaries, including Freight One, TransContainer and TransCreditBank in 2011-2012. See "*Operating and Financial Review—Recent Developments—Disposal of Subsidiaries*" and "*Business—History and Corporate Structure of the Group and the Reform Programme—Fourth Stage: the Final Stage"*. However, the proposed disposal of such assets may be delayed or, if completed, may generate less proceeds than expected, which may adversely affect the timing and/or the size of the Group's investment programme. If the Group is unable to raise sufficient funds from disposal of its assets or to obtain financial support from the Government and conduct maintenance and modernisation of railway infrastructure, its operations may be adversely affected by equipment failures and accidents attributable to poor conditions of the rail infrastructure and related assets. Moreover, such accidents may significantly increase expenditures relating to upkeep and repair of railway infrastructure and related assets. Further deterioration of rail infrastructure and related assets may materially adversely affect the performance of the Group and may cause revenues to decrease and the Group to incur unexpected expenditures or disruption of business operations, all of which could have a material adverse effect on the Group's business, operating results, financial position, prospects and the value of the Further Notes.

The operating assets of certain subsidiaries of the Company are aging and may require repair or replacement, which will continue to require significant capital expenditures.

The Group, predominantly through its subsidiaries, operates various freight and passenger transportation assets, including rolling stock, locomotives and other equipment. A significant portion of these assets has been approaching the end of their useful life and requires, and will continue to require, in the short- to medium-term significant expenditures for the acquisition of replacement assets or the refurbishment of the aging assets.

In general, the Group's assets require significant maintenance and repair expenditures. In 2009, the Group's investment programme was significantly reduced (whilst in 2010 it considerably increased from the 2009 level), and as a result, the Group postponed repairs of a portion of its rolling stock and other assets in order to reduce repairs and maintenance expenditures during the recent global economic downturn. Hence, the portion of the assets requiring repairs increased as a percentage of the Group's total assets. In the short- to medium-term, the Group will be required to conduct repairs and maintenance on the rolling stock and other assets for which repairs and maintenance were postponed in 2009, thereby incurring increased expenditures in the subsequent periods. Moreover, due to the

postponement of maintenance and repairs, certain assets may require unplanned repairs, which could result in delays in service to the Group's customers. Any additional expenditures, increases in unplanned repairs or delays in service resulting from such unplanned repairs may have a material adverse effect on the Group's business, operating results, financial position, prospects and the value of the Further Notes.

The Group faces numerous operating risks that may result in loss and additional expenditures, which may not be fully covered by insurance.

The Group is the owner and operator of the Russian railway infrastructure as well as the largest operator of passenger and freight rolling stock and locomotives in Russia. As a result, the Group's infrastructure and transportation operations may be adversely affected by many factors, including the breakdown or failure of equipment or processes, natural disasters, terrorist attacks or sabotage of the Group's extensive infrastructure and related assets. An accident, derailment or other incident involving the Group's railway operations could result in damage or loss of the Group's track network, locomotives and railcar fleet and also disrupt the Group's services and give rise to potential claims by freight shippers, injured passengers and others. In addition, it could have a material adverse effect on the attractiveness of the Group's services in the future. A negative change in the perception of the Group's safety record could result in customers switching to other means of transportation, or in public pressure to force the Government to divest some of the Group's operations to third-party operators. As a carrier and operator of rolling stock (either through the Company or through the Company's subsidiaries), the Group may also be responsible for spillage or leakage from railcars transporting environmentally sensitive materials.

Although the Group carries insurance for all of its rolling stock in line with market practice in Russia, there can be no assurance that it carries insurance policies that would cover its losses to a similar extent as may be common in some of the more developed market economies of North America and Europe. In the event of a serious accident involving passengers, similar to the two crashes of the *Nevsky Express* train in August 2007 and November 2009 as a result of terrorist acts, the Company may also need to provide additional assistance to the affected passengers, in excess of insurance payouts. If a significant uninsured event were to occur, it would cause the Group to incur additional expenditures, for which it would not be compensated, which could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Further Notes.

The Group as a leading freight and passenger transportation services provider and owner of nationwide railway infrastructure is potentially exposed to terrorist attacks and is bearing costs in connection with implementation of security measures.

On 13 August 2007 and subsequently on 27 November 2009, the *Nevsky Express* high-speed train operated by the Company on a railway connecting Moscow and St. Petersburg, two of Russia's principal cities, crashed as a consequence of terrorist acts. The latter of these two incidents resulted in 28 fatalities. More recent suicide bombings carried out in two Moscow metro stations on 29 March 2010 and at the Domodedovo airport on 24 January 2011 killed, in aggregate, 76 people. All these terrorist acts targeted transportation vehicles or facilities and triggered, among other consequences, enhanced requirements to ensure safety for passengers, personnel, cargo and transportation infrastructure. The Group as a leading Russian transportation services provider and operator of nationwide railway infrastructure is potentially exposed to further terrorist attacks and has been therefore required to incur substantial costs in connection with implementation of security measures and may be required to do so in the future. Moreover, if further terrorist activity targeting the Group's passengers or assets takes place, such events may cause major interruptions in certain services provided by Group and result in material losses incurred by the Group, all of which could have a material adverse effect on the Group's business, results of operations, financial positions, projects and the value of the Further Notes. See also—*Risks Relating to the Russian Federation—Political conflicts, social tension, instability or violence could create an uncertain operating environment and adversely affect the value of investments in Russia*".

The Group carries out its operations in certain countries outside Russia, in particular in the Middle East and North Africa, and exposes itself to a range of political, economic and social risks arising in these countries.

The Group carries out a number of its operations outside the Russian Federation. In particular, it is actively involved in a number of international projects located in the CIS, Iran, Libya, Mongolia and other countries (see "*Business—International Joint Ventures And Cooperation*"). These projects have a strategic importance to the Group and in the future may provide material contribution to its revenues. However, in its activities performed in such countries the

Group faces a variety of political, economic and social risks. In particular, the Group engaged construction of a 554 kilometre twin-track line between Sirt and Benghazi in Libya in 2009. In early 2011, more than 200 employees of the Group were working in Libya in connection with this construction project. Due to the major social unrest and violence that have broken out in Libya in February 2011 (following a sequence of similar events in Tunisia and Egypt) the Group had to suspend its activities in Libya and to evacuate its personnel back to Russia. The Group may be unable to resume its operations in Libya, which may result in the loss of its investments into the Libyan project. The aggregate amount of the construction contracts in Libya signed by OJSC Zarubezhstroytechnologia, a subsidiary of the Company was approximately RUR 20 billion as of 30 June 2010, with approximately RUR 14 billion having been the outstanding commitment as of 30 June 2010. The Group's operations are carried out in other countries of the Middle East region, for instance in Iran, which may be also materially affected if the wave of social disturbance expands to these countries, all of which could have a material adverse effect on the Group's business, results of operations, financial positions, projects and the value of the Further Notes.

The Group may be unable to retain key personnel or attract and retain highly qualified personnel and may also be adversely affected by wage increases and labour disruptions.

The Group is the largest employer in Russia with approximately 1.2 million employees as at 31 December 2010. The Group currently employs managers and other personnel with significant industry experience. Because the Group's business requires specific knowledge of the industry, it is dependent on the current management and other highly qualified personnel. The Group's wage costs increased in the years prior to the recent economic downturn. Although wages have decreased during the recession, if the economy recovers, wage costs may continue to grow in the future. In light of a general shortage of qualified personnel and the increasing level of competition in the Russian railway freight transportation market, the Group may need to increase the levels of its employee compensation more rapidly than in the past to remain competitive. If the Group increases employee compensation, there can be no assurance that the Group will be able to effect commensurate increases in the efficiency and productivity to justify the extra costs, or to pass on the extra costs to customers through increases in its prices. If the Group fails to raise its wages, it may be unable to recruit and retain a skilled workforce, which could hinder its ability to maintain the current market position or execute its strategic goals.

As a result of the recent economic downturn, the Group's railway freight transportation volumes declined by 6.3 percent in 2009 in comparison with 2008, and the revenues declined by 6.1 percent over the same period. In order to mitigate the negative economic impact of the downturn, the Group implemented measures aimed at reducing its operating costs. One of the key cost reduction measures is a programme for optimisation of the Group's workforce through some reduction in the number of personnel and partial decreases in wages. See "*Business—Recent Developments—Global economic downturn and the Company's measures to mitigate its effect*". However, the Group is a party to a collective bargaining agreement, which may restrict the Group's flexibility with respect to its employee optimisation programme or otherwise cause negative consequences with respect to its management of the labour force. Moreover, as the largest employer in Russia that is controlled by the Government, the Group is subject to social and political constraints with respect to its labour force, and therefore, may be unable to make rapid or significant reductions in the number of its employees, if required.

If the Group is unable to reduce its workforce without violating the terms of its collective bargaining agreement and in a socially responsible manner, while also retaining qualified personnel required to effectively operate its business, it could have a material adverse effect on the Group's business, operating results, financial position, prospects and the value of the Further Notes.

The Group could incur significant costs for violations of applicable environmental laws and regulations.

Like other transportation companies, the Group's operations are subject to extensive federal and local laws and regulations as it operates in an industry that produces emissions and transports products that are hazardous to the environment. In carrying out its environmental policies, the Group seeks to adhere to international standards and best practices, in particular the Company where possible seeks to comply with the international standard ISO 14001 for environmental protection. Since 2008, the Company has been conducting ecological audits of its facilities to assess environmental and social risks related to such sites, with a focus on soil and groundwater contamination as well as asbestos-contaminated materials. Although there have been no material violations of environmental regulations, compliance with environmental regulations is an on-going process and as such, new laws and regulations, the imposition of tougher requirements, increasingly strict enforcement or new interpretation of existing environmental laws may require the Group to modify its operations, incur substantial unbudgeted costs to

comply with current or future regulations or incur fines or penalties for environmental violations that could have a material adverse effect on the Group's business, operating results, financial position, prospects and the value of the Further Notes.

The Group relies heavily on IT systems to operate its business and any failure of these systems could have an adverse effect on its business.

The Group relies heavily on its telecommunications network and computer systems for coordination of scheduling, dispatching and other aspects of its railway operations as well as accounting, ticket sales for passenger trains, tracking cargo deliveries and numerous other functions. Hardware and software used by the Group may be damaged by human error, natural disasters, power loss, sabotage, computer viruses and other events. The Group's operations may also be vulnerable to system failures of other companies with whom such operations are closely linked, such as utility providers, telecommunication service providers and financial institutions. Problems that may occur as a result of system failures include:

- incorrect recognition of train schedule or route control data, which could disable railway operations;
- system failures in ticketing, reservations and sales functions, which could cause significant confusion and inconvenience to passengers; and
- difficulties in repairing systems over a very large network that includes many remote areas, which could delay the re-establishment of operations.

System failures could also reduce the attractiveness of the Group's services and could cause its customers to choose alternative means of transportation. Such system-related problems could lead to increased expenses and decreased revenues.

Moreover, the Group intends to implement measures to incorporate advanced technologies into the Russian rail transportation industry. Specifically, the Company intends to implement automated operation of the railway route between Moscow and St. Petersburg and upgrade computer systems to increase the safety of railway transportation and improve energy efficiency. There can be no assurance that the Group will be able to successfully incorporate advanced technologies or upgrade its computer systems, and failure to do so may have a material adverse effect on the Group's business, operating results, financial position, prospects and the value of the Further Notes.

Certain subsidiaries of the Company may be subject to increasing competition from other transportation and logistics companies, and railway transportation may be subject to increasing competition from other modes of transportation.

The Russian rail transportation industry is becoming increasingly competitive. Certain freight transportation subsidiaries of the Company (which, unlike the Company, are not subject to tariff regulation) compete with privately-owned railcar operators in the Russian rail freight industry. See "*Business—Tariff Regulation and Pricing*". While the Group currently maintains a leading position in the industry, private companies have significantly increased their market share in recent years. As at 31 December 2010, there were a relatively small number of private railcar operators that the Group considers to be significant competitors. In certain higher-margin rail freight segments such as oil, oil products and cement, private operators have already taken leading positions. Some private operators have already obtained rail freight carrier licences permitting railway infrastructure operation on certain limited sections of the Rail System, although the current regulatory framework does not permit them to operate on the entire Rail System. If the Government permits private operators to provide locomotive traction services (which are currently provided predominantly by the Group) in the future, the Group's leading position in that segment may be challenged by private operators.

Certain of the Company's subsidiaries may face increased competition in the future from existing and new competitors with better access to large industrial customers in higher margin segments. In addition, it is possible that some competitors may merge in the future, potentially creating a large competitor to the Group. Increased competition may lead to adverse changes in the prevailing pricing conditions, which could adversely affect the Group's profitability. Competitors may also be more successful at adopting their fleet to carry higher-value cargo such as oil, oil products and cement. Although the Group believes that it, to date, has been able to compete successfully, there can be no assurance that it will be able to do so in the future.

Rail transportation is the leading mode of freight transportation in Russia, however, railways are subject to increasing competition from other types of transportation. The Group faces competition in the transportation of oil

products from the operators of pipelines. Besides that, in long-haul passenger segment the Group faces competition with airlines, especially where the Government subsidies air tickets to certain destinations, such as Far East. The Government is also developing a highway system to foster short- and medium-distance truck transportation. While most of these initiatives are long-term projects, should they succeed, the level of competition in the transportation industry could significantly increase. If private railway operators are successful in competing with the Group, or if other modes of transportation become more competitive with rail transportation, it could have a material adverse effect on the Group's business, operating results, financial position, prospects and the value of the Further Notes.

The position of the Company as a natural monopoly may result in adverse regulatory interference in its operations, and the Company's status as a strategic entity imposes restrictions to dispose assets.

The Company is included in a list of natural monopolies, which are heavily regulated under Russian law. In particular, the FTS regulate activities of the Company by setting tariffs for a large part of its services, and the Federal Antimonopoly Service (the "**FAS**") and the local antimonopoly authorities require non-discriminatory provision of services to all market participants and exercise control over certain transactions or investments of the Company, including those valued at more than 10 percent of the Company's equity capital. The lack of flexibility to control its own operations could result in a failure to realise certain otherwise available synergies common in vertically integrated businesses, which could have a material adverse effect on the Group's business, operating results, financial position, prospects and the value of the Further Notes.

As a natural monopoly, the Company is also obligated to use open tenders in selecting certain service providers, which could restrict its commercial flexibility and reaction time and adversely affect the Group's business. As the relevant law is vague and subject to different interpretations there is a risk that certain transactions may be successfully challenged and/or declared invalid by a Russian court on the basis that the Company did not fully comply with the relevant public procurement rules, which may also have a material adverse effect on the Group's business, operating results, financial position, prospects and the value of the Further Notes.

Additionally, the FAS may investigate activities of the Company and of some of its subsidiaries which have a material market share in certain markets, at the request of any market participant in order to determine if any of them is dominant and/or is abusing its dominant position in the relevant market. If the FAS determines that any such abuse is occurring, it may impose fines or binding orders on the Company or its relevant subsidiaries. Such binding orders may require the Company or its subsidiaries to enter into service agreements with designated terms which may be contrary to the Company's or its subsidiaries' best interests or ordinary course of business and which may negatively impact the profitability of the Company. In the past, the FAS regularly investigated the Group's activities and in some cases imposed fines, which the Group in many cases successfully challenged in court. However, there can be no assurance that in the future the courts will continue to support the Group's position and that the Group will not be subject to fines or other sanctions imposed by the FAS, which may have a material adverse effect on the Group's business, operating results, financial position, prospects and the value of the Further Notes.

In connection with the Group's international expansion, past or future transactions, such as acquisitions, could be subject to review or approvals of foreign national or regional antitrust authorities, which could result in fines or other sanctions, delay or prevent the Group from completing transactions or restrict its ability to realise expected financial strategic goals and which could have a material adverse effect on the Group's business, operating results, financial position, prospects and the value of the Further Notes.

Furthermore, as a strategic entity under applicable Russian law, the Company is restricted from disposing of some of its assets. In particular, shares in certain subsidiaries of the Company and certain infrastructure assets are included in a list of property, which may only be pledged, sold or otherwise disposed of with the consent of the Government, or may not be disposed of at all. The Government sets procedures for obtaining such consents, compliance with which requires substantial time and effort, particularly to implement the Company's reorganisation plans and to divest stakes in its subsidiaries. These restrictions may limit the ability of potential claimants to claim these assets in case of litigation or bankruptcy procedures. Furthermore, as a state-owned enterprise, any public prosecutor may challenge any transactions entered into by the Company, which could adversely affect the demand for the Company's services from its freight customers and the willingness of commercial counterparties to enter into dealings with the Company.

Insufficient supply of, or increases in the price of, rolling stock may limit the operations of certain subsidiaries of the Company.

There are a relatively limited number of quality rolling stock manufacturers in Russia and the CIS, and their output is limited. In addition, the adaptability of these manufacturers' production facilities from one type of railcar to another is limited. A significant part of the rolling stock fleet operated by the Company's subsidiaries (including Freight One, Freight Two and TransContainer) is approaching the end of its useful life and may require replacement. To date, the Group has been able to source new rolling stock on commercially acceptable terms and without material difficulties or delays, including by leasing it from third parties. However, there can be no assurance that the Group will continue to be able to source sufficient supplies of new rolling stock for its fleet on commercially acceptable terms, or at all. If any of the Company's subsidiaries is unable to procure the requisite amount of new rolling stock on commercially acceptable terms or experiences delays or failures in delivery of rolling stock, it may have a material adverse effect on its business, results of operations, financial position, prospects and the value of the Further Notes.

The Group's operations depend on obtaining and maintaining licences, leases and permits necessary for the operation of its business and land rights relating to rail infrastructure.

The Group's activities are dependent upon the grant, renewal or continuance in force of appropriate licences, leases, land rights, permits and regulatory consents, which may be valid only for a defined time period, may be subject to limitations and may provide for withdrawal in certain circumstances. There can be no assurance that such licences, leases, land rights, permits and regulatory consents would be granted, renewed or continue in force and, if so, on what terms. Failure to obtain necessary licences, leases, land rights, permits or consents or any suspension or termination thereof could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Further Notes.

Furthermore, the Company leases land plots under railway stations, the railway tracks and certain other rail infrastructure from the Government, which, by law, is the owner of all land on which the Company's rail infrastructure is situated. The Company has a statutory right to lease any land plot on which its rail infrastructure is situated for a term of up to 49 years from the date of the relevant lease agreements, most of which were entered into in 2003 and 2007. Lease payments for land plots under railway infrastructure are currently set at rates below market level. While current law provides for certain protections for the Group's lease rights, the Government may increase lease payments, which could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Further Notes.

Fluctuations in the foreign currency exchange rates may expose the Group to translation foreign currency exchange rate risks.

The Group is exposed to foreign currency exchange rate risks. The currencies giving rise to this risk are primarily the US Dollar, the Euro, the Swiss Franc and the Libyan dinar.

The global economic crisis and general economic conditions in Russia have caused the Rouble to devalue against the US Dollar by up to 56 percent between August 2008 and February 2009. The Government has used significant amounts of its international currency reserves to support the Rouble. As a result of the Government's support and, primarily, due to the recovery of the Russian economy, the Rouble appreciated against the US Dollar by approximately 20 percent during the nine months from March to November 2009.

Foreign currency exchange rate risks are the result of translating assets and liabilities denominated in any currency other than the Rouble into Rouble amounts for financial reporting purposes, as the IFRS Financial Statements, apply the Rouble as the functional and reporting currency. Although both the Group's revenues and costs are generally denominated in Roubles, future exchange rate fluctuations may affect its results of operations to the extent there are revenues derived or expenses incurred in foreign currency, and economic hedges the Group has in place for its foreign currency expenses may not prove to be adequate for these purposes.

In addition, to the extent the Group incurs expenses in one currency and generates revenues for its services in another currency, its profit margins may be affected by exchange rate fluctuations. Also, where the Group seeks financing from non-Rouble-denominated sources, the Group will be subject to further foreign currency exchange rate risk on borrowings that are denominated in a currency other than the Rouble.

Any such loss resulting from a fluctuation in foreign currency exchange rates could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Further Notes.

A significant increase over a short period of time in prices for assets required by the Group for its operations, as well as inflation, could increase the Group's cost base.

The business of the Group may be adversely affected by fluctuations in prices, in particular as a result of Rouble inflation. The average annual inflation rate in Russia was 6.9 percent in 2010, 11.8 percent in 2009 and 14.1 percent in 2008, according to Rosstat. While the measures taken by the Government and a further decline in general economic activity helped to keep inflation in 2010 and 2009 at a lower level than in the previous two years, it is generally expected that, as the industrial production and trade pick up following the end of the economic downturn, inflation may significantly increase. Accordingly, if high rates of inflation continue, there can be no assurance that the Group will be able to maintain or increase its margins to cover such cost increases.

In addition, prices for some of the assets required by the Group for its operations may increase at a higher rate than inflation due to the growth in demand for such assets or increase in the raw materials used to manufacture them. For example, prices for rolling stock have increased significantly in 2010 due to the increase in the price for certain components. Some of the Group's costs, such as materials, repairs and maintenance costs, and, in particular, wages, are sensitive to rises in general inflation rates in Russia. Due to competitive pressures, if the Group's costs increase in line with price levels generally, the Group may be unable to pass along the increased costs to its customers, which could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Further Notes.

The Group's independent auditors qualified their opinion in their report on the Group's 2009 and 2008 Consolidated Financial Statements, and their conclusion on the 2010 Unaudited Interim Condensed Consolidated Financial Statements, which should be considered when making an assessment of the Group's financial performance.

In accordance with the accounting policy adopted by the Group, subsequent to initial recognition, property, plant and equipment are carried at revalued amounts, being their fair values at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment loss. Under IFRS, 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 balance sheet date. Except for one category of property, plant and equipment, the Group has been unable to conduct other recent revaluations of the other categories. As a result, the Group's auditors were unable to determine whether the carrying value of the other categories of property, plant and equipment totalling RUR 2,052 billion, RUR 1,923 billion and RUR 1,701 billion as at 30 June 2010, 31 December 2009 and 2008, respectively, complies with the requirements of IFRS. Further, the Group's auditors 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. Accordingly, the audit report and review report of the Group's independent auditors included in this Prospectus are qualified.

In addition, since 1 January 2005, the Group commenced application of a more comprehensive approach to accounting for the components of the Group's property, plant and equipment as required under IFRS. The Group's auditors observed that the Group has not consistently applied these new policies for component accounting, including capitalisation and determination of useful lives, to certain property, plant and equipment during six months ended 30 June 2010 and in the years ended 31 December 2009 and 2008. Accordingly, the audit report and review report of the Group's independent auditors included in this Prospectus are qualified.

The matters described above should be considered when making an assessment of the Group's financial performance for the respective periods.

Changes to the Group's accounting policy may have an adverse retroactive effect on the results of operations and the financial position of the Group.

The Group has recently decided to change its accounting policy for property, plant and equipment from revaluation method to the historical cost based accounting method with the effect from 1 January 2009. Hence the Group is currently undertaking an effort to bring its property, plant and equipment in compliance with such new accounting policy. Upon completion of this process, the amount of property, plant and equipment previously reported in the consolidated IFRS financial statements for the year ended 31 December 2009 and for the six months ended 30 June

2009 and 30 June 2010 may increase or decrease as a result of the change of the accounting policy. Any such increase or decrease may have an adverse effect on the results of operations and the financial position of the Group previously reported under IFRS for the periods referred to above.

The Group has not yet produced IFRS financial statements for the year ended 31 December 2010, or any subsequent period which limits investors' ability to assess the current financial position of the Group.

The Group's most recent IFRS audited accounts are available for the year ended 31 December 2009. The financial information for 2010 is limited to the unaudited reviewed interim condensed consolidated financial statements as at and for the six months ended 30 June 2010. Therefore, any developments in the Group since that date, including those described in "*Operating and Financial Review—Recent Developments*" and "*Business—Recent Developments*" are not supported by financial numbers. Accordingly, the Group's performance in 2010 is difficult to assess. The lack of financial information for 2010 may result in not having a sufficient basis to identify trends in the Group's results of operations or financial position, which may have been adversely affected by events occurring after 30 June 2010.

The Group's management information system, accounting systems and internal controls may be inadequate to ensure timely and accurate financial reporting, and any such shortcomings in these systems could have a material adverse effect on the Group's business, financial position and results of operations.

The Group's management information system and financial reporting functions are less developed in certain respects than those of similar companies in more developed markets and may not provide the Group's management with as much or as accurate information. The Group's system of internal control over financial reporting is not designed for the preparation of consolidated IFRS financial statements. The Group does not have an integrated information system supporting preparation of its consolidated IFRS financial statements and its management and financial accounting and reporting systems are not unified. The preparation of IFRS consolidated financial statements is a manual process that involves, first, the transformation of the Company's and its subsidiaries' statutory financial statements into IFRS financial statements through accounting adjustments and, second, a consolidation of the Company's and its subsidiaries' financial statements. This process is complicated and time-consuming. In addition, each subsidiary has its own accounting platform and the Company does not have a developed system of control over the preparation of financial statements by its subsidiaries.

The Group's independent auditors have noted a number of material weaknesses in the system of internal control over the preparation of the consolidated IFRS financial statements, including an insufficient number of qualified personnel in the Group's IFRS department and a lack of an integrated information system supporting preparation of the consolidated IFRS financial statements. International Standards on Auditing define a material weakness as a weakness in internal control that could have a material effect on the financial statements. The Group's independent auditors considered these material weaknesses in determining the nature, timing and extent of the procedures performed in their audit of the 2009 and 2008 Consolidated Financial Statements and in their review of 2010 Unaudited Interim Condensed Consolidated Financial Statements, and these weaknesses did not affect respective reports of the Group's independent auditors on the IFRS Financial Statements.

The Group has taken, and continues to take, steps to improve its accounting systems and internal controls, including the development and documentation of control procedures over the financial statements closing process and hiring qualified personnel in the area of financial reporting. Despite these steps, and in light of planned growth, the Group may not be able to detect or prevent a material misstatement of its annual or interim IFRS consolidated financial statements or to ensure that the Group's consolidated IFRS financial statements are prepared in a timely manner in accordance with the applicable requirements. Furthermore, there is an increasing demand for the limited number of IFRS-experienced accounting personnel available in Russia as more Russian companies begin to prepare financial statements on the basis of IFRS or other generally accepted accounting standards. Such competition may hinder the Group's efforts to hire and retain key staff. While the Group strives to employ and retain the best personnel, a lack of qualified accounting staff would substantially increase both the difficulty in preparing the Group's consolidated IFRS financial statements and the likelihood that such financial statements would not be reported on a timely basis. The Group's inability to develop an effective IFRS financial reporting function and system of internal controls may have a material adverse effect on its business, operating results, financial position, prospects and the value of the Further Notes.

The Group may not successfully integrate acquisitions into its structure.

The Group has made a number of acquisitions in the period covered by the IFRS Financial Statements. Acquisitions and, to a lesser extent, investments and strategic alliances, involve a number of risks, including the diversion of management's attention to the assimilation of the operations and personnel of the new business, adverse short-term effects on the Group's operating results and the inability to successfully integrate new businesses with its existing business, including financial reporting, management and information technology systems. The failure of integration of any such acquisition or investment could have a material adverse effect on the Group's business, operating results, financial position, prospects and the value of the Further Notes.

The Group's operations may be restricted by its loan covenants.

The Group is obliged to comply with various covenants and restrictions contained in its financing arrangements, including the Loan. It may become impossible or difficult to comply with these covenants, which could require the Group to restructure its indebtedness, obtain waivers of non-compliance or refinance its existing debt. Such actions, if they were to occur, could be costly and could have a material adverse effect on the Group's business, operating results, financial position, prospects and the value of the Further Notes.

The Group may be exposed to risks relating to TransCreditBank.

The Group holds the majority of its cash at, and relies almost exclusively on the payment processing services of TransCreditBank, its 54.4 percent-owned subsidiary, as at 30 June 2010 (the balance sheet of TransCreditBank will be deconsolidated in the financial statements of the Group effective from 31 December 2010 and will be consolidated by VTB Bank OJSC ("**VTB**"). *See "Operating and Financial Review-Recent Developments*"), which is rated BB by Standard & Poor's and Ba1 by Moody's. This relationship is largely on normal commercial terms, although TransCreditBank provides financing to certain subsidiaries of the Company, which may not otherwise be able to obtain financing elsewhere. The bankruptcy or insolvency of TransCreditBank, could adversely affect the Group's business. Another banking crisis, or the bankruptcy or insolvency of TransCreditBank could result in the loss of its income for several days or affect its ability to complete banking transactions in Russia, which could have a material adverse effect on the Group's operating results and financial position. Furthermore, any shortages of funds or other disruptions to banking operations of TransCreditBank from time to time could also have a material adverse effect on the Group's ability to complete its planned developments or obtain finance required for its planned growth and thus have a material adverse effect the Group's business, operating results, financial position, prospects and the value of the Further Notes.

The Group may be subject to the laws of various countries.

As a result of its international activities, the Group is subject to the laws and regulations of the various countries and regions in which it does business, in addition to the laws of the Russian Federation. Certain of the countries in which the Group carries out its business operations, including Iran (where the Group is constructing and electrifying rail lines), Libya (where the Group has been constructing a railway; currently the construction works have been suspended due to the social unrest in Libya) and North Korea (where the Group has formed a joint venture), are subject to sanctions administered by the United States Treasury Department's Office of Foreign Assets Control ("**OFAC**"), Her Majesty's Treasury, are regulated by the Iran Sanctions Act or are subject to other international sanctions imposed by other relevant sanctions authorities (such "**Sanctions Authorities**" including but not limited to the European Union and the United Nations). None of the proceeds of the issue of the Further Notes will be used to fund activities that are subject to US trade sanctions, the Iran Sanctions Act or any equivalent measures of a Sanctions Authority; however, there can be no assurance that compliance issues under OFAC, the Iran Sanctions Act or any equivalent Sanctions Authority measures or similar laws and regulations will not arise with respect to the Group or its employees. Non-compliance with OFAC-related laws and regulations could result in, among other things, debarment from the ability to contract with the US government or its agencies. Non-compliance with applicable sanctions laws and regulations could result in a liability on behalf of the Group and/or the Company's directors, imposition of significant fines, as well as negative publicity and reputational damage. Any of the foregoing could result in a material adverse effect on the Group's business, operating results, financial position, prospects and the value of the Further Notes.

The Group obtains significant amounts of its electricity from companies that were set up in the course of the reform of the electric power industry and liberalisation programme the outcome of which is not yet clear enough and a failure of which potentially could result in supply interruptions.

The Group purchases a significant amount of electric power from a range of generating companies established in the course of restructuring of former RAO UES, a state controlled electric power monopoly. By 2011, Russian national electric power industry has been reformed in order to introduce competition, liberalise the wholesale electricity market and move from regulated pricing to a market-based system. The outcome of the reform process is not entirely clear at this stage. For instance, the liberalisation of the market may result in potential interruptions in its supply in particular, where there are insufficient capacities to meet the demand. Any interruption in the supply of electricity could adversely affect the Group's future profitability and could have a material adverse effect on the Group's business, financial position, results of operations, prospects and the value of the Further Notes.

The Group has not independently verified information it has sourced from third parties.

In preparing the Prospectus, the Group has relied on and referred to information from various third-party sources, including certain private companies and institutes, international organisations and governmental agencies, and it has relied on the accuracy of this information without independent verification. For example, a significant portion of the information concerning the Group's competitors and the freight rail industry, including the container industry, has been derived from publicly available sources published by third parties. This information and statistics may at times be less complete or reliable than those of some of the more developed market economies of North America and Europe, as well as be produced on a basis that differs from those used in Western countries. Any discussion of matters relating to Russia herein is therefore subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Risks Relating to the Russian Federation

General

Emerging markets such as the Russian Federation are subject to greater risks than more developed markets, and the global financial and economic crisis could have a particularly significant adverse effect on Russia as an emerging market and could disrupt the Group's business, as well as cause the value of an investment in the Further Notes to suffer.

Prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who are familiar with and fully appreciate the significance of the risks involved in investing in emerging markets.

Investors should be aware that emerging markets such as Russia are subject to greater risk than more developed markets, including in some cases significant economic, political and social, and legal and legislative risks. Investors should also note that emerging economies are subject to rapid change and that the information set forth herein may become outdated relatively quickly. Moreover, during the global economic downturn companies operating in emerging markets can face particularly severe liquidity constraints as investors move their money to more stable and developed markets. For example, in November 2009, a major Dubai-owned investment company announced a restructuring of its outstanding debt, which prompted a significant sell-off in the global financial markets which also affected the Russian financial markets. Thus, even if the Russian economy remains relatively stable, financial turmoil in other emerging market countries could have an adverse effect on the Russian economy.

The Russian markets have been highly volatile during the global economic downturn beginning in 2008. Such volatility has caused market regulators to temporarily suspend trading on the MICEX and RTS stock exchanges multiple times and the MICEX and RTS stock exchanges have experienced significant overall declines from the beginning of the global economic downturn in 2008. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in the Russian Federation and adversely affect the Russian economy.

Companies that operate in emerging or developing markets can face severe liquidity constraints if foreign funding sources are withdrawn. Additionally, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factor that impacts investor confidence in one market (for example, a decrease in credit ratings or state or central bank intervention)

could affect the cost and availability of funding for entities in other markets. Financial turmoil in another emerging or developing market could have an adverse effect on the Group's business, financial position, results of operations, prospects and the value of the Further Notes.

Political Risks

Changes in Government policy, other Government actions or adverse changes in the relations of the Russian Federation with other nations could adversely affect the value of investments in the Russian Federation.

Whilst the political situation in Russia has stabilised since 2000 and the Russian political system currently appears to be stable, future political instability, in particular in light of the presidential election in 2012, could result from declines in the overall economic situation, including deterioration in standards of living. Future shifts in governmental policy and regulation in Russia could lead to political instability, disrupt or reverse political, economic and regulatory reforms, which could have a material adverse effect on the value of investments relating to Russia and the Further Notes in particular, as well as on the Group's business, its ability to obtain financing in the international markets and its financial position or prospects.

Emerging markets such as Russia and certain other countries in which the Group carries out its activities are also subject to heightened volatility based on economic, military and political conflicts. For example, a military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhasia which coincided with the outset of the global financial crisis enhanced the adverse impact of the latter and resulted in significant overall price declines in the Russian stock exchanges. The emergence of any new or escalated tensions in the region could negatively affect the economy of Russia and other countries that are involved. Such tensions or conflicts may lead to reduced liquidity, trading volatility and significant reductions in the price of listed Russian securities, which could have a material adverse effect on the ability of the Group to raise debt or equity capital in international capital markets and on the Group's business, operating results, financial position, prospects and the value of the Further Notes.

Political conflicts, violence and terrorist activity could create an uncertain operating environment and adversely affect the value of investments in Russia.

The political and social tensions in the former Soviet Union, in particular the military conflict in Chechnya in the late 1990's, led to the emergence of terrorist activity in Russia. Most recently, suicide bombings were carried out in two Moscow metro stations on 29 March 2010 and at the Domodedovo airport on 24 January 2011 and resulted in 76 fatalities. On 13 August and on 27 November 2009, terrorist attacks caused crashes of the *Nevsky Express* high-speed train operated by the Company, in the latter of which 28 passengers perished. In the future, the emergence of any new or escalation of existing tensions, military conflicts or terrorist activities could have significant political consequences, including the imposition of a state of emergency in some regions or all of Russia. Moreover, any military conflicts and/or terrorist attacks and the resulting heightened security measures may cause disruptions to domestic commerce of Russia, and have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Further Notes. Furthermore, the increasing threat of terrorist attacks requires the Group to incur substantial costs in order to enhance transportation safety and implement additional security measures. See also "*—Risks Relating to the Group—The Group as a leading freight and passengers transportation services provider and owner of nationwide railway infrastructure is potentially exposed to terrorist attacks and is bearing costs in connection with implementation of security measures*".

Bureaucratic and administrative procedures and actions could create difficulties for business in Russia.

Various governmental agencies have considerable discretion with respect to certain actions, such as the issuance and withdrawal of licenses, initiating tax reviews, administrative and criminal investigations and prosecutions which could create difficulties for business in Russia, including the business of the Group.

Steps have recently been taken to reduce the scope for the exercise of this discretion arbitrarily or selectively. In particular, a law that reduced the statute of limitations for challenging transactions entered into in the course of a privatisation from ten years to three years entered into force in July 2005. Former President Putin announced in March 2005 that the Government was considering plans to reform the system of tax collection and administration, and in his annual address to the Federal Assembly on 25 April 2005, President Putin stated that tax authorities should not overwhelm taxpayers by repeatedly considering the same tax issues. A number of further measures

improving business climate in the country have been implemented by the administration of President Medvedev since his election in 2008.

Economic Risks

Economic instability in Russia could harm the Group's business and investment plans.

Over the last two decades, the Russian economy has experienced at various times:

- significant declines in its GDP;
- high levels of inflation;
- high levels of corruption and the penetration of organised crime into the economy;
- increases in, or high, interest rates;
- sudden price declines in the natural resource sector;
- instability in the local currency market;
- high levels of government debt relative to GDP;
- lack of reform in the banking sector and a weak banking system providing limited liquidity to Russian enterprises;
- the continued operation of loss-making enterprises due to the lack of effective bankruptcy proceedings;
- the use of fraudulent bankruptcy actions in order to take unlawful possession of property;
- widespread tax evasion;
- growth of a black- and grey-market economy;
- pervasive capital flight;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns in the past. In late 2008, at the outset of the global economic downturn, the Government announced plans to institute more than US$200 billion in emergency financial assistance in order to ease taxes, refinance foreign debt and encourage lending. However, these measures had a limited effect, although there has been some improvement, and the Russian economy has not yet fully recovered from the economic crisis. The impact of the global economic downturn on the Russian economy has led to, among other things, several suspensions of trading on MICEX and RTS by market regulators since September 2008, a reduction in the disposable income of the general population, a severe impact on bank liquidity, a significant devaluation of the Rouble against the US Dollar and Euro, sharp decrease in industrial production and a rise of unemployment. As a result of the recent global economic downturn, in 2009 the decrease in the Russian GDP was 7.9 percent and the decrease in the industrial production was 9.3 percent.

In December 2008, the international credit rating agency Standard & Poor's Financial Services downgraded Russia's foreign currency sovereign credit rating, which reflects an assessment by such agency that there is an increased credit risk that the Government may default on its obligations, from BBB+/A-2 to BBB/A-3, in large part due to the impact of the financial and economic crisis that began in the second half of 2008. Moody's Investors Service, another international credit rating agency, changed its outlook to stable from positive on Russia's key ratings in December 2008. In February 2009, Fitch Ratings Ltd downgraded its long-term sovereign rating for the Russian Federation from BBB+/A-2 to BBB/A-3, with negative outlook, stating that the lowering of the ratings on Russia reflects risks associated with the sharp reversal in external portfolio and other investment flows, which has increased the cost and difficulty of meeting the country's external financing needs. In January 2010 Fitch, however, changed the outlook from negative to stable. As the credit rating of the Company follows closely that of the Russian Federation, any future negative credit assessments from international credit rating agencies may have an adverse effect on the financial prospects of the Group, its ability to attract debt funding and even lead to a breach by the Group of negative covenants of its loan agreements.

Any deterioration in the general economic conditions in Russia could adversely influence the level of consumer demand for various products, including those carried by the Group, and therefore could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Further Notes.

Continued instability in global credit markets may adversely affect the Group's business, financial position, results of operations and prospects.

The credit markets, both globally and in Russia, have faced significant volatility and liquidity constraints since the summer of 2008. Global credit markets tightened initially as a result of concerns over the United States sub-prime mortgages crisis, the valuation and liquidity of mortgage-backed securities and other financial instruments, such as asset-backed commercial paper. Significant mark-to-market write-downs of asset values followed, initially in respect of mortgage-backed securities, but such write-downs then spread to other financial instruments, such as syndicated loans, and other classes of assets. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger financial institutions and, in some cases, to fail, such as in the case of the US investment bank Lehman Brothers. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders have reduced and, in some cases, ceased to provide funding to borrowers, including other financial institutions.

In response to the global economic downturn affecting the global banking sector and financial markets and the threats to the ability of investment banks and other financial institutions to continue as going concerns, governments in the United States, in many of the largest countries in Europe and elsewhere have announced, and in many cases begun to implement, significant rescue packages, which include, among other things, the recapitalisation of banks through state purchases of common and preferred equity securities, the state guarantee of certain forms of bank debt, the purchase of distressed assets from banks and other financial institutions by the state and the provision of guarantees of distressed assets held by banks and other financial institutions by the state. Despite these proposals and actions, the volatility and market disruption in the global banking sector has continued to a degree unprecedented in recent history.

It is difficult to estimate when the proposals made by various governments will be fully implemented and, if and when implemented, what impact they will have on the financial markets, or whether further measures will be required in addition to those already implemented or announced. There can be no assurance that such measures will succeed in returning stability to the global banking sector and financial markets in the short term or beyond. Continued instability in global credit markets could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Further Notes.

Fluctuations in the global economy may adversely affect Russia's economy and thus the Group's business.

As Russia produces and exports large quantities of crude oil, natural gas and other commodities, the Russian economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market, which reached record high levels in the first half of 2008 and have since experienced significant decreases. Russian banks, and the Russian economy generally, have been adversely affected by the global financial turmoil beginning in the second half of 2008. Instability in other markets (whether developed or emerging), including the instability resulting from the recent global economic downturn, may affect investor sentiment towards Russia. Such developments could affect economic conditions in Russia and could have a material adverse effect on the Group's business, results of operations, financial position or prospects and the value of the Further Notes.

Military conflicts, international terrorist activity and natural disasters have had a significant effect on international finance and commodity prices. Any future military conflicts, acts of terrorism or natural disasters of sizeable magnitude could have an adverse effect on the international financial and commodities markets and the global economy and consequently on the Group's business, results of operations, financial position and the value of the Further Notes. See also "*—Risks Relating to the Group—The Group carries out its operations in certain countries outside Russia, in particular in the Middle East and North Africa, and exposes itself to a range of political, economic and social risks arising in these countries*".

The Russian banking system remains underdeveloped, with a limited number of creditworthy Russian banks, and another banking crisis could place liquidity constraints on the Group's business.

The Russian banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application.

During the last 13 years, the banking system has experienced several downturns. The 1998 economic downturn resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. From April through July 2004, the Russian banking sector experienced its first serious turmoil since the economic downturn of August 1998. As a result of various market rumours and, in some cases, certain regulatory and liquidity problems, several privately-owned Russian banks experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed or ceased or severely limited their operations. The recent global economic downturn has led to the collapse of some Russian banks and to significant liquidity shortages for others. Profitability of most Russian banks has been adversely affected. As a result, the Government has injected substantial funds into the banking system.

Some international banking sector analysts have reported that certain Russian banks do not meet international banking standards, and the transparency of the Russian banking sector still lags behind internationally accepted norms in certain respects. The imposition of more stringent regulations or interpretations by the CBR could lead to determinations of inadequate capital, other regulation violations and the insolvency of some banks.

Prior to the global economic crisis, there was a rapid increase in lending by Russian banks, which may have been accompanied by deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market is leading to Russian banks increasingly holding large amounts of Russian corporate Rouble-denominated bonds in their portfolios, which is further deteriorating the risk profile of Russian bank assets. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. There are currently only a limited number of creditworthy Russian banks, most of which are located in Moscow. The bankruptcy or insolvency over a short period of time of the majority of banks with which the Group does business could adversely affect the Group's business. Another banking crisis, or the bankruptcy or insolvency of the banks which hold the Group's funds, could result in the loss of its income for several days or affect its ability to complete banking transactions in Russia, which could have a material adverse effect on the Group's business, financial position, results of operations, future prospects and the value of the Further Notes. Furthermore, any shortages of funds or other disruptions of the banking system experienced by the Group's banks from time to time could also have a material adverse effect on the Group's ability to complete its planned developments or obtain finance required for its planned growth and thus could have a material adverse effect on the Group's business, financial position, results of operations, future prospects and the value of the Further Notes.

Inflation could increase the Group's cost base.

The Russian economy has recently been characterised by relatively high rates of inflation. According to Rosstat, the annual inflation rate was 8.8 percent in each of 2010 and 2009, 13.3 percent in 2008 and 11.9 percent in 2007. While Government measures and a further decline in general economic activity helped to keep inflation in 2010 and 2009 at a lower level than in the previous two years, it is generally expected that, as the industrial production and trade start to pick up following the end of the recession, inflation will increase rapidly.

Certain of the Group's costs, such as materials, repairs and maintenance, fuel costs and wages, are sensitive to rises in general price levels in Russia. However, due to competitive pressures and regulatory control over the Group's tariff schedule, the Group may not be able to pass along the increased costs to its customers. Accordingly, if high rates of inflation return, there can be no assurance that the Group will be able to maintain or increase its margins to cover such cost increases, which could have a material adverse effect on its business, operating results, financial position, prospects and the value of the Further Notes.

There continues to be a lack of reliable official data in Russia, which makes business planning inherently uncertain and may impair the ability of Russian companies to plan effective strategies.

Official statistics and other data published by Russian federal, regional and local governments, federal agencies and the CBR are somewhat less complete or reliable than those of some of the more-developed market economies of North America and Europe. Official statistics may also be produced on different bases than those used in Western countries. Due to the unavailability of alternative reliable sources of country-specific data, Russian companies have to rely on such official statistical data in their business planning. As a result, some assumptions made by Russian companies in their business plans may prove to be incorrect. The lack of accurate statistical data for use in business

planning may contribute to the overall volatility of the Russian economy and may adversely affect the profitability of many of the Group's corporate customers, which would have a material adverse effect on the Group's business, financial position, results of operations and prospects.

In preparing this Prospectus, the Group has relied on and referred to information from various third-party sources and its own internal estimates. For example, a significant portion of the information concerning the Group's competitors and the freight rail industry has been derived from publicly available information, including Rosstat press releases and the official data produced by various government agencies and the CBR. The Group and the Issuer have not independently verified them and, therefore, any discussion of matters relating to Russia in this Prospectus is subject to uncertainty due to concerns about the completeness or reliability of available official and public information. See also "*—Risks Relating to the Group—The Group has not independently verified information it has sourced from third parties*".

Social Risks

Social instability could lead to labour conflicts and social tensions and unrest and, as a result, increased support for renewed centralised authority.

The past failures of the Government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. Moreover, deteriorating economic conditions and turmoil in the financial markets in Russia, such as the recent global economic downturn, may result in high unemployment, the failure of state and private enterprises to pay full salaries on time and the failure of salaries and benefits generally to keep pace with the increasing cost of living. Labour and social unrest could have political, social and economic consequences, such as increased support for a renewal of centralised authority; re-nationalisation of privatised property, or expropriation of or restrictions on foreign involvement in the economy of Russia. Any of these could have an adverse effect on confidence in Russia's social environment and the value of investments in Russia, could restrict the Group's operations and lead to a loss of revenue, and could otherwise have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Further Notes.

Crime and corruption could create a difficult business climate in Russia.

Despite the campaign pursued by the Russian Government against organised crime and corruption, the results of such efforts are currently uncertain and, accordingly, illegal activities could have a material adverse effect on the business climate in Russia generally and the Group's operating results and financial position in particular.

Risks Relating to the Russian Legal System and Russian Legislation

The Russian Federation's property law is subject to uncertainty and contradiction.

The legal framework relating to the ownership of and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real estate to the same extent as is common in some of the more-developed market economies of North America and Europe. It is often difficult to determine with certainty the validity and enforceability of title to land in Russia and the extent to which it is encumbered. Moreover, in order to use and develop real property in Russia approvals, consents and registrations of various federal, regional and local governmental authorities are required. Furthermore, it is not always clear which governmental body or official has the right to lease or otherwise regulate the use of real property. In addition, building and environmental regulations often contain requirements that are impossible to fully comply with in practice. Failure to obtain or comply with the required approvals, consents, registrations or other regulations may lead to severe consequences for the landowners and other real estate owners and lessees, including in respect of any current construction activities. If the real property owned or leased by the Group is found not to be in compliance with all applicable approvals, consents, registrations or other regulations, the Group may lose the rights to such real property, which could have a material adverse effect on the Group's operating results and financial position.

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in the Russian Federation.

The Group's business is subject to federal laws and decrees, orders and regulations issued by the Russian President, the Government, the federal ministries and the CBR, which are, in turn, complemented by regional and local rules and regulations. The following risks relating to the Russian legal system create uncertainties with respect to the

legal and business decisions that the Group makes, many of which do not exist to the same extent in countries with more developed market economies:

- inconsistencies exist between the federal laws, decrees, orders and regulations issued by the Russian President, the Government and federal ministries and regional and local laws, rules and regulations;
- a lack of judicial and administrative guidance on interpreting legislation in certain respects;
- substantial gaps in the legal framework due to the delay or absence of implementing regulations for certain legislation;
- a high degree of discretion on the part of governmental authorities, leaving significant opportunities for arbitrary and capricious government action; and
- bankruptcy procedures that are not well developed and may be subject to abuse.

Several fundamental Russian laws, including those relating to disclosure and reporting requirements as well as to money laundering, have only relatively recently become effective. The enactment of new legislation in the context of a rapid evolution to a market economy and the lack of consensus about the aims, scope, content and pace of economic and political reforms have resulted in ambiguities, inconsistencies and anomalies in the Russian legal system. The enforceability of some of the more recently enacted laws may be subject to doubt and many new laws remain untested. Russian legislation also often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect the Group's ability to enforce its legal rights in Russia, including rights under contracts, or to defend against claims by others in Russia, which could have a material adverse effect on the Group's operating results and financial position.

The lack of experience of certain members of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent the Group from obtaining effective redress in court proceedings.

Among others, Russian judicial system may be characterised by relative inexperience of certain judges and courts in interpreting legislation, in particularly business and corporate legislation, and difficult and time-consuming enforcement of both Russian and non-Russian judicial orders and international arbitration awards. Russia is a civil law jurisdiction where judicial precedents generally have no binding effect on subsequent decisions. Russian judicial proceedings can be relatively slow and court orders are not always enforced or followed by law enforcement agencies. Although the independence of the judicial system and its immunity from economic and political influences in Russia is developing, the press occasionally reports that court claims and governmental prosecutions are influenced by private interests. Such factors can make judicial decisions in Russia difficult to predict in certain circumstances and effective redress uncertain, which could have a material adverse effect on the Group's business, operating results and financial position and on the value of the Further Notes.

The Group may experience difficulty in enforcing its rights.

The current status of the Russian legal system makes it uncertain whether the Group would be able to enforce its rights in disputes with its contractual partners or other parties. The Budget Code sets additional requirements for enforcing the rights against the federal budget, which may potentially delay the payment of sums due to the Company from the federal budget. Furthermore, the dispersion of regulatory power among a number of government agencies in Russia has resulted in inconsistent or contradictory regulations and unpredictable enforcement. The Government has rapidly introduced laws and regulations and has changed its legal structures in an effort to make the Russian economy more market-oriented, resulting in considerable legal confusion. No assurance can be given that local laws and regulations will become stable in the future. The Group's ability to operate in Russia could be adversely affected by difficulties in protecting and enforcing its rights and by future changes to local laws and regulations. Furthermore, its ability to protect and enforce such rights is dependent on the Russian courts, which are not always effective. Enforcement of court orders can in practice be very difficult in Russia.

Shareholder liability under Russian corporate law could cause the Company to become liable for the obligations of its subsidiaries.

Russian law generally provides that shareholders in a Russian joint stock company or participants in a limited liability company are not liable for the obligations of such a company and bear only the risk of loss of their investment. This may not be the case, however, when a company is capable of determining decisions made by

another company. The company capable of determining such decisions is called the effective parent (*osnovnoye obshchestvo*). The company whose decisions are capable of being so determined is called the effective subsidiary (*docherneye obshchestvo*). The effective parent bears joint and several liability for transactions concluded by the effective subsidiary in carrying out business decisions if:

- the decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies; and
- the effective parent gives binding directions to the effective subsidiary.

Moreover, an effective parent is secondarily liable for an effective subsidiary's debts if the effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of the effective parent. In these instances, the other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that causes the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Given that under its charter and other internal documents, the Company has the right to approve most material transactions entered into by its subsidiaries, the Company could be found to be the effective parent of its subsidiaries, in which case it could become liable for their debts, which could have a material adverse effect on the Group's business, operating results, financial position, prospects and the value of the Further Notes.

Some of the Company's transactions may require approval by the Board of Directors or the shareholder.

Under Russian law, some of the Company's transactions (including, in particular, "interested party" and "major" transactions (as defined by the Joint Stock Companies Law)) may require approval by the Board of Directors or the shareholder of the Company. In addition, the Company's charter requires certain types of transactions (including transactions exceeding an equivalent of 3 billion Roubles with the exception of transactions entered into in the ordinary course of business) to be approved by the Board of Directors. Failure to obtain the requisite approvals may result in the invalidation of the relevant transaction by the courts. The Company seeks to comply with all applicable corporate approval requirements and where the Company has not obtained specific Board of Directors' or the shareholder's approval for particular transactions, this is because it believes, based on its interpretation of the law and rules governing corporate approvals, relevant court cases and the charter, that such approval is not required. In particular, the Company believes that the Loan Agreement and other agreements relating to the Further Notes are entered into in the ordinary course of business and therefore do not require Board of Directors' approval.

However, some of the Russian legal concepts and rules governing corporate approvals are vague and/or potentially subject to different legal interpretations. There is a risk therefore that the Russian courts may not always agree with the Company's position on corporate approvals. If any of the Company's transactions are successfully challenged and declared invalid by the court, this could have a material adverse effect on the Company's business, financial position, results of operations, prospects and the value of the Further Notes.

Risks Relating to Taxation in the Russian Federation

Weaknesses in the Russian tax system could adversely affect the business of the Group.

The Group is subject to a wide range of Russian taxes and other compulsory payments and levies imposed at the federal, regional and local levels, which include, among others, profit tax, value added tax ("**VAT**"), import duties, compulsory insurance payments, property tax and other taxes.

Russia's laws and regulations relating to these taxes such as the Russian Tax Code have been in force for a short period of time in comparison to tax laws in more developed market economies. Historically, the system of tax collection in Russia has been relatively ineffective, resulting in continual changes in the tax legislation and interpretation of the existing laws by various authorities.

Although Russia's tax climate, tax system and the quality of Russian tax legislation have generally improved with the introduction of the Russian Tax Code, the possibility exists that the Government may impose arbitrary or onerous taxes, levies, fines and penalties in the future, which could adversely affect the business of the Group.

Since Russian federal, regional and local tax laws and regulations have been subject to frequent changes and some of the sections of the Russian Tax Code relating to the aforementioned taxes are comparatively new, the interpretation and application of these laws and regulations is often unclear, unstable or non-existent. Differing interpretations of tax laws and regulations may exist both among and within government bodies at the federal,

regional and local levels, increasing the number of existing uncertainties and tax risks and leading to the inconsistent enforcement of these laws and regulations in practice. The Russian tax system is therefore impeded by the fact that at times it still relies heavily on the inconsistent judgments of local tax officials and fails to address many of the existing problems.

Furthermore, taxpayers, the Ministry of Finance of Russia and the Russian tax authorities often interpret tax laws differently. In some instances the Russian tax authorities have applied new interpretations of tax laws retroactively. Private clarifications to specific taxpayers' queries with respect to particular situations issued by the Ministry of Finance of Russia are not binding on the Russian tax authorities and there can be no assurance that the Russian tax authorities will not occasionally take positions contrary to those set out in the private responses issued by the Ministry of Finance of Russia. During the past several years the tax authorities have shown a tendency of taking more assertive positions in their interpretation and application of tax legislation, which has led to an increased number of material tax assessments issued by them as a result of tax reviews of companies operating in various industries. One area of usual disagreement is qualification of economic justification of expenses which the tax authorities often try to challenge. In practice, taxpayers often have to resort to court proceedings to defend their positions against the tax authorities. In absence of binding precedent, court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory. It is therefore possible that the Group's transactions and activities that have not been challenged in the past may be challenged in the future.

Furthermore, the railways industry is a capital intensive industry where large investments flows are attributed to construction, creation of fixed assets and their modernisation. Current fixed assets base of the Group is large, diverse and unique in terms of its composition. Potential differing opinions between the Group and the tax authorities regarding tax treatment of depreciation charges and subsequent expenditures relating to the fixed assets of the Group may expose the Group to additional taxes, fines and interest charges as well as other enforcement measures. In this connection the Group has created a provision in its IFRS Financial Statements.

In its decision of 25 July 2001, the Constitutional Court of the Russian Federation introduced the concept of "a taxpayer acting in a bad faith" without clearly stipulating the criteria for its interpretation and application. Similarly, this concept is not defined in the Russian tax legislation or other branches of Russian legislation. Nevertheless, to date in practice this concept has been used by the tax authorities in order to deny, for instance, the taxpayer's right to rely on the letter of the tax law. Based on the available practice the tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is at times unfavourable to taxpayers.

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation (the "**Supreme Arbitration Court**") issued Ruling No. 53 ("**Ruling No. 53**") which introduced a concept of the "unjustified tax benefit" defined mainly by reference to specific examples of such tax benefits, (i.e. tax benefits received in connection with transactions that have no reasonable business purpose) which may lead to the disallowance of their application. Based on the current practice it is apparent that the tax authorities actively seek to apply this concept in order to challenge tax positions taken by taxpayers. Although the intention of Ruling No. 53 was to combat the abuse of the tax law, based on the court practice relating to its application in cases which were brought to courts to date, it can be concluded that the tax authorities have started applying the "unjustified tax benefit" concept in a broader sense than may have been initially intended by the Supreme Arbitration Court. Furthermore, the Group is aware of cases where this concept has been applied by the tax authorities in order to disallow benefits granted by double tax treaties. To date, however, in many cases where this concept has been applied by Russian tax authorities, the courts have ruled in favour of taxpayers, but there is no assurance that the courts will follow these precedents in the future.

Tax declarations together with related documentation are subject to review and investigation by a number of authorities, empowered by Russian law to impose fines and penalties on taxpayers. Generally, tax declarations remain open and subject to inspection by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. However, the fact that a year has been reviewed by the tax authorities does not prevent that year, or any tax returns and other documentation relating to that year, from any further reviews by the tax authorities during the three-year limitation period. In particular, a tax authority superior to that which has carried out the initial tax review may re-address the same period. Therefore, previous tax reviews may not preclude subsequent tax claims relating to the reviewed period.

The Russian Tax Code provides for the possible extension of the three-year statute of limitations for liabilities for tax offences if the taxpayer obstructed the performance of the tax review and this has become an insurmountable

obstacle for the tax review. As the terms "obstructed" and "insurmountable obstacles" are not specifically defined in Russian tax law or any other branches of Russian legislation, Russian tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced by them in the course of their tax reviews with obstruction by the taxpayer and use that as a basis to seek tax adjustments and penalties beyond the three-year limitation period. Therefore, the statute of limitations is not entirely effective with respect to liability for payment of taxes in Russia. Such review could, if it is concluded that the Group had significant tax underpayments for respective tax periods, have a material adverse effect on the Group's business, financial condition and results of operations.

In May 2009, the Russian President included in his budget message regarding the budget policy for years 2010-2012 the proposal for legislative changes of the anti-avoidance mechanism with respect to the application of double tax treaty benefits in cases where the ultimate beneficiaries of income do not reside in the relevant tax treaty jurisdictions. It is currently uncertain if and when any relevant legislative changes may be introduced, and if adopted, how these new provisions will be interpreted and applied by the tax authorities and/or courts in practice and what effect they may have on taxpayers, including the Group. It is possible that after these changes are introduced the benefits of double tax treaties claimed by the taxpayers in the past may become unavailable.

Currently Russian law does not provide for a possibility of group relief or fiscal unity. Consequently, tax losses incurred by any Russian legal entity of the Group could not be surrendered to reduce the tax liability of any other Russian legal entity of the Group. However, a new draft law envisaging the introduction of tax consolidation regime was approved by the Russian Parliament in the first reading on 22 October 2010 with the second and third readings scheduled for 2011. The draft law introduces consolidated tax reporting that may enable the consolidation of the final results of taxpayers considered as a part of the same group of companies for corporate tax purposes. It is currently uncertain if and when the draft law may be adopted, how it will be interpreted and applied by the tax authorities and/or courts in practice and what effect it could have on taxpayers, including the Group.

The introduction of new taxes and/or levies, or introduction of amendments to the currently effective taxation rules may have a substantial impact on the overall amount of tax liabilities of the Group. Although each of the entities of the Group undertakes certain internal procedures aimed at minimising the potential tax risks, while the approach applied to the management of tax liabilities and tax risks within the Group has been conservative, there is no assurance that the Group will not be required to make substantially larger tax payments in the future, which may affect the financial results of the Group. In addition to creating a substantial tax burden, these risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing it to significant additional taxes, levies, fines and penalties and enforcement measures, and could adversely affect the Group's business, financial condition and results of operations.

The Company may be subject to potential claims in relation to unjust enrichment as a result of applying export VAT.

The Company is involved in export transportation of oil and oil products through sea-ports as well as in export to the Republic of Belarus. Export operations are normally subject to 0 percent VAT in Russia provided that the right to apply 0 percent VAT rate is supported by the documents required under the tax rules as currently in effect. Due to the specifics of the established customs clearance of the referred to export operations the documents available in the Company are not sufficient to prove the right to apply 0 percent VAT rate; for this reason the Company charges VAT at a standard rate of 18 percent in these cases. The Company's management is aware of recent cases where in similar situations the amounts corresponding to VAT paid at an excessive rate have been claimed back by the contracting parties. Although the Company's management is not aware of any such claims filed against the Company, there is no assurance that such claims will not be filed in the future. The Company's management believes that there are grounds to challenge these claims from counter-parties. If the Company would have to settle such claims, the Company would expect to claim back the corresponding amount of VAT from the federal budget by filing amended tax returns within the three-year limitation period. However, the Company does not exclude the possibility that the state authorities would deny the tax refund based on an inability of the Company to present the sufficient documentary support for the application of 0 percent VAT rate.

Transfer pricing rules may have a negative effect on the operations of the Group.

Transfer pricing legislation in Russia allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions (except for those conducted at state regulated prices and tariffs), if the transaction price differs upwards or downwards from the market price by more than

20 percent. Under the current transfer pricing legislation "controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties characterised by significant price fluctuations (i.e., if the price applied under these transactions differs from prices applied under similar transactions by more than 20 percent within a short period of time). Special transfer pricing rules apply to transactions with securities and derivatives. Transfer pricing rules as currently in effect are vaguely drafted, generally leaving wide scope for their interpretation by the tax authorities and courts in practice. Moreover, in the event that the tax authorities assess a transfer pricing adjustment, the current transfer pricing rules do not provide for the possibility of an offsetting adjustment to the related counterparty in the transaction. If the tax authorities were to impose significant additional tax liabilities on the Group as a result of transfer pricing adjustments, these adjustments could have a material adverse effect on the business, financial condition, results of operations and prospects of the Group.

There is a plan to introduce substantial amendments to the Russian transfer pricing legislation. A new draft law introducing a wholesale reform to the transfer pricing legislation and making transfer pricing rules more stringent, was approved by the Russian Parliament in the first reading on 19 February 2010 with the second and third readings initially expected in December 2010 but then postponed until 2011. At this point it cannot be predicted with the absolute certainty when these amendments will be enacted, if at all, what their exact content will be and what effect they may have on taxpayers, including the Group.

Weaknesses in the tax systems and legislation in some of the countries in which the Group operates create an uncertain environment for business activity and could subject the Group to additional material liabilities.

The Group operates in various jurisdictions. See "*Business—International Joint Ventures and Cooperation—Joint Ventures and International Projects*". Tax legislation that is currently in effect in some of these jurisdictions is in its infancy, not well developed and is subject to varying interpretation by the local authorities. Despite the Group's efforts at compliance with the applicable tax legislation, selective application of the relevant tax laws at the discretion of the local authorities complicates tax planning and business decisions in the Group. Furthermore, it puts the arrangements and structures in place at a risk of being challenged by local tax authorities based on the adverse selective interpretation of the applicable tax legislation (with the possibility of the application of new interpretations retroactively) which could have a material adverse effect on the Group's business, financial position, results of operations, prospects and the value of the Further Notes.

The Group believes that it is currently in compliance with all applicable tax laws and regulations. However, there can be no assurance that the tax authorities will not become more intrusive and aggressive in respect of future tax reviews of tax liabilities of the Group, wherever arising. All these factors could adversely affect the Group's financial results. Furthermore, new interpretations of tax laws and regulations by the relevant authorities could affect the overall tax planning and efficiency of the Group's operations and result in significant additional tax liabilities. Additional tax exposure could have a material adverse effect on the Group's business, financial performance, prospects and the value of the Further Notes.

Risks Relating to the Notes

Noteholders have limited recourse to the Issuer, as payments under the Notes are limited to the amount of certain payments received by the Issuer under the Loan Agreement.

The Issuer has an obligation under the Conditions and the Trust Deed to pay such amounts of principal, interest and additional amounts (if any) as are due in respect of the Notes. However, the Issuer's obligation to pay is limited to the amount of principal, interest and additional amounts (if any) actually received and retained (net of tax) from the Company by or for the account of the Issuer pursuant to the Loan Agreement. Consequently, if the Company fails to meet its payment obligations under the Loan Agreement in full, this will result in the Noteholders receiving less than the scheduled amount of principal, interest or other amounts, if any.

Noteholders have no direct recourse to the Company.

Except as otherwise expressly provided in the Conditions and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder can enforce any provision of the Loan Agreement or have direct recourse to the Company as borrower except through an action by the Trustee pursuant to the rights granted to the Trustee in the Trust Deed. Under the Trust Deed and the Conditions, the Trustee shall not be required to take

proceedings to enforce payment under the Loan Agreement unless it has been indemnified or secured by the Noteholders to its satisfaction. In addition, neither the Issuer nor the Trustee is required to monitor the Company's financial performance. See "*Terms and Conditions of the Notes*".

Payment in full of principal and interest by the Company pursuant to the Loan Agreement, to, or to the order of, the Trustee or the Principal Paying Agent will satisfy the Issuer's obligations in respect of the Notes. Consequently, Noteholders will have no further recourse against the Issuer or the Company after such payment is made in full.

The lack of a public market for the Further Notes could reduce the value of your investment.

There may not be an existing market for the Further Notes at the time they are issued. The Further Notes are expected to be listed on the Irish Stock Exchange and traded on the Market. However, there can be no assurance that a liquid market will develop for the Further Notes, that holders of the Further Notes will be able to sell their Further Notes or that such holders will be able to sell their Further Notes for a price that reflects their value.

Interest payments on the Further Loan may be subject to Russian withholding tax.

In general, interest payments on borrowed funds made by a Russian legal entity to a non-Russian legal entity or organisation having no registered presence and/or no permanent establishment in Russia are subject to Russian withholding tax at a rate of 20 percent (or such other rate as may be in force at the time of payment), which could be reduced or eliminated pursuant to the terms of an applicable double tax treaty subject to compliance with the respective treaty clearance formalities. The Group believes that interest payments on the Further Loan to the Issuer should not be subject to Russian withholding tax under the terms of the Agreement between the Government of Ireland and the Government of the Russian Federation for the Avoidance of Double Taxation with Respect to Taxes on Income dated 29 April 2004 (the "**Russia-Ireland double tax treaty**"). However, there can be no assurance that this relief will be available in practice and/or will continue to be available throughout the term of the Further Loan particularly, if the legislative changes to the anti-avoidance mechanism with respect to double tax treaty benefits in cases where the ultimate beneficiaries of income do not reside in the relevant tax treaty jurisdictions, are introduced to the Russian Tax Code. Furthermore, the Group is aware of at least two instances when Russian tax authorities tried to challenge the application of double tax treaty benefits in a similar structure. In one case, the court upheld the position of a taxpayer. In another instance, to the Group's best knowledge, a tax authority withdrew its claim. It is difficult to predict whether there might be other similar disputes in future.

If interest under the Further Loan becomes payable to the Trustee pursuant to the Trust Deed, any benefit of the Russia-Ireland double tax treaty will cease and payments of interest to the Trustee will become subject to Russian withholding tax at the rate of 20 percent (or such other rate as may be in force at the time of payment). It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double taxation treaty under such circumstances. In addition, whilst some Noteholders may be eligible for an exemption from or a reduction in, Russian withholding tax rate or Russian personal income tax, as applicable, under applicable double tax treaties entered into between their countries of residence and Russia, where such treaties exist and to the extent they are applicable and could be relied upon the Noteholders, there is no assurance that such exemption or reduction will be available for them in practice under such circumstances.

If interest payments due under the Further Loan become subject to Russian withholding tax or interest payments on the Further Notes become subject to any withholding or deduction for the account of Irish taxes (as a result of which the Issuer will reduce payments under the Further Notes by the amount of such withholding taxes), the Company will be obliged (subject to certain conditions) under the terms of the Loan Agreement to increase payments or to make such additional payments, respectively, as may be necessary so that the net amounts received by the Issuer and the Noteholders will not be less than the amount they would have received in the absence of such withholding. It is currently unclear, however, whether the provisions obliging the Company to gross-up interest payments will be enforceable under current Russian law. If the Company fails to increase the relevant payments or to pay additional amounts, as may be applicable, such failure will constitute an Event of Default pursuant to the Loan Agreement.

If the Company is obliged to increase payments on the Further Loan, or to make additional payments on the Further Loan as described above, it may (without premium or penalty), subject to certain conditions, prepay the Further Loan in full. In such case, all outstanding Further Notes would each be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of redemption. See "*Terms and Conditions of the Notes*" and "*Taxation—Russian Federation.*"

Sale of or other disposal of the Further Notes by a non-resident Noteholder in Russia may be subject to Russian withholding tax or Russian personal income tax, as applicable.

If a non-resident Noteholder that is a legal entity or organisation sells or otherwise disposes of the Further Notes other than through its permanent establishment in Russia and receives proceeds from a source within Russia, there is a risk that the portion of the proceeds from the sale or other disposal of the Further Notes, if any, representing accrued interest may be subject to a 20 percent Russian withholding tax (or such other rate as may be in force at the time of payment), which could be reduced or eliminated under provisions of an applicable double tax treaty subject to compliance with the respective treaty clearance formalities. While some Noteholders might be eligible for an exemption from or a reduction in Russian withholding tax under applicable double tax treaties, there is no assurance that such exemption or reduction will be available in practice under such circumstances.

Where proceeds from the sale or other disposal of the Further Notes are deemed to be received from a source within Russia by a Noteholder, who is an individual not residing for tax purposes in Russia, Russian personal income tax at a rate of 30 percent (or such other rate as may be in force at the time of payment) will apply to the gross amount of proceeds realised upon the sale or other disposal of the Further Notes decreased by any available duly documented cost deductions (including the acquisition cost of the Further Notes), provided that the documentation supporting cost deductions is provided to the person obliging to withhold the tax on time. Although this tax rate may be technically reduced or eliminated under provisions of an applicable double tax treaty subject to compliance with the respective treaty clearance formalities, in practice non-resident individuals would not be able to obtain the advance treaty relief in relation to proceeds from the sale or other disposal of the Further Notes received from a source within Russia, whilst obtaining a refund of taxes that were excessively withheld in relation to these proceeds could be extremely difficult, if not impossible. Furthermore, even though the Russian Tax Code is typically interpreted such as only a Russian professional asset manager or broker, or another person (including a foreign company with a permanent establishment or any registered presence in Russia or an individual entrepreneur located in Russia) acting under an agency agreement, a commission agreement or commercial mandate agreement for the benefit of an individual to withhold the tax from payments associated with the sale or disposal of securities, there is no guarantee that other Russian companies or foreign companies with a permanent establishment or a registered presence in Russia or an individual entrepreneur located in Russia would not seek to withhold Russian personal income tax under these circumstances.

The imposition or possibility of imposition of withholding tax or personal income tax, as applicable, under such circumstances could adversely affect the value of the Further Notes. See "*Taxation—Russian Federation*".

Risks Relating to the Issuer

The Issuer is subject to certain legal risks, including the location of its centre of main interest ("COMI"), the appointment of an examiner in the event the Issuer experiences financial difficulties, the claims of examiners, preferred creditors under Irish law and floating charges.

The Issuer has its registered office in Ireland. As a result, there is a rebuttable presumption that its COMI is in Ireland and consequently that any main insolvency proceedings applicable to it would be governed by Irish law. In the decision by the European Court of Justice (the "**ECJ**") in relation to Eurofood IFSC Limited, the ECJ restated the presumption in Council Regulation (EC) No. 1346/2000 of 29 May 2000 on Insolvency Proceedings that the place of a company's registered office is presumed to be the company's COMI and stated that the presumption can only be rebutted if "factors which are both objective and ascertainable by third parties enable it to be established that an actual situation exists which is different from that which locating it at the registered office is deemed to reflect". As the Issuer has its registered office in Ireland, has Irish directors, is registered for tax in Ireland and has an Irish corporate services provider, the Issuer does not believe that factors exist that would rebut this presumption, although this would ultimately be a matter for the relevant court to decide, based on the circumstances existing at the time when it was asked to make that decision. If the Issuer's COMI is not located in Ireland, and is held to be in a different jurisdiction within the European Union, main insolvency proceedings may not be opened in Ireland.

Examinership.

Examinership is a court procedure available under the Irish Companies (Amendment) Act 1990, as amended to facilitate the survival of Irish companies in financial difficulties.

The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of the

Issuer are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power to halt, prevent or rectify acts or omissions, by or on behalf of the company after his appointment and, in certain circumstances, negative pledges given by the company prior to his appointment will not be binding on the company. Furthermore, where proposals for a scheme of arrangement are to be formulated, the company may, subject to the approval of the court, affirm or repudiate any contract under which some element of performance other than the payment remains to be rendered both by the company and the other contracting party or parties.

During the period of protection, the examiner will compile proposals for a compromise or scheme of arrangement to assist in the survival of the company or the whole or any part of its undertaking as a going concern. A scheme of arrangement may be approved by the Irish High Court when a minimum of one class of creditors, whose interests are impaired under the proposals, has voted in favour of the proposals and the Irish High Court is satisfied that such proposals are fair and equitable in relation to any class of members or creditors who have not accepted the proposals and whose interests would be impaired by implementation of the scheme of arrangement and the proposals are not unfairly prejudicial to any interested party.

The fact that the Issuer is a special purpose entity, and that all its liabilities are of a limited recourse nature and the structure of the transaction, means that it is unlikely that an examiner would be appointed to the Issuer.

If however, for any reason, an examiner were appointed while any amounts due by the Issuer under the Notes were unpaid, the primary risks to the holders of Notes would be as follows:

(i) the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against the Issuer during the period of examinership; and

(ii) a scheme of arrangement may be approved involving the writing down of the debt due by the Issuer to the Noteholders irrespective of the Noteholders' views.

Preferred Creditors.

If the Issuer becomes subject to an insolvency proceeding and has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular:

(i) under the terms of the Trust Deed, the Notes have been secured (in respect of the Original Notes) and will be secured (in respect of the Further Notes) in favour of the Trustee for the benefit of itself and the Noteholders by security over the Loan Agreement and sums held in the related account with the Principal Paying Agent. Under Irish law, the claims of creditors holding fixed charges may rank behind other creditors (namely fees, costs and expenses of any examiner appointed and certain capital gains tax liabilities) and, in the case of fixed charges over book debts, may rank behind claims of the Irish Revenue Commissioners for PAYE and VAT;

(ii) under Irish law, for a charge to be characterised as a fixed charge, the charge holder is required to exercise the requisite level of control over the assets purported to be charged and the proceeds of such assets including any bank account into which such proceeds are paid. There is a risk therefore that even a charge which purports to be taken as a fixed charge, such as the Charge, may take effect as a floating charge if a court deems that the requisite level of control was not exercised; and

(iii) in an insolvency of the Issuer, the claims of certain other creditors (including the Irish Revenue Commissioners for certain unpaid taxes), as well as those of creditors mentioned above, will rank in priority to claims of unsecured creditors and claims of creditors holding floating charges.

USE OF PROCEEDS

The proceeds of the Further Notes will be used by the Issuer for the purpose of financing the Further Loan to the Company and paying certain expenses in connection with the issue of the Further Notes. The proceeds of such Further Loan will be used by the Company in the ordinary course of its business. Fees, commissions and expenses are expected to be approximately £550,000, excluding any discretionary fees.

CAPITALISATION

The following table sets forth the Group's cash and cash equivalents, short-term debt finance, long-term debt finance and total capitalisation as at 30 June 2010 on a consolidated basis and as adjusted for the issue of the Original Notes and the issue of the Further Notes and the receipt of the proceeds of the Further Loan, assuming that such issue and the receipt of such proceeds occurred on 30 June 2010, but not adjusted for any other changes subsequent to that date.

Prospective investors should read this table in conjunction with "*Selected Consolidated Financial Information*", "*Operating and Financial Review*" and the IFRS Financial Statements, which are included elsewhere in this Prospectus.

	As at 30 June 2010		
	Actual	As adjusted for the offering of the Original Notes[1]	As adjusted for the offering of the Further Notes[2]
	(unaudited)	(unaudited) (RUR millions)	(unaudited)
Cash and cash equivalents	**73,278**	**89,739**	**104,094**
Short-term debt finance[3]	**96,834**	**96,834**	**96,834**
Long-term debt finance[4]	**332,363**	**348,824**	**363,179**
Share capital[5]	1,654,516	1,654,516	1,654,516
Additional paid-in capital	2,808	2,808	2,808
Revaluation reserve	172,051	172,051	172,051
Unrealised gain on available-for-sale securities, net of tax	1,335	1,335	1,335
Retained earnings and other reserves	8,821	8,821	8,821
Equity attributable to shareholders of the parent	**1,839,531**	**1,839,531**	**1,839,531**
Non-controlling interests	**23,118**	**23,118**	**23,118**
Total equity	**1,862,649**	**1,862,649**	**1,862,649**
Total capitalisation[6]	**2,291,846**	**2,308,307**	**2,322,662**

Source: IFRS Financial Statements

Notes:

(1) Adjusted to give effect to the issuance of the Notes and the receipt of the proceeds of such issuance, but not adjusted for any other changes subsequent to 30 June 2010. The proceeds to the Company and related liabilities of £350,000,000 from the issuance of the Notes, before taking into account commissions and expenses, have been added to Cash and cash equivalents and Long-term debt finance, respectively (using an exchange rate of RUR 47.03 to £1 as at 30 June 2010) pending their use.

(2) Adjusted to give effect to the issuance of the Notes (as per note 1 above) and the Further Notes and the receipt of the proceeds of each of such issuances, but not adjusted for any other changes subsequent to 30 June 2010. The proceeds to the Company and related liabilities of £305,250,000 from the issuance of the Further Notes, before taking into account commissions and expenses, have been added to Cash and cash equivalents and Long-term debt finance, respectively (using an exchange rate of RUR 47.03 to £1 as at 30 June 2010) pending their use as described under "*Use of Proceeds*".

(3) Short-term debt finance is the sum of short-term borrowings and finance lease obligations, current portion.

(4) Long-term debt finance is the sum of long-term borrowings and finance lease obligations, net of current portion.

(5) Share capital has changed since 30 June 2010. See "*Operating and Financial Review—Recent Developments—Share Capital Increases*".

(6) Total capitalisation is the sum of short-term debt finance, long-term debt finance and total equity.

In August 2010 and February 2011, the Company through early repayment of the balance of US$296 million outstanding as at 30 June 2010, repaid in full a US$500 million loan from the European Bank for Reconstruction and Development. During the second half of 2010, significant borrowings of Group members included a US$325 million syndicated loan from a syndicate of international banks to TransCreditBank, and a non-convertible interest bearing bond of RUR 5 billion, which was placed by TransCreditBank on the MICEX stock exchange in November 2010 with a 7.8 percent coupon rate maturing in 2013. In December 2010, Freight One signed a sale-leaseback agreement with Alfa-Leasing LLC for the supply of rolling stock for the total amounts of lease payments of RUR 3.65 billion maturing in 2017. For further information, see "*Borrowings*" in Note 33 to the 2010 Unaudited Interim Condensed Consolidated Financial Statements.

In the second half of 2010, the Company issued 43.6 million shares for a total of RUR 43.6 billion. In 2011, the Company issued a further 40 million shares for a total of RUR 40 billion. See also "*Operating and Financial Review— Recent Developments—Share Capital Increases*".

On 17 May 2011, the Company's board of directors resolved to recommend the general meeting of shareholders to declare and pay out dividends for 2010 in the amount of RUR 3.99 billion. The relevant decision is subject to approval by the Government acting on behalf of the Russian Federation as the sole shareholder.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present selected consolidated financial information as at and for the years ended 31 December 2009 and 2008, which has been derived from the 2009 and 2008 Consolidated Financial Statements, and as at and for the six months ended 30 June 2010 and 2009, which has been derived from the 2010 Unaudited Interim Condensed Consolidated Financial Statements. Each set of financial statements was prepared in accordance with IFRS.

The financial information set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the IFRS Financial Statements and related notes thereto included elsewhere in this Prospectus as well as the sections entitled "*Presentation of Financial and Other Information*", "*Capitalisation*" and "*Operating and Financial Review*". The Group's independent auditors have expressed a qualified opinion on the 2009 and 2008 Consolidated Financial Statements and a qualified conclusion on the 2010 Unaudited Interim Condensed Consolidated Financial Statements. See also "*Risk Factors—Risks Relating to the Group—The Group's independent auditors qualified their opinion in their report on the Group's 2009 and 2008 Consolidated Financial Statements, and their conclusion on the 2010 Unaudited Interim Condensed Consolidated Financial Statements, which should be considered when making an assessment of the Group's financial performance.*" and "*Operating and Financial Review—Significant Factors Affecting Results of Operations—Key Accounting Issues*".

Consolidated Income Statement

	Six months ended 30 June		Year ended 31 December	
	2010	2009	2009	2008
	(unaudited)	(unaudited)	(RUR millions)	
Revenues				
Cargo revenues	495,983	388,692	833,360	887,270
Passenger revenues	73,540	71,863	166,656	162,312
Interest income, fees and commission income (banking operations)	14,038	14,471	28,361	22,281
Other revenues	67,408	56,947	126,083	130,807
Total revenues	**650,969**	**531,973**	**1,154,460**	**1,202,670**
Operating expenses				
Wages, salaries, and related contributions	(259,735)	(220,876)	(451,430)	(518,674)
Materials, repairs and maintenance	(68,398)	(76,610)	(164,495)	(217,780)
Fuel	(28,939)	(22,133)	(47,755)	(70,771)
Electricity	(45,545)	(32,219)	(73,094)	(66,586)
Depreciation and amortisation	(53,328)	(45,779)	(95,471)	(82,776)
Taxes other than income tax, net	(17,019)	(19,071)	(33,630)	(26,642)
Commercial expenses	(961)	(557)	(1,854)	(2,240)
Bad debt expense	(3,808)	(11,794)	(16,504)	(9,230)
Social expenses	(3,801)	(3,666)	(7,220)	(8,167)
(Loss) on impairment of property, plant and equipment	(3,019)	(602)	(2,116)	(3,706)
Interest expense, fee and commission expense (banking operations)	(5,786)	(6,170)	(12,313)	(10,126)
Recovery of loss/(Loss) on uncompleted construction contracts	4,153	(7,623)	(4,153)	—
Other operating expenses	(45,731)	(37,488)	(89,753)	(72,067)
Total operating expenses	**(531,917)**	**(484,588)**	**(999,788)**	**(1,088,765)**
Operating profit before subsidies and compensation from federal and municipal budgets	**119,052**	**47,385**	**154,672**	**113,905**
Subsidies from federal and municipal budgets	32,376	17,369	80,073	22,097
Income from operations after subsidies and compensation from federal and municipal budgets	**151,428**	**64,754**	**234,745**	**136,002**
Interest income and similar items	2,194	686	4,092	992
Interest expenses and similar items (including finance charge and other)	(7,718)	(15,149)	(27,092)	(17,884)
Interest expenses and similar items, net	**(5,524)**	**(14,463)**	**(23,000)**	**(16,892)**

	Six months ended 30 June		Year ended 31 December	
	2010	2009	2009	2008
	(unaudited)	(unaudited)		
	(RUR millions)			
Changes in fair value and (loss) on disposals of financial assets	(5,583)	(3,096)	(6,357)	12,869
Other income, net	6,958	1,613	4,060	15,947
Foreign exchange gain/(loss), net	2,774	(6,803)	(5,024)	(22,845)
Income before taxation	**150,053**	**42,005**	**204,424**	**125,081**
Income taxes				
Current taxes	(24,279)	(8,559)	(40,860)	(39,874)
Deferred taxes	(15,289)	(10,498)	(11,357)	(8,787)
Total income taxes	**(39,568)**	**(19,057)**	**(52,217)**	**(48,661)**
Net income for the period	**110,485**	**22,948**	**152,207**	**76,420**
Attributable to:				
Equity holders of the parent	110,029	22,471	150,001	74,335
Non-controlling interests	456	477	2,206	2,085

Consolidated Statement of Financial Position

	As at 30 June	As at 31 December	
	2010	2009	2008
	(unaudited)		
	(RUR millions)		
ASSETS			
Non-current assets:			
Property, plant and equipment	2,433,387	2,305,227	2,069,409
Goodwill	2,305	2,305	1,926
Intangible assets other than goodwill	19,409	18,589	17,128
Investments in associates	9,385	9,407	17,102
Venture capital investments	1,645	—	—
Other financial assets	130,114	108,641	92,073
Deferred tax assets	3,121	2,091	1,155
Derivative financial assets	4,261	6,031	16,699
Investment Property	2,393	1,880	—
Other non-current assets	13,436	13,447	13,830
Total non-current assets	**2,619,456**	**2,467,618**	**2,229,322**
Current assets			
Inventories	93,866	83,620	83,725
Prepayments and other current assets	36,153	34,344	39,963
Income tax receivable	1,241	1,091	3,378
Receivables	69,146	34,931	44,274
Receivables from shareholder for shares issued	—	—	16,925
Obligatory reserve with Central Bank of Russia	2,176	1,247	220
Securities at fair value through profit or loss	51,775	22,749	4,482
Other financial assets	76,154	70,371	61,036
Derivative financial assets	3,079	2,320	—
Cash and cash equivalents	73,278	74,457	117,182
Non-current assets classified as held for sale	475	498	570
Total current assets	**407,343**	**325,628**	**371,755**
Total assets	**3,026,799**	**2,793,246**	**2,601,077**

	As at 30 June	As at 31 December	
	2010	2009	2008
	(unaudited)	(RUR millions)	
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	1,654,516	1,594,516	1,583,198
Additional paid-in capital	2,808	2,808	2,808
Revaluation reserve	172,051	172,051	172,051
Unrealised gain/(loss) on available-for-sale securities, net of tax	1,335	568	(212)
Retained earnings/(Accumulated deficit) and other reserves	8,821	(97,978)	(249,267)
	1,839,531	**1,671,965**	**1,508,578**
Non-controlling interests	**23,118**	**23,138**	**17,612**
Total equity	**1,862,649**	**1,695,103**	**1,526,190**
Non-current liabilities:			
Deferred tax liabilities	57,494	40,766	27,997
Long-term borrowings	307,714	293,174	168,930
Finance lease obligations, net of current portion	24,649	29,279	38,092
Employee benefit obligations	206,059	198,489	193,756
Liabilities to customers	31,106	19,963	15,650
Derivate financial liabilities	3,388	331	982
Other long-term liabilities	15,738	20,347	18,712
Total non-current liabilities	**646,148**	**602,349**	**464,119**
Current liabilities:			
Trade and other payables	116,890	99,578	144,284
Advances received for transportation	46,394	43,843	38,109
Liabilities to customers	124,866	109,078	82,720
Finance lease obligations, current portion	15,931	16,946	19,136
Income tax payable	655	1,375	735
Taxes and similar charges payable	39,439	29,264	22,278
Short-term borrowings	80,903	111,944	231,081
Derivative financial liabilities	3,737	1,087	2,102
Provisions and other current liabilities	89,187	82,679	70,323
Total current liabilities	**518,002**	**495,794**	**610,768**
Total equity and liabilities	**3,026,799**	**2,793,246**	**2,601,077**

Summary Cash Flow Data

	Six months ended 30 June		Year ended 31 December	
	2010	2009	2009	2008
	(unaudited)	(unaudited)	(RUR millions)	
Net cash from operating activities	**130,373**	**83,121**	**302,380**	**282,761**
Net cash (used in) investing activities	**(156,275)**	**(152,689)**	**(362,480)**	**(414,051)**
Net cash from/(used in) financing activities	**25,050**	**8,323**	**13,630**	**222,579**

Additional Financial Data

	Six months ended 30 June		Year ended 31 December	
	2010	2009	2009	2008
	(unaudited)	(unaudited)		
	(RUR millions, except for percentages and multiples)		(RUR millions, except for percentages and multiples)	
EBITDA[(1)]	204,756	110,533	330,216	218,778
EBITDA margin[(1)]	31.5%	20.8%	28.6%	18.2%
Net Debt[(2)]	511,891	497,651	505,927	438,427
EBITDA/Net interest coverage[(3)]	37.1	7.6	14.4	13.0

Notes:

(1) EBITDA and EBITDA margin are non-IFRS financial measures that are calculated by the Group as follows:

- EBITDA is income from operations after subsidies from federal and municipal budgets plus depreciation and amortisation.
- EBITDA margin is EBITDA divided by total revenues.

EBITDA and EBITDA margin are presented as supplemental measures of the Group's operating performance, which the Group believes are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the railway transportation sector. All of these supplemental measures have limitations as analytical tools, and investors should not consider any one of them in isolation, or any combination of them together, as a substitute for analysis of the Group's operating results as reported under IFRS.

Some of these limitations are as follows:

- EBITDA and EBITDA margin do not reflect the impact of financing costs, which can be significant and could further increase if the Group incurs more borrowings, on the Group's operating performance;
- EBITDA and EBITDA margin do not reflect the impact of income taxes on the Group's operating performance;
- EBITDA and EBITDA margin do not reflect the impact of depreciation and amortisation on the Group's performance. The assets of the Group's business that are being depreciated, depleted or amortised will need to be replaced in the future and such depreciation and amortisation expense may approximate the cost of replacing these assets in the future. By excluding this expense from EBITDA and EBITDA margin, those measures do not reflect the Group's future cash requirements for these replacements. EBITDA and EBITDA margin also do not reflect the impact of interest expense and similar items, net, loss on disposals, changes in fair value and recoverable amounts of financial assets, other income, net, and foreign exchange (loss)/gain, net; and
- EBITDA and EBITDA margin exclude items that the Group considers to be one-offs or unusual, but such items may in fact recur.

Other companies in the Russian railway transportation industry may calculate EBITDA and EBITDA margin differently or may use each of them for different purposes than the Group, limiting their usefulness as comparative measures.

The Group relies primarily on its IFRS operating results and uses EBITDA and EBITDA margin only supplementally. See the IFRS Financial Statements included elsewhere in this Prospectus. EBITDA and EBITDA margin are not defined by, or presented in accordance with, IFRS. EBITDA and EBITDA margin are not measurements of the Group's operating performance under IFRS and should not be considered as alternatives to revenues, profit, operating profit, net cash provided by operating activities or any other measures of performance under IFRS or as alternatives to cash flow from operating activities or as measures of the Group's liquidity. In particular, EBITDA and EBITDA margin should not be considered as measures of discretionary cash available to the Group to invest in the growth of its business.

(2) Net Debt is a non-IFRS financial measure which is calculated by the Group as follows: non-current liabilities including long term borrowings, finance lease obligations, net of current portion, and liabilities to customers plus current liabilities including short term borrowings, finance lease obligations, current portion and liabilities to customers, less cash and cash equivalents.

(3) Net interest coverage is interest expense and similar items, net.

EBITDA Reconciliation

	Six months ended 30 June		Year ended 31 December	
	2010	2009	2009	2008
	(unaudited)	(unaudited)	(RUR millions, except for percentages)	
	(RUR millions, except for percentages)			
Income from operations after subsidies from federal and municipal budgets	**151,428**	**64,754**	**234,745**	**136,002**
Add:				
Depreciation and amortisation	53,328	45,779	95,471	82,776
EBITDA	**204,756**	**110,533**	**330,216**	**218,778**

OPERATING AND FINANCIAL REVIEW

The following discussion and analysis of the Group's financial position and results of operations has been derived from the 2009 and 2008 Consolidated Financial Statements and the 2010 Unaudited Interim Condensed Consolidated Financial Statements. It should also be read in conjunction with the report of the Group's auditors on the 2009 and 2008 Consolidated Financial Statements and the 2010 Unaudited Interim Condensed Consolidated Financial Statements included elsewhere in this Prospectus, as well as the sections entitled "Overview" and "Risk Factors". In particular, the Group's auditors have expressed a qualified opinion on the 2009 and 2008 Consolidated Financial Statements and a qualified conclusion on the 2010 Unaudited Interim Condensed Consolidated Financial Statements as discussed at "—Significant Factors Affecting Results of Operations—Key Accounting Issues" below. See also "Risk Factors—Risks Relating to the Group—The Group's independent auditors qualified their opinion in their report on the Group's 2009 and 2008 Consolidated Financial Statements, and their conclusion on the 2010 Unaudited Interim Condensed Consolidated Financial Statements, which should be considered when making an assessment of the Group's financial performance".

The following discussion contains forward-looking statements. The Group's actual results could differ materially from those that are discussed in these forward-looking statements. The results of the Group's operations and its year-to-year comparability are affected by various external factors. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this Prospectus, particularly under the sections entitled "Risk Factors" and "Forward-Looking Statements". The results of the Group's operations and their year-to-year comparability are further affected by certain internal factors. These effects should be taken into account when reviewing the Group's results of operations and financial position from year to year. See "—Significant Factors Affecting Results of Operations". In the periods presented in this section, the Group has continued to implement the Reform Programme, including by establishing and disposing of various subsidiaries. These effects should be taken into account when reviewing the Group's results of operations and financial position from year to year. For more details concerning the Reform Programme, see "Business—History and Corporate Structure of the Group and the Reform Programme—Reform Programme".

Overview of the Group

The Group is one of the largest transportation companies in the world. It is the owner and operator of Russia's approximately 85,000 kilometre-long Rail System and related infrastructure. See "*Business—The Rail System*". The Rail System is the world's third longest railway network, the world's third largest railway in terms of freight turnover (measured in tonne-kilometres) and the world's fourth largest railway in terms of passenger turnover (measured in passenger-kilometres). The Company has been state-owned since its creation in 2003. The Group is the second largest property owner in Russia behind the Russian Federation itself. In addition to the Rail System, the Group owns and operates nearly all of the locomotives in Russia; is the largest Russian owner, operator and lessor of freight rolling stock; is the largest Russian freight rail operator; and carries virtually all suburban (to destinations under 200 kilometres) and long-haul (to destinations over 200 kilometres) railway passengers.

The Group engages in full-service freight transportation, locomotive traction, infrastructure operations, rolling stock repair and maintenance, long-haul and suburban passenger transportation, container transportation and logistics and engineering, research and construction. The Group is also engaged in a number of other activities primarily relating to telecommunications, banking services, real estate development, housing and commercial construction, engineering and research and development. The Group also participates in cross-border railway joint ventures and railway construction and management projects in Armenia, China, Finland, Germany, Iran, Libya, Mongolia and North Korea. See "*Business—International Joint Ventures and Cooperation*".

The Company is conducting most of the Group's operations. In addition, the Company's main operating subsidiaries in Russia include Freight One, a company engaged in freight transportation, Federal Passenger Company, a company established in 2009 to operate long-haul passenger transportation and TransContainer, a company engaged in a vertically integrated rail-based container transportation. See "*Business—Business Operations*". In addition, last year the Group established Freight Two to operate the remainder of its railcar fleet, not operated by Freight One and other subsidiaries. It is expected that Freight Two will commence full scale operations later in 2011 and will also become a main operating subsidiary of the Company. However, the commencement of Freight Two's operations may be delayed if the Company is required to divest a controlling equity stake in Freight One prior to paying up the charter capital of Freight Two. See "*Business—Business Operations—Freight Two*".

In the six months ended 30 June 2010, the Group began to recover from the adverse effects of the recent global economic downturn, which had had a significant adverse effect on its revenues in the previous two years. The Group's total revenues for the six months ended 30 June 2010 increased by approximately 22.4 percent to

RUR 651.0 billion from RUR 532.0 billion for the six months ended 30 June 2009. In the six months ended 30 June 2010, the Group generated EBITDA of RUR 204.8 billion, with an EBITDA margin of 31.5 percent, compared with EBITDA of RUR 110.5 billion, with an EBITDA margin of 20.8 percent, in the six months ended 30 June 2009. For the six months ended 30 June 2010, the Group derived 76.2 percent of the total revenues from freight transportation services, 11.3 percent from passenger transportation services, 2.2 percent from banking operations and 10.3 percent from its other business activities, which include the Group's rail-related operations and revenues generated by the Group's non-core subsidiaries.

In 2009, the Group generated total revenues of RUR 1,154.5 billion and EBITDA of RUR 330.2 billion, with an EBITDA margin of 28.6 percent, compared with total revenues of RUR 1,202.7 billion and EBITDA of RUR 218.8 billion, with an EBITDA margin of 18.2 percent, in 2008. See "*Presentation of Financial and Other Information—Non-IFRS Measures*" and Note 1 in "*Selected Consolidated Financial Information—Additional Financial Data*" for an explanation of how the Group calculates EBITDA and EBITDA margin. For the year ended 31 December 2009, the Group derived 72.2 percent of the total revenues from freight transportation services, 14.4 percent from passenger transportation services, 2.5 percent from banking operations and 10.9 percent from its other business activities, which include the Group's rail-related operations and revenues generated by the Group's non-core subsidiaries.

See "*Presentation of Financial and Other Information—Non-IFRS Measures*" and Note 1 in "*Selected Consolidated Financial Information—Additional Financial Data*" for an explanation of how the Group calculates EBITDA and EBITDA margin.

Significant Factors Affecting Results of Operations

The Group's results of operations have been, and will continue to be, affected by a number of factors, some of the more significant of which are set out below. See also the notes to the 2010 Unaudited Interim Condensed Consolidated Financial Statements and the 2009 and 2008 Consolidated Financial Statements, the report of the Group's auditors on each of those sets of financial statements, and "*Risk Factors*".

Key Accounting Issues

Property, Plant and Equipment

As discussed in Note 2 to the 2009 and 2008 Consolidated Financial Statements, in accordance with the Group's accounting policy, subsequent to initial recognition, property, plant and equipment are carried at revalued amounts being their fair values at the date of the revaluation less any subsequent accumulated depreciation and impairment loss. In accordance with the requirements of International Accounting Standard 16 "Property, Plant and Equipment" ("**IAS 16**"), as amended, 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 balance sheet date. Except for one category of property, plant and equipment—roadbed—which was revalued as at 1 January 2004, the Group has been unable to conduct recent revaluations of the other categories. Therefore, the Group's auditors were unable to determine whether the carrying value of the other categories of property, plant and equipment totalling RUR 2,051.8 billion, RUR 1,922.8 billion and RUR 1,700.9 billion as at 30 June 2010, 31 December 2009 and 31 December 2008, respectively, complies with the requirement referred to above. Similarly, the Group's auditors 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. The effects of these departures from IFRS on the Group's consolidated financial statements for the periods presented in this section have not been determined. As a result, the Group's auditors have qualified their reports given for the periods presented in this section. The Group is currently working to bring the property, plant and equipment accounting in compliance with the IFRS and upon completion of that work, the Group's results of operations and financial position as reported under IFRS for the periods presented in this section and in the future could be affected.

Further, in accordance with the 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 redefining 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 capitalisation and determination of useful lives, to certain property, plant and equipment during the six months ended 30 June 2010 and in the years ended 31 December 2009 and 31 December 2008. The effects of this departure from IFRS on the IFRS Financial

Statements have not been determined. As a result, the Group's auditors have qualified their reports given for the periods presented in this section.

Acquisition of KIT Finance Companies

In December 2008, the Group acquired a 45 percent interest in each of LLC KIT Finance Holding Company ("**KIT Finance Holding Company**"), OJSC KIT Finance Investment bank ("**KIT Finance Investment Bank**") and Web-invest.ru Ltd (jointly, the "**KIT Finance Companies**"), which are accounted for as investments in associates under the equity method. See also "*Business—Business Operations—Other—Associates and Concession—KIT Finance Investment Bank*" and Note 7 to the 2010 Unaudited Interim Condensed Consolidated Financial Statements. In 2009, the Group finalised its initial accounting for the acquisition of the KIT Finance Companies. The Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities of the KIT Finance Companies at the date of acquisition, which resulted in a restatement of the Group's consolidated statements of income and comprehensive income for the six months ended 30 June 2009 reported previously in the interim condensed consolidated financial statements as at and for the six months ended 30 June 2009.

As a result of the adjustments described above, the amounts for the six months ended 30 June 2009 shown in "*Selected Consolidated Financial Information—Consolidated Income Statement*" and the statements of income and comprehensive income in the 2010 Unaudited Interim Condensed Consolidated Financial Statements included in this Prospectus do not correspond to the amounts reported in the previously issued interim condensed consolidated financial statements as at and for the six months ended 30 June 2009.

For the six months ended 30 June 2009, the share of net loss and other comprehensive income of KIT Finance Investment Bank increased by RUR 594 million and RUR 594 million, respectively, and share of net income of KIT Finance Holding Company increased by RUR 4.7 billion. As at 30 June 2009, the Company also recognised additional impairment of its investment in KIT Finance Holding Company. As a result, carrying value of the Group's investment into KIT Finance Holding Company was written down to nil.

As at and for the six months ended 30 June 2010, the Group recognised its share of net income and other comprehensive income of KIT Finance Investment Bank of RUR 2.1 billion and RUR 0.9 billion, respectively. As at 30 June 2010, the Group recognised impairment of its investment in KIT Finance Investment Bank. As a result, carrying value of the Group's investment into KIT Finance Investment Bank was written down to nil.

For the six months ended 30 June 2010, the Group has not recognised losses for KIT Finance Holding Company in the amount of RUR 313 million, and accumulated losses of RUR 330 million. As of 30 June 2010, carrying value of the Group's investment into KIT Finance Holding Company is nil.

For the six months ended 30 June 2010, the Group's share of net income of Web-invest.ru Ltd. comprised RUR 1.1 billion. Due to the fact that there were previously accumulated losses of Web-invest.ru Ltd not recognised by the Group, the Group did not recognise this share of net income.

See Note 7 and Note 27 to the 2010 Unaudited Interim Condensed Consolidated Financial Statements.

The carrying value of the Group's investment in the KIT Finance Companies is nil. As at 30 June 2009 and 2010, KIT Finance Companies had negative net assets and needed to continue attracting external financing and sell non-core assets to maintain their liquidity.

Acquisition of CJSC West Bridge

In November 2009, the Group, through TransCreditBank, a 54.4 percent owned banking subsidiary, purchased 96.36 percent of the shares in CJSC West Bridge for a cash consideration of RUR 1.2 billion. The amounts recognised in the 2009 Consolidated Financial Statements were determined provisionally. The Company completed the assessment of the fair values of CJSC West Bridge's assets and liabilities and the related non-controlling interests in that company at the date the 2010 Unaudited Interim Condensed Consolidated Financial Statements were issued. As a result, the amounts previously reported in the 2009 Consolidated Financial Statements were restated. See Note 5 to the 2010 Unaudited Interim Condensed Consolidated Financial Statements.

As a result of the adjustments described above, the amounts for the six months ended 30 June 2009 shown in "*Selected Consolidated Financial Information—Consolidated Income Statement*" and the statements of income and comprehensive income in the 2010 Unaudited Interim Condensed Consolidated Financial Statements included in

this Prospectus do not correspond to the amounts reported in the previously issued interim condensed consolidated financial statements as at and for the six months ended 30 June 2009.

Tariffs and Subsidies

In the periods presented in this section, the overwhelming majority of the Group's revenue was derived from freight and passenger transportation which, in most cases, is subject to regulated rail transportation tariffs. These tariffs were based on detailed price lists approved by the FTS and the Ministry of Transport (for international transportation services only), which specified prices for freight and passenger transportation based on weight, freight class or class of travel, direction, distance and destination, among other factors, and were subject to an annual, and occasionally, supplemental, indexation process. Because freight tariffs differ according to the distance and class of freight, among other factors, changes in average transport distances and changes in the mix of freight transported can lead, among other factors, to higher or lower revenues, operating profits and margins for the Group. See "*Business—Tariff Regulation and Pricing*".

Prior to the introduction of the new system of freight tariff indexation, as discussed below in "*Business—Recent Developments—New Tariff Indexation Rules*", which will become applicable starting from 2012, the FTS determined an economically justifiable tariff, which served as the basis for the annual indexation of freight transportation tariff, based on, among other factors, the Company's projected operating costs to be incurred by the Company and a pre-determined profit margin (cost-plus basis). However, the FTS was not required to strictly follow the Company's projections and, therefore, an economically justifiable tariff established by the FTS would not necessarily fully cover the Company's costs of services. The applicable tariff established by the FTS for customer using freight transportation services may or may not be equal to the economically justifiable tariff determined by the FTS. In setting applicable tariffs, the Government may consider wider economic and political factors. This occurred in 2009 and 2010, and to date in 2011, when the Government kept freight tariffs lower than the level requested by the Company to promote economic activity in Russia. However, the effect of this tariff regulation on the Group in each of the periods discussed herein was partially offset by Government subsidies, charter capital contributions and other forms of assistance from the Government. Recent Government initiative proposed to limit indexation of tariffs to the level of inflation. The final decision has not been made yet but, if the restrictions on the level of indexation are adopted, the Company expects that the Government will increase subsidies or otherwise provide additional funds to the Company to ensure that the Company has sufficient investment budget to renovate and develop railway infrastructure. See "*Business—Tariff Regulation and Pricing—Tariff Indexation*".

The level of annual indexation for long-haul passenger transportation is based on, among other factors, the Company's forecasts of traffic using a methodology that takes into account the Government's social priorities. If tariffs are set below the economically justifiable tariff level (being the tariffs established by the FTS as economically justifiable tariffs on an annual basis), the Government typically provides subsidies to cover the difference between the economically justifiable tariffs and the actual tariffs. Suburban passenger transportation services are subject to tariff regulation by regional authorities, which have not always been consistent in setting their tariff policies. See "*Business—Tariff Regulation and Pricing—Passenger Tariffs—Suburban Passenger Service*".

In the periods presented in this section, the Group received subsidies from the Government and regional authorities as compensation for certain freight and passenger transportation tariffs being set at low or unprofitable levels. These are shown in the Group's consolidated statement of income in "*Subsidies from federal and municipal budgets*".

In the second half of 2009 and in 2010, the Group received subsidies to compensate the effects of freight tariffs' regulation. See "*Business—Tariff Regulation and Pricing—Freight Tariffs—Domestic Freight*". The Government has not approved any subsidies for freight transportation for 2011.

In each period presented in this section, the Group received subsidies for passenger transportation, with the level of subsidies changing periodically. In 2011, the Government has approved a subsidy of up to RUR 30 billion to cover the effects the long-haul passenger tariff regulation has on the Company and a subsidy of RUR 25 billion to partially cover the Group's costs of provision of suburban rail transportation services. See "*Business—Tariff Regulation and Pricing—Passenger Tariffs*" and "*Business—Competitive Strengths—Tariff and Subsidy Regulation Providing Financial Stability and Predictable Cash Flows*".

As a result, the Group's revenues, operating profits and margins are sensitive to annual changes in transportation tariffs (particularly freight tariffs). Further, the Group's net income is also affected by the amount of subsidies it receives from the Government.

Russian Economy

The growth in the Group's revenue in recent years, prior to the recent global economic downturn, has been positively impacted by growth in the Russian economy as, historically, volumes of freight transportation have correlated with changes in GDP and industrial output in Russia. The correlation of rail freight turnover with both Russia's GDP growth and industrial output growth is relatively high due largely to the volumes of commodities transported. Prior to the recent global economic downturn, economic conditions also provided the Group with an opportunity to increase unregulated first- and second-class passenger tariffs due to greater demand for, and increasing ability of customers to afford, this form of travel. However, with the onset of the global economic downturn in Russia, most notably in the second half of 2008 and into the first half 2009, both freight and passenger transportation volumes declined, broadly reflecting the effect the downturn had on the Russian economy during that period. As a result, the Group substantially reduced its capital expenditures in 2009, which it could no longer fully fund from operating cash flow or other sources, and implemented other cost reduction measures. Starting from November 2009, freight transportation volumes began to recover, and consequently, the Group's transportation volumes also began to increase. In 2010, for example, freight transportation volumes increased by approximately 8.8 percent compared to the volume in 2009.

As a result, the growth in rail freight turnover is highly correlated with GDP growth and industrial production growth in Russia.

Seasonality

The Group's month-to-month cargo revenues remain relatively stable throughout the year and are not greatly affected by seasonal factors due to a diversified base of freight transported by the Group.

Conversely, passenger transportation volumes peak in the summer months, as long-haul passenger travel increases due to the summer holiday season. Therefore, due to the seasonal nature of passenger transportation revenue, higher revenues are generally expected in the second half of each year rather than in the first half of the year.

Recent Developments

Trading Update

Since 30 June 2010, the Group has performed broadly in line with its management's expectations and its management believes that the Group's financial and operating performance in 2011 should be broadly in line with expectations. As the Russian economy recovers from the effects of the recent global economic downturn, the Group's management believes that the Group's revenue will continue to grow in line with this recovery. Operating performance has also been aided by tariff indexation, including indexation for freight transportation of 12.4 percent, on average, for the year ended 31 December 2010, together with a continuation of subsidies from the Government for both freight and passenger transportation in 2010. See also "*—Significant Factors Affecting Results of Operations—Tariffs and Subsidies*".

The volume of passenger transportation services, however, has not yet recovered, and in the year ended 31 December 2010 decreased by 8.6 percent as compared to the year ended 31 December 2009 (measured in passenger-kilometres). See also "*Business—Business Operations—Long-haul*" and "*Business—Business Operations—Suburban*".

New Tariff Indexation Rules

In August 2010, the FTS approved a new methodology for freight tariff indexation that is based on a formula, pursuant to which, economically justifiable tariff is calculated by adding economically justifiable costs projected to be incurred by the Company in a given period (including capital expenditures, investment in the development of new railway infrastructure, repayment of indebtedness and adjustments to take account of various inflation indices) and a pre-determined profit margin to be earned by the Company for that period. However, notwithstanding the use of new tariff-setting methodology, the FTS may continue to set tariffs below the level determined pursuant to the formula described above, including due to the recent Government initiative to limit indexation of tariffs to the level of inflation. The final decision on whether to adopt such limitations is yet to be adopted.

In September 2010, the FTS approved a new methodology for calculation of tariff indexation for suburban passenger transportation. The new tariff setting methodology establishes the rules for calculation of economically justifiable costs considered in determination of tariffs. However, notwithstanding the use of new tariff-setting

methodology, the FTS may continue to set tariffs below the level determined pursuant to the methodology described above. Recent amendments to the budget law approved the subsidy to the Group in the amount of RUR 25 billion to partially cover the Group's costs of providing the services for suburban passenger transportation. The Company expects that a subsidy of a similar amount will be approved for 2012. If tariffs are set below the economically justifiable level (being the cost of providing the transportation services) and if the subsidies from the federal authorities are insufficient, the regional authorities may be expected to reimburse the difference between the cost of service and the tariff regulated fares, however in practice they may be unable to cover such difference due to the lack of funds in the respective regions.

The new methodologies, applicable to freight and suburban passenger transportation, are expected to be implemented beginning from 2012. *See* "*Business—Tariff Regulations and Pricing*" for a more detailed discussion.

Dividends for 2010

On 17 May 2011, the Company's board of directors resolved to recommend the general meeting of shareholders to declare and pay out dividends for 2010 in the amount of RUR 3.99 billion. The relevant decision is subject to approval by the Government acting on behalf of the Russian Federation as the sole shareholder.

Significant Purchase and Supply Agreements

In September 2010, the Company entered into an agreement to purchase 16 electric trains from Siemens AG and LLC Siemens, for a total amount of approximately EUR 173.6 million. The trains will be used in the Sochi region for commuter passenger services. Delivery of the trains is scheduled for the second half of 2014 after the Winter Olympics. A maintenance contract is currently being negotiated.

In October 2010, the Company entered into an agreement with Mitsui & Co. Ltd for the supply of 200,000 metric tons of high speed rails for a total amount of approximately US$248.5 million. The high speed rails will be used for the maintenance of the Rail System.

In the second half of 2010, Freight One entered into a number of agreements with OJSC Barnaul Railcar Repair Plant, OJSC Krukov Railcar Manufacturing Plant, OJSC Uralvagonzavod and CJSC TLS to purchase various types of rolling stock for a total amount of approximately RUR 43 billion. These acquisitions were part of Freight One's capital investment programme.

In August 2010, OJSC Zarubezhstroytechnologiya, a subsidiary of the Company engaged in the Group's construction works outside Russia, entered into a number of supply agreements for a total amount of approximately EUR 420 million for the construction of the Libyan Railway.

In November 2010, Federal Passenger Company entered into an agreement to purchase 50 double-stage passenger railcars from OJSC Tver Railcar Manufacturing Plant ("**TVZ**") for a total amount of approximately RUR 4.0 billion. These railcars are planned to be delivered in 2013 and shall be used on the route between Moscow and Adler, a city located in the Krasnodar region.

Borrowings

In August 2010 and February 2011, the Company, through early repayments of the balance of US$296 million outstanding as at 30 June 2010 repaid in full a US$500 million loan from the European Bank for Reconstruction and Development.

In October 2010, TransCreditBank took out a US$325 million syndicated loan at LIBOR+2.75 percent per annum maturing in 2012, from a syndicate of international banks including Barclays Capital, BNP Paribas, Citibank, Commerzbank Aktiengesellschaft, ING Bank, JPMorgan Chase Bank, RZB Group, UniCredit Group and WestLB to finance TransCreditBank's ordinary business operations.

In July 2010, TransCreditBank registered three series of non-convertible interest bearing bonds in the aggregated amount of RUR 15 billion maturing in 2013. In November 2010, TransCreditBank placed a non-convertible interest bearing bond of RUR 5 billion with a 7.8 percent coupon rate maturing in 2013 on the MICEX stock exchange. The proceeds from the bond issue were primarily used to finance TransCreditBank's ordinary business operations.

In December 2010, Freight One signed a sale-leaseback agreement with LLC Alfa-Leasing for the supply of rolling stock for the total amounts of lease payments of RUR 3.65 billion maturing in 2017. For further information, see "Borrowings" in Note 33 to the 2010 Unaudited Interim Condensed Consolidated Financial Statements.

In April 2011, the Company provided a guarantee to VTB to secure obligations of Ulanbaatar Railways, a Mongolian-Soviet Joint Enterprise under a US$123.9 million facility agreement dated 12 January 2011 (as amended). The loan was taken by Ulanbaatar Railways for the purposes of purchasing locomotives from CJSC Transmashholding ("**Transmashholding**"), a Company's affiliate. The maximum amount of the Company's obligations is expected to be US$135 million, including the sum of principal debt, interest, fees and commissions, which may become payable under the loan.

In March 2011, the Company placed loan participation notes on the Irish Stock Exchange with the nominal value of GBP 350 million with the maturity of 20 years and a coupon rate of 7.487 percent. These notes were issued by the Issuer which loaned the issue proceeds to the Company under a loan agreement. The proceeds from the notes issue were primarily used in the ordinary course of the Company's business.

New Subsidiary and Other Investments

Freight Two

In September 2010, the Company established Freight Two, a new 100 percent less one share subsidiary, to operate the part of its freight railcar fleet not already transferred to Freight One or other subsidiaries. The share capital of Freight Two is RUR 46.4 billion, mostly consisting of rolling stock to be contributed by the Company to Freight Two by September 2011. As at the date of this Prospectus, the Company had transferred to Freight Two approximately 85,000 railcars out of more than 160,000 to be transferred in total. In addition, approximately 17,000 railcars were subleased to Freight Two by the Company out of the total of 24,000 expected to be subleased in total. However, the Company believes that the completion of the contribution may be delayed until the Company has both, obtained a Government authorisation it requires to sell Freight One's shares and disposed of a controlling stake in Freight One. As a result, the Company may be required to continue operating freight railcars not contributed to Freight Two in the short- to medium-term. See "*Business—Reform Programme—Fourth Stage: the Final Stage*" and "*Business—Business Operation—Freight—Freight Two*".

Acquisition of Kedentransservice shares by TransContainer

On 18 March 2011, TransContainer completed the acquisition of a 67 percent equity stake in JSC Kedentransservice ("**KDTS**"), including 20.1 percent shareholding held directly by TransContainer and 46.9 percent by its subsidiary. KDTS is a leading private operator of cargo handling terminal facilities and provider of freight forwarding and logistics services in Kazakhstan. KDTS operates 17 terminal facilities across Kazakhstan and also owns a fleet of approximately 30 freight locomotives. The acquisition was financed by a bank loan.

In addition, TransContainer entered into a shareholders' agreement with JSC National Company Kazakh Temir Zholy, the operator of the Kazakh national railway network and related infrastructure ("**Kazakh Railways**") in relation to the joint operation of KDTS, its cargo handling terminal facilities and the joint operation of flatcars and transport containers in Kazakhstan. As at the date of this Prospectus, Kazakh Railways held a 33 percent stake in KDTS and had an option to purchase a 17 percent stake in KDTS from TransContainer, which would result in each party having a 50 percent stake in KDTS.

KIT Finance Investment Bank

In July 2010 and January 2011, KIT Finance Investment Bank, an associate of the Company, completed two new share issues, each for RUR 2 billion, in favour of the Blagosostoyanie pension fund, a related party of the Company. As a result, the Company's interest in the share capital of KIT Finance Investment Bank decreased to 19.29 percent.

Torgovy Dom RZD

In the second half of 2010, the Company increased its ownership of OJSC Torgovy Dom RZD, a significant supplier of equipment for the Company up to 25.03 percent.

Disposal of Subsidiaries

Freight One

On 19 April 2010, the Board of Directors approved the sale of a 75 percent less two shares equity stake in Freight One. The sale is expected to be completed in 2011 by way of an auction among bidders that meet certain pre-qualification requirements. The starting price for the auction was set at RUR 115.48 billion for the full equity stake to be sold. The transaction remains subject to Government approval. For more detail, see "*Business—Reform Programme—Fourth Stage: the Final Stage*".

TransCreditBank

In October 2010, the Board of Directors preliminarily approved the sale of 10 percent of equity stake in TransCreditBank. On 31 December 2010, the Company issued an offer for sale of 672,074,471 voting shares, or approximately 29.39 percent in the share capital of TransCreditBank to VTB (the "**TCB Offer**"). The TCB Offer was conditional upon an approval of the proposed disposal by the Government and the Board of Directors. The transaction was approved by the Government on 15 April 2011. As a result of these events, the Group will deconsolidate the balance sheet of TransCreditBank effective from 31 December 2010 upon loss of control over financial and operating policies of TransCreditBank. Results of operations and cash flows of TransCreditBank shall remain consolidated in the Group's financial statements for the year ended 31 December 2010.

On 15 March 2011, the Board of Directors adopted a resolution that amended its previous resolution dated 15 October 2010 relating to the sale of its shareholding in TransCreditBank. The new resolution revised certain terms of the transaction and approved the sale of the Company's entire shareholding in TransCreditBank to VTB. The sale was approved in two stages: 672,074,471 voting shares, or approximately 29.39 percent in the share capital of TransCreditBank to be sold by 31 December 2011, and the remaining stake of 571,650,529 shares, or 25 percent plus one share, to be sold between 1 July 2012 and 31 December 2013. The Board of Directors' resolution set out a formula for calculating the purchase price of TransCreditBank's shares and set a minimum price of RUR 22.526 per share. In addition, VTB is to make a prepayment of approximately RUR 1.739 billion to the Company for TransCreditBank's shares to be sold during the second stage. The completion of the sale is subject to an additional approval by the Board of Directors.

TransContainer

In November 2010, the Company sold a 35 percent less two shares equity stake in TransContainer through an IPO with a listing of global depositary receipts in respect of its ordinary shares on the London Stock Exchange and a listing of its ordinary shares on Russian stock exchanges. This was the first such offering of shares in a subsidiary of the Company and is a key part of the on-going Russian rail industry reform. The Company received approximately US$388 million from the IPO. As a result, the Group's interest in the share capital of TransContainer was decreased to 50.75 percent plus 1 share, with the Company holding 50 percent plus 1 share and TransCreditBank holding 0.75 percent of the shares.

On 19 April 2011, the Board of Directors approved the sale of a further 25 percent plus one share equity stake in TransContainer by way of an open auction at a price not less than the price to be established by the Board of Directors based on valuation by an independent appraiser prior to the start of the auction. The sale is expected to be completed in 2011-2012 and is subject to Government approval.

Elteza

In December 2010, BT Signaling B.V., a subsidiary of the Canadian company Bombardier and the Company entered into an agreement to purchase a 50 percent less two shares equity stake in the Company's subsidiary OJSC United Electrical Engineering Plants ("**Elteza**"), a signalling equipment manufacturer for a total consideration of RUR 1.99 billion. In addition, OJSC Baminvest, a subsidiary of the Company, sold one share in Elteza to BT Signaling B.V. The transaction is to be completed in two stages. The sale of the first share tranche of 25 percent plus two shares was completed in March 2011. The sale of the second tranche of 25 percent minus three shares was approved by the Government on 14 June 2011.

Railcar Repair Facilities and Mechanical Plants

On 24 March 2011, the Government approved the sale through an open auction of 100 percent less one share (such one share in each of the companies to be disposed of is owned by affiliated persons of the Company) equity stakes in the following railcar repair plants: OJSC Saranskiy Railcar Repair Plant, OJSC Vladikavkazskiy Railcar Repair Plant named after Mr. Sergey Kirov, OJSC Roslavlskiy Railcar Repair Plant, OJSC Vologodskiy Railcar Repair Plant, OJSC Ishimskiy Mechanical Plant, OJSC Barnaulskiy Railcar Repair Plant, OJSC Alatyrskiy Mechanical Plant. The starting price for each of the auctions shall be a market price determined by an independent appraiser. The auctions are expected to be held in 2011.

Roszhedorproject

On 24 March 2011, the Government approved the sale through an open auction of 25 percent plus one share equity stake in OJSC Roszheldorproject ("**Roszhelorproject**"), a subsidiary of the Company engaged in research, design and engineering of rail infrastructure, as well as commercial real estate and industrial plants. The auction is expected to be held in 2011. The starting price for the auction shall be a market price determined by an independent appraiser.

Transwoodservice

On 24 March 2011, the Government approved the sale through an open auction of 100 percent less one share (which is owned by OJSC Baminvest) equity stake in OJSC Transwoodservice, a Company's subsidiary engaged in wood work for the Company and third parties. The auction is expected to be held in 2011. The starting price for the auction shall be a market price determined by an independent appraiser.

Refservice

On 24 March 2011, the Government approved the sale through an open auction of 100 percent less one share (which is owned by OJSC Baminvest) equity stake in OJSC Refservice, a Company's subsidiary engaged in refrigerated service railcar market. The auction is expected to be held in 2011. The starting price for the auction shall be a market price determined by an independent appraiser.

Rusagrotrans

In March 2011, CJSC Rusagrotrans, previously a subsidiary of Freight One, issued additional shares in the amount of approximately RUR 870 million, in favour of LLC Rustranskom, its second shareholder. Freight One chose not to participate in the additional share issue. As a result, Freight One's share in CJSC Rusagrotrans decreased from 51 percent to approximately 46 percent.

Other Subsidiaries

On 19 April 2011, the Board of Directors approved the sale of 75 percent less two shares equity stake in the following subsidiaries: OJSC Zheldorremmash, engaged in manufacturing of machinery; OJSC Vagonremmash, engaged in production and repair of passenger railcars; OJSC Novosibirsk Strelochniy Zavod, engaged in production of track switching equipment; and OJSC Moscow Locomotive Repair Zavod, engaged in repair of locomotives, railcars and containers. Each of the transactions shall be completed through a private placement among Russian and foreign investors at a price not less than the price set by the Board of Directors based on a market price determined by an independent appraiser. Each of the transactions is subject to Government approval.

In addition, the Board of Directors approved the sale of 25 percent less three shares in OJSC Central PPK, engaged in suburban rail transportation services, by way of an open auction. The starting price for the auction shall be set by the Board of Directors based on a market price determined by an independent appraiser. The sale is subject to Government approval.

Share Capital Increases

In December 2010, the Company issued 43.6 million new ordinary shares to its shareholder in a total amount of RUR 43.6 billion, which was paid up by the shareholder on 30 December 2010. The share issue was completed in February 2011, and the respective changes were made to the Company's charter in March 2011. According to the shareholder's resolution, RUR 20.0 billion of the proceeds of this share issue are to be used to finance the construction of transportation facilities and infrastructure for the Winter Olympics, RUR 20.0 billion are to be used

to finance the reconstruction of rail transportation infrastructure and RUR 3.6 billion are to be used for the organisation of intermodal passenger transportation on the route between Vladivostok and Knevichi airport.

In December 2010, the Company's shareholder approved an issue of 40 million new ordinary shares for a total of RUR 40.0 billion for the purposes of financing the construction of transport infrastructure for the Winter Olympics. The share issue was registered on 31 March 2011 and the money was received by the Company on the same day.

Government Subsidies

During the second half of 2010, the Company received subsidies to compensate it for the effect that freight and passenger tariff regulation had on its business in the amount of approximately RUR 46.0 billion. It also received subsidies to implement certain railway transportation public safety measures in the amount of RUR 2.6 billion.

During the second half of 2010, the Government approved subsidies to the Group in the amount of up to RUR 30.0 billion to compensate it for the effect that passenger tariff regulation is expected to have on its long-haul passenger transportation revenues in 2011. In addition, recent amendments to the budget law approved the subsidy to the Group in the amount of RUR 25 billion to partially cover the Group's costs of providing the services for suburban passenger transportation in 2011.

Regional protests in North Africa and the Middle East

Subsequent to 14 February 2011 (when the 2010 Unaudited Interim Condensed Consolidated Financial Statements were issued), major social unrest and violence occurred in Libya. As a result, the Group suspended its construction works in relation to a 554-kilometre twin-track line between Sirt and Benghazi in Libya (the "**Libyan Construction Contract**") and evacuated its employees as well as employees of its subcontractors working in Libya on the Libyan Construction Contract. See "*Risk Factors—The Group carries out its operations in certain countries outside Russia, in particular in the Middle East and North Africa, and exposes itself to a range of political, economic and social risks arising in these countries*".

Significant Accounting Policies

The preparation of consolidated financial statements in conformity with IFRS requires the Group to select appropriate accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. For a full description of the Group's significant accounting policies, see Note 2 to the 2009 and 2008 Consolidated Financial Statements and the 2010 Unaudited Interim Condensed Consolidated Financial Statements. For a description of recent changes to IFRS as applicable to the Group from 1 January 2010, see Note 2 to the 2010 Unaudited Interim Condensed Consolidated Financial Statements. Some of these accounting policies involve judgements and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts would have been reported under different conditions or if different assumptions had been used, and actual amounts may differ from these estimates.

Results of Operations

For the Six Months Ended 30 June 2010 compared with the Six Months Ended 30 June 2009

Revenues

The following table sets forth the breakdown of the Group's total revenue for the six months ended 30 June 2010 and 2009:

	Six months ended 30 June	
	2010	2009
	(unaudited)	(unaudited)
	(RUR millions)	
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	67,408	56,947
Total revenues	**650,969**	**531,973**

Source: Company information

The Group's total revenues increased by RUR 119.0 billion, or 22.4 percent from RUR 532.0 billion for the six months ended 30 June 2009 to RUR 651.0 billion for the six months ended 30 June 2010. This increase was primarily driven by the increase in the revenues from freight transportation services and was partially offset by a decrease in revenues in interest income, fees and commission income from banking operations.

Cargo revenues increased by RUR 107.3 billion, or 27.6 percent, from RUR 388.7 billion for the six months ended 30 June 2009 to RUR 496.0 billion for the six months ended 30 June 2010 primarily due to the economic recovery and higher demand for the Group's freight transportation in the first six months of 2010 compared to the first six months of 2009, when the global economic downturn resulted in a significant decline in transportation and handling volumes. Demand for freight transportation is driven by the economic conditions affecting the industries that use the Group's services, including the construction, mining and metals industries, which were adversely affected by the downturn. As these industries started to recover from the global economic downturn, demand for freight transportation services began to grow, particularly in November and December of 2009 through to 2010. See "*—Significant Factors Affecting Results of Operations—Russian Economy*". In addition, the growth of Freight One's operations, a key freight operating subsidiary of the Company, also contributed to the increase of cargo revenues. As a percentage of total revenues, cargo revenues increased from 73.1 percent for the six months ended 30 June 2009 to 76.2 percent for the six months ended 30 June 2010.

Passenger revenues increased by RUR 1.6 billion, or 2.2 percent, from RUR 71.9 billion for the six months ended 30 June 2009 to RUR 73.5 billion for the six months ended 30 June 2010. The slight increase in passenger revenues was primarily attributable to an increase in tariffs for passenger services. The increase was partially offset by a lower demand for long-haul and suburban passenger transportation services. In long-haul passenger transportation, some passengers returned to more expensive air travel as the global economic downturn abated. The decrease in the number of suburban passenger trips declined primarily as a result of replacement of seasonal tickets by single-use tickets for certain categories of passengers receiving transportation benefits. See "*Business—Business Operations—Passenger—Suburban*". However, the Company believes that the decrease in demand for passenger transportation services was partially offset by some innovations in the rail transport, including the launch in December 2009 of the first high-speed train in Russia known as the "Sapsan" travelling between Moscow and St. Petersburg. As a percentage of total revenues, passenger revenues decreased from 13.5 percent for the six months ended 30 June 2009 to 11.3 percent for the six months ended 30 June 2010.

Other revenues increased by RUR 10.5 billion, or 18.5 percent, from RUR 56.9 billion for the six months ended 30 June 2009 to RUR 67.4 billion for the six months ended 30 June 2010 primarily due to an increase in revenues from ancillary Group activities such as the repair of rolling stock, healthcare services, transit and sale of electricity and social services due to the recovery and growth of operations of the Group's non-core subsidiaries (e.g. repair depos) as the global economic downturn abated. As a percentage of total revenues, other revenues slightly decreased from 10.7 percent for the six months ended 30 June 2009 to 10.3 percent for the six months ended 30 June 2010.

The increase in the Group's total revenues was partially offset by the decrease in the interest income, fees and commission income (banking operations) by RUR 0.5 billion, or 3.4 percent, from RUR 14.5 billion for the six months ended 30 June 2009 to RUR 14.0 billion for the six months ended 30 June 2010. The banking operations revenue represents income earned by TransCreditBank, which the Group acquired in December 2007. The slight decrease in the revenue from banking operations is primarily attributable to the lower interest rates charged by TransCreditBank following a market trend as the global economic downturn eased, and the funds for borrowing in the lending market became more available and affordable. As a percentage of total revenues, interest income, fees and commission income (banking operations) decreased from 2.7 percent for the six months ended 30 June 2009 to 2.2 percent for the six months ended 30 June 2010.

Operating Expenses

The following table sets forth a breakdown of the Group's operating expenses for the six months ended 30 June 2010 and 2009:

	Six months ended 30 June	
	2010	2009
	(unaudited)	(unaudited)
	(RUR millions)	
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 amortisation	(53,328)	(45,779)
Taxes other than income tax, net	(17,019)	(19,071)
Commercial expenses	(961)	(557)
Bad debt expense	(3,808)	(11,794)
Social expenses	(3,801)	(3,666)
Loss on impairment of property, plant and equipment	(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	(45,731)	(37,488)
Total operating expenses	**(531,917)**	**(484,588)**

Source: Company information

The Group's total operating expenses increased by RUR 47.3 billion, or 9.8 percent, from RUR 484.6 billion for the six months ended 30 June 2009 to RUR 531.9 billion for the six months ended 30 June 2010. This increase was principally attributable to an increase in wages and salaries, fuel and electricity costs, depreciation and amortisation expense and loss on impairment of property, plant and equipment and was offset by a significant reduction in bad debt expense and recovery of loss on construction contract.

Wages, salaries and related contributions increased by RUR 38.8 billion, or 17.6 percent, from RUR 220.9 billion for the six months ended 30 June 2009 to RUR 259.7 billion for the six months ended 30 June 2010 primarily due to payroll indexation of 7.0 percent on average, and a return to full-time employment for most of the employees, who had previously been working part-time during the global economic downturn. In addition, the Group increased bonuses and other incentives which had been reduced or suspended in 2009. As a percentage of total operating expenses, wages, salaries and related contributions increased from 45.6 percent for the six months ended 30 June 2009 to 48.8 percent for the six months ended 30 June 2010.

Fuel and electricity expenses increased by RUR 20.1 billion, or 36.9 percent, from RUR 54.4 billion for the six months ended 30 June 2010 to RUR 74.5 billion for the six months ended 30 June 2009 due to higher freight transportation volumes and increases in average fuel and electricity prices by approximately 14.7 percent and 20.2 percent, respectively. As a percentage of total operating expenses, fuel and electricity expenses increased from 11.2 percent for the six months ended 30 June 2009 to 14.0 percent for the six months ended 30 June 2010.

Depreciation and amortisation expenses increased by RUR 7.5 billion, or 16.4 percent, from RUR 45.8 billion for the six months ended 30 June 2009 to RUR 53.3 billion for the six months ended 30 June 2010, primarily due to the Group's acquisition of new assets, such as rolling stock. As a percentage of total operating expenses, depreciation and amortisation expense increased from 9.4 percent for the six months ended 30 June 2009 to 10.0 percent for the six months ended 30 June 2010.

Other operating expenses, which included security costs, telecommunication fees, rolling stock servicing and services of other sub-contractors, among other expenses, increased by RUR 8.2 billion, or 21.9 percent, from RUR 37.5 billion for the six months ended 30 June 2009 to RUR 45.7 billion for the six months ended 30 June 2010, primarily due to an increase in the volume of operations following the easing of economic downturn, which required the relevant additional costs to be incurred to service those operations. As a percentage of total operating expenses, other operating expenses increased from 7.7 percent for the six months ended 30 June 2009 to 8.6 percent for the six months ended 30 June 2010.

Loss on impairment of property, plant and equipment increased by RUR 2.4 billion, or approximately five times, from RUR 0.6 billion for the six months ended 30 June 2009 to RUR 3.0 billion for the six months ended 30 June 2010, primarily due to the reserves made for a number of assets under construction which the Group suspended during the global economic downturn and did not plan to continue to construct in the following two years. As a percentage of total operating expenses, the loss on impairment of property, plant and equipment expense increased from 0.1 percent for the six months ended 30 June 2009 to 0.6 percent for the six months ended 30 June 2010.

The increase in operating expenses for the six months ended 30 June 2010 compared to the six months ended 30 June 2009 was partially offset by the decrease in bad debt expense by RUR 8.0 billion, or approximately three times, from RUR 11.8 billion for the six months ended 30 June 2009 to RUR 3.8 billion for the six months ended 30 June 2010, primarily due to the reduction of an allowance for impairment established for the loans issued by TransCreditBank as at 30 June 2010 compared to those as of 30 June 2009. In addition, a change in allowance for impairment of accounts receivable from the Health Care and Social Development Agency of Russia for transportation of certain categories of passengers by the Company also contributed to the decrease in bad debt expense. As a percentage of total operating expenses, the bad debt expense decreased from 2.4 percent for the six months ended 30 June 2009 to 0.7 percent for the six months ended 30 June 2010.

The increase in operating expenses for the six months ended 30 June 2010 compared to the six months ended 30 June 2009 was also partially offset by the recovery of loss on a construction contract of RUR 4.2 billion recognised in the six months ended 30 June 2010 from the Libyan Construction Contract primarily due to foreign currency fluctuations. In the six months ended 30 June 2009, the Group recognised a loss of RUR 7.6 billion on the Libyan Construction Contract. See "*Risk Factors—The Group carries out its operations in certain countries outside Russia, in particular in the Middle East and North Africa, and exposes itself to a range of political, economic and social risks arising in these countries*".

The increase in operating expenses for the six months ended 30 June 2010 compared to the six months ended 30 June 2009 was also partially offset by the decrease in the cost of materials, repairs and maintenance by RUR 8.2 billion, or 10.7 percent, from RUR 76.6 billion for the six months ended 30 June 2009 to RUR 68.4 billion for the six months ended 30 June 2010. The decrease was primarily caused by a partial replacement of current repair works carried out in the six months ended 30 June 2009 by more complex capital repair works in the six months ended 30 June 2010. These complex capital repair works were accounted as a component of property, plant and equipment in accordance with the accounting policy of the Group, which resulted in a reduction of materials, repairs and maintenance expenses in the six months ended 30 June 2010. In addition, current repairs of cargo rolling stock decreased in the six months ended 30 June 2010 compared to the six months ended 30 June 2009. As a percentage of total operating expenses, cost of materials, repairs and maintenance decreased from 15.8 percent for the six months ended 30 June 2009 to 12.9 percent for the six months ended 30 June 2010.

Subsidies from Federal and Municipal Budgets

Subsidies from federal and municipal budgets increased by RUR 15 billion, or 86.2 percent, from RUR 17.4 billion for the six months ended 30 June 2009 to RUR 32.4 billion for the six months ended 30 June 2010. This increase was primarily attributable to subsidies in the amount of RUR 11.8 billion provided in the first six months of 2010 from the Russian federal budget to compensate the Company for the effects of freight transportation tariff regulation. The regulated tariffs for freight transportation during the time of global economic downturn were not increased to the level of economically justifiable costs approved by the FTS and as a result, the Government compensated the Company for the effects of freight tariff regulation. Corresponding subsidies were not available in the six months ended 30 June 2009.

In the first six months of 2009 and 2010, the Government also compensated the Company 100 percent of the difference between applicable tariffs and economically justifiable tariffs for third- and fourth-class passenger transportation services. These subsidies increased by RUR 3.1 billion, or 18.9 percent, from RUR 16.4 billion for the first six months of 2009 to RUR 19.5 billion for the first six months of 2010. See "*—Significant Factors Affecting Results of Operations—Tariffs and Subsidies*" and "*Business—Tariff Regulation and Pricing—Passenger Tariffs—Long-Haul Passenger—Regulated Tariffs for Long-Haul Passenger Services*".

Subsidies from municipal budgets increased by RUR 172 million, or 18.4 percent, from RUR 936 million for the first six months of 2009 to RUR 1,108 million for the first six months of 2010, primarily due to the Company's effort to reduce the losses incurred from suburban passenger transportation operations, including by entering into

agreements with authorities of more Russian regions to receive partial compensation from them for the effects of the regulation of suburban passenger transportation and by negotiating higher amounts of such compensation.

Net Financial Items

The following table sets forth the Group's net financial items (excluding its banking operations) for the six months ended 30 June 2010 and 2009:

	Six months ended 30 June	
	2010	2009
	(unaudited)	(unaudited)
	(RUR millions)	
Net Financial Items		
Interest income	2,194	686
Interest expense	(4,456)	(11,115)
Finance charge and other	(3,262)	(4,034)
Changes in fair value and (loss) on disposals of financial assets	(5,583)	(3,096)
Total Net Financial Items	**(11,107)**	**(17,559)**

Source: Company information

Net financial items (expense) decreased by RUR 6.5 billion, or 37.0 percent from an expense of RUR 17.6 billion for the six months ended 30 June 2009 to an expense of RUR 11.1 billion for the six months ended 30 June 2010, which was primarily attributable to a decrease in interest expense from RUR 11.1 billion to RUR 4.5 billion, respectively. The Company capitalised interest expenses on long-term borrowings if such borrowings were incurred to finance construction, or if the borrowings were incurred for working capital purposes, but were intended to be used for construction. The capitalisation of interest expenses related to such long-term borrowings resulted in a decrease in the interest expense. See Note 6 to the 2010 Unaudited Interim Condensed Consolidated Financial Statements and Note 2 to the 2009 and 2008 Consolidated Financial Statements. For the six months ended 30 June 2010, the Company capitalised approximately RUR 15.1 billion as property plant and equipment, using the capitalisation rate of 10.9 percent, compared to RUR 6.9 billion using capitalisation rate of 8.3 percent in the six months ended 30 June 2009.

The interest income increased by RUR 1.5 billion, or approximately three times, from RUR 0.7 billion to RUR 2.2 billion primarily due to an additional income from two loans provided by the Company to KIT Finance Investment Bank in 2009 at a 7.5 percent interest rate, repayable during the period between 2010 and 2014.

The overall decrease in net financial items was partially offset by an increase in the loss on changes in fair value and on disposals of financial assets due to a revaluation of derivatives, carried out by the Group in accordance with IAS 39. The revaluation decreased the value of the Group's foreign exchange derivatives, mostly represented by swap agreements with notional amounts denominated in Roubles and Swiss franks. In addition, in June 2010, the Company entered into new swap agreements resulting in an increase in derivative financial liabilities as at 30 June 2010 compared to 30 June 2009 and an increase in loss included in changes in fair value and (loss) on disposals of financial assets.

Foreign exchange gain / (loss), net

Foreign exchange gain / (loss), net changed by RUR 9.6 billion from a net loss of RUR 6.8 billion for the six months ended 30 June 2009 to a net gain of RUR 2.8 billion for the six months ended 30 June 2010. This change was primarily due to an increase in financial assets of TransCreditBank denominated in foreign currencies and the effect of foreign exchange rates fluctuations on the Group's loans, denominated in foreign currencies.

Other Income, Net

Other income, net increased by RUR 5.4 billion, or approximately 4.4 times, from RUR 1.6 billion for the six months ended 30 June 2009 to RUR 7.0 billion for the six months ended 30 June 2010, which was primarily attributable to an increase in other income represented by gain to TransCreditBank from its dealing transactions. The increase was partially offset by an increase in provision for legal claims.

Income Taxes

Income taxes increased by RUR 20.5 billion, or 107.3 percent, from RUR 19.1 billion for the six months ended 30 June 2009 to RUR 39.6 billion for the six months ended 30 June 2010. This increase was primarily attributable to an increase in taxable profit resulting from the factors discussed above. In the six months ended 30 June 2010, the Group's effective income tax rate, including deferred taxes, was 26.4 percent. In the six months ended 30 June 2009, the Group's effective income tax rate, including deferred taxes, was 45.4 percent. The Group's effective tax rate decreased for the six months ended 30 June 2010 compared to the six months ended 30 June 2009 largely due to the increase in income of the Group from operations after subsidies from federal and municipal budgets. The Group had relatively stable social and certain other non-deductible expenses which were not significantly affected by the Company's operational results.

Net Income for the Period

As a result of the above, the Group's net income increased by RUR 87.6 billion, or approximately 4.8 times, from RUR 22.9 billion for the six months ended 30 June 2009 to RUR 110.5 billion for the six months ended 30 June 2010.

For the Year Ended 31 December 2009 compared with the Year Ended 31 December 2008

Revenues

The following table sets forth the breakdown of the Group's total revenue for the years ended 31 December 2009 and 2008:

	Year ended 31 December	
	2009	2008
	(RUR millions)	
Cargo revenues	833,360	887,270
Passenger revenues	166,656	162,312
Interest income, fees and commission income (banking operations)	28,361	22,281
Other revenues	126,083	130,807
Total revenues	**1,154,460**	**1,202,670**

Source: Company information

The Group's total revenues decreased by RUR 48.2 billion, or 4.0 percent, from RUR 1,202.7 billion for the year ended 31 December 2008 to RUR 1,154.5 billion for the year ended 31 December 2009. This decrease was primarily driven by the decrease in the revenues from freight transportation services and was partially offset by an increase from passenger transportation services and interest income, fees and commission income from banking operations.

Cargo revenues decreased by RUR 53.9 billion, or 6.1 percent, from RUR 887.3 billion for the year ended 31 December 2008 to RUR 833.4 billion for the year ended 31 December 2009 primarily due to the lower demand for freight transportation services resulting from the global economic downturn and increasing competition from private rail operators. The decrease in cargo revenues was partially offset by an increase in freight transportation tariffs, which increased in the year ended 31 December 2009, on average, by 12.4 percent compared to the tariffs applicable in 2008. As a percentage of total revenues, cargo revenues slightly decreased from 73.8 percent for the year ended 31 December 2008 to 72.2 percent for the year ended 31 December 2009.

Other revenues, which included revenues from ancillary services primarily provided by non-core subsidiaries of the Company, decreased by RUR 4.7 billion, or 3.6 percent, from RUR 130.8 billion for the year ended 31 December 2008 to RUR 126.1 billion for the year ended 31 December 2009. The decrease resulted from a lower demand in the global economic downturn for construction services, repairs and other services. As a percentage of total revenues, other revenues remained at 10.9 percent for both, the year ended 31 December 2008 and 2009.

The overall decrease in total revenues for the year ended 31 December 2009 compared to the year ended 31 December 2008 was partially offset by a slight increase in passenger revenues by RUR 4.4 billion, or 2.7 percent, from RUR 162.3 billion for the year ended 31 December 2008 to RUR 166.7 billion for the year ended 31 December 2009. The increase in passenger revenues was primarily due to an annual increase in applicable tariffs. However, the increase was partially offset by a general decrease in passenger volumes due to the effect of the global economic downturn and the reduction of benefits provided to various categories of passengers from federal and regional

authorities. Still, the decrease in passenger volumes was partially offset by additional demand from passengers switching to rail transportation from more expensive air travel during the global economic downturn. As a percentage of total revenues, passenger revenues increased from 13.5 percent for the year ended 31 December 2008 to 14.4 percent for the year ended 31 December 2009.

The overall decrease in total revenues for the year ended 31 December 2009 compared to the year ended 31 December 2008 was also partially offset by an increase in interest income, fees and commission income (banking operations) by RUR 6.1 billion, or 27.4 percent, from RUR 22.3 billion for the year ended 31 December 2008 to RUR 28.4 billion for the year ended 31 December 2009, which was due to a general increase in the interest rates and banking charges TransCreditBank was able to charge during the global economic downturn. As a percentage of total revenues, revenues from banking operations increased from 1.9 percent for the year ended 31 December 2008 to 2.5 percent for the year ended 31 December 2009.

Operating Expenses

The following table sets forth a breakdown of the Group's operating expenses for the years ended 31 December 2009 and 2008:

	Year ended 31 December	
	2009	2008
	(RUR millions)	
Operating expenses		
Wages, salaries and related contributions	(451,430)	(518,674)
Materials, repairs and maintenance	(164,495)	(217,780)
Fuel	(47,755)	(70,771)
Electricity	(73,094)	(66,586)
Depreciation and amortisation	(95,471)	(82,776)
Taxes other than income tax, net	(33,630)	(26,642)
Commercial expenses	(1,854)	(2,240)
Bad debt expense	(16,504)	(9,230)
Social expenses	(7,220)	(8,167)
Loss on impairment of property, plant and equipment	(2,116)	(3,706)
Interest expense, fee and commission expense (banking operations)	(12,313)	(10,126)
Loss on construction contract	(4,153)	—
Other operating expenses	(89,753)	(72,067)
Total operating expenses	**(999,788)**	**(1,088,765)**

Source: Company information

Operating expenses decreased by RUR 89 billion, or 8.2 percent, from RUR 1,088.8 billion for the year ended 31 December 2008 to RUR 999.8 billion for the year ended 31 December 2009 primarily due to the decrease in wages, salaries and related contributions, materials, repair and maintenance and fuel costs. In 2009, the Group implemented a number of measures aimed at mitigating the impact of the negative economic conditions during the global economic downturn. The key cost reduction measures included optimisation of the Group's workforce, renegotiation of certain contracts with key suppliers as well as improving inventory management. The overall decrease in operating expenses was partially offset by the increase in depreciation and amortisation cost, taxes other than income tax, bad debt expense and other operating expenses.

Wages, salaries and related contributions decreased by RUR 67.3 billion, or 13.0 percent, from RUR 518.7 billion for the year ended 31 December 2008 to RUR 451.4 billion for the year ended 31 December 2009. This decrease was primarily due to 7.6 percent decrease in the average headcount of the Company from approximately 1.2 million people for the year ended 31 December 2008 to approximately 1.1 million people for the year ended 31 December 2009, which was implemented as a part of cost reduction measures in response to the global economic downturn. Further, in 2009, many of the Group's employees worked part-time allowing the Group to reduce payroll expenses without significant redundancies. The decrease in wages, salaries and related contributions was partially offset by wage indexation under the Company's General Collective Bargaining Agreement. See "*Business-Employees*". In addition, in 2008 the Group recognised past service cost relating to the introduction of several long-term employee

benefits, such as a long-term (loyalty) bonus starting in 2008 and a net actuarial loss recognised in 2008. The similar expenses were significantly less in 2009. As a percentage of total operating expenses, wages, salaries and related contributions marginally decreased from 47.6 percent for the year ended 31 December 2008 to 45.2 percent for the year ended 31 December 2009.

Materials, repairs and maintenance expenses decreased by RUR 53.3 billion, or 24.5 percent, from RUR 217.8 billion for the year ended 31 December 2008 to RUR 164.5 billion for the year ended 31 December 2009 primarily due to a decrease in the volume of repairs to the Rail System, buildings and rolling stock and the curtailment of the Group's investment programme, as well as due to the fact that in 2009 the Group managed to negotiate most prices for materials and repairs down to a level broadly similar to the level of prices in 2007, to reduce costs in response to the global economic downturn. As a percentage of total operating expenses, materials, repairs and maintenance expenses decreased from 20.0 percent for the year ended 31 December 2008 to 16.5 percent for the year ended 31 December 2009.

Fuel expenses decreased by RUR 23 billion, or 32.5 percent, from RUR 70.8 billion for the year ended 31 December 2008 to RUR 47.8 billion for the year ended 31 December 2009 primarily due to a decrease in freight transportation operations resulting from the lower demand for such services during the global economic downturn and a decline in fuel prices, on average by 16.5 percent. Conversely, the expenses for electricity increased by RUR 6.5 billion, or 9.8 percent, from RUR 66.6 billion for the year ended 31 December 2008 to RUR 73.1 billion for the year ended 31 December 2009, due to an increase in applicable tariffs by 19.3 percent. However, the increase in electricity expense was partially offset by a decrease in electricity consumption and by the implementation of energy saving measures in 2009 as part of the Group's cost optimisation programme. As a percentage of total operating expenses, fuel and electricity expenses marginally decreased from 12.6 percent for the year ended 31 December 2008 to 12.1 percent for the year ended 31 December 2009.

The overall decrease in operating expenses for the year ended 31 December 2009 compared to the year ended 31 December 2008 was partially offset by an increase in depreciation and amortisation expenses, which increased by RUR 12.7 billion, or 15.4 percent, from RUR 82.8 billion for the year ended 31 December 2008 to RUR 95.5 billion for the year ended 31 December 2009, primarily caused by the acquisition in 2009 of new machinery and equipment, including locomotives, railcars and other related equipment. As a percentage of total operating expenses, depreciation and amortisation expenses increased from 7.6 percent for the year ended 31 December 2008 to 9.5 percent for the year ended 31 December 2009.

The decrease in operating expenses for the year ended 31 December 2009 compared to the year ended 31 December 2008 was partially offset by an increase in bad debts expense. A significant increase in bad debts expense for the year ended 31 December 2009 compared to the year ended 31 December 2008 reflects the unstable financial position of many debtors of TransCreditBank during the global economic downturn, which required the relevant reserves to be made in the accounts. Another reason for an increase in bad debt expense is the increase in the account receivable from the Health Care and Social Development Agency of Russia from RUR 12.7 billion for the year ended 31 December 2008 to RUR 19.8 billion for the year ended 31 December 2009, for transportation of certain categories of passengers by the Company. The Company recognised 100 percent allowance for impairment of RUR 19.8 billion relating to this accounts receivable outstanding as at 31 December 2009. As a result, the percentage of bad debt expenses in the total operating expenses increased from 0.8 percent for the year ended 31 December 2008 to 1.7 percent for the year ended 31 December 2009.

The decrease in operating expenses for the year ended 31 December 2009 compared to the year ended 31 December 2008 was partially offset by an increase in interest expense, fee and commission expenses. Interest expense, fee and commission expenses increased by RUR 2.2 billion, or 21.8 percent, from RUR 10.1 billion for the year ended 31 December 2008 to RUR 12.3 billion for the year ended 31 December 2009 due to an increase in interest rates for deposits which TransCreditBank had to pay to attract deposits during the global economic downturn, since the cost of borrowing for the banks generally grew proportionally to the increase in interest rates they charged for giving out loans. As a percentage of total operating expenses, interest expense, fee and commission expenses from banking operations marginally increased from 0.9 percent for the year ended 31 December 2008 to 1.2 percent for the year ended 31 December 2009.

In 2009, the Group also recognised a loss of RUR 4.2 billion on the Libyan Construction Contract.

Subsidies from Federal and Municipal Budgets

Subsidies from federal and municipal budgets increased by RUR 58.0 billion, or approximately 3.6 times, from RUR 22.1 billion for the year ended 31 December 2008 to RUR 80.1 billion for the year ended 31 December 2009.

This increase was primarily attributable to subsidies in the amount of RUR 40.7 billion provided for the first time for the year ended 31 December 2009 from the Russian federal budget to compensate the Company for the effects of freight transportation tariff regulation. The regulated tariffs for freight transportation during the global economic downturn were set at the level below the economically justifiable tariff approved by the FTS, and as a result, the Government compensated the Company for the effects of tariff regulation by providing a subsidy.

In 2009, the Government also compensated the Company 100 percent of the difference between applicable tariffs and economically justifiable tariffs for third- and fourth-class passenger transportation services. In the year ended 31 December 2008, the compensation amounted to 60 percent of the difference described above. The subsidies for passenger rail transportation increased by RUR 16.8 billion, or 86.6 percent, from RUR 19.4 billion for the year ended 31 December 2008 to RUR 36.2 billion for the year ended 31 December 2009. In addition to the increase in the compensation from 60 percent to 100 percent of the difference between applicable tariffs and economically justifiable tariffs between 2008 and 2009, the level of subsidies increased due to a wider gap between applicable tariffs and economically justifiable tariffs in the year ended 31 December 2009 as compared to the year ended 31 December 2008. See "*—Significant Factors Affecting Results of Operations—Tariffs and Subsidies*" and "*Business—Tariff Regulation and Pricing—Passenger Tariffs—Long-Haul Passenger—Regulated Tariffs for Long-Haul Passenger Service*".

The subsidies received from regional and municipal budgets for the losses from insufficient tariffs for suburban passenger transportation and other subsidies increased by RUR 0.5 billion, or 18.5 percent, from RUR 2.7 billion for the year ended 31 December 2008 to RUR 3.2 billion for the year ended 31 December 2009. The increase was primarily due to the Company's effort to reduce the losses incurred from suburban passenger transportation operations, including by entering into agreements with authorities of more Russian regions to receive partial compensation from them for the effects of the regulation of suburban passenger transportation and by negotiating higher amounts of such compensation.

Net Financial Items

The following table sets forth the Group's net financial items (excluding its banking operations) for the years ended 31 December 2009 and 2008:

	Year Ended 31 December	
	2009	2008
	(RUR millions)	
Net Financial Items		
Interest income	4,092	992
Interest expense and similar items	(19,426)	(9,323)
Finance charge and other	(7,666)	(8,561)
Changes in fair value and (loss)/gain on disposals of financial assets	(6,357)	12,869
Total Net Financial Items	**(29,357)**	**(4,023)**

Source: Company information

Net financial items (expense) increased by RUR 25.4 billion, or approximately 7.4 times, from an expense of RUR 4.0 billion for the year ended 31 December 2008 to an expense of RUR 29.4 billion for the year ended 31 December 2009, primarily due to an increase in interest expense, arising from interest payable on bonds issued by the Group in 2009 with an aggregate nominal amount of RUR 144.1 billion, and short-term loans taken out by the Company in 2009 from OJSC Sberbank, OJSC Gazprombank, OJSC Bank of Moscow, VTB and OJSC Alfa-Bank. The interest rates increased in 2009 as compared to 2008, due to the global economic downturn and, as a consequence, reduction in available debt financing in the market.

The overall increase in net financial items (expense) was partially offset by income derived from two loans provided by the Company to KIT Finance Investment bank in 2009 repayable during the period between 2010 and 2014 at a 7.5 percent interest rate, and bank deposits placed in 2009 with KIT Finance Investment bank.

A change in fair value of financial assets resulting in loss for the Group in 2009 was primarily attributable to a change in valuation of derivative financial assets and liabilities mainly represented by swap agreements. This change was mainly caused by a decrease in forward rates for foreign exchange swap and interest for swap deals. The decrease was partially offset by a RUR 4.4 billion gain recognised for the year ended 31 December 2009 on the initial recognition of loan payable provided to the Company by the Deposit Insurance Agency state corporation for the purpose of providing financing to KIT Finance Investment Bank. The gain was recognised because the interest rate payable on the loan was below market rates.

Foreign exchange (loss), net

Foreign exchange loss, net decreased by RUR 17.8 billion, or approximately 4.6 times, from a net loss of RUR 22.8 billion for the year ended 31 December 2008 to a net loss of RUR 5.0 billion in the year ended 31 December 2009. The decrease was primarily due to the losses on borrowings expressed in foreign currencies, which the Company had to recognise in 2008. Most of these loans were repaid in 2009 and new borrowings made by the Company were expressed in Roubles, therefore, resulting in a decrease in the foreign exchange loss for the year ended 31 December 2009.

Other Income, Net

Other income, net decreased by RUR 11.8 billion, or approximately 3.9 times, from RUR 15.9 billion for the year ended 31 December 2008 to RUR 4.1 billion for the year ended 31 December 2009. This decrease was primarily attributable to impairment of investments in associates, in particular, Transmashholding, a rolling stock construction company, and KIT Finance Companies. See ‘‘*—Significant factors affecting results of operations-Key accounting issues—Acquisition of KIT Finance Companies*”.

Income Taxes

Income taxes increased by RUR 3.5 billion, or 7.2 percent, from RUR 48.7 billion for the year ended 31 December 2008 to RUR 52.2 billion for the year ended 31 December 2009. This increase was primarily attributable to an increase in taxable income resulting from the decrease in operating expenses and the increase in the total amount of subsidies, as discussed above. While the statutory income tax rate for business entities in Russia was 24.0 percent in 2008 and 20.0 percent in 2009, the Group’s effective income tax rate, including deferred taxes, was 38.9 percent and 25.5 percent, respectively. The decrease in the effective tax rate is largely due to the recognition by the Group of additional social obligations, such as a long-term (loyalty) bonus starting in 2008, which were not deductible for tax purposes. As a result, the non-deductible employee benefits were higher in 2008, resulting in a higher effective tax rate for the year ended 31 December 2008 as compared to the year ended 31 December 2009.

Net Income for the Year

As a result of the above, the Group’s net income for the year increased by RUR 75.8 billion, or 99.2 percent from RUR 76.4 billion for the year ended 31 December 2008 to RUR 152.2 billion for the year ended 31 December 2009. The significant increase in net income was principally attributable to a range of cost-saving initiatives and an increase in the amount of federal subsidies to compensate the Company for the effects of freight and passenger transportation tariff regulation, as described above.

Liquidity and Capital Resources

The Group’s operations, including maintenance and repair of the Rail System and related infrastructure, as well as maintenance and repair of the locomotives and rolling stock and other types of property, plant and equipment, are capital intensive activities. The Group requires funds primarily for, among other things, working capital purposes, to meet its short-term financial obligations as they fall due, as well as for expanding and upgrading the Rail System, constructing high-speed passenger tracks, purchasing high-speed passenger rolling stock, maintaining and expanding its rolling stock and locomotive fleet.

As at 30 June 2010, the Group’s current liabilities exceeded its current assets by RUR 110.7 billion, representing a 35.0 percent decrease from RUR 170.2 billion as at 31 December 2009. This decrease was primarily attributable to an increase in inventories, accounts receivable and securities at fair value through profit or loss, and the restructuring some of the short-term borrowings to become long-term borrowing obligations of the Group. As at 31 December 2009, the Group’s current liabilities exceeded its current assets by RUR 170.2 billion, representing

a 28.8 percent decrease from RUR 239.0 billion as at 31 December 2008, which was primarily attributable to the restructuring of long-term borrowing obligations of the Group. During the periods discussed in this section, the Group financed investment activities through cash generated from operations, cash received as proceeds from additional share issues and current and non-current borrowings.

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

- continuing to negotiate with the Government regarding increases in transportation tariffs and further, direct subsidies to compensate for the effects of regulated freight and passenger transportation tariffs;
- continuing to seek further borrowings from lending institutions as needed; and
- raising funds by issuing bonds in domestic and foreign markets.

The Group believes that cash generated from its operations, supplemented by additional debt, should be sufficient to fund the Group's liquidity and capital expenditures needs.

Cash Flows

The following table summarises the Group's cash flows for the years ended 31 December 2009 and 2008, and for the six months ended 30 June 2010 and 2009:

	Six months ended 30 June		Year ended 31 December	
	2010	2009	2009	2008
	(unaudited)	(unaudited)		
	(RUR millions)			
Operating income before working capital changes	220,121	130,058	362,269	242,310
Net cash from operating activities	130,373	83,121	302,380	282,761
Net cash (used in) investing activities	(156,275)	(152,689)	(362,480)	(414,051)
Net cash from financing activities	25,050	8,323	13,630	222,579
Net (decrease)/increase in cash and cash equivalents	**(852)**	**(61,245)**	**(46,470)**	**91,289**
Net foreign exchange differences	(327)	4,502	3,745	1,975
Cash and cash equivalents at the beginning of the period	**74,457**	**117,182**	**117,182**	**23,918**
Cash and cash equivalents at the end of the period	**73,278**	**60,439**	**74,457**	**117,182**

Source: Company information

Net Cash from Operating Activities

Net cash from operating activities increased by RUR 47.3 billion, or 56.9 percent, from a cash inflow of RUR 83.1 billion in the six months ended 30 June 2009 to a cash inflow of RUR 130.4 billion in the six months ended 30 June 2010. This increase was primarily due to an increase in freight transportation volumes, the amount of subsidies received from the Russian federal budget, and the Group's profit before income tax, for the reasons discussed above. In addition, the revenues grew faster than the operating expenses, primarily because the fixed costs remained relatively at the same level, and partially due to the Company's on-going effort to reduce operating expenses and cost of service.

Net cash from operating activities increased by RUR 19.6 billion, or 6.9 percent, from a cash inflow of RUR 282.8 billion in the year ended 31 December 2008 to a cash inflow of RUR 302.4 billion in the year ended 31 December 2009. This increase was primarily attributable to an increase in the amount of subsidies and a decrease in operating expenses for the reasons described above.

Net Cash used in Investing Activities

Net cash used in investing activities increased by RUR 3.6 billion, or 2.4 percent, from a cash outflow of RUR 152.7 billion in the six months ended 30 June 2009 to a cash outflow of RUR 156.3 billion in the six months ended 30 June 2010. This was primarily due to an increase in the Group's investment programme following the easing of economic global downturn and respective cash outflows. In the first half of 2010, the Company increased expenditures for renovation of rail infrastructure, which it had substantially reduced in 2009 due to the global economic downturn.

Net cash used in investing activities decreased by RUR 51.6 billion, or 12.5 percent, from a cash outflow of RUR 414.1 billion in the year ended 31 December 2008 to a cash outflow of RUR 362.5 billion in the year ended 31 December 2009. This decrease was primarily due to a decrease in capital expenditures as a result of the curtailment of the Group's investment programme due to the global financial downturn. In 2009, the Company, with the consent of the Government, reduced its investment programme by more than RUR 176 billion or almost by half, primarily by delaying expenditure on certain elements. As a result, the Company has temporarily froze a number of projects (other than certain key strategic projects, some of which have been directly supported by Government funding), reduced purchases of new rolling stock and decreased investment in certain projects relating to renovation of infrastructure. The decrease was partially offset by the interest received on the loan provided to KIT Finance Investment Bank in 2009.

Net Cash from Financing Activities

Net cash from financing activities increased by RUR 16.8 billion, or approximately two times, from a cash inflow of RUR 8.3 billion in the six months ended 30 June 2009 to a cash inflow of RUR 25.1 billion in the six months ended 30 June 2010. This was primarily attributable to the contribution to the charter capital of the Company made by the Company's shareholder in the first half of 2010 in the amount of RUR 60 billion, compared to a contribution of RUR 17 billion made by the Company's shareholder in the first half of 2009. The increase was partially offset by proceeds from new borrowings made by the Company.

Net cash from financing activities decreased by RUR 209.0 billion, or 93.9 percent, from a cash inflow of RUR 222.6 billion in the year ended 31 December 2008 to a cash inflow of RUR 13.6 billion in the year ended 31 December 2009. This was primarily attributable to the fact that the net amount of funds borrowed in 2009 was lower than the net amount of funds borrowed in 2008. In 2009, the Group partially refinanced its borrowings and repaid greater amounts than the amounts it borrowed to refinance its debts.

Capital Expenditures

The vast majority of the Group's capital expenditures are made by the Company, Freight One, Federal Passenger Company and TransContainer. The Company's capital expenditures relate primarily to investments in the Rail System and related infrastructure and purchases of locomotives, rolling stock and operating equipment. Freight One's, Federal Passenger Company's and TransContainer's capital expenditures relate primarily to purchasing freight rolling stock.

The Group's capital expenditures, representing cash paid, decreased by RUR 76.2 billion, or 18.6 percent, from RUR 408.9 billion in the year ended 31 December 2008 to RUR 332.7 billion in the year ended 31 December 2009. This decrease was primarily attributable to the curtailment of the Group's investment programme for the construction and reconstruction of rail infrastructure and a reduction of rolling stock purchases in response to the global economic downturn. Capital expenditures increased by RUR 8.6 billion, or 5.7 percent, from RUR 150.5 billion in the six months ended 30 June 2009 to RUR 159.1 billion in the six months ended 30 June 2010. This increase was primarily attributable to an increase in the investment programme for 2010, compared to the investment programme for 2009 due to economic recovery and an increase in demand for the Group's services.

The following table sets forth estimates of the Company's and its major subsidiaries' capital expenditures for the periods indicated.

	Year ended 31 December			
	2010[1]	2011[2]	2012[2]	2013[2]
	(RUR billions)			
Company and major subsidiaries:	365.9	430.8	439.2	386.5
Company	316.0	349.0	358.1	315.1
Freight One	26.3	23.7[3]	—[4]	—[4]
Freight Two	0.0	19.8	45.3	28.4
TransContainer[5]	7.3	4.3	6.2	7.3
Federal Passenger Company	14.5	31.8	27.9	34.1
TransTelecom	1.8	2.2	1.7	1.6

Source: Company information

Notes:

(1) Based on management accounting information, which may differ from information prepared under IFRS.

(2) Capital expenditures estimates for 2011, 2012 and 2013 are taken from the Group's consolidated investment programme and remain subject to change in the future as the Group revises its investment programme.

(3) Currently, the Company is considering selling a controlling stake in the middle of 2011, and therefore, the number included in the table is half of the Freight One's investment programme for 2010.

(4) No information is provided due to a possible deconsolidation of Freight One as a result of the disposal of a controlling stake in Freight One by the Company.

(5) The Company is considering reducing further its stake in TransContainer in 2011-2012, which would result in deconsolidation of TransContainer in the financial statements of the Group. Therefore, the numbers in columns for 2012-2013 may be reduced.

Borrowings

The Group's main sources of borrowings are bank loans from Russian and foreign banks, a US Dollar denominated Eurobond issue, Rouble-denominated bond issues and other debt securities issues. The following table sets forth the Group's short-term and long-term borrowings as at 30 June 2010:

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-term bank 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+[(1)]	EUR	399	[0.09%-1.8%]	2011-2020	1,056	13,667
LIBOR+						
EBRD[(5)]	USD	426	[3-3.5%]	2019	927	12,113
WEST LB[(2)]						
Tranche A	USD	385	(2)	2011	11,881	—
Tranche B	USD	550	(2)	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[(3)]	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[(6)]	USD	1,850	5.74%-9%	2017	10,385	46,627
Other borrowings[(4)]	Other		3.25-11.5%	2011-2019	1,070	220
Total					**80,903**	**307,714**

Source: Company information

Notes:

(1) Long-term euro denominated loans as at 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 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 percent.

(2) 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 percent for Tranche A and LIBOR plus 0.75 percent for Tranche B.

(3) In February 2010, the Group issued Rouble denominated bonds series 23 in the amount of RUR 15.0 billion maturing in 2025. The bonds grant a put option to the bondholders in February 2015. The coupon rate is 9 percent 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 Group bought back at par RUR 14.9 billion of bonds series 9 and RUR 11.9 billion of bonds series 11. Bonds series 9 and 11 were issued in November 2008 in the nominal amount of RUR 15.0 billion each with original maturities of 4 and 7 years, respectively. The bonds series 9 grant a put option to the bondholders in November 2010 and May 2011. Bonds series 9 in the amount of RUR 0.1 billion and bonds series 11 in the amount of RUR 3.3 billion were classified as short-term borrowing and long-term borrowings as of 30 June 2010, respectively.

(4) Included in the amount of other borrowings as at 30 June 2010 are borrowings in the amount of RUR 1.0 billion secured by shares of OJSC Territorial Generating Company No. 14 comprising 37.12 percent of its share capital.

(5) During six-month 2010, the Group early repaid a part of US$ dollar denominated loan from EBRD in the amount of US$204 million.

(6) In April 2010, the Company placed loan participation notes at Irish Stock Exchange with the nominal value of US$1.5 billion with the maturity of 7 years and initial coupon rate 5.7 percent. 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 percent per annum.

In May 2010, TransCreditBank, the Group's banking subsidiary, fully redeemed loan participation notes in the amount of US$348 million.

For further details of the Group's short- and long-term borrowings as at 30 June 2010 and 31 December 2009, see Note 18 to the 2010 Unaudited Interim Condensed Consolidated Financial Statements.

Discussion and Analysis of Market Risk

In the ordinary course of business the Group is exposed to a variety of market risks that are typical for the industry and business sectors in which the Group operates.

Inflation and Commodities Prices

A significant portion of the Group's operating expenses are affected by the level of consumer price inflation, particularly in wages and salaries, and increases in commodity prices, particularly metals, fuel and electricity prices and other material costs. The Group employs detailed monitoring of outgoings to ensure adherence to budgeted figures and attempts to restrict increases in its costs to levels below the rate of inflation through productivity and efficiency improvements. In addition, the rate of inflation is taken into account in calculating tariff indexation each year. See "*Business—Tariff Regulation and Pricing*". The Group does not currently hedge its exposure to inflation or commodity price increases.

Credit Risks

The term credit risk refers to the risk that the counterparty to the transaction will not be able to perform its obligation to pay for services that are sold. The Group attempts to reduce counterparty risk by requiring compulsory prepayments or bank guarantees from the majority of its freight customers, including all major freight forwarders. In addition, the Group maintains certain risk management procedures in which the Group limits the maximum deposit it may maintain with a single bank.

Interest Rate Risk

Interest rates on the Group's debt financing are either fixed or variable, at a fixed spread over LIBOR, EURIBOR and other variable rates, for the duration of each contract. At the time of raising additional debt financing, the Group uses its judgment to decide whether a fixed or variable rate would be more favourable over the expected term. Additionally, the Group intends to continue to engage in certain transactions to hedge the interest rate risk in relation to a portion of its variable debt financing but historically the Group has only hedged a relatively small portion of its interest rate risk.

Foreign Currency Exchange Rate Exposure

The Group is exposed to currency risk on selected receivables, payables and borrowings that are denominated in currencies other than the Rouble. The currencies in which these transactions are denominated are primarily the US Dollar, the Euro, the Swiss franc and the Libyan dinar.

The Group's principal exchange rate risk involves changes in the value of the US Dollar relative to the Rouble and to a lesser extent relative to other currencies. Increases in the value of the US Dollar relative to the Rouble will increase the value of the Group's US Dollar denominated liabilities when measured in Roubles. To manage its foreign currency exchange risk, the Company is developing a currency risk hedging policy. As at 30 June 2010, the Company entered into several swap agreements to hedge its currency and interest risks with respect to several syndicated loans and loan participation notes. For further details see Note 32 to the 2010 Unaudited Interim Condensed Consolidated Financial Statements. In 2009, the Company began evaluating its foreign currency cash inflows and outflows for risk management purposes.

Liquidity Risk

As at 30 June 2010, the Group's current liabilities exceeded its current assets by RUR 110.7 billion, which leaves uncertainties as to the Group's liquidity. Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to its reputation. The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. For example, in 2010, the Company completed a public tender process to select some Russian banks from which to borrow. From this process, the Company has chosen several banks including OJSC Sberbank, VTB, OJSC Gazprombank, OJSC Alfa-Bank, OJSC Bank of Moscow, CJSC UniCredit and other banks. Subject to the Company entering into definitive documentation, these banks have agreed to provide significant new Rouble-denominated loans if required by the Company during the years of 2010 through 2015. These loans are expected to assist the Company in managing its liquidity position.

Macroeconomic Overview

Russia is the largest country in the world by area and is characterised by significant distances both between population centres and between suppliers of raw materials and their intermediate or end customers. With 17,075,400 square kilometres covering more than an eighth of the Earth's land area, Russia extends across the whole of northern Asia and 40 percent of Europe, spanning 11 time zones.

Prior to the global economic slowdown in 2008, the period between 2000 and 2008 was characterised by economic stability in Russia. Favourable commodity market conditions had facilitated the improvement of Russia's trade balance, allowing the Government to build up budget surpluses and foreign currency reserves, which enabled increased public investment in infrastructure and accumulation of foreign exchange reserves. Growing incomes resulted in strong demand for housing and consumer goods.

Starting from the second half of 2008, the Russian economy was adversely affected by the global economic downturn. However, foreign currency reserves accumulated by the Government during the prior period of growth and significant stimulus packages put in place by the Government lessened the impact of the global economic downturn on the Russian economy, which, according to the Ministry of Economic Development, returned to 0.1 percent growth in June 2009 and continued to grow thereafter. Depreciation of the Rouble also substantially improved the cost competitiveness of Russia's export-focused industries.

Improvements in the Russian macroeconomic environment have also resulted in a significant acceleration in investment growth. This is especially evident in foreign direct investments ("**FDI**"). FDI into Russia increased from US$30 billion in 2006 to US$75 billion in 2008, decreasing to US$37 billion in 2009 as a result of the global economic downturn, and remaining flat at US$37 billion in 2010, according to the Economist Intelligence Unit (the "**EIU**"). In addition, there was significant growth in the total volume of gross investment in fixed assets in Russia as well as the size of the Russian construction industry, both major drivers of demand for rail freight transportation services. According to the EIU, annual gross investment in fixed assets in Russia increased from US$183 billion in 2006 to US$369 billion in 2008, decreased to US$264 billion in 2009 and increased to US$297 billion in 2010.

Russia has historically witnessed high levels of correlation between GDP growth, industrial production growth and the growth in rail freight turnover. According to the EIU, there is likely to be continued strong economic growth in Russia in the medium-term, with GDP forecast to rise from US$1,727 billion in 2011 to US$1,923 billion in 2012.

The following table sets forth actual and forecast (as at 31 December 2010) GDP, gross fixed investment, foreign direct investment, construction expenditure and rail freight turnover in Russia between 2004 and 2012:

	Year ended 31 December								
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011F**	**2012F**
	(US$ billion)								
Russian GDP[1]	592	765	990	1,300	1,667	1,232	1,562	1,727	1,923
Gross fixed investment[1]	109	136	183	273	369	264	279	329	373
Foreign direct investment in Russia[1]	15	13	30	55	73	35	50	52	55
	(tonne-kilometres , billions)								
Rail freight turnover	1,802[1]	1,858[1]	1,951[2]	2,090[2]	2,116[2]	1,865[2]	2,010[2]	N/A	N/A
Rail freight turnover growth rate	N/A	3.1%	5.0%	7.1%	1.2%	−11.9%	7.8%	N/A	N/A
Construction expenditures[2]	N/A	N/A	87	129	182	129	N/A	N/A	N/A

Sources:

(1) EIU

(2) Rosstat

Reform Of The Russian Rail Transportation Market

A significant factor in both the recent growth and the future prospects of the Russian rail industry is the current Reform Programme. The Reform Programme was approved in 2001 with the aim, among others, of satisfying the growing demand of the Russian economy for transportation services by increasing the efficiency of the existing rail infrastructure and attracting additional investment to the sector. See "*Business—History and Corporate Structure of the Group and the Reform Programme*" for further details regarding the Reform Programme.

In 2001, the regulatory and commercial functions of the Russian rail industry were separated, both having previously been under the control of the Ministry of Transport. In 2003, the Company was established as a joint stock company, wholly owned by the Russian Federation, and certain sectors of the Russian rail industry were opened to competition. The Company continued to own and operate the Rail System and related infrastructure and retained a monopoly over locomotive traction, and a dominant position in suburban and long-haul passenger transportation services. The new regulatory framework provided private entities with a legal right to access the Rail System on a non-discriminatory basis alongside the Company and its subsidiaries.

To date, the freight railcar operating sector has attracted significant private entry. Private railcar operators are free to select the type of freight to carry and to set their own prices for freight transportation while paying the Company a tariff-regulated fee, which covers locomotive traction and access to the Rail System and related infrastructure. *See* "*Business—Tariff Regulation and Pricing*".

The Rail System

In 2010, the Rail System was the third longest railway network in the world after the US and Chinese railway networks, the world's third largest railway in terms of the freight turnover (measured in tonne-kilometres) and the world's fourth largest railway in terms of passenger turnover (measured in passenger-kilometres).

As at 31 December 2010, the Rail System had an operational length of over 85,000 kilometres (approximately 184,000 kilometres of total length, including tracks in stations and yards, approach tracks and the parallel tracks of dual or triple lined route sections) of which approximately 43,000 kilometres were electrified. The Rail System covers most of Russia, of which over 84,500 kilometres are within Russia and approximately 680 kilometres cross national borders into Kazakhstan. The network connects the majority of Russia's regions, offers service to most major cities and covers most of the European regions of Russia. In Asian Russia (beyond the Urals), there are two main railway lines, the Trans-Siberian Railway and Baikal-Amur Mainline, which connect the South Siberian and Far Eastern regions with the European part of Russia.

The Rail System is an integrated passenger and freight railway network, meaning that passenger trains and freight trains operate on the same lines. This is relatively unusual internationally, as it requires freight trains to operate at faster speeds than would ordinarily be the case. In 2010, the average speed of a freight train in Russia was 41.2 kilometres per hour with an average freight trainload of 3,867 tonnes.

With 142 million people as at 1 January 2009, Russia is the ninth largest country in the world by population. Despite its large population, Russia's population density is low, given the country's size. Approximately, 78 percent of Russia's population is concentrated in European Russia, which covers approximately 25 percent of Russia's total land mass. For this reason, Rail System's track density is higher in European Russia than in Asian Russia.

Overall, railway density (measured in rail-kilometres per square kilometre of land) in Russia is considerably lower than that found in Western Europe and the United States.

The table below sets forth the network size and railway density as at 31 December 2008:

	Network size (km thousands)	Density (km per 100,000 km)
United States	226[1]	23.6
China	91[2]	8.1
Russia	85[3]	5.0
India	64[2]	19.5
Canada	47	4.7
Germany	42	117.3
Australia	38	4.9
Argentina	31	11.2

Source: CIA World Factbook

Notes:

(1) Figures for the US represent track length for 2007.

(2) Figures for China represent track length for 2010.

(3) Figures for Russia and India represent track length for 2009.

Russian Freight Transportation Market

Overview

Rail transportation is the leading mode of freight transportation in Russia. According to Rosstat, 84.84 percent (measured in tonne-kilometres) of all freight transportation in Russia, excluding pipeline traffic, was carried by rail in 2010. The overall rail freight turnover (exclusive of empty runs relating to railcars owned by private operators, locomotives and cranes) in Russia in 1990, 2000, 2004, 2005, 2006, 2007, 2008, 2009 and 2010 was 2,523 billion tonne-kilometres, 1,373 billion tonne-kilometres, 1,802 billion tonne-kilometres, 1,858 billion tonne-kilometres, 1,951 billion tonne-kilometres, 2,090 billion tonne-kilometres, 2,116 billion tonne-kilometres, 1,865 billion tonne-kilometres and 2,011 billion tonne-kilometres, respectively, according to Rosstat.

The table below sets forth monthly freight transportation volumes in 2008, 2009 and 2010:

	2008 (million tonnes)	2009 (million tonnes)	2010 (million tonnes)
January	3,607	2,412	2,827
February	3,755	2,845	3,156
March	3,842	3,005	3,328
April	3,845	2,973	3,369
May	3,706	2,952	3,327
June	3,584	3,085	3,374
July	3,612	3,136	3,338
August	3,667	3,215	3,385
September	3,720	3,298	3,401
October	3,622	3,230	3,445
November	3,026	3,191	3,457
December	2,771	3,085	3,234

Source: Company information

The Rail System plays a particularly important role in freight transportation in Russia due to the inherent limitations of other forms of freight transportation in the country. Both road and waterways systems provide inadequate coverage in many regions of Russia and are of variable quality (and in the case of waterways, are subject to seasonality). The use of air transportation for freight in Russia is limited and not economically efficient for mass cargos. Pipelines have, however, dominated oil and gas transportation with the exception of refined products and certain export routes (particularly China). Importantly, with the start of "VSTO"(East-Siberian Pacific Ocean) pipeline operations, scheduled for 2015, up to 10 million tons of crude oil currently transported by rail are expected to be switched to transportation by pipeline.

International Comparison

In 2008, the United States had the largest share of global rail freight turnover (exclusive of empty runs relating to railcars owned by private operators, locomotives and cranes), measured in tonne-kilometres, with China and Russia in second and third place, respectively. However, Russia was second only to China in its rail utilisation (measured in

tonne-kilometres per kilometre) and first in average freight transportation distance, as shown by the following table for 2008:

	Freight turnover (billion tonne-kms)	Utilisation (million tonne-kms/km)	Average freight transportation distance (km)
United States	2,860	12.6	1,479
China	2,511	32.2	760
Russia	1,865	21.9	1,682
India	570	9.0	664
Canada	347	7.4	1,087
Ukraine	196	8.9	515
Kazakhstan	195	13.0(1)	788
Germany	96	2.3(1)	308

Sources: CIA World Factbook, Rosstat, National Bureau of Statistics of China, State Statistics Committee of Ukraine, Agency of Statistics of the Republic of Kazakhstan, Eurostat and Statistics Canada.

(1) track length values as of 2008.

According to Rosstat, Russian rail utilisation was considerably higher in the Soviet period. In 1990, the Russian portion of the Soviet network accounted for 2,523 billion tonne-kilometres, representing an utilisation rate of approximately 29 million tonne-kilometres per kilometre. The utilisation rate was 23.0 million tonne-kilometres, 24.8 million tonne-kilometres and 21.79 million tonne-kilometres in 2007, 2008 and 2009, respectively. Hence, utilisation of the Rail System has the capacity to grow, particularly given the strategy to increase network throughput and reduce bottlenecking.

A defining characteristic of the Russian rail freight transportation market is the large share in the total freight turnover (exclusive of empty runs relating to railcars owned by private operators, locomotives and cranes) compared with the rail networks of the European Union, the United States and China, as shown in the following table for 2008:

	Rail	Sea	Inland Waterway	Pipeline	Road
	(billions tonne-kilometres)				
Russia	2,116	84	64	2,464	216
United States	2,860	481	N/A(1)	1,481	2,154
European Union	443	N/A(1)	130	N/A(1)	N/A(1)
China	2,511	8,311	N/A(1)	194	3,287

Source: Eurostat; US Bureau of Transportation Statistics; Goskom STAT (Russia); National Bureau of Statistics of China.
Note:
(1) No data available.

In 2010, approximately 85 percent of all freight transported in Russia (excluding pipelines) was transported by rail, which is a higher percentage of railway freight transportation than in the US, China or the EU.

Freight Railcar Sector

Since the initiation of the Reform Programme, the freight railcar operating sector in Russia has attracted significant private entry. Notwithstanding new entrances, the Group and, in particular, the Company's subsidiaries remain the largest owners of all types of rolling stock (except tank cars used for oil and petroleum products). Private operators typically purchase (or lease) their own rolling stock, but pay a regulated fee to the Group for loaded trips and empty runs, which covers locomotive traction and access to the Rail System and related infrastructure.

As at 31 December 2010, the Group estimated that there were 1,860 private operators and railcar owners collectively owning over 517,000 freight railcars. However, a significant number of operators and railcar owners have a largely regional focus or concentrate on a limited types of freight. Key private market participants include are JSC Globaltrans ("**Globaltrans**"), Transgarant, Eurosib, Novotrans and Transoil as well as a number of "captive" freight railcar operators owned by large Russian industrial groups, such as BaltTransService, EvrazTrans, MMK-Trans, LUKOIL-Trans, Metalloinvesttrans and Mecheltrans. In addition, there is potential for consolidation in the industry, which could allow the creation of additional major competitors.

Market Share of Freight

The Group has the leading position on the market of railway freight transportation with approximately 49 percent market share by freight turnover. The table below sets forth the market share of the private operators (excluding the Company and its subsidiaries), by freight turnover, for main classes of freight representing approximately 51 percent of total freight turnover for the year ended 31 December 2010:

	Year ended 31 December 2010
Oil and petroleum products	72.7%
Coke	36.8%
Coal	39.9%
Ores, other	68.6%
Ores, iron and manganese	61.8%
Ferrous metals	47.6%

Source: Company information.

Rolling Stock Market Share

The Group estimates that privately operated rolling stock constitutes approximately 51 percent of all rolling stock in Russia as at 31 December 2010. The following table sets forth the rolling stock market share of the Company's and other market participants' between 2004 and 2010:

	2004	2005	2006	2007	2008	2009	2010
The Company (without subsidiaries)	63.3%	62.4%	60.7%	56.4%	46.1%	31.1%	22.2%
Railcars rented out by the Company	4.0%	3.0%	1.8%	2.5%	1.0%	3.0%	3.8%
Other owners	27.5%	31.0%	33.2%	36.0%	40.0%	45.9%	50.1%
The Company's subsidiaries	—	—	—	1.2%	9.3%	17.3%	20.6%
Railroad Administrations of CIS and Baltic Countries	5.2%	3.6%	3.3%	3.9%	3.6%	2.7%	3.3%

Source: Company information.

As the numbers of private railcar operators and their market share have grown, these operators have invested in new rolling stock. The majority of new rolling stock purchases in recent years were made by private operators (including the Company's subsidiaries) and this trend is expected to continue in the medium term. The market share of private operators is higher in Class 2 (including cast iron, oil and petroleum products, fertilizers and bricks) and Class 3 categories of freight (including ferrous metals, machinery and timber) than in Class 1 freight.

Russia experienced a drastic reduction in the production of railcars between 1992 and 2002. As a result, railcars in Russia tend to be either more than a significant portion of Russia's railcar fleet is more than 15 years old (and therefore close to their average operational lifespan of 26 years). This means that growth in the net railcar fleet may be difficult as new production will need to be used to replace expected retirements.

Passenger Transportation

Rail transportation is the main domestic passenger transportation mode in Russia. Rail (including railway, tramway and metro) accounted for approximately 47.9 percent and 46.9 percent (measured in billions of passenger-kilometres) of all domestic passenger transportation in 2008 and 2009 respectively, according to Rosstat.

As with the freight market, rail transportation plays an important role in long-haul travel given the inadequacies of the road system and the continued high price of air travel (particularly compared to the tariff-regulated railway fares), although both of these alternative modes of transportation are rapidly developing.

The Company expects rail passenger volumes to increase slightly to 174 billion passenger-kilometres by 2020. This growth (representing a compound annual growth rate of one percent) reflects the increased availability of private cars and air travel to a greater share of the Russian population, with the principal up- and downside risks related to pricing in comparison with the alternatives.

International Comparison

As with freight, the Rail System, compared with other modes of transportation, is responsible for a greater share of passenger transportation than the rail system in the United States, the European Union and China, as shown in the following table as at 31 December 2008 data (measured in billions of passenger-kilometres):

	Rail	%	Car	%	Bus	%	Boat	%	Airlines	%
Russia[1]	227.5	47.9	N/A	N/A	124.4	26.2	0.9	0.2	122.6	25.8
United States[2]	58.2	0.7	7,597.5	85.6	277.1	3.1	3.8	0.0	939.1	10.6
European Union[3]	498.0	7.6	4,880.0	74.8	547.0	8.4	41.0	0.6	561.0	8.6
China[4]	777.9	33.5	1,247.6	53.8	N/A	N/A	5.9	0.3	288.3	12.4

Source: Federal State Statistics Service of the Russian Federation (Rosstat), US Bureau of Transportation Statistics, European Commission (Directorate-General for Energy and Transport) and National Bureau of Statistics of China.

Notes:

(1) Excludes data for taxi. No data available for car. Rail includes railway, tramway and metro.

(2) Rail includes light rail, heavy rail, commuter rail and inter-city/Amtrak.

(3) Rail includes railway, tram and metro.

(4) No data available for bus.

In addition, Russia has one of the highest levels of rail passenger travel in the world on a per capita basis. The following table sets forth data regarding the population, number of passenger kilometres travelled by rail and rail travel per capita in 2008 for the US, EU, China and Russia.

Country	Population[1]	Total rail passenger kilometres	Per capita rail passenger kilometres
	(millions)	(billions)	
Russia	142	227.5	1,602
United States	307	58.2	189
European Union	499	498.0	998
China	1,331	777.9	584

Source: World Bank.

Note:

(1) Population data for 2009.

Internal Competition

The following table shows the Russian domestic passenger traffic turnover by different modes of transportation in 2008 and 2009:

	Passenger kilometres in 2008		Passenger kilometres in 2009	
	(billions)		(billions)	
Rail[1]	227.5	47.9%	201.3	46.9%
Automobile[2]	N/A	N/A	N/A	N/A
Bus	124.4	26.2%	114.8	26.7%
Boat	0.9	0.2%	0.9	0.2%
Airlines	122.6	25.8%	112.5	26.2%
Total	**475.4**	**100%**	**429.5**	**100%**

Source: Rosstat.

Note:

(1) Rail includes railway, tramway and metro.

(2) Excludes data for automobiles and taxis.

While rail travel has remained relatively steady as a share of overall passenger transportation, this has come at the expense of public intercity bus services after the monetisation of social benefits in recent years. Otherwise bus and

automobile transportation in Russia is concentrated primarily in European Russia, where road density is relatively high.

Air travel is primarily utilised by passengers on long-distance domestic routes outside European Russia, and is the most likely means of transportation to challenge rail on longer distances. The key determinant is pricing.

At present, a very small number of private operators provide passenger rail services under similar terms to those passenger services provided by the Group. The Group estimates that in 2010 approximately 517,000 passengers travelled on privately-operated passenger trains, which represents approximately 0.4 percent of the total long-haul passenger transportation service.

BUSINESS

Overview

The Group is one of the largest transportation companies in the world. It is the owner and operator of Russia's approximately 85,000 kilometre-long Rail System and related infrastructure. See "*—The Rail System*". The Rail System is the world's third longest railway network, the world's third largest railway in terms of freight turnover (measured in tonne-kilometres) and the world's fourth largest railway in terms of passenger turnover (measured in passenger-kilometres). The Company has been state-owned since its creation in 2003. The Group is the second largest property owner in Russia behind the Russian Federation itself. In addition to the Rail System, the Group owns and operates nearly all of the locomotives in Russia; is the largest Russian owner, operator and lessor of freight rolling stock; is the largest Russian freight rail operator; and carries virtually all suburban (under 200 kilometres) and long-haul (over 200 kilometres) rail passengers.

The Group engages in full-service freight transportation, locomotive traction, infrastructure operations, rolling stock repair and maintenance, long-haul and suburban passenger transportation, container transportation and logistics and engineering, research and construction. The Group is also engaged in a number of other activities primarily relating to telecommunications, banking services, real estate development, housing and commercial construction, engineering and research and development. The Group also participates in cross-border railway joint ventures and railway construction and management projects in Armenia, China, Finland, Germany, Iran, Libya, Mongolia and North Korea. See "*—International Joint Ventures and Cooperation*".

The Group is one of the largest single contributors to Russian GDP, representing approximately 2.4 percent of the GDP in each of 2009 and 2010. As at 31 December 2010, the Company was the largest commercial employer in Russia, with approximately 976 thousand employees (with approximately 1.2 million employees in the Group). In 2009, the Group generated total revenues of RUR 1,154 billion and EBITDA of RUR 330.2 billion, with an EBITDA margin of 28.6 percent. See "*Presentation of Financial and Other Information—Non-IFRS Measures*".

In 2010, the Group began to recover from the adverse effects of the recent global economic downturn, such as decreased revenues. The Group's total revenues for the six months ended 30 June 2010 increased by approximately 22 percent to RUR 651 billion from RUR 532 billion for the six months ended 30 June 2009. For the six months ended 30 June 2010, 76.2 percent of the Group's total revenues derived from freight transportation services, 11.3 percent from passenger transportation services, 2.2 percent from banking operations and 10.3 percent from its other business activities, which includes the Group's rail-related operations and revenues generated by the Group's non-core subsidiaries.

Relationship with the Government

The Government exercises substantial influence over the Group through its share ownership, tariff and subsidy policies as well as regulatory and legislative powers. The Russian Federation owns 100 percent of the Company's shares and, as the sole shareholder, appoints the chairman and all ten members of the Board of Directors as well as the president. See "*Description of the Company Management*". The Government also approves the Company's budget and capital expenditures programme and otherwise participates in the operations of the Company.

The Government regulates tariffs that the Company charges for freight transportation and, specifically, for access to the railway infrastructure, locomotive traction and the use of Company-owned railcars. For passenger services, the Government regulates tariffs for third- and fourth-class long-haul and suburban passenger transportation. See "*—Tariff Regulation and Pricing*". The Company also receives subsidies from the Government's budget. The Government's tariff and subsidy policies are influenced by social and political considerations. Also see "*Risk Factors—The Company is heavily dependent on the continued support of the Government, which controls the Company and may cause it to engage in business practices that may be in conflict with its commercial interests and the interests of Noteholders*".

Under Russian law, the Company is a natural monopoly in respect to railway transportation in Russia. As a natural monopoly, the Company is required to provide access to the railway infrastructure, locomotive services and Company-owned railcars on a non-discriminatory basis to all market participants. The Company is also a "strategic" entity, and as such is subject to a special insolvency and bankruptcy regime and a sale or dilution of the Russian Federation's interest in the voting share capital of the Company (or its subsidiaries) is restricted. See "*Regulation of Railway Transportation in Russia*".

The Government's initiatives relating to the reform of Russian railway industry also significantly affect the Company and its operations. Since 2001, the reform has been implemented through a series of initiatives set out in

certain reform-related documents. See "*—History and Corporate Structure of the Group and the Reform Programme*".

Competitive Strengths

The Group believes that, as a key strategic component of the Russian economic infrastructure, it is well placed to benefit from, and contribute to, the continued growth and development of the Russian economy.

Vital Importance for the Russian Federation and the Russian Economy. The Group plays a strategic role in freight and passenger transportation and in the overall Russian economy. The Group owns and operates the Rail System which is the primary mode of freight transportation in Russia for all major types of freight (excluding oil and gas) by freight turnover. The overall freight turnover on the Rail System was 2,502 billion tonnes-kilometres in 2010, which represented approximately 85 percent of total freight shipments in Russia (excluding oil and gas carried through pipelines). The Group is also the primary mode of domestic passenger travel in Russia, with an overall passenger turnover of approximately 139 billion passenger-kilometres in 2010. Given the size and reach of the Rail System across Russia's territory and the significant distances between suppliers of raw materials and their intermediate or end customers, the Group believes that railway transportation will continue to be the primary mode of freight (excluding oil and gas) and long-haul passenger transportation.

This leading position in the Russian transportation sector positions the Group to benefit from the expected growth of the Russian economy in the medium term. The Company believes that growth in freight turnover historically has been strongly correlated with growth in GDP and industrial production in Russia. As Russia's economy continues to recover from the effects of the recent global economic downturn, the Group expects to benefit from the anticipated growth in the industrial production, foreign trade expansion and the population's increasing mobility, which together are expected to translate into increases in freight and passenger traffic.

Wide Geographic Reach. The geographic reach of the Rail System also allows the Group to take advantage of evolving regional economic centres, as the Group can divert resources (including rolling stock, locomotives and timetabled passenger services) and traffic routing to areas with increasing transportation demand. The Group believes that this geographic reach also allows it to grow and evolve simultaneously with the development of the Russian economy and develop and exploit new trade routes, which increase the Rail System's throughput capacity and efficiency by reducing the frequency of empty runs.

Strong Relationship with the Government. The Government, on behalf of the Russian Federation as the sole shareholder of the Company, appoints all members of its Board of Directors. The Group is integral to the Government's reform of the railway transportation industry. The Government has continued to support the Group by providing subsidies and capital injections for railway infrastructure development and operations.

Leading Market Position in Freight Transportation. The Group has the leading position in the Russian railway freight transportation market. The Company owns and operates the Rail System and related infrastructure as well as virtually all of the locomotives in Russia. All private freight railcar operators, including the Company's subsidiaries, pay the Company for access to the Rail System and locomotive traction, which together represent approximately 85 percent of the total cost of freight transportation for freight carried in the Company's rolling stock. In addition, the Group is the largest railcar operator in Russia, with about 519,000 units of freight rolling stock (including subsidiaries) as of 31 December 2010. The Company's subsidiary, Freight One, is Russia's largest private rail transport operator. As at 31 December 2010, Freight One owned and operated more than 196,000 railcars, which represented approximately 24 percent of all freight rolling stock in Russia. In 2010, the Company also established Freight Two to operate the remainder of its freight rolling stock. After the Company completes the contribution of its freight rolling stock to Freight Two, the subsidiary is expected to become the second largest rail-based freight transportation company in Russia, with a fleet of over 180,000 railcars, although the completion of this process may be subject to the disposal of the Company's controlling stake in Freight One. See "*—Business Operations—Freight—Freight Two*".

Tariff and Subsidy Regulation Providing Financial Stability and Predictable Cash Flows. The Government, through its tariff regulation and subsidy policy, has enabled the Company to generate sufficient cash flows to support the Company's operations, capital expenditures (primarily relating to the modernisation of the Company's rolling stock and railway infrastructure maintenance), and repayment of borrowings. The rail infrastructure and locomotive services provided by the Company, as well as certain services provided by its subsidiaries (such as the third- and fourth-class long-haul passenger transportation services provided by Federal Passenger Company) are tariff regulated. Generally, the Government sets tariffs on the annual basis. If tariffs initially set during an annual

indexation process are insufficient, the Company may seek supplemental tariff adjustments to cover increases in projected operating costs or to undertake additional capital expenditures that were not projected during annual tariff indexation process. In addition, the Government may also provide subsidies to supplement insufficient tariff indexation. A recent Government initiative proposed to limit indexation of tariffs to the level of inflation. The final decision has not been made yet but, if the restrictions on the level of indexation are adopted, the Company expects that the Government will increase subsidies or otherwise provide additional funds to the Company to ensure that the Company has sufficient investment budget to renovate and develop railway infrastructure. See "*—Tariff Regulations and Pricing*" and "*—Tariff Regulation and Pricing—Government Subsidies and Contributions to the Company's Share Capital*". Beginning in 2009, if annual and supplemental tariff indexation was insufficient to cover the relevant operating expenses, the Government provided subsidies. In 2009, the Government's freight tariffs indexation was below the level required by the Company, primarily in order to increase freight transportation and thereby to stimulate recovery of the Russian economy during the financial turmoil, but the Government provided subsidies to compensate the Company for the effects of tariff regulation. In 2010, the Government revised its tariff-setting methodology for freight and suburban passenger transportation, which it intends to implement in 2012. In setting tariffs, the Government's primary objective is on the one hand to set tariffs that ensure the Company's obtaining sufficient financial resources required for stable and effective operation of the Rail System, but on the other hand to minimise the adverse effect of tariff growth on users of the Rail System. However, if tariffs are set below the economically justifiable tariffs (which are intended to cover costs of providing transportation services and a predetermined profit margin) determined by the FTS, the Government typically provides the Company with subsidies to offset the adverse effect of tariff regulation.

The Government also lends financial support to the Group's passenger transportation business. For social and political reasons, tariffs for suburban passenger transportation as well as for third- and fourth-class long-haul passenger service are set at levels insufficient to cover the costs of providing these services. See "*—Tariff Regulation and Pricing—Regulated Tariffs for Long-Haul Passenger Service*". However, the Government provides subsidies for a significant portion of the difference between applicable tariffs and economically justifiable tariffs as determined by the FTS (for long-haul passenger transportation), and between applicable tariffs and the costs of providing the transportation services (for suburban passenger transportation). In 2009 and 2010, subsidies for long-haul passenger transportation were 100 percent of the difference, and a certain portion of the difference between the applicable tariffs and the costs of providing the services for suburban passenger transportation. The recent amendments to the budget law approved the subsidy to the Group in the amount of RUR 25 billion to partially cover the Group's costs of providing the services for suburban passenger transportation. The Company expects that a subsidy of a similar amount will be approved for 2012. In accordance with the Government's Directive, the Ministry of Economy shall develop a mechanism to provide sufficient funding for suburban rail transportation going forward. The Company believes that the Government will continue to provide similar support in the future.

Key Role in Facilitating Eurasian Transportation and Trade. The Group plays an integral role in Eurasian trade by facilitating freight transportation not only within Russia, but also with and among other European countries, Central Asian countries and countries on the Caspian Sea, Persian Gulf and Indian Ocean. Three of the ten pan-European international transport corridors pass through the Russian Federation using the Rail System. Similarly, the railway track network forms a component of several of the North-South transport corridors that link Russia and Europe with countries of the Caucasus, the Caspian Sea, the Persian Gulf and the Indian Ocean. The Group's East-West corridor provides an overland rail route between Europe and East Asia that reduces by 20 days or more the average journey compared with sea routes through the Suez Canal.

The Group has made significant investments in recent years to increase the efficiency and competitiveness of its network for Eurasian freight customers, including improving the organisation of container shipments and container routes through technology that meets the demands of the international transport market, and participating in the international coordination of transport procedures within the Eurasian transport system to simplify and speed up customs procedures. In particular, the Group has been active in demonstration projects, including an on-going pilot programme for a cross-border (Beijing to Hamburg) container train service.

Strategy

Following the collapse of the Soviet Union in 1991, the Russian railway system experienced a significant underinvestment in respect of the maintenance and repair of rolling stock, track and stations, as well as railway infrastructure. The Government subsequently recognised the need for massive reconstruction of the railway sector through investment and modernisation efforts aimed at meeting the demands of Russia's growing economy.

Representatives of the railway sector, other ministries and agencies together with the assistance of international advisers developed the Reform Programme, which was approved in May 2001. See "*—History and the Corporate Structure of the Group and the Reform Programme*". The Reform Programme aims to improve the efficiency and stability of the transportation sector as well as to balance the interests of the end users of railway transportation, the Russian railway transportation sector and the Government. The Group has also actively participated in the development of the Government Railway Development Strategy 2030, which outlines the main guidelines for modernisation and expansion of the Rail System, modernisation of rolling stock, improvement of railway transportation safety and scientific and technical development of the Russian railway sector.

Certain key elements of the Group's strategy are as follows:

Infrastructure Investments in the Rail System and Rolling Stock. To increase the efficiency of railway transportation, the Company plans to continue investing in railway infrastructure development projects aimed at increasing the Rail System's throughput capacity, reducing bottlenecks to increase freight turnover and increasing railway transportation safety. In many cases, these investments are expected to be supplemented by direct investment by the Government, including through the arrangement referred to as the Network Contract. See "*—History and Corporate Structure of the Group and the Reform Programme*". The Company's investment budget was approximately RUR 317.4 billion in 2010, with a projected budget of approximately RUR 349 billion for 2011, RUR 358 billion for 2012 and RUR 315 billion for 2013. A substantial portion of the Company's investment budget is expected to be devoted to projects relating to the Winter Olympics, modernisation of the Company's infrastructure and renovation (acquisition and modernisation) of rolling stock of the Company's subsidiaries. In 2010, Russia was selected as the host of the World Cup. The Group expects to participate in the development of rail infrastructure for the World Cup, in particular by developing a high-speed transportation network between the cities where the World Cup games will take place. The Company is currently working on a plan to develop the rail network for the World Cup, which will be subject to Government approval. In 2008, the Company issued additional shares in the amount of approximately RUR 41.5 billion, with these funds received from the Government in 2008 and 2009. In 2009, the Government has contributed further RUR 11.3 billion to the share capital of the Company. In 2010, the Government contributed an additional RUR 103.6 billion to the share capital of the Company. In 2011, the Government has contributed to the share capital of the Company RUR 40 billion for the purpose of financing the Winter Olympics related projects. Also see "*—Investment Projects and Expansion*" and "*Risk Factors—The Company is heavily dependent on the continued support of the Government which controls the Company and may cause it to engage in business practices that may be in conflict with its commercial interests and the interests of the Noteholders*".

Promoting the Creation of a Fully Integrated Eurasian Network and Increasing the Volume of Eurasian Transportation. In order to take advantage of Russia's geographic position as a bridge between Asia and Europe, the Group intends to continue modernising and expanding its railway and related infrastructure, establishing new routes and addressing regulatory aspects relating to freight transportation with the aim of increasing trans-Eurasian freight transportation volumes.

One of the Group's key initiatives for improving railway infrastructure is the reconstruction and extension of the North-South international transport corridor. This route provides rail transportation between countries on the Persian Gulf and the Indian Ocean and Russia. The Group intends to integrate these transport corridors with the Group's three pan-European international transport corridors to improve railway freight transportation to Northern European countries.

Other significant domestic projects relate to the improvement of infrastructure on the Baikal-Amur Mainline, at the port of St. Petersburg, at the port of Vladivostok, in Krasnodar Krai and on Zabaikalskaya Railroad in the vicinity of the Russian-Chinese border.

The Group's efforts with respect to regulatory matters include coordinating, in conjunction with Russian and foreign transport regulators, transport legislation within the Eurasian transport system, implementing simplified border and customs procedures, organising the creation of unified information and logistics centres and developing improved technology for rolling stock operation.

Reducing Losses in Regulated Fare Passenger Transportation and Increasing the Attractiveness of Unregulated Fare Passenger Transportation. The provision of third- and fourth-class long-haul transportation and the operation of most suburban railway networks are unlikely to become profitable in the near term due to the Government's commitment to provide ready access to passenger transportation. However, the Government has continuously provided the Company with the subsidies to reduce the Company's losses from long-haul and

suburban rail transportation. The Company has already separated its long-haul and suburban passenger transportation activities into subsidiaries and associates in order to continue to minimise its losses by ensuring that the federal, regional and municipal government budgets provide for sufficient reimbursement for loss-making regulated fare traffic and partnering with regional authorities to share responsibility for suburban passenger services and otherwise to provide for a more economically sound pricing structure for these services. However, in practice regional authorities do not always have necessary funds to reimburse the Group for the losses from suburban rail transportation services, and additional funding may be required. For example, recent amendments to the budget law approved the subsidy in the amount of RUR 25 billion to partially cover the Group's costs of providing the services for suburban passenger transportation. The Company expects that a subsidy of a similar amount will be approved for 2012. In accordance with the Government's Directive, the Ministry of Economy shall develop a mechanism to provide sufficient funding for suburban rail transportation going forward. Also see "*—History and Corporate Structure of the Group and the Reform Programme—Reform Programme—Fourth Stage: the Final Stage—The Group's Key Initiatives in Passenger Transportation*".

The Group is also committed to increasing the attractiveness of unregulated fare passenger transportation by improving passenger rolling stock, introducing luxury class services and developing new high-speed routes in the short- to medium-term. The Group has implemented various measures to improve its existing railway line between Moscow and St. Petersburg. In December 2009, the first high-speed train, "Sapsan", completed a journey between Moscow and St. Petersburg in 3 hours and 45 minutes. Currently, the Group is developing other high-speed routes, including lines between Moscow and Sochi, Nizhny Novgorod, Samara, Kursk, Smolensk and Krasnoe. In the medium- to long-term, the Group intends to construct high-speed railway lines with speeds up to 400 kilometres per hour between key Russian cities with possible future extension to reach international destinations.

Continued Reorganisation of the Group. The Group continues to reorganise by divesting non-core businesses and establishing separate operating subsidiaries that are able to maintain and increase the Group's market share and revenues in competitive markets. In 2007, the Group established Freight One as a wholly-owned subsidiary and contributed a significant amount of rolling stock to compete in the private railcar operators' market. In 2006, the Group established TransContainer to better serve the growing container traffic and related infrastructure needs. In 2006, the Group established Refservice to compete in the refrigerated service railcar market. The controlling stakes in each of Freight One, TransContainer and Refservice are expected to be sold to private investors in 2011. During the reform of the railway transportation sector, the Group has established 84 branches and subsidiaries to operate in suburban and long-haul passenger transportation, railcar repair and maintenance and logistics. Because subsidiaries are not (or will not be) subject to tariff regulation (see "*—Tariff Regulation and Pricing*") or have a commitment to provide services to all customers, these subsidiaries have potential to generate additional revenue streams for the Group for so long as they remain part of the Group, although the Company plans to divest the controlling equity stake in most of such companies in the short- to medium term.

To continue developing free market competition and reforming the freight railcar operators' segment, in 2010, the Company established a new subsidiary, Freight Two, to operate the remainder of its freight railcars of approximately 180,000 units intended to be contributed to the share capital of Freight Two and subleased to Freight Two by the Company, although the completion of this process may be subject to the disposal of the Company's controlling stake in Freight One. See "*—Business Operations—Freight—Freight Two*". In the passenger transportation segment, in 2009, the Company formed Federal Passenger Company to operate in its long-haul passenger transportation business and completed the separation of its suburban transportation business into subsidiaries. Also, the Company sold a total of 50 percent (less two shares) interest in TransContainer in a private placement to institutional investors, in 2008, and in an IPO (in 2010). See "*—History and Corporate Structure of the Group and the Reform Programme—Reform Programme—Third Stage: Formation and Development of a Competitive Marke*t".

Continuing to Improve Operating Efficiency. The Group intends to continue to implement measures aimed at improving its operating efficiency and productivity, and reducing costs. The Group plans to improve and modernise the asset production processes, increase the productivity and efficiency of its workforce. Additionally, the Group plans to improve management of its fuel and electricity costs. RZDsnab, the Group's procurement division, intends to continue delivering cost savings to the Group through its public tender process and its ability to purchase supplies in bulk volumes from suppliers since it is one of the largest purchasers of various commodities and other consumables in Russia. In 2009 and 2010, the Group continued to realise its cost reduction programme, which significantly reduced growth in its operating costs, and the Group intends to continue implementing cost-reduction

measures in the future. See "*—Recent Developments—Global economic downturn and the Company's measures to mitigate its effects*".

History and Corporate Structure of the Group and the Reform Programme

History

The Group's history dates to the construction of the original railway network in Russia. The Imperial Department of Railways was created in 1842 to supervise the construction of Russia's first railway line connecting St. Petersburg with Moscow, which was completed in 1851. By 1913, the Imperial Russian railway network comprised 58,500 kilometres of track and was transporting 132,000 tonnes of freight and 185,000 passengers every year.

After World War II, the Soviet railway network was re-built and further expanded to more than 145,000 kilometres, primarily by major additions in Russia, such as the 3,200 kilometre-long Baikal-Amur Main Line. At its height, the Soviet Union's railway network was the world's largest unitary rail system.

In 1991, the Soviet Ministry of Rail Transportation developed a programme for the reconstruction and development of the railway industry up to 2000, which set out principles of future development of Russia's railway sector. By the mid-1990s, it had become clear that in order to meet growing demands of Russia's economy, the railway sector needed to be substantially reshaped. In 1996, the All-Russia Congress of Railway Workers developed and approved "Major Guidelines for Railway Transport Development", which were guidelines for the reorganisation of the railway sector based on the experience of other countries and suggested a step-by-step approach to reform. At that time, the Ministry of Railway Transportation oversaw state regulation and economic activities of the railway sector. It was concluded that a successful reform would require the separation of regulatory and operational functions, which remains one of the main principles of the current Reform Programme.

The economic dislocations caused by the collapse of the Soviet Union resulted in a decade of underinvestment in the Russian railway industry, during which time the industry was operated by the Ministry of Rail Transportation. In 2001, the Government initiated the Reform Programme which has driven the development of the Group to date.

Corporate Structure

The Group consists of the Company and the Company's subsidiaries. The Company operates through a number of branches and subsidiaries, including entities providing freight and passenger transportation, design and construction of railway infrastructure, rolling stock repair and maintenance, research and development and entities serving various social purposes.

Reform Programme

The reform of the railway transportation in Russia is conducted pursuant to the reform programme adopted by the Government in 2001 (the "**Reform Programme**"). The Reform Programme is generally aimed at increasing the efficiency and stability of Russian railway transportation sector. The principal goals of the Reform Programme are improving the stability, safety and quality of railway transportation services, creating an effective integrated railway transportation system in Russia, reducing average railway freight transportation costs and meeting growing demand for railway transportation services.

The Reform Programme has four stages of implementation as summarised below. Currently, the first, three stages have been completed, while the fourth stage is expected to be completed by the end of 2015.

First Stage: Preparatory

During the first stage, a legal and regulatory framework was developed and adopted, external control mechanisms were created, and non-core facilities, including housing, social and public utility enterprises and regulatory and administrative functions for railway transportation were separated and spun off. In October 2003, the Company was formed.

Second Stage: Corporate Build-up and Encouragement of Competition

Between 2003 and 2005, the Russian railway industry continued to undergo liberalisation of various railway transportation market segments and related sectors. In the freight transportation market segment, the Government's adoption of a new tariff pursuant to price list 10-01 ("**Tariff 10-01**") resulted in a significant increase in the number

of railcars owned by private operators. Between 2003 and 2005, private railcar operators' fleet increased by approximately 84,000 railcars.

The Group has also focused its efforts on improving efficiency and financial transparency. To this end, the Group began to separate some of its business activities into branches in preparation for further separation of certain branches into subsidiaries. As a result of these initiatives, 27 branches and subsidiaries were established to operate various businesses of the Group, including railway repair and maintenance, private railcar operations, industrial production, research and development, construction and other non-core activities. This process continued into the third stage of the Reform Programme. To improve its financial transparency, the Group began to establish procedures for accounting revenues and expenses by business sectors.

The Group's efforts during the first two stages of the Reform Programme resulted in an increase in volumes of freight transported by the Group and an improvement in the quality of transportation services provided in both passenger and freight transportation. In addition, private investment into the railway industry began to increase and railway safety began to improve.

Third Stage: Formation and Development of a Competitive Market

Between 2006 and 2010, the Group continued the process of creating a competitive environment in passenger and freight railway transportation and encouraging private investment into modernisation of railway-related assets (including rolling stock, locomotives and infrastructure).

The Company continued to separate its business activities into subsidiaries. While implementing the Reform Programme, the Company established 84 subsidiaries, 58 of which were established during the third stage. In 2006, TransContainer was formed to operate the Group's container transportation and handling business. In 2007, the Company established Freight One as its wholly-owned subsidiary to operate a part of its freight railcar fleet. As at 31 December 2010, Freight One owned and operated over 196,000 freight railcars. In 2010, the Company established Freight Two to operate the remainder of its freight railcar fleet. The Company intends to contribute to the share capital of Freight Two a fleet of approximately 157,000 freight railcars, with approximately 85,000 railcars having already been contributed as at the date of this Prospectus and another approximately 35,000 railcars are expected to be contributed by the end of June 2011, although the contribution of the remaining railcars may depend upon the Company's divestment of Freight One. In addition, the Company intends to sublease approximately 24,000 railcars to Freight Two, with approximately 17,000 having been subleased as at the date of this Prospectus. See "*—Business Operations—Freight—Freight Two*". The Company has also separated other non-core business activities such as industrial production, research and development and construction into subsidiaries.

During the third stage of the Reform Programme, private investment into the railway sector continued to grow. As at 31 December 2010, private operators' fleet of freight railcars has increased to approximately 517,000 units (with the overall freight railcar fleet in Russia being approximately 1,017,000 units). The Company continued to divest equity stakes in its subsidiaries. In 2008, the Company divested approximately a 15 percent equity interest in TransContainer to strategic and private equity investors. Subsequently, TransCreditBank purchased from private investors approximately 0.75 percent of equity interest in TransContainer. In 2009, the Company sold a 50 percent less two shares interest in Roszheldorproject to a private investor. In November of 2010, the Company (together with a minority shareholder) sold a 35 percent (less two shares) equity stake in TransContainer through an IPO, which was the first IPO of the shares in a subsidiary of the Company. In December of 2010, BT Signaling B.V., a subsidiary of the Canadian company Bombardier, has signed an agreement to purchase a 50 percent (less two shares) equity stake in the Company's subsidiary Elteza, a signalling equipment manufacturer. In March 2011, the sale of 25 percent plus one share in Elteza was completed, with the sale of the remaining 25 percent less three shares to be completed shortly, as the Government approval to sell the second tranche was granted on 14 June 2011. Furthermore, the Company expects to sell a controlling stake in Freight One in 2011.

Fourth Stage: the Final Stage

The fourth and final stage of the Reform Programme began in 2011 and is intended to be completed by the end of 2015. During the fourth stage, the Group's key strategic objectives include completing the formation of a competitive market for the operation of freight rolling stock, instituting a pilot programme for the development of a private locomotive operators' market and further enhancing the system of state regulation of the Russian railway transportation sector. On 13 April 2011, the Government approved a step plan to achieve the target structure of the freight rail transportation market by 2015.

The Group intends to finalise the formation of the freight railcar operators' market during the fourth stage. To achieve this, in 2011, the Company plans to divest a controlling equity stake in Freight One and 25 percent plus one share in TransContainer, to private investors by way of auction sales. The Company also intends to continue contributing its remaining fleet of freight railcars to the share capital of Freight Two or subleasing them to Freight Two, however, the completion of the contribution may be subject to the divestment of a controlling equity stake in Freight One. See "*—History and Corporate Structure of the Group and the Reform Programme—Fourth Stage: the Final Stage—The Group's Key Initiatives in Freight Transportation*". The Company plans to retain the controlling equity stake in Freight Two until the completion of the fourth stage of the Reform Programme. Upon divesting the controlling stake in Freight One and completing the formation of Freight Two, these two large private freight railcar operators are expected to compete with each other and other market participants. The Company believes that private operators not affiliated with the Group (such as Globaltrans and JSC Independent Transportation Company) may also seek to increase their fleets of freight rolling stock in order to compete with Freight One and Freight Two more effectively. Hence, Freight One, Freight Two and other large rolling stock operators are expected to form the core of a competitive market for the operation of freight rolling stock.

In addition, during the fourth stage of the Reform Programme the Company plans to continue divesting the controlling equity stakes in the predominant majority of its subsidiaries in various operating segments (such as banking, telecommunication, construction, railcar repair and other operations), including TransCreditBank, Freight One, Refservice, OJSC TransTelecom ("**TransTelecom**"), OJSC RZDstroy ("**RZDstroy**") and the companies of the Remputmash group. See "*Operating and Financial Review-Recent Developments*". The Company does not plan to divest subsidiaries or associates that provide services or supply goods necessary for the operations of the Company, which no other domestic enterprise produces or supplies. Funds from the sales of these subsidiaries are expected to fund the Group's investment programme. See "*Risk Factors—the Group is undergoing restructuring pursuant to the Reform Programme developed in cooperation with the Government, which may have unintended consequences that could materially affect the Group's business*".

In the locomotive operators' segment, the Group intends to institute a pilot programme for the development of a private operators' market. Initially, private operators are expected to provide locomotive traction services on certain limited number of routes. The Group envisions two types of private locomotive service: a single operator providing service on its designated section of a route, or a number of operators providing service on a designated section of a route. By 2015, the Group expects the private operators' fleet to constitute up to 5 to 10 percent of the Russian locomotive fleet. Based on the results of the pilot programme, the Group may consider broadening the offering of locomotive traction services by private operators on all of the Rail System.

During the fourth stage, the Company is also expecting a further development of the state regulation of the Russian railway transportation sector, in particular with respect to tariff setting methodology. The Company's objectives in that respect include balancing the needs of freight owners and freight carriers on the one hand and its needs as the owner and operator of the railway infrastructure on the other hand. To achieve these objectives, the adverse effect of tariff growth must be minimised in order to increase freight turnover, while keeping tariffs at a level sufficient to provide financial resources for the Company's operations as well as maintenance and development of the railway infrastructure. Unification of tariffs is another important measure to be implemented during the fourth stage of the Reform Programme. In addition, the Company, in cooperation with the Government, has begun to develop a legal framework for tariff regulation that changes the structure of funding railway infrastructure development. This framework, referred to as the Network Contract, is expected to enable the Company to undertake infrastructure development projects with the funds generated from tariff regulation (or from subsidies), pursuant to which tariffs are set at levels sufficient for the Company to generate revenues necessary for the implementation of these infrastructure projects. See "*—Network Contract*".

Upon completion of the fourth stage of the Reform Programme, the Company is expected to remain the sole owner and operator of its railway infrastructure network. The Company believes that the Russian Federation intends to continue to hold 100 percent of the Company's shares and provide support in the form of tariff and subsidy regulation favourable to the Company and the Russian railway transportation sector in the short- to medium-term.

The Group's other key initiatives relating to passenger transportation, freight transportation and other operations are outlined below:

The Group's Key Initiatives in Passenger Transportation

In the Group's passenger transportation operations, one of the primary goals during the third and fourth stages of the Reform Programme was and is to minimise, and ultimately eliminate, the cross-subsidising of passenger transportation with revenues from freight transportation. Historically, the Company's long-haul and suburban passenger transportation business operated at a loss primarily due to the Government's regulation of tariffs for third- and fourth-class long-haul passenger transportation and regional authorities' regulation of tariffs for suburban passenger transportation. The Government provided subsidies to offset the effects of tariff regulation on the Company's long-haul and suburban passenger transportation operations, however, these subsidies have been insufficient to fully compensate the Company. Hence, the Group has been required to cross-subsidise passenger transportation with revenues from freight transportation.

To minimise the cross-subsidising of long-haul passenger transportation operations, in December 2009, the Company established Federal Passenger Company to operate the Group's long-haul passenger transportation business. Federal Passenger Company began operations in April of 2010. As at 31 December 2010, the Company has contributed to the share capital of Federal Passenger Company assets with an estimated fair market value of approximately RUR 137 billion, including a fleet of approximately 24,700 railcars. In 2010 the Company transferred over 76,000 of its employees to Federal Passenger Company. Federal Passenger Company is a wholly-owned subsidiary of the Company, and as a result, its accounting and financial reporting functions were separated from that of the Company's. This enabled Federal Passenger Company to demonstrate the full effect of tariff regulation on its revenues and seek from the Government subsidies sufficient to fully compensate it for the effect of tariff regulation and thereby eliminate the need for cross-subsidising of the long-haul passenger transportation operations from other revenues of the Group. In addition, the establishment of Federal Passenger Company as a subsidiary is intended to improve the operating efficiency, corporate governance and financial transparency of the long-haul passenger operations, which the Company expects to raise the investment appeal of this business.

To minimise the cross-subsidising of suburban passenger transportation operations, the Group's main focus has been on the separation of the suburban passenger transportation business into subsidiaries (or associates), regional suburban transportation companies, which operate with contributions from regional budgets. The ultimate goal of establishing the suburban passenger transportation companies is to have regional authorities directly subsidise from the regional and municipal budgets the difference between the cost of transportation services provided and the tariff-regulated fares, where the federal Government does not provide sufficient subsidies to cover the Group's losses. As of the date of this Prospectus, the Group had established 24 such subsidiaries and associates, with two additional companies currently being incorporated. The establishment of these two companies in 2011 is expected to complete the transfer of all of its suburban passenger transportation business into regional suburban transportation companies. Beginning from 2011, in order to have suburban transportation services provided, the intention is that the respective regional authority will have to enter into an agreement with the suburban transportation company operating in its designated region for the provision of suburban transportation services. These services are provided at tariff-regulated fares. If tariffs are set below the cost of providing the transportation services, the regional authority will be required to reimburse the difference between the cost of service and the tariff-regulated fares. However, such agreements have not yet been reached with all regional authorities and as such the Group continues to rely to a greater extent on the subsidies from the Government and cross-subsidies from the Group's freight operations.

The Group's Key Initiatives in Freight Transportation

In freight transportation, the Group's focus during the third and fourth stages of the Reform Programme has been fostering the development of free market competition and continuing to reform the freight railcar operators' market. The Company's divestment of its freight rolling stock to subsidiaries, to which regulated tariffs will not apply, is expected to improve the Group's efficiency, foster the development of free market competition and result in modernisation of the freight railcar fleet. The target structure of the freight rail transportation market provides that the market is divided among three to four key players, which would be achieved by consolidation of private freight rail operators and joint operation of the rolling stock fleet.

In 2010, the Company commenced the divestment of its remaining freight rolling stock into a newly established subsidiary, Freight Two. The subsidiary is expected to operate the Company's remaining fleet of commercial freight railcars not operated by Freight One (although the Company intends to retain a relatively small fleet of freight railcars for its own use, which is not to be used for the provision of transportation services to third parties). The Company intends to contribute to the share capital of Freight Two a fleet of approximately 157,000 freight railcars, with approximately 85,000 railcars having already been contributed as at the date of this Prospectus. In addition, the Company intends to sublease approximately 24,000 railcars to Freight Two, with approximately 17,000 having been subleased as at the date of this Prospectus. The Company plans to contribute and sublease the remaining railcars in 2011. However, the completion of the contribution may be subject to the Company's divestment of the controlling equity stake in Freight One. Hence, the contribution of the remaining railcars may be delayed and as a result the Company may be required to continue operating the railcars not contributed to Freight Two until at least such time as it divests its controlling equity stake in Freight One. See "*—Business Operations—Freight—Freight Two*".

The Group's Key Initiatives in Other Operations

Reform of the Group's railcar repair and maintenance operations is another priority initiative to be completed during the third stage of the Reform Programme. The primary objective is to develop a competitive market for railcar repair services. The Group intends to achieve this objective by continuing to separate its railcar repair and maintenance activities into subsidiaries with the aim of offering equity stakes in these subsidiaries for sale to private investors.

In 2006, the Company established the Central Directorate of Railcar Repair as its branch. As at the date of this Prospectus, the Central Directorate of Railcar Repair Consisted of one central and 13 regional railcar repair directorates, which oversee the management of 124 railcar repair depots. In 2008, to foster competition in the railcar repair segment, the Group began to divest the assets of 22 railcar repair depots. As of 31 December 2010, the assets of 19 repair depots were divested. In March 2011, the Government approved the sale of equity stakes in further five railcar repair subsidiaries. See "*Operating and Financial Review—Recent Developments—Disposal of Subsidiaries*". The Group contemplates the distribution of the remaining assets of the Central Directorate of Railcar Repair into three subsidiaries each providing railcar repair and maintenance services in its designated geographic region. The Group believes that the establishment of these subsidiaries and their divestment will further promote the formation of a competitive market for railcar repair services.

The Network Contract

In 2010, the Company, in cooperation with the Government, began to develop a legal framework for tariff regulation that changes the structure of funding infrastructure development. Pursuant to the new framework, referred to as the Network Contract, the Government will set infrastructure development requirements for a given period. The Company, as the owner and operator of the railway infrastructure, develops a projected operational and capital expenditures budgets required to implement the requirements set out by the Government based on the technological requirements relating to a particular set of projects. The Company will then be required to justify the investment costs. To enable the Company to undertake these infrastructure projects, the Government will be expected to ensure that the Company receives financial resources (by way of tariff regulation or subsidies) sufficient for the Company to fulfil its obligations with respect to the new infrastructure projects and in return the Company will be obligated to ensure the safe and effective operation of the railway infrastructure. The Company expects to finalise the development of the new framework and present it to the Government in 2011 and the Network Contract is expected to become a long-term mechanism for the cooperation between the Government and the Company.

Commitments, Global Economic Downturn, Efficiency and Security

Commitments

The Group participates in the project to improve infrastructure in the Sochi region for the Winter Olympics. The Group's investment programme for 2011 through 2013 allocated approximately RUR 140 billion. Also see "*—Investment Projects and Expansion—Winter Olympics Construction*".

In 2010, Russia was selected as the host of the World Cup. The Company is expected to participate in the development of infrastructure for the World Cup. The Group believes that, among other transportation projects relating to the World Cup, the development of the high-speed transportation network will be of particular importance given the distances between the Russian cities hosting the World Cup. The Group, in cooperation

with the Government, has begun planning the implementation of various infrastructure development projects and their financing (including plans to attract investors from outside of Russia).

In August 2009, the Company signed an agreement with TVZ for the purchase of 200 passenger railcars over the next five years. The contract is for EUR 566 million (RUR 24.8 billion at the exchange rate as at 30 June 2009). Siemens Transportation Systems GmbH is to act as a main subcontractor of TVZ. In December 2009, the Company issued a guarantee to Siemens Transportation Systems GmbH in the amount of EUR 120 million to guarantee TVZ's obligations under its contract with Siemens.

Global economic downturn and the Company's measures to mitigate its effects

The Group, as one of the largest transportation companies in the world, has been significantly affected by the worldwide decline in business activity caused by the recent global economic downturn. Historically, freight transportation volumes have a high correlation to changes in the Russian economy, particularly in relation to industrial production and foreign trade. A significant slowdown in the Russian economy caused a reduction in freight transportation volumes in 2009 compared with 2008 and 2007. The Rail System's freight turnover (excluding empty runs) increased by approximately 1.2 percent between 2007 and 2008, but decreased by approximately 11.8 percent between 2008 and 2009. As a result, revenues from freight transportation (the Group's main revenue source, representing approximately 72 percent of total revenues for 2009), have decreased by approximately 6.1 percent between 2008 and 2009. In 2010, the Russian economy began to recover, and consequently, the Group's transportation volumes also began to recover. Freight transportation volumes increased by approximately 8.8 percent (compared with the initially projected 3.7 percent), although, some of this growth may also be attributable to the Group's providing freight transportation to certain industries at reduced tariffs, which the Government set in order to stimulate these industries.

In 2009, the Group began to implement measures aimed at mitigating the impact of the global economic downturn. In 2010, the Group continued to realise these measures, and specifically, its cost optimisation programme aimed at reducing operating expenses. The key cost reduction measures in 2010 included curtailing price increases on the Company's purchases from its suppliers, renegotiating certain contracts with key suppliers and continuing to optimise its workforce. Beginning in 2010, Russian metallurgic companies sought to increase prices on metal production purchased by the Company by 15 to 20 percent. However, the Company was able to negotiate a significantly reduced price increases (which were agreed not to exceed seven percent increase for the first half of 2010), compared with those initially sought by these suppliers. The Company was also able to renegotiate its supply contracts to reduce prices for fuel, coal and lubricants, which resulted in an average price reduction of approximately 23.1 between 2008 and 2010 (with the price reduction of approximately 29.7 percent in 2009 and approximately 16.4 percent in 2010).

In addition, the Group continued to optimise its workforce. In 2009, the Company was able to reduce its workforce by approximately 59,000 employees, while achieving minimal levels of redundancy in its workforce with only 12,500 employees being dismissed in 2009. In 2010, the number of the Company's workforce decreased by approximately 102,000 employees, of which 76,000 were transferred to Freight Two and approximately 14,700 dismissed. Also see "—*Employees*". In order to continue to effectively operate its business with a reduced workforce, the Company has provided its employees with professional training to enable them to perform multiple functions and assume broader responsibilities. In 2009 and 2010, more than 16,000 and 15,000 employees, respectively, received additional training and more than 157,000 and 125,000, respectively, upgraded the level of their professional skills.

In 2009, the Company, with the consent of the Government, reduced its investment programme by more than RUR 167 billion or almost by half primarily by delaying expenditure on certain elements. As a result, the Company temporarily froze a number of projects (other than certain key strategic projects, some of which have been directly supported by Government funding), reduced purchases of new rolling stock and decreased investment in certain projects relating to renovation of infrastructure. However, the Company continued to invest into priority projects, including projects to increase the Rail System's throughput capacity, emergency repair works and modernisation necessary to maintain its infrastructure in good working condition, transportation safety projects, completion of certain projects which commenced prior to the economic downturn as well as projects directly supported by the Government. In 2010, the Company's investment programme has increased to approximately RUR 317.4 billion. In addition to the initially planned investment budget for 2010, the Company also contributed to the investment programme funds saved due to the implementation of the costs saving programme and surplus from the budgeted revenues.

Energy Efficiency

In 2010, the Group continued to implement a project entitled "Introduction of resource saving technology in railway transportation". The project involves the introduction of the latest scientific developments for energy efficiency in the railway transportation industry. Some of the key energy saving initiatives that have been completed include the installation of automated railway traffic control systems, the use of LED lighting systems as well as the introduction of automated energy consumption measurement technologies. The Group's investment programme for 2011 through 2013 allocated approximately RUR 8.8 billion for this project, with approximately RUR 2.7 billion to be spent in 2011.

Security

Ensuring the safety of passengers and freight on the railways and infrastructure facilities is a key element of the Group's long-term development and modernisation strategy. The Group uses its own security services, transport police and private security enterprises to ensure the safety of its passengers, freight and infrastructure facilities. All elements of railway infrastructure at stations, warehouses and administrative and management buildings are equipped with fire alarm systems. To ensure the safety of passengers on passenger trains members of the transport police and private security organisations are present on all long-distance and commuter trains. Passenger safety and the protection of railway transport infrastructure have been increased by introducing modern security measures.

The protection of the most important railway transportation objects from criminal interference and terrorist activities has been transferred to a departmental security sub-division for railway transportation. Other facilities which do not affect transport safety are guarded by various private security organisations which are selected on a tender basis.

In response to the recent terrorist attacks on transportation infrastructure in Russia, certain key transportation facilities have been upgraded with more advanced countermeasures and the number of security personnel increased. The Group also continues to implement measures to improve the security of passengers and freight transported throughout its Rail Network.

The Rail System

The Group owns and operates Russia's integrated national passenger and freight railway network, including virtually all related bridges, tunnels, buildings, yard facilities, rail terminals and signalling equipment. As at 31 December 2010, the Rail System had an operational length of approximately 85,000 kilometres and a total track miles length of 184,000 kilometres, including tracks in stations and yards, approach tracks and parallel tracks of route stations.

The Rail System covers most of Russia, with over 84,500 kilometres in Russia and over 660 kilometres cross national borders into Kazakhstan. The Rail System connects the majority of Russia's regions, offers service to most major cities and covers most of the European part of Russia. In the Asian part of Russia (being the territory east of the Urals) there are two main railway lines, the Trans-Siberian and Baikal-Amur, which connect the South Siberian and Far East regions with the European part of Russia. The Rail System is currently connected to the rail networks of 12 neighbouring countries, via 54 transit connections, as well as to the major Russian seaports and container terminals on the Black Sea, Baltic Sea, Barents Sea, Caspian Sea and Pacific Ocean.

The following map gives an overview of the reach of the Rail System:

Network Specifications

Of the total operational length of 85,000 kilometres of track within the Rail System as at 31 December 2010, over 84,000 kilometres have a broad gauge of 1,520 millimetres (which is used throughout Russia, other CIS states and Mongolia and is similar to that used in Finland). On the Sakhalin Railway, approximately 800 kilometres of operational length has a narrow gauge of 1,067 millimetres. The standard gauge used throughout most of Europe and Asia is 1,435 millimetres. The Rail System has more than 82,000 infrastructure facilities and structures, including approximately 32,000 railway bridges, viaducts, underpasses and overpasses and 165 railway tunnels as at 31 December 2010.

Approximately 43 percent of the Rail System is double track, principally in the higher density regions of the European part of Russia. The Rail System has the world's longest electrified railway. As at 31 December 2010, approximately 43,180 kilometres (or approximately 50.6 percent of the Rail System) was electrified track, with electricity being purchased from electricity supply companies, although the Group does have some of its own generating capacity through its shareholding in OJSC Territorial Generating Company No. 14 ("**TGK-14**"). See "*—Business Operations—Other*".

The Group has sought to increase the strength and stability of track infrastructure to increase transportation speed and potential load by increasing the percentage of heavy and thermally reinforced rails that are used in the Rail System and replacing wooden sleepers with concrete ones. As at 31 December 2010, approximately 96 percent and 90 percent of the Rail System were composed of heavy and thermally reinforced rail respectively and approximately 67 percent of the Rail System's sleepers were concrete. In addition, the Group repaired approximately 10,295 kilometres of track in 2010, approximately 7,436 kilometres in 2009 and 15,315 kilometres in 2008.

While the Group owns all rails and rail-related infrastructure, it leases the majority of the land underneath the rails in the corridors along which the tracks run, as well as the land under railway stations and other infrastructure facilities, from Russia. Under Russian law, ownership of this land must remain with the Russian Federation. See "*Regulation of Railway Transportation in Russia*". The Government has approved the terms for the lease of land to the Group, which provides, among other things, for a 49-year term and that the Group has the right to sublease the land without consent from the Government.

Rail System-Related Infrastructure

In addition to the Rail System, the Group also owns all of the rail stations, terminals, signals and other technology and property necessary to provide logistical and operational support for freight and passenger transportation services, including:

- 61 marshalling yards;
- 296 main locomotive and motor car depots;
- 196 freight railcar depots;
- 47 passenger rolling stock depots;
- 976 freight stock houses;
- 3,372 freight handling stations;
- 70 freight sorting stations;
- 542 container yards; and
- 561 principal passenger terminals.

At the end of 2009, the Company approved the establishment of the Central Directorate for terminal and warehouse management ("**TWM**"), with its subdivisions located at each of the 17 regional railways. The Central Directorate's main function is to centrally operate all TWM services. The TWM reform is expected to increase the transparency of TWM and increase the Group's revenues from the provision of these services. The Central Directorate has already begun its operations. The Company has transferred assets of the larger passenger train stations, and intends to transfer the remaining passenger terminal buildings and other related assets, to its branch, "Directorate of the passenger train stations". The Group has also been in the process of relocating certain of its city-centre freight yards to suburban locations.

Regional Railways

As at 31 December 2010, The Rail System was served by 16 regional railways, from Kaliningrad in the west to Sakhalin in the Far East. Each regional railway manages freight and passenger stations, passenger transportation, rolling stock maintenance and logistical and communication services through regional communication centre.

The table below sets forth the principal operating data for the Group's four major regional railways as at 31 December 2010:

Railway	Operating Length (km)	Principal Hubs	Maintained Locomotives on Average Per Day		Turnover[1]		
			Freight	Long-haul Passenger	Freight (Million tonne-km)	Passenger (Million passenger-km)	Passenger Suburban (Million passenger-km)
Oktyabrskaya	10,373	St. Petersburg, Murmansk	447	153	124,259	13,516	4,405
Moscow	8,862	Moscow	421	247	109,834	17,221	12,108
North Caucasus	6,311	Ports of Sea of Azov and Black Sea	375	138	74,649	10,407	1,295
West Siberia	5,558	Omsk, Novosibirsk	491	141	238,135	5,734	1,866

Source: Company information

Notes:
(1) Including subsidiaries and entities under the control of the Group.

These four regional railways accounted for more than 37 percent of the Rail System's total length, approximately 27 percent of the total freight turnover and approximately 48 percent of the total passenger turnover in 2010. The other regional railways include: Kaliningrad Railways, South-Eastern Railways, Northern Railways, Gorky Railways, Kuibishev Railways, Privolzhsk Railways, Sverdlovsk Railways, South Urals Railways, Krasnoyarsk Railways, Eastern Siberian Railways, Zabaikal Railways, Far Eastern Railways and Sakhalin Railways.

Tariff Regulation and Pricing

Prices that the Company charges for the use of its infrastructure, locomotive traction services, freight transportation using Company-owned railcars, as well as third- and fourth-class long-haul passenger service provided by Federal Passenger Company and suburban passenger transportation services are tariff regulated. Freight transportation services provided by private railcar operators (including the Company's subsidiaries), as well as deluxe-, first- and second-class long-haul passenger transportation services provided by Federal Passenger Company are not subject to tariff regulation. See "*—Passenger Tariffs*".

The FTS sets the Company's tariffs for freight (other than freight in transit through Russia) and Federal Passenger Company's tariffs for certain classes of long-haul passenger transportation. Tariffs for suburban passenger transportation are set by regional authorities. Tariffs for freight in transit through Russia are agreed annually between the interested states and are fixed in international agreements. The Ministry of Transport represents Russia in the negotiations. Tariffs are subject to annual, and occasionally supplemental, indexation.

Tariff Indexation

The Government sets tariffs for a forthcoming year through the process of tariff indexation. The Company, in consultation with the Ministry of Transport, develops a draft of the Group's investment programme and financial plan for the upcoming year and the following three years. The draft takes into consideration such factors as forecasts of Russia's social and economic indices, the Group's infrastructure development plans, capital repairs projections and budgeted subsidies among other factors. Throughout the year, the Company tracks factors that influence the investment programme and financial plan and makes adjustments, if necessary. Between January and May, the Company submits a draft investment programme and financial plan for approval by the Ministry of Economic Development and the FTS. The Ministry of Economic Development then prepares its social-macroeconomic forecast. In July and August, the Ministry of Economic Development, the FTS, the Ministry of Transport, the Ministry of Finance and the Company's management hold government sessions to discuss tariff indexation, taking into account the Ministry of Economic Development's macroeconomic forecast and anticipated inflation rates as well as the Company's investment programme and financial plan. At these sessions, the Government determines the

general parameters of tariff indexation for the following year. Between August and November, the FTS, in cooperation with regional authorities, the Company and other railway transportation market participants, develops a detailed tariff indexation schedule, which must correspond with the decisions reached at the Government sessions. In November and December, the FTS approves and announces tariffs for the next year.

In increasing tariffs through tariff indexation, the Government's primary objective is on the one hand to set tariffs that would ensure the Company's obtaining sufficient financial resources required for sustainable and effective operation of the Company and the Rail System, but on the other hand to minimise the adverse effect of tariff growth on the users of the Rail System. The Government is influenced by economic and political considerations in setting tariffs: the FTS and other state agencies participating in the annual tariff indexation process may have differing priorities (including, for example, control over inflation or incentivising industrial production by curbing transportation costs). In addition, a recent Government initiative proposed to limit indexation of tariffs to the level of inflation to increase the competitive power of the Russian economy. The final decision on whether to enact these limitations in the form of law is yet to be taken. See "*Risk Factors—The Company is heavily dependent on the continued support of the Government which controls the Company and may cause it to engage in business practices that may be in conflict with its commercial interests and the interests of Noteholders*". As a result of these conflicting interests, tariffs for a given year may be below the economically justifiable tariffs (being the tariffs determined by the FTS as "economically justifiable tariffs", intended to cover the costs of transportation and a predetermined profit margin), which was the case in 2009 and 2010. If that occurs, the Government typically provides additional financial resources in the form of direct subsidies to the Company to compensate a substantial portion of the difference between the economically justifiable tariffs and the actual tariffs set by the FTS. Similarly, if the decision to limit tariff indexation at the level of inflation is adopted, the Company expects that the Government will increase subsidies or otherwise provide additional funds to the Company to ensure that the Company has sufficient investment budget to renovate and develop railway infrastructure.

Freight Tariffs

In 2010, the Government approved a new tariff setting methodology. The new methodology sets out a formula for determining tariffs for freight transportation. Pursuant to the formula, tariffs represent the sum of economically justifiable costs (being costs projected to be incurred by the Company in providing reliable and secure freight transportation services) and a predetermined profit margin to be earned by the Company. In calculating the profit margin, the formula takes into consideration the value of the asset base required for the provision of transportation services, the Company's capital expenditure requirements and the rate of return on the asset base necessary for the functioning and expansion of the Rail System. Hence, the new tariff setting methodology is expected to be transparent and predictable, and encourage investments into infrastructure expansion and renovation. This new methodology is expected to be implemented beginning from 2012. However, notwithstanding the use of the new tariff-setting methodology, the FTS may set tariffs below the level determined using the formula described above.

Generally, the total cost of freight transportation payable by a shipper consists of the following components: a charge for the use of the rail infrastructure and locomotive traction services and a charge for the use of a railcar. The charges for the use of the rail infrastructure and locomotive traction services represent approximately 85 percent of the total cost of freight transportation (using the Company's railcars), with the railcar component representing the remaining 15 percent. As an alternative to using the Company's railcars, a customer may use a railcar owned by a private operator, such as Freight One or Globaltrans. While charges for the use of infrastructure, locomotive traction and freight railcars owned by the Company are tariff regulated, charges for the use of railcars owned by a private operator are not regulated.

Domestic Freight

Tariffs for domestic freight transportation by rail are set out in Tariff 10-01. The tariffs are determined based on the class of freight, its weight, type of rolling stock used, distance to be travelled, destination (domestic or international) and whether freight is shipped using the Company's rolling stock or a private operator's rolling stock. The Government annually reviews Tariff 10-01 and the tariff regime has been subject to periodic change since its adoption in 2003.

Determining the Tariff—Transportation in the Company's Rolling Stock

The Company's tariff for transporting freight (in domestic transportation or through Russian ports) is determined by the class of freight, the distance travelled and the destination.

Class of Freight

To minimise transportation costs for certain commodities, Tariff 10-01 established three classes of freight tariff. These classes have been determined by the Government. Generally, Class 1 freight contains basic industrial and construction materials that the Government regulates at a lower tariff to stimulate the transportation of these freight by railway. Class 2 freight receive a slightly higher tariff and Class 3 freight receive the highest tariff. The table below sets forth some examples of goods allocated to each class:

Class 1	Class 2	Class 3
Mineral coal, coking coal	Crude oil and refined products	Ferrous and non-ferrous metals and scrap
Mineral and construction materials	Chemical and mineral fertilizers	Acids and oxides
Cement	Walling materials	Machinery and equipment (except agricultural)
Wood	Grains and mill products	Vehicles and parts
	Prefabricated structures	Gas (except generator)
Iron and manganese ore	Cast iron	Alcohol products

The tariffs for Class 2 freight are used as a baseline for determining the tariffs for Class 1 and Class 3 freight. The tariffs for Class 1 freight are set at 55 to 75 percent of Class 2 freight. The tariffs for Class 3 freight are set at 154 to 174 percent of Class 2 freight. As a result, it would cost more to transport one tonne of scrap metal for a distance of one kilometre than one tonne of coal for the same distance. Because the Company is required to provide its freight transportation services at regulated prices and on a non-discriminatory basis, it may not refuse to transport Class 1 freight, even if transportation of such freight would result in a net loss.

Destination

The destination point plays an important role in setting the applicable tariff. Pursuant to Government policies designed to increase the use of Russian sea ports and encourage domestic consumption of Russian-produced goods, internal tariffs and tariffs for transportation to Russian sea ports are considerably lower than tariffs for rail transportation via a land border crossing. However, this difference has been gradually decreasing in recent years as Russia has taken steps towards the World Trade Organisation ("**WTO**") membership, which disallows this type of preferential treatment. As a result, the Government has been taking measures to establish unified internal and external tariffs, including setting unified tariffs for transportation of certain goods (including automobiles, coke and non-ferrous metals), which is expected to be completed by the end of 2012.

Distance

Once the tariff class of freight, its weight and destination are determined, Tariff 10-01 specifies a charge that varies according to distance to be travelled.

Determining the Tariff—Transportation in Private Railcar Operators' Rolling Stock

Private railcar operators (including the Company's subsidiaries, such as Freight One) pay the Company for the use of the rail infrastructure and locomotive traction services. As the Company is a natural monopoly with respect to providing access to infrastructure and locomotive traction services, charges for these services are tariff regulated so as to ensure equal cost of access to them for all market participants. The infrastructure and locomotive traction services represent approximately 85 percent of the total charge for freight transportation that the Company would have charged to carry the freight in its own rolling stock.

In the unregulated competitive market for domestic freight transportation, private railcar operators which do not have a status of a natural monopoly (including the Company's subsidiaries) are free to set their own prices for the railcar component of freight transportation costs. These prices are effectively charged for the use of their railcars, while infrastructure and locomotive charges that are fixed by tariffs and paid to the Company either directly by the shippers or on their behalf by private railcar operators. For the purposes of the Government's tariff policy, Freight One and Freight Two are considered to be private railcar operators, and hence, set prices according to their pricing policies based on the competitive environment and their own operating costs (including charges paid to the Company). See "*—Business Operations—Freight—Freight One*". Similarly, TransContainer is able to set prices

for its services at market rates, subject to review by the FAS. See "*—Business Operations—Freight—TransContainer*".

Tariff Evolution

The following table sets forth the average annual indexation set by the FTS compared with the previous year, together with a comparison to the Russian consumer price index ("**CPI**"):

	Year ended 31 December		
	2010	**2009**	**2008**
	(percent change to previous year)		
Average annual indexation	12.4%	12.4%	16.3%
CPI	6.9%	11.8%	14.1%

Source: Rosstat

The FTS set tariff indexation for railway freight transportation at approximately 8 percent on average for 2011. Tariff indexation for railway freight transportation is projected to be approximately 7.4 percent and 6.4 percent on average for 2012 and 2013, respectively. However, due to a recent Government initiative the tariff increase may be limited to the level of inflation. See "*Business-Tariff Indexation*".

In addition to the annual indexation, the Company may request supplemental indexation for specific investment projects and operating cost increases. In April 2008, at the Company's request the FTS increased tariffs by additional 1 percent for infrastructure improvement projects to be undertaken by the Company at the Government's request including in the Sochi region prior to the Winter Olympics. Following negotiations with the Company on 1 July 2008, the FTS adopted a further 8 percent supplemental indexation to reflect higher inflation in 2007 and 2008 compared to projected levels and increased wages for railway workers. On average, in July 2008, tariffs were 16.3 percent higher than in the previous year. In 2009, tariffs have been increased twice: by 5 percent in January and by additional 5.7 percent in July, resulting in an average increase of 12.4 percent compared with 2008. Because the increase in tariffs was below the increase requested by the Company, the Government provided additional financial support through subsidies from the federal budget. In 2010, average tariff indexation for railway freight transportation compared with the previous year was 12.4 percent.

International Freight

International freight tariffs are generally set according to inter-governmental and interagency agreements, and vary depending on the countries involved. Tariffs for freight transportation in transit through Russia are set in accordance with the Tariff Policy of the Railways of the Member States of the CIS (the "**TP CIS**") based on the International Transit Tariffs (the "**ITT**") and Uniform Transit Tariff (the "**UTT**") regulated by the tariff agreement dated 17 February 1993 (the "**Tariff Agreement**"). These tariffs are approved annually at the tariff conference of the railway administrations of the CIS states that are parties to the Tariff Agreement.

In setting tariffs for freight transit shipments through Russia to and from country members of the Tariff Agreement, to and from third-party countries or between the railway stations owned by participants to the Tariff Agreement, section 3 of the TP CIS, based on the ITT tariff rates, is applied.

In setting tariffs for freight transit shipped through Russia from countries whose railways companies are not parties to the Tariff Agreement section 2 of the TP CIS is applied. Under section 2 of the TP CIS, tariffs for shipments from non-participant countries to non-participant countries, other than to or from China, Vietnam, North Korea and Mongolia, are calculated in accordance with the ITT rules, while tariffs for shipments to or from China, Vietnam, North Korea and Mongolia to or from other countries, are calculated in accordance with the UTT rules. Shippers pay transportation costs for freight in transit through Russia through an agent which has entered into the relevant agreement with the Company.

Beginning from 2011, the Government is expected to take measures aimed at unification of tariffs in the anticipation of Russia's entry into the WTO. Initially, the tariff setting methodology is expected to be developed and implemented first in the countries located in the integral customs zone of Russia, Belarus and Kazakhstan, and then with other countries.

Passenger Tariffs

Tariff policy for domestic passenger transportation services is largely influenced by social priorities. The Government regulates tariffs for third- and fourth-class long-haul, while deluxe-, first- and second-class long-haul passenger transportation is unregulated and subject to market pricing. Tariffs for suburban passenger transportation are regulated by regional authorities. International tariffs are set according to inter-governmental and interagency agreements, and vary according to the countries involved.

Long-Haul Passenger

Tariffs for third- and fourth-class long-haul passenger and baggage transportation as well as a number of other related services are set by the FTS following annual negotiations with the Company (with input by the Ministry of Transport and the FAS). Tariff levels depend on the class of service, distance, direction and destination point of travel. Tariffs are subject to annual indexation. The FTS sets long-haul passenger transportation tariffs based on the Company's forecasts of traffic using a methodology that takes into account the Government's social priorities, including incentivising social mobility across the country and providing free or deeply discounted travel to certain categories of passengers, including pensioners, veterans and the disabled. If tariffs are set below the economically justifiable tariff level (being the tariffs determined by the FTS as "economically justifiable tariffs", intended to cover the costs of passenger transportation and to earn a predetermined profit margin), the Government typically provides subsidies to cover a substantial portion of the difference between the economically justifiable tariffs and the actual tariffs. The economically justifiable tariff levels are determined by the FTS on an annual basis.

Classes of Long-Haul Passenger Service

The Company offers five classes of long-haul passenger services, with each class being served using a designated type of a railcar. Deluxe-class railcars have four to six enclosed compartments with sleeping facilities for two adult passengers and a lavatory with a shower cabin. First-class railcars have nine enclosed compartments with sleeping facilities for two passengers. Second-class railcars have nine enclosed compartments with sleeping facilities for four passengers. Third-class railcars have nine sections with open sleeping facilities for six passengers. Fourth-class railcars have nine sections and no sleeping facilities.

The Company offers passengers seasonal discounts and reduced fares to certain types of passengers. Prior to the summer holiday season, the Company offers passengers reduced rates for advance ticket purchases and discounts for certain popular routes. Discounted fares are also available to pensioners and veterans, among others. In both 2009 and 2010, approximately 71 percent of the Company's long-haul passengers (by passenger-kilometres) travelled on third- and fourth-class tickets. In each of 2009 and 2010, deluxe-, first- and second-class long-haul passenger service accounted for approximately 29 percent of the Company's long-haul passenger service (by passenger-kilometres) with approximately 1 percent travelling in deluxe- and first-class and 28 percent travelling in second-class.

Regulated Tariffs for Long-Haul Passenger Service

The average annual indexation of passenger tariffs for long-haul passenger service in third- and fourth-class was 14 percent since January 2008, 12 percent since 1 October 2008, 12 percent in 2009 and 10 percent in 2010. In 2010, the FTS announced an indexation for 2011 of passenger tariffs for long-haul passenger service in third- and fourth-class of approximately 10 percent.

The revenues from third- and fourth-class long-haul passenger and baggage services are not sufficient to cover the costs of these services. The Company estimates that the shortfall is typically approximately 50 percent of the relevant fare. Historically, the Company has cross-subsidised the operating losses from transportation passenger services with profits from freight transportation. Beginning in 2007, however, the Government began reimbursing the Company for 50 percent of the difference between applicable tariffs and economically justifiable tariffs for third- and fourth-class long-haul passenger transportation. This reimbursement is set annually at a fixed level based on the Company's projected passenger service and paid monthly in arrears. The Government increased the reimbursement to 60 percent of the difference in 2008 and to 100 percent of the difference in 2009 and 2010 for long-haul passenger transportation.

Deluxe-, First- and Second-Class Long-Haul Passenger Service

For its deluxe-, first- and second-class long-haul passenger service, Federal Passenger Company is able to set its own pricing policy and is subject to competitive market pressures. Federal Passenger Company sets deluxe-, first- and second-class passenger fares at a level designed to attract passengers from third- and fourth-classes as well as to attract those who currently prefer air and car travel. The Company raised prices for its deluxe-, first- and second-class long-haul passenger service by 15 percent in 2009 and 8 percent in 2010. In 2011, Federal Passenger Company announced a price increase of approximately 5 percent for its unregulated fares.

In 2010, the average passenger distance travelled was approximately 1,020 kilometres, and the most popular unregulated fare (being second-class) was typically approximately 2.5 times more expensive than the most popular regulated fare (being third-class) for the same distance and route.

International Passenger Service

International passenger tariffs are governed in a similar manner to international freight tariffs. The Company, as the Government's representative, and representatives of the CIS, non-CIS European and Asian countries meet annually to determine the tariffs payable to the Company to provide international passenger service, connections or use of the Company's locomotives, rolling stock and infrastructure in Russia. Historically, international passenger tariffs have been higher than domestic tariffs and have been subject to semi-annual review.

The cost of a fare on an international route is calculated by adding the cost of a journey through each state on the way to a final destination plus a surcharge equal to the cost of third-class long-haul transportation of the passenger through Russia.

The international ticket prices for long-haul passenger service to or through the following countries and regions are calculated as follows:

- travel in the CIS and the Baltic States is regulated by the Agreement On International Passenger Tariffs with ticket prices are calculated in Swiss Francs;
- travel in Western Europe is regulated by East-West Tariffs Agreement, with ticket prices calculated in Euros;
- travel in China, Mongolia and Korea is regulated by the Agreement On International Passenger Tariffs and fares are calculated in Swiss Francs;
- travel in Finland is regulated by the Conditions for Passenger, Baggage, Freight Baggage and Freight Transportation on the Russian-Finnish Direct Railway Line, with ticket prices calculated in Euros.

The daily exchange rate announced by the CBR is used to calculate international fares in local currency when issuing travel and freight documents.

Suburban Passenger Service

All classes of suburban passenger transportation services are subject to tariff regulation by regional authorities, although regional authorities have not always been consistent in setting their tariff policies. Historically, regional authorities set tariffs below the Group's costs of providing suburban transportation. To cover the shortfalls, the Group relied on subsidies from the Government and cross-subsidies from revenues generated by freight transportation. The Government encouraged regional authorities to reimburse the Group for projected operating losses incurred as a result of regulated tariffs. In practice, however, most of the regions did not fully reimburse the Group for losses incurred from tariff regulated service.

The Company has attempted to formalise the suburban passenger tariff and fare structure with regional authorities by actively requesting detailed regulation. In 2010, the Government adopted a new methodology for setting tariffs for suburban passenger transportation. Pursuant to the new tariff setting methodology, to be implemented beginning from 2012, tariffs must be set at an economically justifiable level. If tariffs are set below the economically justifiable level, the regional authority is required to reimburse the difference between the cost of service and the tariff regulated fares. Beginning from 2011, in order to have suburban transportation services provided, the respective regional authority will have to enter into an agreement with the suburban transportation company operating in its designated region for the provision of suburban transportation services. However, such agreements have not yet been reached with all regional authorities and many regions do not have necessary funds required to cover the Group's losses from suburban rail operations and as such the Group continues to rely on the subsidies from the

Government and cross-subsidies from the Group's freight operations. Recent amendments to the budget law approved the subsidy to the Group in the amount of RUR 25 billion to partially cover the Group's costs of providing the services for suburban passenger transportation for 2011. The Company expects that a subsidy of a similar amount will be approved for 2012. In accordance with the Government's Directive, the Ministry of Economy shall develop a mechanism to provide sufficient funding for suburban rail transportation going forward.

As at the date of this Prospectus, the Group established 24 regional suburban transportation companies, with an additional two such companies being currently incorporated. The formation of these two additional regional suburban transportation companies is expected to complete the transfer of all suburban passenger transportation business to subsidiaries and associates of the Company. See "*—History and Corporate Structure of the Group and the Reform Programme—Reform Programme—Fourth Stage: the Final Stage—The Group's Key Initiatives in the Passenger Transportation*".

Government Subsidies and Contributions to the Company's Share Capital

The Group depends on subsidies to compensate the effects of tariff regulation. See "*Risk Factors—The Company is heavily dependent on the continued support of the Government, which controls the Company and may cause it to engage in business practices that may be in conflict with its commercial interests and the interests of Noteholders*". As at 31 December 2010, the Company received subsidies in the aggregate amount of approximately RUR 81.0 billion, approximately RUR 23.0 billion of which to compensate the effects of tariff regulation on freight transportation, approximately RUR 35.3 billion to compensate the effects of tariff regulation on long-haul passenger transportation, approximately RUR 19.0 billion for capital repairs of the transportation infrastructure, approximately RUR 2.6 billion for the implementation of certain public safety measures, all of which were from the federal budget, and approximately RUR 1.1 billion from regional and municipal budgets and other subsidies. The Government has also approved direct subsidies for 2011 in the amount of RUR 30.0 billion to compensate for tariff regulation on long-haul passenger transportation.

In 2010, the Government has contributed in aggregate approximately RUR 103.6 billion to the share capital of the Company, approximately RUR 80.0 billion of which is expected to finance the development of transportation infrastructure and facilities for the Winter Olympics and approximately RUR 20.0 billion to be used to finance reconstruction of rail transportation infrastructure. The Government has contributed to the share capital of the Company approximately RUR 40.0 billion in 2011 for the purpose of financing the Winter Olympics related projects.

Business Operations

Overview

The Company's core business activity is the operation of its railway infrastructure network. The Group engages in full-service freight transportation, locomotive traction, infrastructure operations, long-haul and suburban passenger transportation, rolling stock repair and maintenance, container transportation and logistics and engineering, research and construction.

The Group provides freight transportation services principally through the Company and its subsidiaries, including Freight One and TransContainer. The Group established Federal Passenger Company to operate long-haul passenger transportation. Federal Passenger Company began operations in 2010. The Group has also established Freight Two to operate the remainder of its railcar fleet though the completion of the establishment of Freight Two may be dependent on the sale of a controlling equity stake in Freight One. See "*—Freight—Freight Two*" The Group's other non-core operations are conducted principally through the following subsidiaries: TransTelecom (telecommunications), TransCreditBank (banking services), OJSC Zheldoripoteka ("**Zheldoripoteka**") (residential construction), RZDstroy (commercial construction), Elteza (electrical equipment production), OJSC Remputmash (repair works), Roszheldorproject (research, design and engineering), OJSC Zheldorremmash (manufacturing of machinery), TGK-14 (electrical power plant) and certain medical organisations which continue to depend on the Company and other members of the Group for substantial portion of their revenues. Some of these subsidiaries engaged in non-core business activities (such as industrial production, research and development and construction) are expected to be divested by the Company. See "*—History and Corporate Structure of the Group and the Reform Programme—Reform Programme—Third Stage: Formation and Development of a Competitive Market*" and "*Operating and Financial Review-Recent Developments*".

Freight

The Group's freight revenues accounted for 73.8 and 72.2 percent of the Group's total revenues in 2008 and 2009, respectively, and 76.2 percent in the first half of 2010. Freight revenues are revenues generated by the Group's freight transportation business (including loaded trip and empty return charges paid by private railcar operators), and include revenues generated by the Group's subsidiaries.

Freight Transportation

The Company's Corporate Transport Services Centre is the Group's principal customer-facing department for its customers, including major industrial firms, private railcar operators and freight forwarding agents, which aggregate shipments for smaller firms. The Corporate Transport Services Centre manages the majority of the Group's commercial freight operations by organising the provision of rolling stock to freight customers (where a freight customer has not engaged a private railcar operator), locomotive traction services and infrastructure access, asset-tracking services, loading and unloading services and customs formalities. While these services are generally delivered by the Group's other divisions (see "*—Operations"),* the Corporate Transport Services Centre's representatives in offices and stations throughout the Rail System serve as the point of contact for freight customers. These customers typically make a single payment in respect of all freight transportation services rendered by the Group. See "*—Customers, Sales and Marketing*".

Locomotives and Rolling Stock

The Group owns virtually all of the locomotives in use on the Rail System and is the largest owner of all types of rolling stock, with the exception of tank cars used principally for transportation of oil and petroleum products. The following table sets forth the locomotives and rolling stock owned by the Group:

	As at 31 December		
	2010	2009	2008
Locomotives			
Electric			
Freight	7,535	7,417	7,360
Passenger	2,423	2,359	2,274
Dual use	50	50	50
Total Electric	10,008	9,826	9,684
Diesel			
Freight	3,656	3,750	3,803
Passenger	547	536	541
Shunting	6,016	5,989	5,975
Total Diesel	10,219	10,275	10,319
Total	**20,227**	**20,101**	**20,003**
Rolling Stock			
Platform	44,627	45,719	50,323
Gondola	235,935	258,804	272,348
Box cars	57,152	57,673	61,384
Tank cars	68,293	73,625	77,598
Other	112,785	140,633	155,369
Total	**518,792**	**576,454**	**617,022**

Source: Company information

Locomotives are managed by the Locomotive Stock Department, a branch of the Company. The Group acquired 393 new locomotives (250 of which were electric) and 355 new locomotives (229 of which were electric) in 2010 and 2009, respectively, and intends to purchase 375 new locomotives in 2011 (250 of which to be electric), of which 176 have been purchased as at the end of May 2011. Locomotives are purchased from Russian suppliers. The Group retired 340 and 308 locomotives in 2010 and 2009, respectively.

The Railcar Department manages the Group's railcar fleet. The Group acquired 22,691, 8,080, 21,296 railcars in 2010, 2009 and 2008, respectively, and overhauled 45,631, 23,312 and 16,813 railcars for the same periods. The

Group expects that the majority of the net increase in its rolling stock fleet will occur in the Company's subsidiaries (including Freight One, Freight Two and Federal Passenger Company), rather than the Company. The Group also expects that in the future subsidiaries of the Company may acquire more rolling stock through lease contracts rather than sale and purchase agreements.

Freight Composition

The following table sets forth freight transportation volumes (exclusive of transit and import freight transportation) of selected types of freight for each class, transported on the Rail System for the years ended 31 December 2010 and 2009:

	Year ended 31 December	
	2010	2009
	(volume, million tonnes)	(volume, million tonnes)
Class 1		
Mineral coal	322.1	306.4
Iron and manganese ore	116.7	107.6
Cement	33.8	29.8
Coking coal	29.9	10.8
Mineral and construction materials	206.6	192.8
Timber freight	39.5	38.5
Class 2		
Crude oil and refined products	224.9	200.1
Chemical and mineral fertilizers	34.2	28.2
Cast iron	5.1	4.9
Grains and mill products	22.6	24.3
Prefabricated structures	7.5	6.6
Walling materials	2.5	2.3
Class 3		
Ferrous metals	82.6	72.2
Non-ferrous metals and alloys	5.2	5.1
Ferrous scrap	21.4	16.8
Machinery and equipment (except agricultural)	2.7	2.4
Vehicles and spare parts	2.2	1.7
Alcoholic products	3.1	3.8
Acids and oxides	4.2	3.7
Gas (except generator)	2.7	2.5

Source: Company information

Total freight transportation turnover (including empty runs) on the Rail System was 2,501.8 billion tonne-kilometres, 2,271.3 billion and 2,423.8 billion tonne-kilometres in 2010, 2009 and 2008, respectively. In 2010, transportation volume of all classes of freight increased, with Class 1 freight increasing by 4.4 percent, Class 2 freight increasing by 14.6 percent and Class 3 freight increasing by 10.4 percent, respectively. Private railcar operators (including the Company's subsidiaries) increased their collective share of total rail freight transportation volume from 66 percent in 2009 to 84.7 percent in 2010.

The following table sets forth the total freight turnover (including empty runs) on the Rail System by destination or origin for the years ended 31 December 2010, 2009 and 2008:

	Year ended 31 December		
	2010	2009	2008
	(billion tonnes-kilometres)		
Domestic	1,136.7	1,032.3	1,239.1
Exports	972.4	935.8	887.0
Imports	338.4	258.7	236.5
Transit	54.3	44.6	61.2
Total	**2,501.8**	**2,271.3**	**2,423.8**

Source: Company information

An overall increase in freight turnover in 2010 compared with 2009 is indicative of the commencement of recovery from the recent global economic downturn, with an increase in export and import turnover, reflecting both Russia's continuing integration into the world economy and the increased attractiveness of rail as a means of transporting exports and imports. Similarly, transit freight increased considerably, from a relatively low base as the Group's international operations began to increase in scope and volume.

Tracking Services

The Company supervises passenger and freight traffic over its Rail System in Russia, as well as in the CIS and the Baltic states. The Company conducts the centralised management of train routes and shunting operations through its 17 Central Dispatching Centres and the Centre for Maintenance Management. The system allows constant tracking of rolling stock movements at any time of the day throughout the Rail System and enables the Company to determine the location of its own and third-party rolling stock as well as its operational and ownership history. The tracking system also provides the Company with the ability to avoid, to the extent possible, unnecessary delays on the Rail System and, in any case, to provide customers with updated timetables and arrival information.

Other Commercial Services

The Group handles customs procedures, insurance and other government documentation requirements for its direct freight customers and provides security through subcontractors for freight along the route.

Freight One

As contemplated in the Reform Programme and in order to establish new revenue streams for the Group outside the regulated tariff system, in October 2007 the Company established a wholly-owned subsidiary, Freight One, as a largely autonomous freight railcar operator in competition with other private railcar operators including Globaltrans, Transgarant, DVTG and Eurosib.

Freight One is Russia's largest private freight railcar operator. As at 31 December 2010, Freight One owned and operated approximately 196,300 railcars of various types. These included approximately 76,800 gondolas, 67,500 tank cars, 15,900 platforms, 13,400 box cars and 22,700 other types of railcars, which the Group estimates represented approximately 24 percent of all freight rolling stock in Russia. Freight One intends to purchase approximately 15,000 railcars annually.

Freight One, unlike the Company, is not subject to rolling stock tariff regulation and has operational flexibility to choose the types of freight to transport and on which routes to operate. Freight One, like other private railcar operators, pays on behalf of its customers (or arranges for its customers to pay) the Company tariff regulated loaded trip and empty return charges set pursuant to relevant tariffs. Freight One's freight transportation prices are based on market rates, which depend on the distance travelled, weight, class of freight and direction. See ''*—Tariff Regulation and Pricing—Freight Tariffs*".

Freight One's revenues increased from approximately RUR 33.0 billion for the six months ended 30 June 2009 to approximately RUR 46.6 billion for the six months ended 30 June 2010. In 2011, the Company intends to divest a controlling equity stake in Freight One through an auction sale to a Russian private investor meeting certain pre-qualification requirements, including such potential Russian purchaser having an existing operation consisting of at least 15,000 freight railcars and having positive financial results in each of the two years ended 31 December 2009 and 31 December 2010 (calculated on the basis of Russian financial reporting standards). The starting auction price for 75 percent less two shares will be RUR 115.48 billion. The sale has already been preliminarily approved by the Board of Directors and remains subject to Government approval and an additional Board of Directors' decision. See "*Operating and Financial Review—Recent Developments*". The Company intends to use the proceeds from the sale of the shares in Freight One to fund the investment programme.

Freight Two

Freight Two was established in 2010 to operate the Company's remaining fleet of freight railcars not operated by Freight One. Upon completion of the Company's contribution of its remaining fleet of freight railcars, Freight Two is expected to become Russia's second largest private freight railcar operator. The Company intends to contribute to the share capital of Freight Two a fleet of approximately 157,000 freight railcars and sublease another

approximately 24,000 railcars. However, the Company believes that the completion of the contribution may be subject to its divestment of a controlling equity stake in Freight One, primarily due to the Russian regulatory authorities' position relating to, among other, the Company's significant share of the freight railcar operators' market. Although no official action has been taken yet, the Company believes that the regulatory authorities may compel it to divest a controlling equity stake in Freight One before completing the transfer of the remaining freight rolling stock to Freight Two. In order to divest a controlling equity stake in Freight One, the Company must receive a Government authorisation. The Company has not received such an authorisation, and consequently, the contribution of the remaining railcars to Freight Two may be delayed until the Company obtained a Government authorisation and disposed of a controlling stake in Freight One. As a result, the Company may be required to continue operating freight railcars not contributed to Freight Two in the short- to medium-term, while Freight Two is expected to operate railcars that have already been contributed to it.

In 2010, the Company contributed approximately 53,300 railcars to Freight Two. In the first six months of 2011, the Company plans to contribute additional 65,000 railcars, with the remaining railcars to be contributed in the third and fourth quarters of 2011. Freight Two is also expected to operate approximately 24,000 gondola railcars, which are currently leased and operated by the Company. Like Freight One, Freight Two is not subject to tariff regulation with respect to its rolling stock.

TransContainer

TransContainer is the leading vertically integrated rail-based container transportation company in Russia, providing comprehensive container transportation and freight management services. The Company estimates that TransContainer has been the market leader in Russia by flatcar fleet size (with a market share of 60 percent), twenty-foot equivalent units ("**TEUs**") transported by rail (with a market share of 53 percent) and rail-side container terminal throughput (with a market share of 34 percent) as of 30 June 2010. In addition to container transportation and handling, TransContainer serves as the Group's purveyor of logistics services consisting of organising regular container deliveries in accordance with its customers' schedules, customs clearance services, consultancy services, route refinement and delivery planning, freight tracking and providing freight security, including insurance, distinct labelling and special protection for dangerous freight.

Since 2003, TransContainer has operated as a branch of the Company and in 2006 was set up as a wholly-owned subsidiary. In 2008, the Group sold approximately 15 percent of TransContainer's ordinary shares in a private placement. In 2009, TransCreditBank purchased approximately 0.75 percent of TransContainer's ordinary shares. In November of 2010, the Company (together with a minority shareholder) sold a 35 percent (less two shares) equity stake in TransContainer in an IPO, which was the first IPO of the shares in a subsidiary of the Company. The Company retained the controlling equity stake in TransContainer but a recent Board of Directors' decision approved the sale of a further 25 percent plus one share equity stake in TransContainer by way of an open auction at a price not less than the price to be established by the Board of Directors based on valuation by an independent appraiser prior to the start of the auction. The sale is expected to be completed in 2011 and is subject to Government approval.

As of 30 June 2010, TransContainer operated approximately 25,500 flatcars. It owns a network of rail-side container terminals located at 46 railway stations in Russia and operates one terminal in Slovakia. Its terminals, many of which are located along Russia's busiest transportation corridors, had a throughput of approximately 1.46 million TEUs in 2009 and 0.73 million TEUs for the six months ended 30 June 2010.

As of 30 June 2010, TransContainer serviced more than 300,000 routes in Russia and abroad. By integrating its terminal infrastructure, nationwide sales network, transportation assets, operational experience and market knowledge, TransContainer provides a wide range of reliable and tailored intermodal container transportation and integrated logistics solutions to its customers throughout Russia and the CIS. TransContainer has more than 200,000 customers, including approximately 20,000 regular customers, representing a range of industries. TransContainer has an extensive sales network, consisting of 148 offices and service centres in Russia as well as presence in the CIS, Europe and Asia, which allows it to efficiently serve its existing customers and attract new customers.

In 2009, TransContainer's revenue was RUR 16.3 billion (before elimination of transactions with Group companies). For the six months ended 30 June 2010, its revenue was RUR 9.9 billion (before elimination of transactions with Group companies). As of 30 June 2010, its total assets were approximately RUR 31 billion and total liabilities were approximately RUR 11 billion (before elimination of transactions with Group companies).

In 2011, TransContainer completed the acquisition of a 67 percent equity stake in KDTS, which is a leading private operator of cargo handling terminal facilities and provider of freight forwarding and logistics services in Kazakhstan. KDTS operates 17 terminal facilities across Kazakhstan and also owns a fleet of approximately 30 freight locomotives. In addition, TransContainer entered into a shareholders' agreement with Kazakh Railways to jointly operate KDTS, its cargo handling terminal facilities and flatcars to transport containers in Kazakhstan. Also see "*Operating and Financial Review—Recent Developments—New Subsidiary and Other Investments*".

Passenger

The Group's revenues from passenger transportation accounted for 13.9 percent, 13.5 percent and 14.4 percent of the Group's total revenues in 2007, 2008 and 2009, respectively, and 11.3 percent in the first half of 2010. The Group provides long-haul (being routes of more than 200 kilometres) and suburban (being routes of less than 200 kilometres) railway passenger transportation services.

Long-haul

Federal Passenger Company (and, prior to April 2010, its predecessor Federal Passenger Transportation Directorate) operates the Group's long-haul passenger services. The Group carried 114.7 million, 102.4 million and 101.4 million passengers in 2008, 2009 and 2010, respectively, which accounted for 113.5, 102.7 and 100.4 billion passenger-kilometres in the same periods, respectively.

Tariffs for first- and second-class passenger services are unregulated. By contrast, third- and fourth-class tariffs are subject to extensive government regulations, and certain categories of passengers, including retirees, veterans and the disabled, travel at deeply discounted prices or free of charge. As a result of the global economic downturn, the Russian economy was adversely affected and consumers' purchasing power was reduced, which caused the first- and second-class long-haul passenger travel (measured in passenger-kilometres) to decline by approximately 10 percent between 2008 and 2009, and further decreased by an additional 2 percent between 2009 and 2010. The third- and fourth-class long-haul passenger travel (measured in passenger-kilometres) has also declined by 10 percent between 2008 and 2009, and by 2 percent between 2009 and 2010.

The Group also offers international passenger transportation services to 31 countries in Europe and Asia, including 11 countries in the CIS. In 2010, total international passenger transportation volumes amounted to 20.3 million passengers (including 635.6 million passengers to and from countries other than those in the former Soviet Union) compared with 20.1 million passengers in 2009.

Federal Passenger Company (or, prior to April 2010, its predecessor Federal Passenger Transportation Directorate) is responsible for the maintenance of the long-haul passenger rolling stock, baggage transportation and ticketing. As at 31 December 2010, 2009 and 2008, Federal Passenger Company (or its predecessor) operated 23,374, 24,352 and 24,673 railcars, respectively. As at 31 December 2010, Federal Passenger Company operated 1,713 electric passenger locomotives, 47 electric dual-use freight/passenger locomotives and 541 diesel passenger locomotives used to provide passenger transportation services.

Suburban

Suburban passenger transportation services are provided on routes of less than 200 kilometres, including commuter lines. The Group's suburban passenger transportation segment operated a total of 14,582, 15,711 and 16,075 railcars in 2010, 2009 and 2008, respectively. The Group carried 1,160 billion, 1,019 billion and 832 billion passengers in 2008, 2009 and 2010. The Group provides its suburban transportation services in all 73 regions in which suburban transportation network exists.

The Group offers several types of suburban passenger ticketing options: single-use one-way and round-trip tickets and a range of seasonal tickets. The duration and type of seasonal tickets depend on the frequency of use of railway services. There are tickets valid continuously for several months or for business days only, tickets valid for a specified number of days during a calendar month or several months, weekend tickets (usually valid for several months) and tickets valid for specified dates during a calendar month. In addition, passengers entitled to receive state-sanctioned social benefits and employees of the Company (and employees of a limited number of other entities) pursuant to the General Collective Bargaining Agreement, are permitted to use suburban passenger services free of charge. The substantial majority of tickets sold are single-use rail tickets purchased in cash transactions. The Group sold approximately 558 million, 543 million and 537 million single-use tickets in 2010,

2009 and 2008, respectively, and approximately 6 million, 8 million and 11 million seasonal tickets in 2010, 2009 and 2008, respectively.

The following table sets forth the number of suburban passenger trips and passenger kilometres in years ended 31 December 2010, 2009 and 2008.

	As at and for the year ended 31 December		
	2010[(1)]	2009	2008
		(billions)	
Passenger trips	832	1,019	1,160
Passenger-kilometres	28.0	38.2	46.7

Source: Company information

Note:

(1) The figures reported for the year ended 31 December 2010 are prepared on a different basis than for the years ended 31 December 2009 and 2008, and may not be comparable.

Suburban passenger transportation volumes declined between 2008 and 2009, primarily as a result of worsened economic conditions and fewer number of passengers receiving transportation benefits from regional and federal governments. In 2009, the unemployment rate increased while the average salary among the population decreased, which caused a decrease in the transportation volumes. Also, benefits received from the Government decreased by approximately 15 percent, while benefits received from the regional authorities decreased by approximately 17 percent. In 2010, although the economic conditions began to improve, the number of passenger trips declined primarily as a result of the Group's implementing new methodology for reporting the number of passenger trips. Prior to implementing the new reporting methodology, a passenger receiving transportation benefits received a seasonal ticket and was reported to have taken a predetermined number of trips for a given reporting period (e.g. 50 trips per month) notwithstanding the actual number of trips taken by that passenger. Beginning from 2010, the Group began to require benefits recipients to purchase single-use tickets (at a discount) and record the actual number of trips taken by the passengers, which the Group believes to have resulted in a decrease in the total number of passenger trips reported.

As at the date of this Prospectus, the Group established 24 regional suburban transportation companies, with two additional companies being currently incorporated. With the formation of these additional companies, the Group is expected to complete the transfer of all of its suburban passenger transportation business to subsidiaries and associates. Together with the creation of Federal Passenger Company, these measures are expected to complete the separation of the Group's passenger transportation business from its other operations, as contemplated by the Reform Programme. See "*—History and Corporate Structure of the Group and the Reform Programme—Reform Programme—Third Stage: Formation and Development of a Competitive Market*" and "*—Tariff Regulation and Pricing—Passenger Tariffs—Suburban Passenger Service*".

Other

The Group's other revenues, including from rail-related operations such as railcar repair services and other operations, accounted for 10.9 percent of the Group's total revenues in both 2008 and 2009, and 10.3 percent in the first half of 2010.

Railcar Repair

As at 31 December 2010, the Group owned and operated 136 rolling stock repair depots, located throughout the 16 regional railways and serviced the predominant majority of the Russian fleet of approximately 1,025 thousand railcars (the Group's estimate as at 31 December 2010), including those owned by private railcar operators. Through these depots, the Group maintains the leading position in the railcar repair market and provides full range of railcar repair services.

The Central Directorate of Railcar Repair began operating as a branch in 2006, but is not yet a separate legal entity. Under Russian law, the Company must provide non-discriminatory access to repair facilities and has adopted a standardised price list for common repairs.

Aside from technical inspections and minor repairs, which are performed on an "as needed" basis by the regional railways, the Group's railcar repair operations can be divided into two sub-divisions. The first comprises regularly scheduled maintenance at a railcar depot. Most railcars require scheduled servicing after every 160,000 kilometres and at least every year after the third year of operation. In 2010, 2009 and 2008, the Central Directorate of Railcar Repair performed 243,789, 266,603 and 370,608 scheduled maintenance operations, respectively.

The second level of railcar repair is a capital repair, which is a substantial overhaul and renovation of the railcar. These are required to be performed every 10-13 years, depending on the type of railcar. In 2010, 2009 and 2008, the Directorate of Railcar Repair performed 45,631, 46,476 and 39,326 capital repairs, respectively. If a railcar requires more significant repairs or maintenance, the railcar may be sent to a factory in Russia which has greater technical capabilities than the Group's railcar depots.

In 2008, the Group began to divest the assets of 22 railcar repair depots. Between 2008 and 2010, the assets of 19 railcar repair depots were divested. The Group currently contemplates the distribution of the remaining assets of the Central Directorate of Railcar Repair into three legal entities, with minority interests in these entities to be sold as contemplated by the Reform Programme. Also see "*—History and Corporate Structure of the Group and the Reform Programme—Reform Programme—Third Stage: Formation and Development of a Competitive Market—The Group's Key Initiatives in Other Operations*".

Loading, Unloading and Sorting Services

While most of its freight customers arrange for their own loading and unloading (which generally takes place at privately-owned access ways to the Rail System), for an additional charge, the Group provides loading and unloading services at 577 of the approximately 4,000 rail stations with freight operations throughout the Rail System. The remainder of the loading and unloading facilities provide both medium and heavy weight services. Under Russian law, these services must be provided on a non-discriminatory basis to private railcar operators.

TransCreditBank

TransCreditBank was established by major companies from the energy and metal sectors as a retail and commercial bank in 1992. In 2007, the Group acquired a 75 percent equity interest in TransCreditBank. As at 30 June 2010, the Group owned approximately 54.4 percent in the bank's share capital. TransCreditBank was consolidated into the Group's consolidated financial statements prepared under IFRS for the years ended 31 December 2007, 31 December 2008 and 31 December 2009. As discussed in "*Operating and Financial Review-Recent Developments-Disposal of Subsidiaries*", the Company will deconsolidate the balance sheet of TransCreditBank in its financial statements with effect from 31 December 2010 upon loss of control over financial and operating policies of TransCreditBank to VTB. The profit and loss statement of TransCreditBank will remain a part of the consolidated profit and loss statement of the Group for the year ended 31 December 2010. See "*Operating and Financial Review—Recent Developments—Disposal of Subsidiaries*". As at 30 June 2010, the bank had approximately RUR 330.8 billion in total assets and approximately RUR 2.8 billion in net income (before elimination of transactions with the Group companies).

TransCreditBank's customer base includes companies operating in the transportation industry, including the Company, transportation-related machinery-building plants, power generating and distributing companies, various metal producers and traders, coal mining businesses, as well as companies from other industries. As at 31 December 2010, TransCreditBank operated a regional network of 289 offices in 194 cities in Russia.

The Company is planning to sell its 54.4 equity stake in TransCreditBank to VTB. The sale of the first tranche of TransCreditBank's shares is expected to be completed later this year. See "*Operating and Financial Review—Recent Developments—Disposal of Subsidiaries*".

TransTelecom

TransTelecom, established in 1997, operates the high-speed fibre optic telecommunications network owned by the Company that provides all railway-related telecommunication resources to the Group as well as telecommunication services, data transfer and telecommunications network construction services to third parties. The Company is the main shareholder of TransTelecom with 99.95 percent ownership as at 30 June 2010. TransTelecom provides its country-wide services through 23 regional subsidiaries located in Russia's largest cities.

TransTelecom operates one of the largest fibre optic cable networks in Russia, which is more than 53,000 kilometres long and has a bandwidth capability of up to 1,600 Gbits/s. The network is laid along railway track and has more than 1,000 access nodes in all regions of Russia, with connections to Europe and Asia. As at 31 December 2010, TransTelecom had a 24 percent market share in the trunk Internet access market, 23 percent market share in IP VPN market and 35 percent market share in the NPL market in Russia (according to the Company's data). The consolidated revenue of TransTelecom for the six months ended 30 June 2010 was RUR 11.8 billion, with net loss of approximately RUR 390 million (before elimination of transactions with the Group companies).

In addition to providing telecommunication services to the Group, TransTelecom also provides telecommunication services to telecom operators, large corporate and industrial customers and private freight railcar operators. TransTelecom's key clients outside of the Group include the Ministry of Emergency Management, the Ministry of Internal Affairs, CBR, Sberbank, National Bank Trust, MDM Bank, Sakhalin Energy, VympelCom, Megafon, Comstar and Gazprom. TransTelecom also has international operations: the EurasiaHighway transcontinental telecommunication route, owned and operated by TransTelecom, is a key telecommunication route between European and Asian countries.

In 2008, TransTelecom began to implement a new corporate development strategy. The main strategic initiative is to enter regional telecommunications retail markets by introducing broadband access as well as local and international telephony for retail customers. As at 31 December 2010, broadband access is provided to approximately 195,000 personal users and 9,000 small- and medium-sized businesses.

Zheldoripoteka

Zheldoripoteka is the Company's subsidiary, with the Company holding 50 percent plus one share as of 31 December 2010. Zheldoripoteka is engaged in residential construction and hotel development. The company was originally charged with developing affordable housing for the Group's employees. Zheldoripoteka also provides favourable mortgage terms to the Group's employee home buyers. In 2008, Zheldoripoteka commenced a project to build hotels in and near passenger stations in the Rail System.

The Group has implemented a housing policy to help its employees secure adequate housing. Zheldoripoteka provided 2,271, 1,856 and 1,140 housing units to employees of the Group in 2008, 2009 and 2010, respectively. The Group has also provided some subsidised mortgages to employees.

RZDstroy

RZDstroy, established in 2006, is one of Russia's leading railway infrastructure construction companies. RZDstroy provides a broad range of railway infrastructure construction services, including both general and specialised construction works as well as project management. In addition, RZDstroy engages in non-railway construction and manufactures a range of construction materials. RZDstroy's key construction projects include the reconstruction of the route between Mga and Ivangorod, towards the seaports in the Gulf of Finland, the modernisation of the existing railway line between Moscow and St. Petersburg to allow high-speed transportation and construction of various projects relating to the Winter Olympics. The Group is considering plans to sell up to approximately 50 percent of RZDstroy's share capital to private investors.

Roszheldorproject

Roszheldorproject is engaged primarily in research, design and engineering. As at 31 December 2010, it included 22 affiliated institutes of design and development and 8 regional branches located across Russia. The Company believes that Roszheldorproject is the largest Russian company performing survey and design work for construction, renewal and reconstruction activities in the railway, industrial, socio-cultural, residential and commercial property sectors. Institutes affiliated with Roszheldorproject are leading design and exploration entities that have made considerable contributions to the construction, reconstruction, technical re-equipping and overhauling of the Russian railway transport system. Roszheldorproject provides full development of railway infrastructure based on engineering and economic feasibility studies, substantiation of investments, train performance estimations, engineering surveys, and complete design software systems.

Currently, institutes affiliated with Roszheldorproject are involved in developing high-speed passenger service on the routes between Moscow and Nizhny Novgorod, design and exploration works on the section of the route between St. Petersburg, Buslovskaya and Helsinki to provide high-speed transportation between St. Petersburg and Helsinki, comprehensive reconstruction and electrification of Karymskaya—Zabaikalsk section of Zabaikalskaya

Railroad; and the design of a railway line from Sochi airport to Adler station and skiing resorts in Sochi. In 2009, the Group sold 50 percent less two shares in Roszheldorproject to a private investor. In March 2011, the Government approved the sale through an open auction of a further 25 percent plus one share equity stake in Roszheldorproject. See "*Operating and Financial Review—Recent Developments—Disposal of Subsidiaries*".

TGK-14

In 2008, the Group acquired a 49.25 percent equity stake in TGK-14, a regional electric power generating company at a cost of approximately RUR 4.9 billion. As at 30 June 2010, the Company held an 83.62 percent equity stake in TGK-14. TGK-14 supplies energy primarily to consumers located in the Transbaikal and Buryatia regions. In 2010, TGK-14 supplied approximately 68 percent of energy requirements of the Eastern-Siberian and Transbaikal railways.

Associates and Concession

KIT Finance Investment Bank

In the second half of 2008, KIT Finance Investment Bank, a then privately held banking business, experienced severe liquidity problems. Together with the State Corporation Deposit Insurance Agency, KIT Finance Investment Bank developed a plan for financial recovery. The restructuring plan details analysis of KIT Finance Investment Bank performance capabilities, sets restrictions with respect to certain financial activities and sets out performance indicators for the next five years. Pursuant to this recovery plan, in the second half of 2009, the Company provided KIT Finance Investment Bank with subordinated loan and long-term loan in the amount of RUR 10 billion and RUR 12 billion, respectively. As part of its restructuring, KIT Finance Investment Bank has divested certain non-core assets and fulfilling its obligations before its major creditors, including OJSC GPB, Magnitogorsk Iron & Steel Works, JSC ALROSA. Currently, KIT Finance Investment Bank is in compliance with the long-term business development strategy and continues to operate as a retail and commercial bank.

In 2010, KIT Finance Investment Bank increased its interest-bearing investments and divested a portion of its devalued mortgage portfolio, which resulted in an improvement in its liquidity and capitalisation. In addition, KIT Finance Investment Bank has optimised its regional network, reduced its workforce and implemented other cost-cutting measures.

Transmashholding

In 2008, the Group purchased 25 percent plus one share of Transmashholding, a manufacturer of most of the Group's locomotives and rolling stock, from Breakers Investments BV for RUR 9.3 billion. As at 30 June 2010, the Group held a 25 percent plus one share equity stake in Transmashholding.

Southern-Caucasus Railways

In January 2008, Armenia and Russia announced that the Group would operate the rail system in Armenia under a 30-year concession agreement executed with the Company's subsidiary, CJSC Southern-Caucasus Railways ("**Southern Caucasus Railways**"). Pursuant to the concession agreement, the Group will acquire the entire rolling stock of Armenian Railways and invest approximately US$570 million in the development of Armenia's rail infrastructure (including an investment of approximately US$170 million to renovate rolling stock) during the 30-year term of the concession. The Group also anticipates that substantially all employees at Armenian Railways will be transferred to the Company's Southern Caucasus Railways.

OPERATIONS

While not directly related to customer service, the Group undertakes extensive activities in traffic management and in the upkeep and expansion of the Rail System.

Railway Traffic Control

Railway traffic control is effected through 17 dispatching centres, which coordinate the movement of approximately 800 long-haul passenger trains, 6,300 suburban passenger trains and 16,900 freight trains daily throughout the Rail System. These dispatching centres, located throughout the Rail System, are responsible for traffic management on railway routes in their respective regions. The principal goals of dispatching centres are

reducing downtime (the period of time during which a railcar is idle), increasing average transportation speeds, increase in safety of railway transportation and reducing the rate of empty return of railcars.

Improvements in each of these areas serve to shorten the average turnover for a freight railcar (the number of days between loads), increase the overall throughput of the business and allow the Group to provide, in some cases, just-in-time delivery to its customers.

Construction and Repair

The Department of Construction and Repair coordinates and assists in the implementation of new construction projects relating to the Rail System and related infrastructure. The Department oversees the Directorate for Capital Construction and Repair (track and facilities) and the Directorate for Capital Repair of Communication Lines (telecommunications, signalling, automatic braking and switching), the Department has also assumed principal responsibility for the implementation of the Group's investment programme described in "*—Investment Projects and Expansion*".

Track Maintenance

The Department of Track Facilities together with the Central Directorate for Track Repair is responsible for track maintenance, renovation and other related services. In 2010, the Central Directorate for Track Repair had 42,375 employees that repaired or renovated approximately 10,295 kilometres of track. The Central Directorate for Track Repair conducted repairs of approximately 7,388, 15,655 and 11,863 kilometres of track in 2009, 2008 and 2007, respectively. The primary reason for the decrease in repair and renovation activities (from 15,655 kilometres in 2008 to 7,397 kilometres in 2009) was a substantial reduction in funding for repairs and maintenance activities and a refocusing of the investment programme to concentrate on reducing maintenance and repair costs where possible and to conduct repairs on an "as needed" basis and in emergency situations. The Group expects to repair approximately 10,400 kilometres of track in 2011.

International Joint Ventures And Cooperation

Joint Ventures and International Projects

The Group is actively involved in a number of international projects located in the CIS and other countries with growing markets for railway transportation services. The Group provides technical expertise in the construction and project management relating to modernisation and reconstruction of railways. These projects have a strategic importance to the Group and in the future may provide material contribution to its revenues. The Group's major on-going and planned projects include the following:

- In February 2009, the Group commenced a project for electrification of rail lines Tebriz-Azarshakhr in Iran. The project involves electrification of approximately 48 kilometres of track. The project has an estimated value of approximately EUR 9 million. The Group continued to implement this project in 2010.
- In August 2008, the Group began constructing a 554 kilometre twin-track line between Sirt and Benghazi in Libya along the Mediterranean coast. The Group expects to build 6 major railway stations and approximately 23 smaller passenger/freight stations. The project has an estimated value of approximately US$3.3 Billion and is expected to be completed by 2012. However, due to the social unrest in Libya, this project has been temporarily suspended. See "*Risk Factors—The Group carries out its operations in certain countries outside Russia, in particular in the Middle East and North Africa, and exposes itself to a range of political, economic and social risks arising in these countries*".
- In May 2009, LLC Infrastructure Development was established (with the participation of the Company holding a 50 percent interest, Erdnes MGL holding a 25 percent interest and MTZ holding a 25 percent interest) to implement a project for railway infrastructure development in Mongolia. The primary goals of the project are the development of Ulan-Bator Railways and construction of new railway infrastructure in Mongolia.
- In December 2009, the Company entered into an agreement to manage Ulan-Bator Railways in Mongolia, which is expected to include measures aimed at improving business operations of the railways, increasing its effectiveness, optimising running costs including in respect of infrastructure development, acquiring new rolling stock, increasing revenue (including increasing railway tariffs) and developing investment and financial policies.

- The Group operates the Armenian rail network under a 30-year concession (from 1 July 2008).
- In addition, the Group has participated in a number of joint ventures and demonstration projects designed to encourage trans-Eurasian rail transportation:
- The Group continued to participate in a number of projects relating to international container transportation of automobile spare parts to assembly plants in Russia. The Group transported automobile spare parts from Western and Central Europe to the Volkswagen factory in Kaluga. It also engaged in containerised transportation of spare parts from Europe and Asia for a number of major international automotive manufacturers (including Fiat, Toyota and Peugeot-Citroen among others).
- In 2008 the Group participated in a trial run of a container train from Peking to Hamburg across the railways of China, Mongolia, Russia, Belarus, Poland and Germany. In 2009, to increase the effectiveness of transit freight shipments from Asian countries to Europe using the Trans Siberian railway, the Group developed and began marketing a new product on the logistics market, "TranSib in 7 days".

International Cooperation

The Group is a member of various international transportation organisations such as the Commonwealth of Independent States Railway Transport Council (the "**Council**"), the Organisation for Cooperation of Railways ("**OSJD**") and the International Union of Railways ("**UIC**"). See "*—Tariff Regulation and Pricing—Freight Tariffs—International Freight"*.

Council

The principal work of the Council, chaired by the president of the Company, is to coordinate rail transportation at the intergovernmental level, agree common procedures and regulations, and assist the development of transportation and economic ties between the members of the CIS, together with Bulgaria, Estonia, Latvia, Lithuania, Georgia and Finland. The Council examines and resolves issues relating to the daily operations of the railways, joint use and maintenance of freight railcars and containers, passenger and freight transportation conditions, safety in the movements of trains on international routes, developing systems for accounting and settlements, scientific and technical cooperation and other issues.

OSJD

The OSJD is dedicated to developing and improving international rail transportation between Europe and Asia, including combined sea/rail transportation, developing operational practices in railway transport activities, improving international transport law, including the Agreement on International Passenger Traffic, the Agreement on International Rail Freight Transport and other legal instruments related to international rail transportation. The OSJD also encourages cooperation on issues related to economic, informational, scientific, technological and environmental aspects of rail transportation and promotes the competitiveness of railways compared with other modes of transportation.

UIC

The Group has been a member of the UIC since 2007. The UIC's principal purpose is to promote the improvement of technical means and the operation of the railways. The UIC aims to integrate various Eurasian national railway systems into a single system of transport links to Europe. The Group is an active member of the three highest governing bodies of the UIC—the Executive Board, the Asian and the European regional assemblies. Within the Executive Board, president of the Company, V. Yakunin, is in charge of the following subjects: "Development of international transport corridors" and "Railway Standards".

Other

The Group also participates in the work of the United Nations Economic Commission for Europe's Committee on the Inland Transport and the United Nations Economic and Social Commission for Asia and the Pacific's agreements for trans-Eurasian transportation with respect to the Trans-Siberian Railway. The Group is involved in the activities of the Round Table of Industrialists and Entrepreneurs in Russia and the Working Group on Road and Rail Transport in Russia-EU relations, and cooperates with transportation organisations and companies in member countries of the European Union.

Customers, Sales and Marketing

Freight

The largest freight shippers are industrial and raw material suppliers, including coal mining companies, metallurgic plants, oil and natural resource businesses, construction companies and fertilizer manufacturers. The Group's largest customers include Evrazholding, Kuzbasrazrezugol, Mechel, UralChem, SUEK, Metalloinvest, EvroChem, Rusal, TNK-BP, Rosneft, LUKOIL, GazpromNeft and Severstal for both full-service freight transportation and locomotive traction, and infrastructure services. A number of major industrial, oil and mining companies in Russia maintain their own fleets of private rolling stock, which generates approximately 5 percent of the total freight turnover volume. In addition, the Group also contracts with freight forwarding agents, which aggregate freight transportation orders for smaller customers. The Group has entered into long-term contracts only with a few of its largest customers.

The Group's freight services generally require prepayment, normally through a standing account. In most cases, a single payment is made to the Group by the direct freight customer (or freight forwarding agent or private railcar operator) in respect of the entire relevant tariff, including the charges for use of rolling stock (if applicable), locomotive traction and infrastructure access (or loaded trip and empty return, as applicable). In some cases, however, a private railcar operator may require its customers to pay the locomotive traction and infrastructure access charges (in the form of charges for a loaded trip and empty return) directly to the Group.

In all cases, the Corporate Transport Services Centre handles all sales and marketing activities through its representative offices in the major stations of the Rail System, save for those undertaken by Freight One and TransContainer, which have their own marketing departments.

Transport is generally undertaken at the customers' own risk unless the customer can prove that a loss was directly caused by the Group. Any damage caused during loading or unloading is also generally borne by the customer unless the Group performed the loading or unloading.

The Company arranges for the security and insurance of freight transportation including providing the IT support to facilitate the required documentation.

Passenger

The Group's marketing strategy in the long-haul passenger segment is to encourage passengers to upgrade their class of travel to the unregulated first- and second-class passenger travel. The Group has also undertaken extensive initiatives to encourage and improve payment and collection relating to the suburban passenger service. The Group's marketing efforts include seasonal discounts, second-class discount tickets, volume discounts, and discounted children's tickets.

Procurement

As a natural monopoly, the Group is subject to the state rules for the procurement of certain services. The state procurement rules require a competitive tender process for some of the Group's purchases (other than those of its subsidiaries). Roszheldorsnab, a branch of the Group, specialises in managing the procurement process.

The Group's principal purchases are fuel (approximately 36 percent of all purchases in 2010) and metal (approximately 22 percent of all purchases in 2010), which is acquired principally in the form of steel for rails. The Group purchases fuel (principally diesel fuel for its locomotives) at spot rates from Gazprom, TNK-BP, Surgutneftegas, Rosneft and LUKOIL. The Group estimates that approximately 55 percent of its steel purchases are from Evraz Group. Because the Group is a large-scale purchaser, it is able to obtain significant discounts for its purchases, including for raw materials and fuel.

The Group purchases its locomotives and rolling stock largely from domestic manufacturers, including Transmashholding, although it also has entered into an agreement with Siemens AG for the construction of high-speed trains for the high-speed routes between Moscow and St. Petersburg, and the proposed high-speed routes between Minsk and Kiev, and St. Petersburg and Helsinki, among others. The expansion of the Group's locomotive capacity depends heavily on the continued manufacturing capacity of Russian and CIS producers. The Group expects that Transmashholding will be able to significantly expand its capacity and may seek to finance the acquisition of locomotives by way of financial leases rather than through direct sale and purchase contracts.

Investment Projects and Expansion

The Company's investment programme represents a portfolio of investment projects with pre-approved budgets and completion deadlines. The investment programme is subject to adjustment. This approach gives the Company the flexibility to respond to economic developments in Russia in general, and in particular to changes in the freight generating regions. The Company's investment budget for 2011-2013 was agreed with the Government in December 2010. The Company's investment budget for 2011 is approximately RUR 349 billion compared with RUR 317.4 billion in 2010 (which exceeded the originally approved investment budget of RUR 315 billion), compared with RUR 265.6 billion in 2009.

The Company's key investment projects for 2011 through 2013 include projects relating to development of infrastructure for the Winter Olympics, modernising the Rail System's infrastructure, upgrading locomotive fleet, continuing to introduce resource-conservation technologies as well as increasing safety of railroad transportation. In 2010, Russia was selected as the host of the World Cup. The Group is expected to participate in the development of infrastructure for the World Cup. The Group believes that, among other transportation projects relating to the World Cup, development of the high-speed transportation network will be of particular importance given the distances between the Russian cities hosting the World Cup. The Group believes that as a result of Russia's hosting the World Cup, a number of its existing projects may be refocused to address the infrastructure needs relating to the World Cup. The Group, in cooperation with the Government, began planning the implementation of various infrastructure development projects and their financing (including plans to attract investors from outside of Russia).

The Company's key investment programme projects and their budgets for 2010, 2011 and 2012 approved by the Board of Directors are set forth in the following table and are discussed in more detail below:

Project[1]	Actual 2009 (RUR billions)	Actual 2010 (RUR billions)	Budget 2011 (RUR billions)	Budget 2012 (RUR billions)	Budget 2013 (RUR billions)
Winter Olympics					
Construction of car/railway route	7.8	73.1	50.0	65.9	—
Modernisation of railway infrastructure	40.0	15.4	12.1	11.9	—
Sub-Total	*47.8*	*88.5*	*62.1*	*77.8*	—
Modernisation of Infrastructure on Key Destinations					
High-speed railway transportation	27.1	16.5	8.6	—	—
Reconstruction of railway infrastructure	25.4	29.4	37.3	31.7	33.0
Sub-Total	*52.5*	*45.9*	*45.9*	*31.7*	*33.0*
Other Maintenance and Reconstruction Projects	101.5	130.2	186.1	174.1	192.0
Rolling Stock Acquisition[2]	58.7	46.0	49.7	56.5	82.2
Other	5.1	6.8	5.1	17.9	7.9
Total	**265.6**	**317.4**	**348.9**	**358.0**	**315.1**

Source: Company information

Notes:

(1) Budgeted expenditures are subject to change. In particular, some parts of the investment may in the future be reallocated to the companies engaged in suburban rail transportation.

(2) Includes locomotive acquisitions. In future, the investment in rolling stock may be effected by way of entering into leasing agreements rather than direct sale and purchase contracts.

Winter Olympics Construction

The Company has several infrastructure projects relating to the Winter Olympics. Construction of a combined car and railway routes between Adler and ski resort Krasnaya Polyana is a part of the Government sponsored project for the development of transport infrastructure in the Sochi region. The Company is responsible for the construction of 48 kilometres of electrified railways, reconstruction of Adler passenger train station, construction of two new rail stations at resorts Esto-Sadok and Alpika-Servis and the construction of a 46.5-kilometre automobile road. In addition, the Company is to construct 30 kilometres of the second main railroad of the Sochi-Adler-Olympic Park (Veseloe) section, which includes two rail tunnels, construction of a passenger train station "Olympic Park".

The Company invested approximately RUR 141.8 billion between 2008 and 2010 for the development of Winter Olympics projects. The Company's investment programme for 2011, 2012 and 2013 allocated for the projects related to the Winter Olympics was approximately RUR 140 billion, which includes approximately RUR 19 billion allocated for the improvement of railway infrastructure on route Tuapse—Adler and the reconstruction of the Sochi passenger train station as well as RUR 3.1 billion allocated for the development of intermodal transportation facilities on the railway route between the Adler train station and the Sochi international airport and the construction of a new passenger terminal on its territory, among others.

In 2010 and 2011, the Government contributed RUR 120 billion to the share capital of the Company to be used to finance the Winter Olympics-related projects.

Modernisation of Infrastructure on Certain Key Destinations

The Company's main projects relating to development of infrastructure on certain key destinations include the Kuzbas—North Western transportation junction, the Kuzbas—Far Eastern transportation junction and the Kuzbas—Azovo-Chernomorsky transportation junction, primarily because Kuzbas is one of the main coal-mining regions in Russia. Also, one of the Group's main initiatives is improving railway transportation for oil exports from Russia to China and expanding railway access to the oil and gas exploration regions of Tumen, Hanty-Mansiisk and Yamalo-Nenets.

Due to the absence of a viable pipeline network, the Group plays an important role in the export of Russian oil to China. To increase the volumes of oil exports and improve the efficiency of oil transportation to China, the Group has continued to increase throughput capacity of railway infrastructure relating to that destination, which includes the construction of new rail lines and the electrification of railway track on the Krymskaya-Zabaikalsk route section. The Group expects to spend additional RUR 8.8 billion in 2011 and 2012.

The Group is in the process of building the second line between Tobolsk and Surgut, which is a part of the larger railway route between Tyumen, Surgut and Noviy Urengoi. The main purpose of this project is to improve railway access to the oil and gas exploration regions in Tyumen, Hanty-Mansiisk and Yamalo-Nenets as well as to improve the connection of these regions to other regions in Siberia, the Urals and the European part of Russia. The operational length of the Tobolsk-Surgut route section is approximately 329 kilometres, with an estimated construction cost of the first stage of development being approximately RUR 42 billion. In 2011, the Company budgeted to spend approximately RUR 1.2 billion on this project.

Certain other key modernisation projects include reconstructing the rail approaches to the railway stations on the southern coast of the Gulf of Finland, rebuilding a tunnel and harbour in the Russian Far East and reconstructing a route between the European part of Russia and the Black Sea.

The Group continues the reconstruction of a section of the route between Mga and Ivangorod, towards the seaports in the Gulf of Finland. The reconstruction of this line is expected to significantly increase the efficiency of railway traffic between the north-western and central parts of Russia and the Baltic states. In addition, its goal is to provide additional transportation capacity to handle the anticipated increase in cargo flows from port Ust'-Lugu towards the central Russia expected to occur on the commissioning of the Ust'-Lugu port facilities. In 2011, the Company plans to spend approximately RUR 14 billion. The project is scheduled to be completed by 2020.

The Company is also rebuilding the New Kuznetsovskiy Tunnel and approaches to the Sovetskaia harbour on the Amur River in Komsomolsk-on-Amur in the Russian Far East. This project has been partially funded by the Investment Fund of the Russian Federation. The reconstructed tunnel is expected to improve access to natural resources exploration regions in Siberia and Russian Far East, as well as increase the freight throughput capacity of the Sovetskaia and Vanino harbours. The overall cost of completing this project is approximately RUR 59.9 billion. The Company expects to spend additional RUR 3.5 billion in 2011.

The Group is also rebuilding the Kotelnikovo-Tikhoreckaya-Timoshevskaya-Krymskaya route with a bypass around the Krasnodar railway junction, to improve the efficiency of this route. The reconstruction is expected to increase freight traffic to the Black Sea ports, and is expected to cost approximately RUR 98.4 billion. The Company budgeted to spend additional RUR 7.2 billion in 2011.

High-speed Railway Transportation

The Group seeks to promote its long-haul passenger operations through the development of a high-speed train network with trains capable of reaching speeds of up to 250 kilometres per hour. The Group already operates high-

speed passenger train service between Moscow and St. Petersburg, St. Petersburg and Helsinki, and between Moscow and Nizhny Novgorod. The Group expects to spend approximately RUR 8.6 billion in 2011.

In 2006, the Company entered into a contract to purchase eight high-speed electric trains from Siemens AG. These high-speed trains are expected to be utilised on the Moscow-St. Petersburg and the Moscow-Nizhny Novgorod lines. The Company has also entered into a 30-year service contract with Siemens. As at 31 December 2009, the Company received these high-speed trains and had launched the high-speed route between Moscow and St. Petersburg, St. Petersburg and Helsinki, and between Moscow and Nizhny Novgorod.

Other Maintenance and Reconstruction Projects

Although there was underinvestment in railway infrastructure during the 1990s, the Rail System has been sufficiently maintained to ensure relatively safe and efficient operations. However, the Group recognises the need for additional maintenance and upgrading of its infrastructure. Due to the recent economic downturn, the Group reduced its maintenance and reconstruction expenditures in 2008 and 2009. As the Russian economy began to recover, the Group's budget for maintenance and reconstruction of the Rail System and related infrastructure has increased: the projected budgets for 2011, 2012 and 2013 are approximately RUR 186.1 billion, RUR 174.1 billion and RUR 192.0 billion, respectively. The investment programme's funds allocated to modernisation and reconstruction of the Rail System and related infrastructure are intended to be used for the reconstruction and upgrading of rail track and ancillary assets, electric and signalling systems and equipment, as well as measures aimed at increasing safety and security of freight and passenger transportation, including anti-terrorist initiatives.

Locomotive Acquisition

The Group intends to allocate significant resources to maintain or replace its locomotive fleet, aimed at slowing its retirement rate to less than 1 percent per year. The average service life of a locomotive is between 30 and 40 years. In connection with the locomotive replacement and upgrade plan, the Company's capital expenditures are projected to amount to RUR 131.8 billion for 2011 through 2013, of which approximately RUR 37 billion projected to be spent in 2011. The locomotives are expected to be manufactured by and purchased from Transmashholding and other locomotive manufacturers selected on a competitive basis. In certain instances, the Company may invest in design and development of locomotives by locomotive manufacturers subject to the relevant designs being transferred to the Company's ownership.

Rolling Stock Acquisition

The Group intends to replace and expand its freight rolling stock, primarily through purchase and lease thereof by the Company's subsidiaries. Freight One and TransContainer and other Company's subsidiaries already purchase the majority of the Group's rolling stock and other assets as they expand their operations. In 2010, Freight One acquired approximately 22,600 railcars. Freight Two did not purchase any new railcars in 2010.

As a result of safety and other regulatory requirements, the Group's passenger rolling stock has required more maintenance and capital investments compared with freight rolling stock. Since 2003, the Group renewed its passenger rolling stock at a greater pace than its freight rolling stock. Between 2011 and 2013, the Group expects to invest approximately RUR 55.4 billion in suburban passenger rolling stock, of which approximately RUR 17.7 billion for the rolling stock to service the Winter Olympics.

The Group expects that it may use finance leasing schemes going forward in order to optimise its investment in the rolling stock acquisition.

Research and Development

The Company has undertaken an extensive research and development programme for developing and manufacturing modern locomotives. Under a federal programme to develop and produce a new type of passenger rolling stock, the Ail-Russian Scientific and Research and Design Institute for Electric Train Construction, the Novocherkask Electric Train Factory and ALSTOM have developed a dual-system electric locomotive with asynchronous traction drive.

The Group has also designed in-house a locomotive that uses a gas turbine running on liquefied natural gas to drive an electric generator. The electricity produced by the gas turbine is used to power the traction motors. This design has fewer moving parts than a conventional locomotive, which decreases the need for lubrication and increases the

locomotive's ability to operate in extremely low temperatures at relatively high-speeds thereby providing fuel and cost economies. An operational prototype of the engine made its first test run in 2007.

The Group also undertakes research and development for advanced rolling stock, principally focused on increasing cold-weather tolerance and maximum freight loads and speeds.

The Group also has a long-standing relationship with Siemens AG dealing with telecommunications, automation, power supplies for railway lines, transportation and track safety technology and the modernisation of passenger rolling stock. Recent cooperation with Siemens has included creating a 4,000 kilometre fibre optic communications network running along railway lines, reconstructing a section of the rail network on the Sverdlovsk Railways and fitting out electric trains between Moscow and Domodedovo, and Moscow and Mytishchi. In November 2005, the Group and Siemens entered into a strategic five-year agreement to develop, operate and provide technical servicing of equipment and rolling stock and to prepare technical solutions for various projects.

COMPETITION

As the sole operator of the national railway network and as the primary provider of suburban and long-haul passenger rail transportation in Russia, the Group is not generally subject to competition in these areas of its operations by other rail operators. The Group believes that under the current regulatory regime, the environment of limited competition in these markets will remain for the foreseeable future. In addition, the substantial capital expenditures required by any company wishing to construct competing rail infrastructure poses a high barrier to entry for potential competitors.

Private participation in the Russian rail industry is currently limited to ownership, leasing and operation of railcars and limited ownership of locomotives for freight transportation only. There are three private operators in the long-haul passenger segment and approximately 1,860 private freight railcar operators in Russia owning or leasing over 517,000 railcars, or approximately 51 percent of Russia's total rolling stock. Private freight railcar operators are generally active in specialty freight segments such as oil and petroleum products, mineral fertilisers or automobile transportation. Their ownership is usually associated with large industrial conglomerates. Major competitors of this type include BaltTransService, EvrazTrans, MMK-Trans, LUKOIL-Trans, Metalloinvesttrans and Mecheltrans. In addition, there is a number of independent Russian freight railcar operators, the largest of which are Globaltrans, Transgarant, Eurosib, Novotrans and Transoil. The market share by freight turnover of private freight railcar operators in certain classes of freight is more than 75 percent as at 31 December 2010, with private freight railcar operators having an overall market share by freight turnover of over 45 percent.

The table below sets forth the market share of the private operators (excluding the Company and its subsidiaries), by freight turnover, for main classes of freight representing more than 51.7 percent of total freight turnover for the year ended 31 December 2010:

	Year ended 31 December 2010
Oil and petroleum products	72.7%
Coke	36.8%
Coal	39.9%
Ores, other	68.6%
Ores, iron and manganese	61.8%
Ferrous metals	47.6%

Source: Company information

The level of competition in freight transportation varies depending on the type of freight. The Group believes that private oil and oil product transportation is characterised by higher levels of competition than that of ferrous metals or scrap metal, due to generally higher pricing.

In addition, the Group faces general competition in both the passenger and rail freight markets from alternative transportation, including pipelines for oil and gas transportation, truck transportation, air transportation and river barge transportation when waterways are navigatable.

While the Group has an effective monopoly in suburban and long-haul rail passenger transportation services in Russia, several companies operate long-haul passenger services in certain areas, including the Moscow-St. Petersburg route.

The Group estimates that in 2010 approximately 517,000 passengers travelled on privately-operated passenger trains (representing approximately 0.4 percent of the total long-haul passenger trains).

Financial Management

The Company's financial management is provided by a centralised management structure and management units within its subsidiaries. Undertaken by the Corporate Finance Department, the Department of Planning and Budgeting and the Treasury, the Company's financial management consists of a coordinated system including the Company's financial plan, budgetary management and day-to-day financial management. The Company's financial plan identifies key benchmarks in the medium-term. The Company's budget consists of a series of budgetary targets on an annual and quarterly basis and short-term financial management is provided on a monthly and quarterly basis. The Company's subsidiaries generally arrange their budgetary management and financial plans independently from the Company.

The Company's financial plan, prepared by the Corporate Finance Department, is a financial forecast that defines strategic financial performance and financial targets for the medium-term and sets goals to be achieved on an annual basis.

The Company's budgetary management, undertaken by the Department of Planning and Budgeting, focuses on annual and quarterly budgets over the near-term with reference to the strategic goals identified in the Company's financial plan. The Company's budgetary management is effected through a series of budgetary targets for each level of the Company's operations.

Short-term financial management is provided by managing volumes and targets for accounts receivable and accounts payable at the operational level for each branch of the Company.

Environmental Protection, Health and Safety

The Group's operations are subject to various environmental, health and safety laws and regulations. The Group is committed to environmental protection and has sought to reduce the environmental impact of its operations. Between 2003 and 2010, the Group has reduced emissions of harmful substances into the atmosphere by 44 percent, discharge of waste into water by 65 percent, and waste processing and utilisation increased by 17 percent. In addition, the Group has undertaken the following measures in an effort to reduce its environmental impact, including the following:

- switching boilers to more environmentally sound types of fuel, including natural gas and fuel oil;
- switching from diesel to electric traction;
- achieving better fuel burn rates;
- introducing electric heating;
- disposing of inefficient coal-burning boilers;
- modernising existing and installing new dust- and gas-collecting equipment;
- transferring boilers and sewage treatment facilities to municipal ownership;
- improving the efficiency of water usage in existing and new facilities;
- using high-capacity local plants to treat industrial and storm wastewaters;
- introducing advanced technologies, new filtering materials and equipment for treatment of industrial and storm wastewaters;
- equipping passenger carriages with non-discharging sanitary facilities; and
- replacing wooden sleepers, impregnated with antiseptic, with environmentally sound reinforced concrete sleepers, and replacing asbestos ballast with crushed stone.

As part of its investment programme, the Group plans to spend RUR 2.1 billion on environmental protection measures between 2011 and 2013.

The Group monitors hazardous emissions, effluents and soil contamination in each of its 16 railways. The Group has 56 environmental laboratories for monitoring pollution levels, 10 wagon laboratories on its railway lines,

55 automobile laboratories and 89 environmental control stations measuring diesel locomotives' waste emissions. The Group's environmental employees operate the environmental laboratories and ensure compliance with environmental regulation, in particular, to prevent emissions from rising above permitted levels. See "*Regulation of Railway Transportation in Russia—Environmental*" and "*Regulation of Railway Transportation in Russia—Health and Safety*". The Group is not aware of any material environmental claims against the Company or its subsidiaries.

Since its establishment, the Company considered the safety of passengers and freight in transportation to be one of its main priorities and has invested substantially in the maintenance and renovation of railway infrastructure and rolling stock. The Company continues to motivate its employees responsible for safety of railway transportation through bonus and other reward schemes.

EMPLOYEES

The following table sets forth the average number of employees by category at the Company for the years indicated:

	Year ended 31 December		
	2010	2009	2008
Sales	15,223	24,271	25,204
Locomotive	202,804	198,749	205,589
Rolling stock	88,874	90,653	98,436
Infrastructure[(1)]	316,518	317,488	323,877
Freight and commercial projects	32,545	33,192	35,251
Passenger[(2)]	44,780	135,651	152,190
Other (including track repair, tracking, supplies)	275,372	278,397	326,438
Total	**976,116**	**1,078,401**	**1,166,985**

Source: Company information

Notes:

(1) Includes route, automatic/telemechanic, information and communications and electricity supply.

(2) In 2010, approximately 76,000 employees of the Company were transferred to Federal Passenger Company.

The majority of the Company's employees are members of the railway transport trade union, ROSPROFZHEL, which is one of the largest trade unions in Russia. Pursuant to the general collective bargaining agreement for 2010-2013 (the "**CBA**"), employee wages are increased by quarterly indexation linked to the CPI and increased labour productivity. The Group has implemented a key performance indicators system that enables it to identify and compensate its performing employees accordingly.

The CBA also provides for additional time off for childbirth and marriage and benefits for children and maternity leave. Employees are also entitled to a social package, which includes medical insurance under the Company's voluntary medical insurance policy, partially-compensated treatment at the Company's health resorts, financial assistance for the purchase of a residence and one-off payments upon retirement, among others. See Note 19 to the 2009 and 2008 Consolidated Financial Statements.

In 2009, the Group instituted a cost reduction programme to reduce its workforce-related expenses. The number of the Company's employees decreased by approximately 59,000 in 2009. In 2010, the number of the Company's employees decreased by approximately 102,000, of which approximately 76,000 were transferred to Federal Passenger Company. See "*—Recent Developments—Global economic downturn and the Company's measures to mitigate its effects*". Employees of the Company's subsidiaries are generally members of trade unions similar to those of the Company's employees and receive comparable benefits.

Pension Plans

In addition to pension benefits provided by the state, the Company also provides its employees with a corporate pension plan, which is a measure of social support of the Company's employees independent of the state pension scheme. The Company's corporate pension plan is administered through the pension fund Blagosostoyanie and not-for-profit fund Pochet. The Company's pension plan provides full financial support for corporate pensions. The Company matches pension contributions of its employees. The Company provides contribution to corporate pensions, which together with other contributions, result in the total pension equivalent to approximately 40 percent

of an average salary of an employee that entered into the Company's pension plan agreement prior to certain date and met certain other criteria. In addition, the Company and its subsidiaries provide other long-term employee benefits, retirement and post-employment benefits to its employees which comprise one-time bonus on retirement, free medical and dental care, sanatorium treatment and free tickets for travel on suburban and long-haul trains, pursuant to the CBA.

In 2007, the Company excluded from its corporate pension plan employees that did not enter into corporate pension plan agreement and did not make contributions to the corporate pension plan. Beginning from 1 July 2007, such employees became eligible to participate in the corporate pension plan by entering into the corporate pension plan agreement.

As at 31 December 2009, the Company had approximately 1.3 million employees eligible to participate in the corporate pension plan. The amount of the Group's employee benefit obligations pursuant to the CBA was RUR 198 billion as at 31 December 2009 compared with approximately RUR 194 billion as at 31 December 2008. See Note 19 to the 2009 and 2008 Consolidated Financial Statements.

Education and Science

The Group has a large educational and training network for its employees and their children, ranging from pre-schools and schools to employee-training and technical training centres and research and development institutes specialising in railway transportation and engineering. In addition, the Federal Agency of Railway Transport oversees a number of universities that train specialists for the railway industry.

Due to the fact that some educational institutions gradually move away from their connection with the railway industry and no longer fulfil the Company's social mandate, the Company plans to transfer such institutions to municipal authorities. In 2009 and 2010, 16 of such educational institutions were transferred to municipal authorities, reorganised or liquidated and 33 additional institutions are planned to be transferred, reorganised or liquidated.

Insurance

The Group maintains a comprehensive set of insurance policies, which are usually renewed every six months. These include insurance cover for real estate and other fixed assets, rolling stock (covering freight cars and passenger cars), locomotive stock, civil liabilities insurance for the Company as a freight transporter and proprietor of infrastructure (covering third-party claims against the Company), insurance for leased rolling stock, electric train insurance, employee accident insurance and medical insurance. In the event of a serious accident involving passengers, similar to the crash of the Nevsky Express in 2009, the Company may also need to provide additional assistance to the affected passengers in excess of insurance payouts.

The Group has not made material insurance claims under any of these policies.

Legal Proceedings

From time to time, the Group is involved in litigation in the ordinary course of its business activities. This ordinary course litigation has not had a material adverse effect on the Group's operating results or financial position. The Group is not currently involved in any legal, arbitration or governmental proceedings (including any such proceedings which are pending or threatened of which the Group is aware), including with any contractual parties or with any governmental agencies, which may have, or have had in the past 12 months from the date of this Prospectus, a material effect on the Group's financial condition.

Significant Licences

The Company has a freight rail carrier licence, which is issued for a 5-year period. The Company's licence is valid until 28 August 2013. The Company also has a passenger transportation licence and luggage by rail valid until 12 October 2011. This licence is also issued for 5 years.

In addition to the freight rail carrier licence and passenger transportation licence, the Company holds over 40 other licences, authorising it to carry out a full range of railway-related business activities. Among others, these licences include a licence for loading and unloading hazardous freight in railway transportation, loading and unloading hazardous freight in sea ports, various construction and communications licences, licences for international

automobile transportation, as well as several licences for classified state-related projects. In addition, the Company holds over 20 other licences which do not directly relate to the transportation services provided by the Company.

Information Technology

The importance and sophistication of the logistics, dispatching, rolling stock tracking and freight tracing components of the Group's services require the employment of advanced information technology systems and software that are sufficient for the Group's current needs and are scalable to support the growth in turnover of the Group's operations.

The Group employs the latest information technology to ensure its systems provide the best service for its freight customers, including monitoring trains and registering cargo automatically. These systems include:

- SIRIUS, an automated system that tracks in real time the movement of trains, railcars and containers;
- DISPARK system, a software based on ASOUP, which provides in real time a comprehensive rolling stock utilisation data and monitors the condition of rolling stock;
- DISCOV system, a part of the automated container traffic control system, which is used to improve the efficiency of container transportation, track the movement of trains on the Rail System and monitor utilisation of the rolling stock and its maintenance and repair status;
- AS ETRAN, a centralised electronic document management system used for document handling for freight transportation;
- "Express-3", a booking and ticket sales system for long-haul domestic and international passenger transportation;
- ACS KUPE, a ticket sales and accounting system for suburban passenger transportation;
- Station ACS, a system that automates various technological processes at the train stations;
- AS TESKAD, a system that automates terminal and storage activities;
- EK ASUFR, a centralised internal corporate controls system used for budgeting, bookkeeping and tax accounting;
- ACS INVEST, an automated system for management of investment programme projects;
- ACS PRAVO, an automated system providing legal support; and
- AS ETD, an automatic system of internal bookkeeping, which improves internal processing of initial accounting documents with electronic signature authorisations.

These railway information systems work together with the information systems used in other modes of transportation, including dock-side stations and ports. These multipurpose technologies are based on powerful and highly reliable digital communication channels that control all 16 regional railways. The link-up between these technologies allows the commercial and performance aspects of freight traffic to take place through electronic data exchange.

The Company owns and its TransTelecom subsidiary operates a fibre-optic telecommunications network of over 53,000 kilometres in length along the Company's main railway routes. It covers Russia's main populated and industrial areas. The network also has links to all main ports and customs terminals, allowing the integration of other modes of transportation into the information exchange.

DESCRIPTION OF THE COMPANY MANAGEMENT

General

In accordance with Federal Law No. 208-FZ dated 26 December 1995 "On Joint-Stock Companies" (as amended) (the "**Joint-Stock Companies Law**") and the Company's charter, as adopted by Government Regulation No. 585, dated 18 September 2003 (as amended), the Company's operations are managed by the general meeting of shareholders, the Board of Directors, the Company's management board (the "**Management Board**") and the Company's president. As the Company has the Russian Federation as its sole shareholder, the Russian Federation, represented by the Government exercises all the powers of the general meeting of shareholders and is the highest governing body of the Company. The Board of Directors is responsible for formulating the Company's strategy and the Management Board and the Company's president are responsible for implementing the Company's strategy and for managing the Company on a day-to-day basis. The internal audit commission of the Company (the "**Internal Audit Commission**") exercises control over financial and business activities of the Company.

There are no potential conflicts of interest between any duties of the members of the Company's administrative, management or supervisory bodies owed to the Company and their own private interests and/or other duties.

Sole Shareholder

The general meeting of shareholders is the highest management body of the Company. Because the sole shareholder of the Company is the Russian Federation, all the powers of the general meeting of shareholders are exercised by the Government acting on behalf of the Russian Federation. Generally, under Russian law, if the Russian Federation is the sole shareholder in a company, the decisions of the sole shareholder will be made in the form of a Decree of the Agency for the Management of State Property. However, the Federal Law "On Peculiarities of Management and Disposition of Railway Transport Property" No. 29-FZ dated 27 February 2003 and the charter of the Company specifically provide that all the powers of the sole shareholder are to be fulfilled by the Government, acting on behalf of the Russian Federation. Accordingly, all decisions of the sole shareholder are taken in the form of regulations and decrees of the Government. The list of issues to be resolved by the sole shareholder is submitted to the Government by the Ministry of Economic Development.

The sole shareholder has responsibility for amending the charter of the Company, reorganising or liquidating the Company, electing the members of the Board of Directors and Internal Audit Commission, determining the number, category and nominal price of authorised shares as well as rights arising out of the ownership of shares, increasing or reducing the charter capital, approving the annual report and annual accounts, and approving major transactions and interested party transactions in accordance with the Joint-Stock Companies Law.

In 2010, the resolutions of the annual general meeting of shareholders were taken in the form of Government Regulation No. 1052-R dated 30 June 2010. There were also five extraordinary meetings in 2010 to adopt amendments to the Company's charter and to increase the charter capital. Each of the decisions was made in the form of a Government Regulation.

Board of Directors

The Board of Directors acts on the basis of Russian legislation, the Company's charter adopted by Government Regulation No. 585 dated 18 September 2003 (as amended) and the regulation on the Board of Directors adopted by Government Regulation No. 265-R dated 25 February 2004 (as amended). The Board of Directors is responsible for the general management of the Company's activities and meets several times each year. In accordance with Regulation No. 1052-R of 30 June 2010, adopted by the Government as the sole shareholder of the Company, the Board of Directors at present consists of ten members. Deputy Prime Minister Mr. Alexander Zhukov is the chairman of the Board of Directors and the only member holding a position in the Government. He was appointed as Deputy Prime Minister of Russia in 2004 and has been a member and the chairman of the Board of Directors since 2004. Due to the recent initiative of President Medvedev to exclude Government representatives from the boards of directors of companies, shares of which are owned by the Russian Federation, the Group cannot exclude that Mr. Alexander Zhukov may not be re-elected as the chairman of the Board of Directors at the next shareholders' meeting. Other members of the Board of Directors were also appointed by the Government and mostly represent various private and state owned companies. Members of the Board of Directors are appointed each year for a term lasting until the next annual decision of the Government on composition of the Board of Directors and may be re-elected an unlimited number of times. The Government acting on behalf of the sole shareholder may also terminate the authority of all members of the Board of Directors before the expiration of their terms. Members of the Management Board may not comprise more than 25 percent of the Board of Directors.

The powers of the Board of Directors are broader than minimum powers of the board of directors under the Joint-Stock Companies Law and include, among other things, the following: to determine the priorities of the Company's operations, to approve annual budgets, to determine the agenda for the sole shareholder, to issue bonds or other securities in accordance with the Joint-Stock Companies Law, to appoint the Management Board, to decide on early termination of the powers of the Management Board, to determine the remuneration of the Company's president, to recommend to the sole shareholder the amount of dividends to be declared, to use the reserve and other funds, to establish branches and representative offices, and to approve certain major transactions and interested party transactions (except such major or interested party transactions that require the approval of the sole shareholder), including any transactions above RUR 3 billion unless such transactions are made in the ordinary course of business. In addition, the Board of Directors is authorised to approve most significant decisions made by subsidiaries of the Company.

Because the members of the Board of Directors are regarded as representatives of the Russian Federation (the sole shareholder) they have no discretion in voting at meetings of the Board of Directors and are obliged to vote, as instructed by the Ministry of Economic Development and approved by the Prime Minister or his deputy. The relevant issues include approval of the agenda for the sole shareholder, increases in the Company's charter capital (if it is within the competence of the Board of Directors), recommendations on the amount of dividends to be declared by the sole shareholder and some other issues.

The sole shareholder may resolve to pay out the remuneration to the members of the Board of Directors for fulfilling their roles and/or compensation of costs incurred by them in connection with such fulfilment. However, as a matter of fact, since establishment of the Company in 2003 the members of the Board of Directors never received any remuneration for holding their position. As such, the Company believes that there are no potential conflicts of interest between any duties to the Company of the members of the Board of Directors and their private interests and/or other duties.

In order to improve its corporate governance standards and to ensure comprehensive review of the matters falling within its competence, the Board of Directors has established committees consisting of its members, the Company's employees and third parties. Such committees act in accordance with the regulations approved by the Board of Directors.

As at the date of this Prospectus, the following committees of the Board of Directors have been created:

- Committee for strategic planning; and
- Committee for issues relating to audit, risk and remuneration (the "**Board Audit Committee**").

The committee for strategic planning reviews the issues regarding business priorities for the Company, annual budgets and investment programme, establishment of subsidiaries, improvement of management of the Company, ensuring effective cooperation between the Company and Russian regions and local governments. Based on their review the committee for strategic planning issues recommendations and proposals for the Board of Directors.

The Board Audit Committee analyses the implementation of financial and business plans of the Company and its subsidiaries, and the effectiveness of internal control systems, interacts with the Internal Audit Commission and the external auditor of the Company and develops proposals for the Board of Directors on the Company's remuneration policy.

Committees' decisions are regarded only as recommendations and have no binding force for the Board of Directors.

The Board of Directors resides at the main office of the Company, which address is Novaya Basmannaya 2, Moscow, 107174, Russia. The members of the Board of Directors and some of their outside activities are set out below.

The schedule of the meetings of the Board of Directors is approved in advance and usually it meets at least several times per year.

As at the date of this Prospectus, the active membership of the Board of Directors is set out below:

Name	Year of birth	Current position/biography and outside activities	Since
Alexander Zhukov	1956	Chairman of the Board of Directors • Mr. Zhukov is also Deputy Prime Minister	2004
Alexander Shokhin	1951	Member of the Board of Directors (independent director) Mr. Shokhin's outside activities include: • President of the Russian Union of Industrialists and Entrepreneurs • Member of the board of directors of OJSC Lukoil, OJSC TNK-BP Management, OJSC Fortum, OJSC Baltika and OJSC TMK • Member of the General Council of the United Russia political party	2008
Andrey Sharonov	1964	Member of the Board of Directors (independent director) Mr. Sharonov's outside activities include: • Managing director of CJSC Troika Dialog • Member of the managing board of the Russian Union of Industrialists and Entrepreneurs • Head of committee for financial markets and credit institutions of the Chamber of Commerce and Industry	2008
Alexander Ryazanov	1953	Member of the Board of Directors (independent director) Mr. Ryazanov's outside activities include the following: • Chairman of the board of directors of CJSC Russian Holding Company	2008
Dmitry Komissarov	1970	Member of the Board of Directors (independent director) Mr. Komissarov's outside activities include the following: • Chairman of the board of directors of OJSC Technological Company • Member of the managing board of the Russian Union of Industrialists and Entrepreneurs	2008
Vladimir Gusakov	1960	Member of the Board of Directors Mr. Gusakov's outside activities include: • Vice-president of CJSC Moscow Interbank Currency Exchange • Member of the board of directors of JSC Agency for Restructuring of Mortgages	2008
Mikhail Kuzovlev	1966	Member of the Board of Directors Mr. Kuzovlev's outside activities include: • First deputy president and chairman of the management board of OJSC VTB Bank • Member of the supervisory board of the Russian Commercial Bank (Cyprus) Ltd.	2010
Grigory Berezkin	1966	Member of the Board of Directors (independent director) Mr. Berezkin's outside activities include: • Member of the board of directors of OJSC SG-Trans • Member of the managing board of the Russian Union of Industrialists and Entrepreneurs, head of its Power Industry Commission and Independent Directors' Committee • Chairmen of the board of directors of LLC "ECN Energo"	2010
Nikolay Kosov	1955	Member of the Board of Directors Mr. Kosov's outside activities include: • Member of the management board and first deputy chairman of the management board of the state corporation Bank for Development and Foreign Affairs (*Vnesheconombank*) and Belvneshekonombank	2008

Name	Year of birth	Current position/biography and outside activities	Since
Vladimir Yakunin	1948	Member of the Board of Directors, chairman of the Management Board and president of the Company Mr. Yakunin's outside activities include: • Chairman of the board of directors of CJSC South-Caucasus Railways • Chairman of the board of guardians of the Centre of National Pride and St. Andrew The Apostle Fund • Research advisor and chairman of the board of guardians of the Centre for Problem Analysis of State and Management Design associated with the Russian Academy of Sciences	2004

The President of the Company

Under Russian law, the president of the Company manages day-to-day operations of the Company and has authority to act in the Company's name without power of attorney. He represents the Company's interests, approves the staffing plan, enters into contracts, unless they are subject to approval by the Board of Directors or the sole shareholder, issues orders and decrees, gives instructions mandatory for all the employees of the Company, and issues internal documents relating to current activities (with the exception of internal documents that are within the competence of the Company's other management bodies). The president of the Company is appointed by the Government for a period of three years. Mr. Yakunin, the current president was first appointed as the president of the Company in 2005 and reappointed in 2008 and in June 2011.

Born in 1948, Mr. Yakunin graduated from the Leningrad Institute of Mechanics in 1972 and began his career as a junior research scientist at the State Institute of Applied Chemistry. After completing military service in the Soviet Army, he worked as an engineer and senior engineer at the Foreign Economic Relations Department of the State Committee of the USSR Council of Ministers and as the head of a division of the Yoffe Technical Institute of the Academy of Sciences of the USSR.

From 1985 to 1991, Mr. Yakunin was Second and then First Secretary of the USSR's Permanent Representative Office at the United Nations. He was then chairman of the board of directors of the International Centre for Business Cooperation before becoming head of the North-Western Federal District Inspectorate of the Senior Control Department of the Russian President.

Mr. Yakunin became Deputy Minister of Transport in October 2000 and first Deputy Minister of Railways in February 2002. In October 2003, the Board of Directors appointed Mr. Yakunin as the first vice-president of the Company.

Management Board

The Management Board is the collective executive body of the Company and also has important functions in supervising its on-going operations. Members of the Management Board (except the chairman of the Management Board) are appointed, and may be dismissed by the Board of Directors. The president of the Company serves as chairman of the Management Board.

The Management Board, among other things, submits to the Board of Directors for consideration business priorities of the Company, annual budgets and investment programmes, develops and approves the Company's current business operation plans, ensures implementation of the Company's investment, financial and other projects and resolves other issues relating to the current activities of the Company submitted to it by the Company's president, the Board of Directors and the sole shareholder.

The Management Board meets on an as-needed basis at least once per month.

As at the date of this Prospectus, the membership in the Management Board is as follows:

Name	Year of birth	Current position	Since
Vladimir Yakunin	1948	Member of the Board of Directors, president and chairman of the Management Board	2004 2005
Vadim Morozov	1954	Member of the Management Board, first vice-president	2005
Valentin Gapanovich	1955	Member of the Management Board, senior vice-president (chief engineer)	2008
Boris Lapidus	1947	Member of the Management Board, general director of OJSC VNIIZT, senior adviser to the Company's president	2005
Vadim Mikhailov	1969	Member of the Management Board, senior vice-president for Finance and Economic Sector	2009
Galina Kraft.	1950	Member of the Management Board, chief accountant	2005
Mikhail Akulov	1960	Member of the Management Board, vice-president, general director of OJSC Federal Passenger Company	2009
Oleg At'kov	1949	Member of the Management Board, vice-president for Health Care and Social Policy	2005
Salman Babaev	1955	Member of the Management Board, vice-president for Commercial Activity	2011
Alexander Bobreshov	1965	Member of the Management Board, vice-president for External Affairs and Corporate Security	2005
Vladimir Vorobiev	1949	Member of the Management Board, vice-president for Infrastructure	2006
Alexey Vorotilkin	1961	Member of the Management Board, vice-president for Locomotive and Wagon Sector	2008
Sergey Epifantsev	1953	Member of the Management Board, vice-president-official secretary	2009
Vyacheslav Lemeshko	1946	Member of the Management Board, vice-president for Railway Transportation	2007
Georgiy Kornilov	1953	Member of the Management Board, vice-president for Special Programmes	2004
Valeriy Reshetnikov	1952	Member of the Management Board, senior vice-president for Corporate Management	2007
Alexander Tishanin	1966	Member of the Management Board, vice-president for Traffic Safety	2008
Oleg Tony	1964	Member of the Management Board, vice-president for Construction Sector	2006
Dmitry Shahanov	1961	Member of the Management Board, vice-president for HR and Social Affairs	2009
Vadim Bynkov	1962	Member of the Management Board, head of the Legal Department	2007
Olga Gnedkova	1960	Member of the Management Board, head of the Department of the Corporate Finance	2005
Sergey Mikhailov	1971	Member of the Management Board, head of the Department for Corporate Communications	2006
Alexander Saltanov	1946	Member of the Management Board, vice-president for International Affairs	2011
Vladimir Starostenko	1948	Member of the Management Board, adviser to the Company's president	2009
Alexander Tsel'ko	1956	Member of the Management Board, head of West Siberian Railways	2003

Management of Subsidiaries

Although formally the Company does not act as a management company in respect of its subsidiaries, the Company is able to control all material decisions made by its subsidiaries. The Company, as a sole or majority shareholder, exercises control over activities of its subsidiaries by the following means:

- by appointing its representatives to the boards of directors of subsidiaries;
- by issuing directives to its representatives serving in the management bodies of its subsidiaries; and
- by approving of certain transactions and increases in their charter capital.

By exercising its powers as a shareholder, the Company, as a rule, appoints the board of directors and the general director of each of its subsidiaries. This enables the Company to supervise the day-to-day activities of its subsidiaries and facilitates the adoption of uniform operating and financial management practices across all subsidiaries.

In addition, the charter of the Company requires the Board of Directors to determine its position before certain decisions can be taken by the subsidiaries' boards of directors or general meetings of shareholders and the Company's representatives are instructed to vote accordingly. These decisions include the reorganisation of the subsidiary, winding-up, determination of the number, par value and category (types) of authorised shares and the rights attached to such shares, increases in charter capital, the splitting and consolidation of shares, and approval of major transactions.

Internal Audit Commission

The Internal Audit Commission of the Company is a permanent internal control body responsible for monitoring the Company's operational and financial activities. It acts on the basis of Russian legislation, the Company's charter adopted by the Government Regulation No. 585 dated 18 September 2003 and the regulation on the Internal Audit Commission adopted by Government Regulation No. 265-R dated 25 February 2004.

The Internal Audit Commission is responsible for controlling preparation of accurate and reliable statutory accounts and statutory financial statements of the Company and other information about its financial and operational activity and assets, controlling compliance with Russian law of the Company's accounts and provision of financial and accounting reports and other information to the authorities and shareholders in accordance with Russian legislation, developing recommendations to increase the efficiency of the Company's management of its assets and the financial and operational activity of the Company, reducing the Company's financial risks, improving the Company's internal controls, seeking to ensure the systematic operational control of the Company's financial and management activity, informing the Government about the results of audits on the Company's activities in a timely and punctual manner, making recommendations to improve financial and operational discipline, the system of internal controls and increase the Company's effectiveness and efficiency.

The Internal Audit Commission is appointed by the Government. Internal Audit Commission members may not serve simultaneously on the Board of Directors or hold other positions in the Company's management structures.

In accordance with Government Regulation No. 1052-R of 30 June 2010, the Internal Audit Commission, as at the date of this Prospectus, consists of the following seven members: Gamid Bulatov, Maria Vinter, Ekaterina Golubeva, Irina Zelentsova, Andrey Kazutin, Yaroslav Mandron and Alexey Tsydenov.

External Auditors

In accordance with Russian law the Company's Russian statutory financial statements are subject to the mandatory external audit and the Company must engage an external auditor (the "**Statutory External Auditor**").

The Statutory External Auditor is approved by the sole shareholder based on the results of competitive tender and its remuneration is defined by the Board of Directors. In accordance with Government Regulation No. 1052-R of 30 June 2010, CJSC BDO (Moscow) was approved as the Company's Statutory External Auditor. The Statutory External Auditor carries out an audit of the Company's financial statements prepared in accordance with Russian accounting standards and prepares a report on its results for submission to the Company's president and the sole shareholder.

The Company also engages an external auditor to carry out an audit of the Company's IFRS consolidated financial statements in accordance with international standards on auditing. Ernst & Young LLC has been carrying out such audits since 2003.

RELATED PARTY TRANSACTIONS

The following is a summary of the Group's most significant transactions with related parties for the six months ended 30 June 2010 and for the years ended 31 December 2009 and 2008. For further details of these and other transactions see Note 30 to the 2010 Unaudited Interim Condensed Consolidated Financial Statements and Note 31 to the 2009 and 2008 Consolidated Financial Statements.

The Government owns 100 percent of the Company's share capital. All members of the Board of Directors of the Company were nominated by the Government and the chairman of the Board of Directors, Mr. Alexander Zhukov, is Deputy Prime Minister of Russia. See "*Description of the Company Management*".

The Group's transactions with the Government, with other entities directly or indirectly controlled by the Government, with associates (being entities over which the Company has significant influence), with entities with common directors, and other related parties occur in the ordinary course of business and include, but are not limited to: the provision of freight and passenger transportation, the purchase of fuel and electricity for operational needs, the purchase of rolling stock, transactions with state-controlled banks and transactions with pension funds. The Group believes that these transactions will continue in the foreseeable future.

Transactions with the Government, State-Controlled Entities and Associates

The Group undertook the following significant transactions with the Government, state-controlled entities and associates in the six months ended 30 June 2010 and 2009 and in the years ended 31 December 2009 and 2008 (amounts of revenues from cargo transportation and other services, electricity expenses, fuel and oil expenses, security expenses and rolling stock purchases shown below include applicable VAT):

- Revenues from cargo transportation and other services totalling RUR 86.9 billion and RUR 67.7 billion in the six months ended 30 June 2010 and 2009, respectively, and RUR 131.5 billion and RUR 99.453 billion in the years ended 31 December 2009 and 2008, respectively;
- Electricity expenses totalling RUR 2.2 billion and RUR 1.8 billion in the six months ended 30 June 2010 and 2009, respectively, and RUR 3.9 billion and RUR 9.9 billion in the years ended 31 December 2009 and 2008, respectively;
- Fuel and oil expenses (for purchases from state-controlled fuel and oil providers such as Gazprom) totalling RUR 4.3 billion and RUR 4.7 billion in the six months ended 30 June 2010 and 2009, respectively, and RUR 11.0 billion and RUR 11.453 billion in the years ended 31 December 2009 and 2008, respectively;
- Security expenses (for services provided by state-controlled security services providers) totalling RUR 5.6 billion and RUR 5.2 billion in the six months ended 30 June 2010 and 2009, respectively, and RUR 11.8 billion and RUR 10.8 billion in the years ended 31 December 2009 and 2008, respectively;
- Rolling stock purchases totalling RUR 31.1 billion and RUR 35.3 billion in the six months ended 30 June 2010 and 2009, respectively, and RUR 63.9 billion and RUR 102.7 billion in the years ended 31 December 2009 and 2008, respectively;
- Interest income, fees and commission income arising from banking services provided by TransCreditBank totalling RUR 4.0 billion and RUR 2.8 billion in the six months ended 30 June 2010 and 2009, respectively, and RUR 6.8 billion and RUR 3.1 billion in the years ended 31 December 2009 and 2008, respectively;
- Interest expenses, fees and commission expense arising from banking services provided by TransCreditBank totalling RUR 2.2 billion and RUR 4.6 billion in the six months ended 30 June 2010 and 2009, respectively, and RUR 4.4 billion and RUR 2.6 billion in the years ended 31 December 2009 and 2008, respectively;
- Interest expenses (other than interest expenses connected with TransCreditBank as described immediately above) totalling RUR 1.0 billion and RUR 5.6 billion in the six months ended 30 June 2010 and 2009, respectively, and RUR 9.5 billion and RUR 4.7 billion in the years ended 31 December 2009 and 2008, respectively;
- Subsidies for freight and passenger transportation totalling RUR 31.3 billion and RUR 16.4 billion in the six months ended 30 June 2010 and 2009, respectively, and RUR 77.1 billion and RUR 21.4 billion in the years ended 31 December 2009 and 2008, respectively; and
- Contributions to pension plans totalling RUR 10.8 billion and RUR 11.7 billion in the six months ended 30 June 2010 and 2009, respectively, and RUR 26.0 billion and RUR 15.9 billion in the years ended 31 December 2009 and 2008, respectively.

In the six months ended 30 June 2010 and 2009 and in the years ended 31 December 2009 and 2008, the Company was entitled to receive tariff compensation of RUR 2.7 billion, RUR 5.8 billion, RUR 11.2 billion and RUR 9.3 billion, respectively, for transportation of certain categories of passengers from the Health Care and Social Development Agency of Russia. As at 30 June 2010, the accounts receivable balance outstanding for this tariff compensation was RUR 21.1 billion. The Company recognised a provision of RUR 20.5 billion relating to this accounts receivable balance outstanding as at 30 June 2010.

The Group has also entered into other transactions with related parties, as further set forth in Note 30 to the 2010 Unaudited Interim Condensed Consolidated Financial Statements and Note 31 to the 2009 and 2008 Consolidated Financial Statements. These included borrowings from related parties (in particular from state-controlled companies and the CBR), guarantees of related parties' obligations and guarantees received from related parties.

REGULATION OF RAILWAY TRANSPORTATION IN RUSSIA

Set forth below are certain key provisions of Russian legislation relating to railway transportation and certain other laws and regulations generally applicable to the Group including land-use, environmental and employment matters which apply to the Group's business activities. However, this description is not comprehensive and is qualified in its entirety by reference to applicable Russian law.

Applicable Legislation

The regulation of the Group and railway transportation in Russia is based primarily on the following key laws and regulations:

- The Civil Code of the Russian Federation, (Part 1 adopted by Federal Law No. 51-FZ dated 30 November 1994; Part 2 adopted by Federal Law No. 14-FZ dated 26 January 1996; Part 3 adopted by Federal Law No. 146-FZ dated 26 November 2001; and Part 4 adopted by Federal Law N 230-FZ dated 18 December 2006), as amended (the "Civil Code"):

  The Civil Code regulates property and contractual relations between commercial parties. In particular, the Civil Code establishes: (i) the rules for obtaining and transferring ownership of movable and immovable property; (ii) the main rules for concluding, amending, performing and terminating contracts; and (iii) the material terms and conditions of a number of contracts, including transportation (carriage) agreements, service agreements, forwarding contracts, lease agreements, and loan and credit agreements.

- Joint-Stock Companies Law.

  The Joint-Stock Companies Law regulates the internal affairs and management, and establishes rules on organisation, reorganisation and liquidation of a Russian company, the minimum amount of the charter capital, issue of shares and other securities and approval of certain transactions. The law also provides a number of important protections to shareholders.

- Federal Law "On Railway Transport in the Russian Federation" No. 17-FZ dated 10 January 2003, as amended (the "**Railway Transport Law**"):

  The Railway Transport Law establishes the legal basis for the functioning of railway transportation and for the interaction between entities rendering railway transportation services and state authorities related to railway transportation.

- Federal Law "Charter of Railway Transport of the Russian Federation" No. 18-FZ dated 10 January 2003, as amended (the "**Railway Transport Charter**"):

  The Railway Transport Charter regulates relations between freight customers, passengers, consignors, consignees, owners of railway transport infrastructure and other persons delivering services relating to railway transport infrastructure. The Railway Transport Charter defines the principal terms and conditions for the carriage of passengers, freight, luggage and freight luggage, for the rendering of services by owners of the railway transport infrastructure and for other services connected with transportation services.

- Federal Law "On Peculiarities of Management and Disposition of Railway Transport Property" No. 29-FZ dated 27 February 2003, as amended, and the Government Regulation "On Properties of Open Joint Stock Company, Russian Railways, Limited in Circulation" No. 57 dated 6 February 2004, as amended:

  This law and Government regulation provide special rules and procedures for privatisation of railway transport property and management and disposition of that property.

- Federal Law "On Natural Monopolies" No. 147-FZ dated 17 August 1995, as amended (the "**Natural Monopoly Law**"):

  The Natural Monopoly Law sets forth the state policy with respect to natural monopolies in Russia and principles of regulation of the companies which fit the criteria of natural monopolies. The law aims to achieve a balance among public, natural monopolies' and consumers' interests. The Company is classified as a natural monopoly and is subject to special regulation, including tariff regulation.

- Federal Law "On Licensing of Certain Activities" No. 128-FZ dated 8 August 2001, as amended (the "**Law on Licensing**"):

  The Law on Licensing is discussed below under "*—Licensing*".

- Federal Law "On Privatisation of State and Municipal Property" No. 178-FZ dated 21 December 2001, as amended (the "**Privatisation Law**") and Presidential Decree "On Approval of the List of Strategic Entities and Strategic Joint Stock Companies" No. 1009 dated 4 August 2004, as amended.

  The Privatisation Law sets forth the governmental approvals required before a stake in a "strategic" state-owned entity such as the Company may be sold. The decree establishes the list of such "strategic" entities. It is discussed below under "*—Strategic Entity*".

- Federal Law "On Protection of Competition" No. 135-FZ dated 26 July 2006, as amended (the "**Competition Law**"):

  The Competition Law sets forth provisions aimed at ensuring that natural monopolies such as the Company do not abuse their predominant position to hinder competition in their relevant markets.

- Federal Law "On the Procedure for Foreign Investments in Business Entities Having Strategic Significance for State Defence and National Security" No. 57-FZ dated 29 April 2008, as amended (the "**Foreign Strategic Investments Law**"):

  The law provides for limitations on foreign investors and their groups participating in charter capitals of business entities that have strategic importance for state defence and national security, as well as entering into transactions, which lead to establishing control over such entities.

- The Tax Code of the Russian Federation, (Part 1 adopted by Federal Law No. 146-FZ dated 31 July 1998; Part 2 adopted by Federal Law No. 117-FZ dated 5 August 2000), as amended (the "**Russian Tax Code**"):

  The Russian Tax Code regulates the taxation of legal entities and individuals in Russia.

- Presidential Decree "Issues Relating to the Structures of the Federal Executive Bodies" No. 649 dated 20 May 2004, as amended, Presidential Decree "On the System and Structure of the Federal Executive Bodies" No. 314 dated 9 March 2004, as amended and Presidential Decree "Issues Relating to the System and Structure of Federal Executive Bodies" No. 724 dated 12 May 2008, as amended:

  These presidential decrees establish the general framework and structure for the state authorities that govern the Company as a state-owned enterprise as described below under "*—Principal Regulatory Bodies for the Russian Railway Industry*".

- Government Regulation "On Incorporation of Open Joint-Stock Company "Russian Railways" No. 585 dated 18 September 2003, as amended (the "**Regulation No. 585**"):

  The Regulation No. 585 provides for incorporation of the Company and adopts its charter.

- Government Regulation "On the Programme of Structural Reform of Railway Transportation" No. 384 dated 18 May 2001, as amended:

  For the main provisions of the Reform Programme see "*Business—History and Corporate Structure of the Group and the Reform Programme*".

- Government Regulation "On State Regulation and Control of Tariffs, Fees and Duties in Relation to Works (Services) Provided by Natural Monopolies in the Field of Railway Transportation" No. 643 dated 5 August 2009 (the "**Tariff Regulation**"):

  This regulation determines the aims, principles and methods of the state regulation of tariffs for the services provided by the Company as a natural monopoly, the rules to determine tariffs, and supervision over the establishment and application of tariffs.

- FTS decree "On Approval of ... the Tariff Guidance" No. 156-t/1 dated 27 July 2010:

  This decree determines the tariffs for passenger transportation and use of infrastructure and sets out the procedure for implementation of such tariffs.

- FTS decree "On Approval of the Method for Calculating the Economically Justified Expenses and Normative Profit that are Considered when Determining the Economically Justified Index to the Current Level of Tariffs, Fees and Duties for the Freight Railway Transportation" No. 198-t/1 dated 31 August 2010.

- Federal Energy Commission Regulation "On Approval of the Price List No. 10-01 "Tariffs for Freight Transportation and Infrastructure Services Provided by Russian Railways" No. 47-t/5 dated 17 June 2003, as amended (the "**Tariff 10-01**").

- Government Decree "On the Development Strategy for Railway Transportation in the Russian Federation up to 2030" No. 877-R dated 17 June 2008 (the "**Government Railway Development Strategy 2030**"):

  The Government Railway Development Strategy 2030 provides a roadmap for implementing the remainder of the Reform Programme, lists priorities for modernisation, improvement and expansion of the rail transportation industry in Russia, and sets goals for meeting public transportation needs and facilitating regional social and economic development.

- Government Regulation "On Licensing of Certain Activities in Railway Transport" No. 134 dated 15 March 2006:

  This regulation adopts some regulations that establish licensing procedures with respect to railway transportation of passengers, luggage and freight, as well as with respect to loading and unloading of hazardous freight on railway transport.

- Ministry of Railway Transportation Instruction "On Work Performance for the Establishment of Certification System" No. 166u dated 12 November 1996, as amended, approved together with the "Rules of Certification for Federal Railway Transport in the Russian Federation; Main Provisions" No. P SSFZhT01-96 (the "**Railway Transport Certification Rules**"):

  The main provisions of the Railway Transport Certification Rules are discussed below under "*—Certification Requirements*".

- Ministry of Transportation Order "On Approval of Rules of Freight Transportation in the Trains Formed of Locomotives and Cars Owned by or Belonging on Other Grounds to Dispatchers, Cargo Consignees or Other Legal Entities or Natural Persons which are not Railway Carriers Themselves" No. 150 dated 22 October 2007 (the "**Rules for Freight Transportation**"):

  The Rules for Freight Transportation regulate the procedure and terms of freight railway transportation in trains consisting of locomotives and cars not owned by the railway carrier.

- Government Regulation "On Use of the Land Plots owned by the Russian Federation and provided to Open Joint Stock Company Russian Railways" No. 264 dated 29 April 2006, as amended.

International Agreements

Russia is a party to international agreements governing railway transportation. In particular, the Agreement on International Railway Cargo Communication provides for a direct railway communication for transportation of freight among the railways of 23 countries of Europe and Asia.

In February 1993, Russia joined the Tariff Agreement, which sets forth a general procedure for annual approval of maximum freight tariff levels for the international transit through the CIS. The Tariff Agreement regulates relations between CIS railway administrations, such as the Company in Russia. Only railcars directly owned by the Company fall under this Tariff Agreement. Also, in July 2009 Russia joined the Convention concerning International Carriage by Rail (COTIF), the provisions of which apply on certain routes.

For more information on the regulation of international freight tariffs see "*Business—Tariff Regulation and Pricing—Freight Tariffs—International Freight*".

Principal Regulatory Bodies for the Russian Railway Industry

The Government on behalf of the Russian Federation exercises all the powers of the sole shareholder of the Company and appoints all members of the Board of Directors. In addition, the Company is obligated to obtain a prior Government approval for the sale of shares in any of the Company's subsidiaries or the disposal of other material assets of the Company. For further details see "*Business*" and "*Description of the Company Management*".

At the federal level, regulatory authority over the Russian railway industry is divided between several federal ministries:

- the Ministry of Transport is responsible for developing governmental policy and legal and regulatory standards in the Russian transportation industry;
- the Ministry for Economic Development approves the list and order of determination of the indices of economic efficiency for federal state unitary enterprises and open joint-stock companies owned by the Russian Federation; and opinions on drafts of the legal acts which regulate relationships between business entities or their relationships with the Russian Federation and which also affect Russian macroeconomic indicators; and
- the Ministry of Finance determines the state taxation policy.

However, the federal ministries in Russia do not have the authority to exercise control over management of state property or to provide state services. These matters are under the jurisdiction of federal services and agencies. The Russian railway industry is influenced by a number of federal services and agencies and primarily by:

- The Federal Agency of Railway Transportation, which implements government policies in the railway transportation industry, manages state property in the railway industry, maintains the registers of rolling stock and decides on suspension of freight transportation on certain routes.
- The Federal Transport Supervision Service, which carries out licensing and governmental supervision of railway transport.
- The FTS, which determines and implements state regulation of tariffs and regulates the pricing of natural monopolies. The FTS sets the tariffs that the Company must charge for regulated services pursuant to the Tariff Regulation.
- The FAS, which is vested with general monitoring and supervision roles covering compliance with antimonopoly legislation and, in particular, the access granted to all customers of natural monopolies, pursuant to Government Regulation "On Approval of the Regulation on the Federal Anti-Monopoly Service" No. 331 dated 30 June 2004, as amended.

In addition, certain other governmental bodies, together with their sub-divisions, have authority over various general issues relating to the Russian railway industry or otherwise relating to the Group's business, including emergency procedures, customs, justice, tax and other matters.

At the CIS level, the Commonwealth Railway Transportation Council coordinates railway transport activity and provides recommendations with respect to pricing rates and technical policy within the CIS.

In addition, the Company performs certain regulatory functions in the Russian railway industry, such as issuing relevant permits, prohibiting the transportation of certain freight in certain types of railcars and determining the procedure for submitting and agreeing freight carriage applications.

Tariffs

The Company is subject to a regulated tariff regime. See "*Business—Tariff Regulation and Pricing*".

Strategic Entity

The Company is included in the list of Russia's "strategic" entities. Any decision to privatise such entities is within the exclusive competence of the Government. As a separate procedure, the Government's resolution on privatisation of a strategic entity should be followed by amendments to the list of Russia's strategic entities to be approved by the Russian President. Pursuant to the Privatisation Law, the president of the Company may not sell any shares of other entities which were contributed to the share capital of a strategic company as an asset. The president of the Company is also prohibited from executing transactions on behalf of the Company if such transactions could result in any sale of, or the introduction of trust management in relation to the shares owned by the Russian Federation, without the prior consent of the Government or another authorised agency. Further, any decrease of the federal stake in a strategic company as a result of the issue of additional shares must be approved by the Russian President and is subject to the state retaining at least 50 percent plus one voting share.

There are also special rules related to the bankruptcy of such entities permitting the Government to, among other things, take measures to prevent their bankruptcy and to participate in negotiations with the creditors of such entities

in order to reach an agreement on the restructuring of their debt (including by providing state guarantees). The bankruptcy regime for strategic companies as well as for natural monopolies is regulated by Federal Law "On Insolvency (Bankruptcy)" No. 127-FZ dated 26 October 2002, as amended. The procedure for the sale of assets of a bankrupt natural monopoly is regulated differently from those involving other businesses. In particular, the Russian Federation, its regions and municipalities have a right to suspend the sale of production-related assets of a bankrupt natural monopoly sold during bankruptcy proceedings.

Natural Monopoly Law

Certain services provided by the Company such as railway transportation and services at transportation terminals are included in the list of regulated activities provided by Article 4 of the Natural Monopoly Law. The Company is also included on the list of natural monopolies in the transportation industry maintained by FTS.

In accordance with Article 7(2) and 7(3) of the Natural Monopoly Law, certain types of transactions, including, among other things, (i) investments outside the regulated activity of a natural monopoly and (ii) any sale, lease or other transaction which results in another entity obtaining title to a part of the Company's main assets used for the production of regulated goods, in each case exceeding 10 percent of the natural monopoly's own capital, must be approved by the body responsible for its regulation—FAS. FAS has the power to determine the categories of consumers who are entitled to require the natural monopoly to provide them with a certain level or volume of services. In addition, Article 8(1) of FAS prohibits natural monopolies from refusing to enter into contracts with particular customers, provided that the relevant natural monopoly has the requisite capacity. Tariffs of such natural monopolies are regulated by the FTS and notification and reporting requirements apply to the natural monopoly's operations.

Competition Law

Article 10 of the Competition Law prohibits certain actions or omissions by market participants occupying a dominant position in the market, such as the Company, that will result or may result in the prevention, limitation or elimination of competition or infringement of the interests of other market participants. These rules are primarily intended to prevent the imposition of discriminatory terms or other burdensome or irrelevant contractual terms on, or a refusal to provide services to, consumers or the creation of obstacles to the development of competition in the relevant market. The Competition Law specifically provides that prices established in accordance with tariffs approved by the FTS may not be viewed as abuse by a natural monopoly of its dominant position in the market.

Article 18 of the Competition Law requires a natural monopoly to hold open tenders to enter into, among other things, property, pension and personal insurance contracts or contracts relating to services in capital markets.

Access to the Company's Railway Network and Related Infrastructure

Access to the Company's track network and related infrastructure system is regulated by the Railway Transport Law which details the procedure for the allocation of access to the Company's railway track network and related infrastructure.

Provision of Rolling Stock

The Group, including the Company and some of its subsidiaries, in particular Freight One and TransContainer, acts as a rail operator and provides rolling stock for transportation of various types of freight, which is regulated by the Railway Transport Law.

Current legislation separates rolling stock operators from carriers. A railcar operator is a legal entity or an individual who owns rolling stock, provides such rolling stock to customers and enters into a contract with a carrier for the transportation of freight by rail. A carrier is a legal entity, which assumes an obligation to move freight from one point to another on the railway network and which has a relevant licence.

Rolling stock operators are also differentiated from the owners of infrastructure such as railway tracks and railway stations. The Company currently owns most of the railway infrastructure and remains the leading railway carrier in Russia. As a monopoly carrier, the Company may not refuse to conclude carriage agreements with the customers of other railcar operators or prefer its own customers over those of other railcar operators.

The rolling stock operators charge their customers for the provision of rolling stock to transport freight, and the Company receives charges for the use of its infrastructure and locomotive services.

Locomotive Use and Operation Activities

In theory, railcar operators may use their own locomotives to move their railcars, but virtually all railcar operators rely on the Company for locomotive traction as Russian legislation on the use of locomotives owned by private rolling stock operators remains inconsistent, incomplete and ambiguous in relation to the procedures for the operators to use their own locomotives.

The Company does not expect significant changes to the existing legal regime governing the operation of locomotives in the near future.

Certification Requirements

The Railway Transport Law requires the certification of rolling stock, which must comply with safety requirements, including health and labour safety, fire safety and environmental protection rules. The Railway Transport Certification Rules specify particular types of rolling stock which must be certified. During the term of a certificate, inspections must be carried out at least once a year. The main function of these inspections is to identify rolling stock that does not comply with applicable legal requirements. Inspections are documented in an official act of inspection. If a breach of certification rules or legal requirements is determined to have occurred, the act will contain a decision of the inspection authorities as to whether to suspend or revoke the certificate. A decision to suspend, but not revoke, the certificate will be made if the holder of the certificate is able to cure the breach.

Lease of Rolling Stock

The Group's business activities include leasing rolling stock and locomotives within the Group and to third parties. According to the Civil Code, rolling stock is movable property and may be leased pursuant to a leasing agreement. Russian law does not require any registration of lease agreements of rolling stock and the commercial terms and conditions of such lease agreements are not regulated, other than by general law.

Licensing

The Law on Licensing sets out the requirements for obtaining licences in respect of certain activities, including railway transportation of freight and passengers. The rail freight carrier licence and passenger and luggage transportation by rail licence are two most significant licences available to the Company. They are subject to renewal every 5 years.

Currently, there is a number of rolling stock operators, besides the Company, which have obtained a rail freight carrier licence but these operators do not actually operate as carriers. This is due to the absence of an appropriate detailed legal framework and the existence of practical difficulties between those private entities with carrier licences and the Company, the monopoly carrier. To enable private companies to operate as carriers, the current tariff regulation and operating procedures for locomotive facilities will need to be changed. Private carriers will also need a simplified regime to access the Company's rail infrastructure.

For more information on the licences available to the Company see "*Business—Significant Licences*".

Rules and Regulations Applicable to the Company Ancillary Activities

Land Use

Land in Russia is primarily governed by the Land Code of Russia No. 136-FZ dated 25 October 2001, as amended (the "**Land Code**").

The majority of the land on which the Company's facilities are located was granted to the Company under a right of perpetual use prior to the enactment of the Land Code. Pursuant to Federal Law "On Introduction of the Land Code" No. 137-FZ dated 25 October 2001, as amended, all legal entities, with certain exceptions, are obliged to convert their right of perpetual use into either ownership or lease by 1 January 2012 (and in some cases, including land occupied by railway tracks, by 1 January 2015). Since 2003, the Company has typically obtained leases for land it has required for the construction of its facilities.

Historically, the construction of industrial facilities in Russia has been permitted on land categorised for industrial use, which generally includes land used or designated for carrying out business activities and/or operation of industrial sites and facilities. Where the land required by the Company fell within an alternative category (such as forestry or agriculture), a complicated process of re-categorisation into industrial land (either permanently for

surface facilities or, in the case of underground facilities, for the period of construction) was required. In 2005, amendments were introduced to the Land Code to allow agricultural land to be used to construct railway tracks without converting it into "industrial" or "settlement" use, subject to the approval by state authorities. This simplified the procedure to obtain land rights for the construction of railway tracks.

Article 21 of the new Forest Code of Russia No. 200-FZ dated 4 December 2006, as amended, also specifically provides for the right to construct, reconstruct and exploit particular facilities not connected with creation of forest infrastructure (list of such facilities should be adopted by the Government) on forested land. According to the Forest Code, linear facilities (railway tracks are the class of such facilities) and its technologically integral facilities included to the scope of above-mentioned facilities that can be constructed, reconstructed and exploited on forested land. For these purposes, trees within "protection zones" created around railway tracks may be removed to ensure safety and to enable the operation of those facilities. Forested land used for the construction of railway tracks must be restored after use. Railway tracks may not be constructed on land falling within the category of federal "protected" natural territories.

Environmental

The principal Russian law governing the Company's environmental compliance is Federal Law "On Environmental Protection" No. 7-FZ dated 10 January 2002, as amended (the "**Environmental Protection Law**"). The Environmental Protection Law establishes what is colloquially known as a "pay-to-pollute" regime administered by the Federal Service for Ecological, Technological and Nuclear Supervision (the "**FSETNS**") and local authorities.

Under the "pay-to-pollute" regime, companies are required to obtain licences and permits authorising the discharge of pollutants into the air, water or soil. These licences and permits establish specific limits for permitted pollution. Fees are assessed for both pollution within the agreed limits and for pollution in excess of these limits (the latter containing a penalty element). There are additional fines for certain other breaches of environmental regulations. The Environmental Protection Law contains an obligation to make compensation payments to the budget for all environmental losses caused by pollution (Federal Nature Management Supervision Service is assigned as receiver of these payments). The limitation period for claims for compensation for pollution is 20 years.

Health and Safety

The principal law regulating industrial safety is Federal Law "On Industrial Safety of Dangerous Industrial Facilities" No. 116-FZ dated 21 July 1997, as amended (the "**Safety Law**"). The Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites where flammable materials or hazardous equipment such as lifting machines are used. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentrations, and extends to facilities and sites where these substances are used.

The Group's activities include the operation of certain hazardous industrial sites regulated by the FSETNS. Any construction, reconstruction, liquidation or other activities in relation to such regulated industrial sites are subject to a state industrial safety review. Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law. Any company or individual violating industrial safety rules may incur administrative, criminal and/or civil liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be required to compensate individuals for lost earnings and health-related damages.

Employment

As the Company is the largest employer in Russia, employment matters may materially affect its business. Labour issues in Russia are primarily governed by the Labour Code of Russia No. 197-FZ dated 30 December 2001, as amended (the "**Labour Code**"). In addition, relationships between employers and employees are regulated by several federal laws, such as Law of the Russian Federation "On Employment in Russia" No. 1032-1 dated 19 April 1991, as amended, and Federal Law "On Labour Pensions in the Russian Federation" No. 173-FZ dated 17 December 2001, as amended.

The Labour Code sets the regular working week at 40 hours. The general retirement age in Russia is 60 years for men and 55 years for women.

As a general rule, employment contracts for an indefinite term are concluded with all employees. Russian labour legislation expressly limits the possibility of entering into fixed-term employment contracts. An employer may terminate an employment contract only on certain grounds contemplated by the Labour Code. An employee dismissed from an enterprise due to its downsizing or liquidation is entitled to compensation, including a severance payment and, depending on the circumstances, salary payments for a certain period of time, up to three months. Any termination by an employer that is inconsistent with the Labour Code requirements may be invalidated by a court and the employee may be reinstated and compensated with back-pay.

Trade Unions

The majority of the Company's employees are members of one of the largest and influential industrial trade unions in Russia. The activities of trade unions are generally governed by Federal Law "On Trade Unions, Their Rights and Guarantees of Their Activity" No. 10-FZ dated 12 January 1996 (the "**Trade Union Law**").

The Trade Union Law defines a trade union as a voluntary union of individuals with common production or professional interests connected with their business occupation that is incorporated for the purposes of representing and protecting the social and labour rights and interests of its members. As part of their activities, trade unions may, among other things: (i) negotiate collective contracts and agreements, such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities; (ii) monitor compliance with labour laws, collective contracts and other agreements; (iii) access work sites and offices, and request information relating to labour issues from the management of companies and state and municipal authorities; and (iv) represent their members and other employees in individual and collective labour disputes with management.

Russian law requires that companies co-operate with trade unions and do not interfere with their activities. If a trade union discovers a violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may also initiate collective labour disputes which may lead to strikes.

ISSUER

The Issuer was incorporated in Ireland on 15 July 2008, with registered number 459983 as a private company with limited liability under the Companies Acts 1963-2005 (as amended) of Ireland (the "**Companies Acts**"). The registered office of the Issuer is 5 Harbourmaster Place, IFSC, Dublin 1, Ireland and its telephone number is +353 1 680 6000.

The authorised share capital of the Issuer is EUR100 divided into 100 ordinary shares of par value EUR1 each (the "**Shares**"). The Issuer has issued one Share, which is fully paid and is held on trust by Deutsche International Finance (Ireland) Limited (the "**Share Trustee**") under the terms of a declaration of trust (the "**Declaration of Trust**") dated 31 July 2008, under which the Share Trustee holds the Share on trust for charity. The Share Trustee has no beneficial interest in and derives no benefit (other than any fees for acting as Share Trustee) from its holding of the Share. The Share Trustee will apply any income derived from the Issuer solely for the above purposes.

Deutsche Corporate Services (Ireland) Limited (the "**Corporate Services Provider**"), an Irish company, acts as the corporate services provider for the Issuer. The office of the Corporate Services Provider serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on 26 March 2010 between the Issuer and the Corporate Services Provider (the "**Corporate Services Agreement**"), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least 90 days' written notice to the other party. The Corporate Services Agreement contains provisions for the appointment of a replacement corporate services provider if necessary.

The Corporate Services Provider's principal office is 5 Harbourmaster Place, IFSC, Dublin 1, Ireland.

Principal Activities

The principal objects of the Issuer are set forth in clause 2 of its Memorandum of Association (as currently in effect) and permit the Issuer, *inter alia,* to lend money and give credit, secured or unsecured, to issue debentures and otherwise to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is organised as a special purpose vehicle. The Issuer was established to raise capital by the issue of debt securities and to use an amount equal to the proceeds of each such issuance to advance loans to the Borrower.

Since its incorporation, the Issuer has not engaged in any material activities other than those incidental to its registration as a private company under the Companies Acts, the issue of US$1,500,000,000 5.739 percent Loan Participation Notes due 2017, which were issued on 1 April 2010 (ISIN: XS0499245180, Common Code: 049924518), the issue of the Original Notes on 25 March 2011 and those related to the issue of the Further Notes. The Issuer has no employees.

Directors and Company Secretary

The Issuer's Articles of Association provide that the Board of Directors of the Issuer will consist of at least two Directors.

The Directors of the Issuer and their business addresses are as follows:

Jennifer Coyne 5 Harbourmaster Place, IFSC, Dublin 1, Ireland.

Eimir McGrath 5 Harbourmaster Place, IFSC, Dublin 1, Ireland.

The Company Secretary is Deutsche International Corporate Services (Ireland) Limited.

The Directors do not hold any direct, indirect, beneficial or economic interest in any of the Shares. The directorship of the Directors is provided as part of the Corporate Services Provider's overall corporate administration services provided to the Issuer pursuant to the Corporate Services Agreement.

The Directors of the Issuer may engage in other activities and have other interests which may conflict with the interests of the Issuer.

Financial Statements

The Issuer has published its financial statements in respect of the period ended 31 December 2009. The Issuer will not prepare interim financial statements. The financial year of the Issuer ends on 31 December of each year.

Each year, a copy of the audited profit and loss account and balance sheet of the Issuer together with a report of the directors and the auditors thereon is required to be filed in the Irish Companies Registration Office within 28 days of the annual return date of the Issuer and is available for inspection. The profit and loss account and balance sheet can be obtained free of charge from the registered office of the Issuer. The Issuer must hold its first annual general meeting within 18 months of the date of its incorporation (and no more than nine months after the financial year-end) and thereafter the gap between its annual general meetings must not exceed 15 months. One annual general meeting must be held in each calendar year.

The Issuer's auditors are Ernst & Young Chartered Accountants, Harcourt Centre, Harcourt Street, Dublin 2, Ireland as its auditors, who are chartered accountants and are members of the Institute of Chartered Accountants in Ireland and registered auditors qualified to practise in Ireland.

THE LOAN AGREEMENT

The following is the text of the Loan Agreement which has been entered into between the Company and the Issuer:

This Agreement was originally made on 23 March 2011 and amended and restated on 20 June 2011 between:

JOINT STOCK COMPANY "RUSSIAN RAILWAYS", a joint-stock company established under the laws of the Russian Federation whose registered office is at 2, Novaya Basmannaya St., 107174 Moscow, Russian Federation (the "**Borrower**"); and

RZD CAPITAL LIMITED, a private limited company incorporated under the laws of Ireland, having its registered office at 5 Harbourmaster Place, IFSC, Dublin 1, Ireland (the "**Lender**").

WHEREAS:

The Lender, at the request of the Borrower, agreed to make available to the Borrower a loan facility in the amount of £350,000,000 on the terms and subject to the terms and conditions of a loan agreement between the parties hereto dated 23 March 2011 (the "**Original Loan Agreement**").

The Lender has at the request of the Borrower further agreed to increase such loan facility by an amount of £300,000,000 (the "**Further Loan**") on the terms and subject to the conditions of this Agreement.

The Borrower and the Lender have agreed to amend and restate the Original Loan Agreement to give effect to the availability of the loan facility in an aggregate amount of £650,000,000 (the Original Loan Agreement as amended and restated hereby being referred to as "**this Agreement**", and any reference to "this Agreement", where the context admits, being construed to include the Original Loan Agreement, provided, however, that any reference herein to "the date of this Agreement" or "the date hereof" shall mean 20 June 2011).

Now it is hereby agreed as follows:

1 DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement (including the recital), the following terms shall have the meanings indicated:

"**Account**" means the account in the name of the Lender with the Principal Paying Agent, account number 29606003 (or such other account as may from time to time be agreed between the Lender and the Trustee pursuant to the Trust Deed and notified to the Borrower in writing at least five Business Days in advance of such change);

"**Accounting Standards**" means IFRS or any other internationally recognised set of accounting standards deemed equivalent to IFRS by the relevant regulators for the time being;

"**Advance**" means the aggregate of the Original Advance and the Further Advance made or to be made by the Lender, as the case may be, under Clause 3 of the sum equal to the amount of the Facility, as from time to time reduced by prepayment;

"**Agreement**" means this Agreement as originally executed or as it may be amended or supplemented from time to time;

"**Business Day**" means a day on which, if on that day a payment is to be made hereunder, commercial banks generally are open for business in Dublin, Moscow, London and in the city where the Specified Office (as defined in the Paying Agency Agreement) of the Principal Paying Agent is located;

"**Change of Control**" means either:

(i) the Russian Federation (a) ceases to own or control (directly or indirectly) 66.67 per cent. or more of the issued and outstanding voting share capital of the Borrower; or (b) no longer has the right to appoint or remove a majority of the Borrower's board of directors; or

(ii) a person or Persons Acting In Concert, other than the Russian Federation, becomes the legal or beneficial owner, or gains the ability to control (directly or indirectly) more than 25 per cent. of the issued and outstanding voting share capital of the Borrower;

"**Change of Control Payment Date**" means the date falling four Business Days after the expiration of the Change of Control Put Period or, if such day is not a Business Day, the next following Business Day;

"**Change of Control Put Option**" means the change of control put option granted to Noteholders pursuant to the Conditions;

"**Change of Control Put Period**" has the meaning given to it in the Conditions;

"**Conditions**" means the terms and conditions of the Notes as set out in Schedule 2 to the Trust Deed;

"**Domestic Bond Issuances**" means issuances of rouble-denominated domestic bonds admitted to trading only in the Russian Federation;

"**Event of Default**" has the meaning given to it in Clause 11.1;

"**Facility**" means the facility specified in Clause 2;

"**Financial Indebtedness**" means any obligation for the payment of money in any currency, whether sole, joint or several, and whether actual or contingent, in respect of:

(a) moneys borrowed or raised (including the capitalised value of obligations under finance leases and hire purchase agreements which would, in accordance with IAS, be treated as finance or capital leases, but excluding moneys raised by way of the issue of share capital (whether or not for a cash consideration) and any premium on such share capital);

(b) any liability under any debenture, bond, note, loan stock or other security or under any acceptance or documentary credit, bill discounting or note purchase facility or any similar instrument;

(c) any liability in respect of the deferred acquisition cost of property, assets or services to the extent payable after the time of acquisition or possession thereof by the party liable, but not including any such liability in respect of normal trade credit for a period not exceeding six months for goods or services supplied;

(d) any liability under any interest rate or currency hedging agreement (and the amount of such Financial Indebtedness in relation to any such transaction shall be calculated by reference to the mark-to-market valuation of such transaction, at the relevant time);

(e) any liability under or in respect of any bonding facility, guarantee facility or similar facility; and

(f) (without double counting) any guarantee or other assurance against financial loss in respect of such moneys borrowed or raised, interest, charges or other liability (whether the person liable in respect of such moneys borrowed or raised, interest, charges or other liability is or is not a member of the Group);

"**First Closing Date**" means 25 March 2011 in respect of the Original Advance;

"**Further Advance**" has the meaning assigned to it in Clause 3.1;

"**Further Closing Date**" means 22 June 2011 in respect of the Further Advance;

"**Further Facility**" has the meaning assigned to it in Clause 2.1;

"**Further Global Certificate**" means the permanent global certificate representing the Further Notes in fully registered form, without interest coupons attached, substantially in the form set out in Part 2 of Schedule 1 to the Trust Deed and includes any replacements for the Further Global Certificate issued pursuant to Condition 13

"**Further Notes Subscription Agreement**" means the agreement dated the date hereof in relation to the issuance of the Further Notes;

"**Further Ongoing Fee Side Letter**" means the supplemental ongoing fee side letter dated 20 June 2011 between the Lender, the Trustee and the other parties named therein;

"**Further Upfront Fee Side Letter**" has the meaning given to it in the Further Notes Subscription Agreement;

"**Global Certificates**" means the Original Global Certificate and the Further Global Certificate;

"**Group**" means the Borrower and its Subsidiaries for the time being included in, or which will be (or should, in accordance with IFRS requirements, be) included in the next, consolidated financial statements of the Borrower prepared under IFRS, taken as a whole;

"**IAS**" means the International Accounting Standards issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time);

"**IFRS**" means the International Financial Reporting Standards issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time);

"**Interest Payment Date**" means 25 March and 25 September of each year and the first Interest Payment Date will be 25 September 2011 and, for the avoidance of doubt, no interest was due on 25 March 2011;

"**Interest Period**" has the meaning given to it in Clause 4.2;

"**Lender Agreements**" means the Subscription Agreements, this Agreement, the Paying Agency Agreement, the Trust Deed, the Upfront Fee Side Letter, the Further Upfront Fee Side Letter, the Ongoing Fees Side Letter and the Further Ongoing Fees Side Letter;

"**Lien**" means any mortgage, charge, pledge, lien (other than a lien arising solely by operation of law which is discharged within 90 calendar days of arising) or other security interest securing any obligation of any person or any other type of preferential arrangement (including any title transfer and arrangement) having a similar effect;

"**Loan**", at any time, means an amount equal to the aggregate principal amount of the Facility advanced by the Lender pursuant to this Agreement and outstanding at such time;

"**Material Adverse Effect**" means a material adverse effect on: (a) the financial condition or operations of the Borrower or the Group; (b) the Borrower's ability to perform its obligations under the RZD Agreements; or (c) the validity, legality or enforceability of the RZD Agreements or the rights or remedies of the Lender under the RZD Agreements;

"**Noteholder**" means, in relation to a Note, the person in whose name such Note is for the time being registered in the register of the Noteholders (or, in the case of a joint holding, the first named holder thereof);

"**Notes**" means (i) the £350,000,000 7.487 per cent. loan participation notes due 2031 issued by the Lender for the purpose of financing the Original Advance on the First Closing Date (the "**Original Notes**") and (ii) the £300,000,000 7.487 per cent. loan participation notes due 2031 to be issued by the Lender for the purpose of financing the Further Advance on the Further Closing Date (the "**Further Notes**") to be consolidated and form a single series with the Original Notes;

"**Officers' Certificate**" means a certificate signed by two officers of the Borrower one of whom shall be a principal executive officer, principal accounting officer or principal financial officer of the Borrower;

"**Ongoing Fees Side Letter**" means the letter dated 23 March 2011 from the Trustee and the Agents to RZD and the Issuer, as supplemented by the Further Ongoing Fees Side Letter;

"**Opinion of Counsel**" means a written opinion from international reputable legal counsel as reasonably selected by the Borrower and who is acceptable to the Issuer and the Trustee;

"**Original Advance**" has the meaning assigned to it in Clause 3.1;

"**Original Facility**" has the meaning assigned to it in Clause 2.1;

"**Original Global Certificate**" means the permanent global certificate representing the Original Notes issued pursuant to Clause 3 of the Original Trust Deed substantially in the form set out in Schedule 1 to the Original Trust Deed and includes any replacements for the Original Global Certificate issued pursuant to Condition 13;

"**Original Notes Subscription Agreement**" means the subscription agreement dated 23 March 2011 in relation to the issuance of the Original Notes;

"**Paying Agency Agreement**" means the paying agency agreement dated 23 March 2011 between the Lender as issuer of the Notes, the Borrower, the Principal Paying Agent and other agents named therein and

the Trustee as amended and supplemented by the supplemental paying agency agreement dated 20 June 2011 between the same parties relating to the Notes;

"**person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, company, firm, trust, organisation, government, or any agency or political subdivision thereof, or any other entity, whether or not having a separate legal personality;

"**Persons Acting In Concert**" means a group of Persons who (a) knowingly participate in a joint activity or conscious parallel action towards a common goal, whether or not pursuant to an express agreement; or (b) combine or pool voting or other interests in the securities of an issuer for a common purpose pursuant to any contract, understanding, relationship, agreement or other arrangement, whether written or otherwise;

"**Potential Event of Default**" means any event which is, or, but for expiry of any grace period, the giving of notice or passage of time or after making any determination under this Agreement (or any combination of the foregoing) would be, an Event of Default;

"**Principal Paying Agent**" has the meaning given to it in the Paying Agency Agreement;

"**Principal Subsidiary**" means at any relevant time a Subsidiary of the Borrower:

(a) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues, as the case may be) represent not less than 10 per cent. of the total consolidated assets or the gross consolidated revenues of the Group, all as calculated by reference to the then latest audited accounts (or consolidated accounts, as the case may be) (in each case produced on the basis of IFRS consistently applied) of such Subsidiary and the then latest audited consolidated accounts of the Borrower (produced on the basis of IFRS consistently applied) and its consolidated Subsidiaries; or

(b) to which are transferred all or substantially all the assets and undertakings of a Subsidiary of the Borrower which immediately prior to such transfer is a Principal Subsidiary,

to the extent that, at any relevant time, any Subsidiary of the Borrower falls within (a) and/or (b) above;

"**Prospectus**" means the prospectus dated 23 March 2011 prepared in connection with the issue of the Original Notes and the prospectus dated 20 June 2011 prepared in connection with the issue of the Further Notes, each of which comprises a prospectus for the purposes of Article 5 of Directive 2003/71/EC which, in the case of the prospectus dated 20 June 2011, may be amended or supplemented on or before the Further Closing Date;

"**Rate of Interest**" has the meaning given to it in Clause 4.1;

"**Reform Programme**" means the Borrower's programme for reform and development as set forth in Resolution of the Russian Government No. 384 dated 18 May 2001 (as amended) On the Programme for Structural Reform in Railway Transportation and Resolution of the Russian Government No. 877-r dated 17 July 2008 On the Strategy for the Development of Railway Transportation in the Russian Federation until 2030 and other applicable regulations implementing the Reform Programme adopted by the Russian authorities;

"**Relevant Closing Date**" means, in relation to the Original Advance, the First Closing Date and, in relation to the Further Advance, the Further Closing Date;

"**Relevant Event**" has the meaning given to it in the Trust Deed;

"**Relevant Indebtedness**" means any Financial Indebtedness which: (a)(i) is in the form of or represented by any bond, note, debenture stock, loan stock, certificate or other debt instrument which is listed or quoted on any stock exchange or (ii) is in the form of a loan to RZD or its Principal Subsidiaries which is financed by the issuance of any of the foregoing forms of debt in (a)(i) above, where such issuance is by a special purpose company or a bank or any other entity and the rights to payment of the holders of such forms of debt are limited to payments actually made by either RZD or its Principal Subsidiaries pursuant to such loan; and (b) in the case of the debt referred to in (a)(i) above or the debt financing a loan referred to in (a)(ii) above, was initially issued and distributed (as to more than 50 per cent. of the original principal amount of such debt) outside the Russian Federation;

"**Repayment Date**" means 25 March 2031;

"**Reserved Rights**" has the meaning given to it in the Trust Deed;

"**Roubles**" means the lawful currency of the Russian Federation;

"**RZD Agreements**" means this Agreement, the Paying Agency Agreement, the Subscription Agreements, the Ongoing Fees Side Letter and the Further Ongoing Fees Side Letter;

"**Same-Day Funds**" means same day, freely transferable, clearly identifiable cleared Sterling-funds or such other funds for payment in Sterling as the Lender may at any time reasonably determine to be customary for the settlement of international transactions in London of the type contemplated hereby;

"**Securitisation**" means any securitisation transaction involving, directly or indirectly, JSC TransCreditBank ("TCB"), including, without limitation, any mortgage securitisation and securitisation of future revenues of TCB;

"**Sterling**" and "**£**" mean the lawful currency of the United Kingdom;

"**Subscription Agreements**" means the Original Notes Subscription Agreement and the Further Notes Subscription Agreement, both between the Lender, the Borrower and the joint lead managers named therein (the "Joint Lead Managers");

"**Subsidiary**" means, with respect to any person: (i) any corporation, association or other business entity of which more than 50 per cent. of the total voting power entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof or to direct the management, policies and affairs thereof is at the time owned or controlled, directly or indirectly, by such person or one or more of the other Subsidiaries of such person (or any combination thereof); and (ii) any partnership (a) the sole general partner or the managing general partner of which is such person or a Subsidiary of such person or (b) the only general partners of which are such person or one or more Subsidiaries of such person (or any combination thereof), if (in the case of (i) and (ii)) in accordance with IFRS, such corporation, association, other business entity or partnership is or should be consolidated with such first-named person for the purposes of such first named person's audited consolidated financial statements;

"**Taxes**" means any taxes (including interest or penalties thereon payable in connection with any failure to pay or any delay in paying any of the same) which were on 23 March 2011 or at any time thereafter are imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, Ireland or any taxing authority thereof or therein provided, however, that for the purposes of this definition the references to Ireland shall, upon the occurrence of the Relevant Event (as this term is defined in the Trust Deed), be deemed to be references to the jurisdiction in which the Trustee is domiciled for tax purposes, and the term "Taxation" shall be construed accordingly;

"**Trust Deed**" means the trust deed relating to the Notes dated the First Closing Date and as amended and supplemented by a supplemental trust deed to be dated the Further Closing Date, between the Lender and the Trustee and as further amended from time to time;

"**Trustee**" means Deutsche Trustee Company Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder;

"**Upfront Fee Side Letter**" has the meaning given to it in the Trust Deed;

"**U.S.$**" means the lawful currency of the United States of America; and

"**VAT**" means value added tax and any other tax of a similar nature.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in, or are defined by cross reference to definitions in or other provisions of, the Trust Deed, the Notes (including the Conditions), the Paying Agency Agreement or the Subscription Agreements shall have the meanings given to such terms therein.

1.3 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

1.3.1 all references to "**Clause**" are references to a Clause of this Agreement;

1.3.2 the terms "**hereof**", "**herein**", "**hereunder**" and other words of similar import shall mean this Agreement as a whole and not any particular part hereof;

1.3.3 words importing the singular number include the plural and vice versa;

1.3.4 all references to "**taxes**" include all present or future taxes, levies, imposts and duties of any nature and the terms "**tax**" and "**taxation**" shall be construed accordingly; and

1.3.5 the table of contents and the headings are for convenience only and shall not affect the construction hereof.

1.4 Amendment and Restatement

The Original Loan Agreement shall be amended and restated on the terms of this Agreement so that with effect from the date of this Agreement it shall have effect in the form of this Agreement. Notwithstanding such amendment and restatement, the Original Loan Agreement shall continue in full force and effect and nothing in this Agreement shall affect any of the obligations or the liabilities of the Lender or the Borrower under the Original Loan Agreement prior to the date hereof.

2 FACILITY

2.1 Facility

The Borrower has borrowed from the Lender on the terms of the Original Loan Agreement £350,000,000 (the "**Original Facility**"), and, on the terms and subject to the conditions set forth herein, the Lender hereby agrees to lend the Borrower and the Borrower hereby agrees to borrow from the Lender a further £300,000,000 (the "**Further Facility**") so that the aggregate facility made available to the Borrower under the Original Loan Agreement, as amended and restated by this Agreement, is £650,000,000 (the "**Facility**"), and the Borrower and the Lender agree that the terms and conditions applicable to the Facility are the terms and conditions set out in this Agreement.

2.2 Purpose

The net proceeds of the Advance have been or, as the case may be, will be used by the Borrower in its ordinary course of business, but the Lender shall not be concerned with the application thereof.

3 DRAWDOWN

3.1 Drawdown

On the terms and subject to the conditions of this Agreement, (i) on the First Closing Date the Lender made the original advance of £350,000,000 (the "**Original Advance**") to the Borrower and the Borrower made a single drawing in the full amount of the Original Advance and (ii) on the Further Closing Date the Lender shall make a further advance of £300,000,000 (the "**Further Advance**") to the Borrower and the Borrower shall make a single drawing in the full amount of the Further Advance.

3.2 Facility Fee for the Original Advance

In consideration of the Lender making the Original Advance to the Borrower, the Borrower paid to the Lender, in Same-Day Funds, a fee in the amount of £90,459 for the arrangement of the Original Facility (the "**Facility Fee**") on the second Business Day prior to the First Closing Date. The Facility Fee was calculated taking into account all reasonable and documented costs incurred by the Lender in connection with the extension of the Loan to the Borrower, including negotiation, preparation and execution of all related documents and other properly incurred costs connected with and necessary for the extension of the Loan.

3.3 Disbursement

Subject to the conditions set forth in the Original Loan Agreement, on the First Closing Date the Lender transferred the amount of the Original Advance to the Borrower's account no. 2032535320457 with Barclays Bank PLC, SWIFT Code: BARC GB22 for further credit to account no. 40702826100001003001 with TRANSCREDITBANK, SWIFT Code: TRCDRUMM (the "**Borrower's Account**"), in Same-Day Funds. Subject to the conditions set forth herein, on the Further Closing Date, the Lender shall transfer the amount of the Further Advance to the Borrower's Account in Same-Day Funds.

3.4 Ongoing Fees and Expenses

In consideration of the Lender supporting the Facility as a continuing facility, the Borrower shall pay in one or more instalments to the Lender each year or on demand an additional fee (the "**Ongoing Fees**"). The Ongoing Fees shall be calculated taking into account all properly incurred and documented costs, commissions and taxes of the Lender incurred by it including in connection with supporting the Facility as a continuing facility and as set forth in an invoice from the Lender to the Borrower. Before such payment is made by the Borrower, the Lender shall submit an invoice providing, in reasonable detail, the nature and calculation of the relevant payment or expense.

3.5 Acts of Acceptance

In connection with all payments to be made under Clauses 3.4, 12 and 14.1, the Borrower and the Lender shall, as soon as reasonably practicable but no later than within 30 days of such payment becoming due or such indemnity claim being made, enter into and sign a delivery and acceptance act with respect to the amounts to be paid by the Borrower. Each delivery and acceptance act shall be prepared by the Borrower and shall specify: (i) the net amount due; (ii) any applicable Russian income tax withholding; (iii) any applicable Russian VAT; and (iv) the resulting total tax-inclusive amount due.

3.6 Facility Fee for Further Advance

The Lender agrees that no facility fee is due and payable by the Borrower in relation to the Further Advance.

3.7 Further Advance of Premium

Subject to the receipt of corresponding funds pursuant to Clause 9.1.1 of the Further Notes Subscription Agreement on the Further Closing Date, the Lender agrees to pay to the Borrower in Same-Day Funds, not later than 10 Business Days following the Further Closing Date, a premium in the amount to be determined by the parties hereto payable in the order set out in Clause 9.1.1 of the Further Notes Subscription Agreement, as an inducement for the Borrower's agreement to utilise the Further Facility on the commercial terms identical to the Original Facility.

4 Interest

4.1 Rate of Interest

The Borrower will pay interest in Sterling to the Lender on the outstanding principal amount of the Loan from time to time at the rate of 7.487 per cent. per annum (the "**Rate of Interest**"). As long as the full principal amount of the Loan of £650,000,000 is outstanding, the amount of interest payable on the first Interest Payment Date being 25 September 2011 will be £18,904,675.

4.2 Payment

Interest at the Rate of Interest shall accrue from day to day, starting from (and including) (i) (in respect of the Original Advance) the First Closing Date and (ii) (in respect of the Further Advance) the Further Closing Date and shall, in each case, be paid in arrear not later than 10.00 a.m. (London time) one Business Day prior to each Interest Payment Date. Interest on the Loan will cease to accrue from the Repayment Date (or any date upon which the Loan is prepaid pursuant to Clause 5) unless payment of principal due on such date is withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to (but excluding) the date on which payment in full of the principal thereof is made. The amount of interest payable in respect of the Loan for any Interest Period shall be

calculated by applying the Rate of Interest to the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded down). If interest is required to be calculated for any period of less than a year, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed. "**Interest Period**" means each period beginning on (and including) (a) the First Closing Date in respect of the Original Advance or the Further Closing Date in respect of the Further Advance or (b) any Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

5 Repayment and Prepayment

5.1 Repayment

Except as otherwise provided herein, the Borrower shall repay the Loan not later than 10 a.m. (London time) one Business Day prior to the Repayment Date.

5.2 Prepayment in the Event of Taxes or Increased Costs

If, as a result of the application of or any amendments or clarification to, or change (including a change in interpretation or application) in, or determination under, the double tax treaty between the Russian Federation and Ireland or the laws or regulations of the Russian Federation or Ireland or of any political sub-division thereof or any authority therein or the enforcement of the security provided for in the Trust Deed, the Borrower would thereby be required to make or increase any payment due hereunder as provided in Clause 6.2 or 6.3 (other than, in each case, where the increase in payment is in respect of any amounts due or paid pursuant to Clause 3), or if (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 8, and any such additional amounts cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may (without premium or penalty), upon not less than 10 days' prior written notice to the Lender (which notice shall be irrevocable), prepay the Loan in whole (but not in part) at any time.

Simultaneously with giving any such notice in the event of an increase in payment pursuant to Clause 6.2, the Borrower shall deliver to the Lender an Officers' Certificate confirming that the Borrower would be required to increase the amount payable, supported by an opinion of an independent tax adviser of international repute addressed to the Lender as to the existence of the circumstances described above.

5.3 Prepayment in the Event of Illegality

If, at any time after 23 March 2011, by reason of the introduction of or any change in, any applicable law, regulation, regulatory requirement or directive of any agency of any state, the Lender reasonably determines (such determination being accompanied by an Opinion of Counsel at the request of the Borrower with the cost of such Opinion of Counsel being borne solely by the Borrower) that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for the Lender to allow all or part of the Loan or the Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the Loan, then upon notice by the Lender to the Borrower in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), the Borrower and the Lender shall consult in good faith as to a basis that eliminates the application of such circumstances; provided, however, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 Business Days of the date on which it so notified the Borrower in writing. If such a basis has not been determined within the 30 Business Days, then upon notice by the Lender to the Borrower in writing, the Borrower shall prepay the Loan in whole (but not in part) on the next Interest Payment Date or on such earlier date as the Lender shall (acting reasonably) certify on not less than 15 Business Days' notice to be necessary to comply with such requirements.

5.4 Prepayment in the Event of Change of Control

5.4.1 (i) In the case of a Change of Control pursuant to limb (i) of the definition of Change of Control, promptly, and in any event within 10 Business Days after the date of such Change of Control; or

(ii) in the case of a Change of Control pursuant to limb (ii) of the definition of Change of Control, promptly, and in any event within 10 Business Days after the date on which the Borrower is aware of such Change of Control,

the Borrower shall deliver to the Lender a written notice in the form of an Officers' Certificate, which notice shall be irrevocable, stating that a Change of Control has occurred and stating the circumstances and relevant facts giving rise to such Change of Control.

5.4.2 If, following a Change of Control, any Noteholder has exercised its Change of Control Put Option, the Borrower shall, on the Change of Control Payment Date, prepay the principal amount of the Loan in an amount which corresponds to the aggregate principal amount of the Notes in relation to which the Change of Control Put Option has been duly exercised in accordance with the Conditions.

5.4.3 The Lender shall notify the Borrower not more than three Business Days after receipt of notice thereof from the Paying Agent of the amount of the Loan to be prepaid as a consequence of the exercise of the Change of Control Put Option by any Noteholders.

5.5 Reduction of Loan upon Cancellation of Notes

The Borrower or any Subsidiary of the Borrower may from time to time, in accordance with the Conditions, purchase Notes in the open market or by tender or by a private transaction or otherwise at any price and deliver to the Lender Notes, having an aggregate principal value of at least £1,000,000, together with a request for the Lender to present such Notes to the Registrar for cancellation, and may also from time to time procure the delivery to the Registrar of the Global Certificates with instructions to cancel a specified aggregate principal amount of Notes (being at least £1,000,000) represented thereby (which instructions shall be accompanied by evidence satisfactory to the Registrar that the Borrower is entitled to give such instructions), whereupon the Lender shall promptly, pursuant to Clause 7.1 of the Paying Agency Agreement, request the Registrar to cancel such Notes (or specified aggregate principal amount of Notes represented by the Global Certificates). Upon any such cancellation by or on behalf of the Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes shall be extinguished for all purposes as of the date of such cancellation and no further interest shall be payable on such principal amount of the Loan.

5.6 Payment of Other Amounts

If the Loan is to be prepaid by the Borrower pursuant to any of the provisions of Clause 5.2, 5.3 or 5.4, the Borrower shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual payment and all other sums payable by the Borrower pursuant to this Agreement in relation to the prepaid amount. For the avoidance of doubt, if the principal amount of the Loan is reduced pursuant to the provisions of Clause 5.5, then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which the Loan is so reduced and the Lender shall not be entitled to any interest in respect of the cancelled Notes.

5.7 Provisions Exclusive

The Borrower shall not prepay or repay all or any part of the amount of the Loan except at the times and in the manner expressly provided for in this Agreement. The Borrower shall not be permitted to re-borrow any amounts prepaid or repaid.

6 PAYMENTS

6.1 Making of Payments

All payments of principal, interest and additional amounts (other than those in respect of Reserved Rights) to be made by the Borrower under this Agreement shall be made unconditionally by credit transfer to the Lender not later than 10 a.m. (London time) one Business Day prior to each Interest Payment Date or the Repayment Date or the date of any payment (as the case may be) in Same-Day Funds to the Account, or such other account as the Trustee may direct following the occurrence of a Relevant Event.

The Borrower shall, before 10 a.m. (Local Time) on the second Business Day prior to each Interest Payment Date or the Repayment Date or such other date (as the case may be), procure that the bank effecting such payments on its behalf confirms to the Principal Paying Agent by authenticated SWIFT the payment instructions relating to such payment.

The Lender agrees with the Borrower that it will not deposit any other moneys into the Account (except that the Accrued Interest (as defined in the Subscription Agreement) shall be permitted to be deposited into such Account on the Further Closing Date) and that no withdrawals shall be made from the Account other than as provided for and in accordance with the Trust Deed and the Paying Agency Agreement.

6.2 No Set-off, Counterclaim or Withholding; Gross-up

All payments to be made by the Borrower under this Agreement shall be made in full without set-off or counterclaim (including, for the avoidance of doubt, any set-off or counterclaim in respect of any amounts owed to the Borrower under any other loan agreement) and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes. If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any such Taxes, it shall increase any payment of principal, interest or any other payment due hereunder to such amount as may be necessary to ensure that the Lender receives a net amount in Sterling equal to the full amount which it would have received had payment not been made subject to such Taxes, and shall account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under applicable law and shall deliver to the Lender without undue delay evidence of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes, the Borrower shall reimburse the Lender in Sterling for such documented payment on demand. For the avoidance of doubt, this Clause 6.2 is without prejudice to any obligations of the Lender contained in Clause 6.5.

6.3 Withholding on the Notes

Without prejudice to the provisions of Clause 6.2, if the Lender notifies the Borrower (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) that it has on or after 23 March 2011 become obliged to make any withholding or deduction for or on account of any Taxes from any payment which it is obliged to make, or would otherwise be required to make but for the imposition of any such withholding or deduction for or on account of any such Taxes, under or in respect of the Notes in circumstances where the Lender, subject to receipt thereof, is required to pay additional amounts pursuant to Condition 8 or otherwise or in connection with its funding of the Loan, the Borrower agrees to pay to the Lender not later than 10.00 a.m. (London time) one Business Day prior to the date on which payment is due to the Noteholders or such other party (as the case may be) in Same-Day Funds to the Account, such additional amounts as are equal to the said additional amounts which the Lender must pay pursuant to Condition 8 or in connection with funding the Loan. However, immediately upon receipt by the Lender of any sums paid pursuant to this Clause 6.3, to the extent that the Noteholders or such other party, as the case may be, are not entitled to such additional amounts pursuant to the Conditions, the Lender shall repay such additional amounts to the Borrower (it being understood that neither the Lender, nor the Trustee, nor the Principal Paying Agent, nor any Paying Agent shall have any obligation to determine whether any Noteholder or such other party is entitled to such additional amount).

Any notification by the Lender to the Borrower in connection with this Clause 6.3 shall be given as soon as reasonably practicable after the Lender becomes aware of any obligation on it to make any such withholding or deduction.

6.4 Reimbursement

To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which the Borrower has made a payment pursuant to this Clause 6 or obtains any other reimbursement in connection therewith, it shall pay to the Borrower so much of the benefit received as will leave the Lender in exactly the same position as it would have been had no additional amount been required to be paid by the Borrower pursuant to this Clause 6; provided, however, that the question of whether any such benefit has been received and,

accordingly, whether any payment should be made to the Borrower, the amount of any such payment and the timing of any such payment shall be determined solely by the Lender.

The Lender shall use its best endeavours to obtain any credits or refunds available to it and shall notify the Borrower of any tax credit or allowance or other reimbursement it receives.

If as a result of a failure to obtain relief from deduction or withholding of any tax imposed by the Russian Federation or Ireland (i) such tax is deducted or withheld by the Borrower and pursuant to this Clause 6 an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding; and (ii) following the deduction or withholding of tax as referred to above the Lender (upon instructions by the Borrower) applies to the relevant Russian or Irish tax authorities for a tax refund and such tax refund is credited by the Russian or Irish tax authorities to a bank account of the Lender, the Lender shall as soon as reasonably possible notify the Borrower of the receipt of such tax refund and (upon instructions by the Borrower) promptly transfer the entire amount of the tax refund actually received by the Lender to a bank account of the Borrower specified for that purpose by the Borrower.

6.5 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any deduction, withholding or payment as described in Clause 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or the Borrower's obligations, under such Clauses, such party shall as soon as reasonably practicable upon becoming aware of such circumstances notify the other party, and thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that both parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be available to it to avoid such obligation or mitigate the effect of such circumstances. The Borrower agrees to reimburse the Lender upon receipt of an original demand for payment for all properly documented and incurred costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause 6.5.

7 Conditions Precedent

7.1 Documents Delivered prior to the First Closing Date

The obligation of the Lender to make the Original Advance was subject to the receipt by the Lender on or prior to the First Closing Date of written evidence that the persons mentioned in Clause 17.4 of the Original Loan Agreement had agreed to receive process in the manner specified in the Original Loan Agreement.

7.2 Further Conditions prior to the First Closing Date

The obligation of the Lender to make the Original Advance was subject to the further conditions precedent that as at the First Closing Date: (a) the Lender had received the full amount of the proceeds from the issue of the Original Notes pursuant to the Original Subscription Agreement; and (b) the Lender had received in full the amount referred to in Clause 3.2 of the Original Loan Agreement, if due and payable.

7.3 Documents to be Delivered prior to the Further Closing Date

The obligation of the Lender to make the Further Advance shall be subject to the receipt by the Lender on or prior to the Further Closing Date of written evidence that the persons mentioned in Clause 17.4 hereof have agreed to receive process in the manner specified herein.

7.4 Further Conditions prior to the Further Closing Date

The obligation of the Lender to make the Further Advance shall be subject to the further conditions precedent that as at the Further Closing Date the Lender has received the net proceeds from the issue of the Further Notes pursuant to clause 9.1.1 of the Further Notes Subscription Agreement.

8 Change in Law or Increase in Cost

8.1 Compensation

In the event that after 23 March 2011 there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof and/or any compliance by the Lender in respect of the Loan with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with generally accepted financial practice of financial institutions in the country concerned) from or of any central bank or other fiscal, monetary or other authority, agency or any official of any such authority, which:

8.1.1 subjects or did or will subject the Lender to any Taxes with respect to payments of principal of or interest on the Loan or any other amount payable under this Agreement (other than any Taxes payable by the Lender on its overall net income or any Taxes referred to in Clause 6.2 or 6.3); or

8.1.2 increases or did or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on the Loan or any other amount payable under this Agreement (other than any such increase or change which arose or arises by reason of any increase in the rate of tax payable by the Lender on its overall net income or as a result of any Taxes referred to in Clause 6.2 or 6.3); or

8.1.3 imposed, imposes or will impose on the Lender any other condition affecting this Agreement or this Loan,

and, if as a result of any of the foregoing:

(i) the cost to the Lender of making, funding or maintaining this Loan is increased;

(ii) the amount of principal, interest or other amount payable to or received by the Lender under this Agreement is reduced; or

(iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan, then subject to the following, and in each such case:

(a) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Borrower, together with a certificate signed by two directors of the Lender or by any person empowered by the authorised signatories of the Lender on behalf of the Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and describing the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and providing all relevant reasonable supporting documents evidencing the matters set out in such written notice; and

(b) the Borrower, in the case of Clauses 8.1.3(i) and 8.1.3(iii) above, shall, on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of Clause 8.1.3(ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return,

provided that this Clause 8.1 will not apply to or in respect of any matter for which the Lender has already been compensated under Clause 6.2 or 6.3.

8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to Clause 8.1, the Lender shall consult in good faith with the Borrower and shall use reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, the Borrower's obligations to pay any additional amount pursuant to such Clause except that nothing in this Clause 8.2 shall oblige the Lender to incur any costs or expenses in taking any action hereunder which, in the reasonable opinion of the Lender, is prejudicial to it unless the Borrower agrees to reimburse the Lender such costs or expenses.

9 Representations and Warranties

9.1 The Borrower's Representations and Warranties

The Borrower represents and warrants to the Lender, with the intent that such shall form the basis of this Agreement, that the representations and warranties given by the Borrower to the Lender in Clause 9.1 of the Original Loan Agreement were true and accurate on the date of the Original Loan Agreement and the First Closing Date.

The Borrower further represents and warrants to the Lender, with the intent that such shall form the basis of this Agreement at the date hereof and shall be deemed to be repeated by the Borrower on the Further Closing Date, that:

9.1.1 it is duly organised and incorporated and validly existing under the laws of the Russian Federation and has the power and legal right to own its property, to conduct its business as currently conducted and, in the case of the Borrower only, to enter into and to perform its obligations under this Agreement and to borrow the Advance; the Borrower has taken all necessary corporate, legal and other action required to authorise the borrowing of the Advance on the terms and subject to the conditions of this Agreement and to authorise the execution and delivery of this Agreement and all other documents to be executed and delivered by it in connection with this Agreement, and the performance of this Agreement in accordance with its terms;

9.1.2 the Borrower does not have any Principal Subsidiaries;

9.1.3 this Agreement has been duly executed and delivered by the Borrower and constitutes a legal, valid and binding obligation of the Borrower enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability: (i) to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law); (ii) with respect to the enforceability of a judgment, to the laws of the relevant jurisdiction where such judgment is sought to be enforced and whether there is a treaty in force relating to the mutual recognition of foreign judgments in the relevant jurisdiction; and (iii) to the fact that certain gross-up provisions may not be enforceable under Russian law;

9.1.4 the execution, delivery and performance of this Agreement by the Borrower will not conflict with or result in any breach or violation of: (i) any law or regulation or any order of any governmental, judicial or public body or authority in the Russian Federation; (ii) the constitutive documents, rules and regulations of the Borrower; or (iii) any agreement or other undertaking or instrument to which the Borrower is a party or which is binding upon the Borrower or any of its assets (save where the breach or violation of such agreement or other undertaking or instrument would not have a Material Adverse Effect), nor result in the creation or imposition of any Lien on any of its assets pursuant to the provisions of any such agreement or other undertaking or instrument;

9.1.5 all consents, authorisations or approvals of, or filings with, any governmental, judicial or public bodies or authorities of the Russian Federation required by the Borrower in connection with the execution, delivery, performance, legality, validity, enforceability and, subject to Russian legal requirements, admissibility in evidence of this Agreement have been obtained or effected and are in full force and effect;

9.1.6 no Potential Event of Default, Event of Default or a default under any agreement or instrument evidencing any Financial Indebtedness of the Borrower has occurred, and no such event will occur upon the making of the Advance;

9.1.7 there are no judicial, arbitral or administrative actions, proceedings or claims pending or, to the knowledge of the Borrower, threatened against the Borrower, the adverse determination of which could have a Material Adverse Effect;

9.1.8 except for Liens of the types referred to in Clause 10.1 and Liens arising in the ordinary course of business, the Borrower has the right of ownership (as that expression is defined under the laws of the Russian Federation) to its property free and clear of all Liens which if existing would have a Material Adverse Effect and the Borrower's obligations under the Loan will rank at least pari passu with all its other unsecured and unsubordinated Financial Indebtedness (apart from any obligations mandatorily preferred by law);

9.1.9 the most recent audited consolidated financial statements of the Borrower:

(i) were prepared in accordance with IFRS, as consistently applied; and

(ii) save as disclosed therein, present fairly in all material respects the assets and liabilities as at that date and the results of operations of the Group during the relevant financial year;

9.1.10 except as disclosed in the Prospectus, there has been no material adverse change since the date of the last audited consolidated financial statements of the Borrower in the financial condition, results of business operations or prospects of the Borrower or the Group taken as a whole;

9.1.11 the execution, delivery and enforceability of this Agreement is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any political subdivision or taxing authority thereof or therein (other than state duty paid on any claim filed with a Russian court);

9.1.12 neither the Borrower nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to this Agreement, other than pursuant to the Resolution of the Government of the Russian Federation No. 57 dated 6 February 2004, which relates to assets such as, inter alia, infrastructure objects which serve national security purposes;

9.1.13 the Borrower is in compliance with all applicable provisions of law in the jurisdictions where the Borrower conducts its business or operations, except where failure to be so in compliance would not have a Material Adverse Effect;

9.1.14 the Borrower has not taken any corporate action nor have any other steps been taken or legal proceedings started or threatened in writing against the Borrower for its bankruptcy, winding-up, dissolution, external administration or re-organisation (save for any internal corporate reorganisation of the Group undertaken in the normal course of business or pursuant to the Reform Programme) (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of any or all of its or their assets or revenues;

9.1.15 there are no strikes or other employment disputes against the Borrower which are pending and which could have a Material Adverse Effect;

9.1.16 any proceedings taken in the Russian Federation in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England pursuant to Clause 17.2 in relation to this Agreement will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and all other legal requirements in the Russian Federation;

9.1.17 subject to Clause 10.6.1, under the laws of the Russian Federation effective as of the date of this Agreement, it will not be required to make any deduction or withholding from any payment it may make hereunder;

9.1.18 the execution of this Agreement will constitute, and its exercise of its rights and performance of its obligations thereunder will constitute, private and commercial acts done and performed for private and commercial purposes;

9.1.19 the Borrower has no overdue tax liabilities which would be reasonably likely to have a Material Adverse Effect other than those which it is contesting in good faith;

9.1.20 all licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable the Borrower to own its assets and carry on its business are in full force and effect and, if not, the absence of which would be reasonably likely to not have a Material Adverse Effect;

9.1.21 the Group maintains insurance of the types and in amounts that are, in the judgment of the management of the Borrower, adequate for its business; and the Borrower has no reason to believe that the Group will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business;

9.1.22 the Borrower is not in violation of, and has and is in compliance with any applicable law, rule, regulation, ordinance, code, policy or rule of civil or common law or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent, decree or judgment, relating to pollution or protection of human health, the environment or wildlife, which violation would have a Material Adverse Effect; and

9.1.23 the Group owns or possesses adequate trademarks, trade names and other rights to inventions, know-how, patents, copyrights, confidential information and other intellectual property necessary to conduct the business now operated by it, or presently employed by it.

9.2 Lender's Representations and Warranties

The Lender represents and warrants to the Borrower that the representations and warranties given by the Lender to the Borrower in Clause 9.2 of the Original Loan Agreement were true and accurate on the date of the Original Loan Agreement and the First Closing Date.

The Lender represents and warrants to the Borrower as follows:

9.2.1 the Lender is duly incorporated under the laws of Ireland and has full power and capacity to execute this Agreement and to undertake and perform the obligations expressed to be assumed by it herein and the Lender has taken all necessary action to approve and authorise the same;

9.2.2 the execution of this Agreement and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein will not conflict with, or result in a breach of or default under, the laws of Ireland, any agreement or instrument to which it is a party or by which it is bound or in respect of Indebtedness in relation to which it is a surety or the constitutive documents of the Lender;

9.2.3 the Lender is a company duly incorporated under Irish law which is a resident solely of Ireland for taxation purposes, is subject to taxation in Ireland on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Ireland merely on income from sources in Ireland or connected with property located in Ireland. The Lender will be able to obtain a certificate confirming its tax residence in Ireland for the purposes of the Agreement between Ireland and the Russian Federation for the avoidance of double taxation with respect to taxes on income ("**Ireland/Russia DTT**") from the relevant Irish authority;

9.2.4 the Lender has no intention to effect any corporate actions or reorganisations or change of its tax residency jurisdiction that would result in the Lender ceasing to be a tax resident of Ireland or ceasing to be subject to taxation in Ireland;

9.2.5 the Lender does not have a permanent establishment or presence outside Ireland, including, in particular, in the Russian Federation, save for any which may be created solely as a result of the

Lender entering into and performing its obligations under the Lender Agreements and the Notes. In particular:

(i) the Lender does not have a branch, representation, division, bureau, office, agency or any other economically autonomous subdivision or other place of business in any other country than Ireland through which the business of the Lender is wholly or partially carried out;

(ii) the Lender did not explicitly grant authority to and is not aware of an implied authority for the Borrower or any other Person located outside Ireland to negotiate key parameters of any contracts or sign any contracts on behalf of the Lender, bind the Lender to any contracts by other means or otherwise represent the Lender in dealings with third parties;

(iii) the Lender has its central management and control in Ireland. The Lender's place of effective management is only in Ireland; and

(iv) the directors of the Lender are Irish nationals and reside in Ireland and shall at all times act independently and exercise their authority from and within Ireland by taking all key decisions relating to the Lender in the Ireland.

For the purposes of this representation in relation to Russia a branch, representation, division, bureau, office or an agency shall be understood to mean any fixed place in Russia at which the Lender possesses or rents premises.

For the purposes of this representation in relation to Russia an economically autonomous subdivision shall be understood to mean any subdivision which is located in separate territory from the Lender at the location of which permanent workplaces are equipped. A workplace may be created only to an extent there is an employment relationship between an entity and an individual. A workplace shall be deemed to be permanent if it is created for more than one month;

9.2.6 this Agreement, the Further Notes Subscription Agreement and the Paying Agency Agreement have been, and the Trust Deed will on the Further Closing Date be, duly executed by and constitute legal, valid and binding obligations of the Lender enforceable in accordance with its terms, subject to applicable bankruptcy, examinership, insolvency, liquidation, administration, moratorium, re-organisation and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity;

9.2.7 all authorisations, consents and approvals required under Irish law by the Lender for or in connection with the execution of this Agreement, the Trust Deed, the Paying Agency Agreement and the Further Notes Subscription Agreement and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect;

9.2.8 the Loan will be treated as an asset of the Lender under accounting guidance applicable in Ireland and interest income on the Loan receivable by the Lender will be treated as taxable income for Irish tax purposes;

9.2.9 the Lender does not own, either directly or indirectly, any shares of the Borrower;

9.2.10 the Lender has taken no action (other than entering into loan arrangements with the Borrower and the transactions and documents connected therewith) which would cause it to become registered in Russia for tax purposes; and

9.2.11 there is no reference to the territory of Russia as the actual place of the Lender's activity in the memorandum or articles of association of the Lender.

10 COVENANTS

So long as the Loan or any other sum owing hereunder remains outstanding:

10.1 Negative Pledge

Neither the Borrower nor any of its Principal Subsidiaries will create or permit to subsist any Lien upon or in respect of any of its undertakings, property, income, assets or revenues, present or future, to secure any Relevant Indebtedness (other than any Relevant Indebtedness of TCB in relation to any Securitisation, asset-backed financing or similar arrangement) unless, at the same time or prior thereto, the Borrower's obligations hereunder are secured equally and rateably therewith or benefit from such other security or other arrangements, as the case may be, to the satisfaction of the Trustee, provided that there will be no such requirement to secure the Borrower's obligations hereunder at any time that the aggregate principal amount of Relevant Indebtedness outstanding at such time that is secured by any such Lien does not exceed U.S.$500,000,000 (or its equivalent in other currencies).

10.2 Mergers

The Borrower shall: (i) not enter into any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Russian legislation as these terms are construed by applicable Russian legislation); and (ii) ensure that no Principal Subsidiary enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable legislation) if, in the case of (i) or (ii) above, any such reorganisation or other type of corporate reconstruction could reasonably be expected to result in a Material Adverse Effect, other than any merger, accession or transformation pursuant to the Reform Programme, provided that the surviving entity will be the Borrower or, if different, the surviving entity will succeed to and fully assume the obligations of the Borrower under this Agreement and all other related documents.

10.3 Disposals

The Borrower shall not, and shall procure that each of its Principal Subsidiaries do not, sell, lease, transfer or otherwise dispose of (each such action, a "**disposal**") by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets to any person, except where:

10.3.1 such disposal is made on an arms-length basis in the ordinary course of business of the Group, as at the First Closing Date;

10.3.2 such disposal is made to a person that is either the Borrower or another Subsidiary (provided that prior to or upon such disposal, the Subsidiary becomes a Principal Subsidiary), as the case may be;

10.3.3 such disposal is made pursuant to the Reform Programme and/or any other legislative or regulatory acts adopted by Russian authorities and applicable to the Group;

10.3.4 such disposal is of an asset not necessary for the core business of the Group, as at the First Closing Date, and is made on an arms-length basis;

10.3.5 such disposal is made on an arms-length basis and the proceeds of such disposal are invested in assets used in the ordinary business of the Group, as at the First Closing Date, or the disposed assets are exchanged for other assets comparable, or superior, as to type, value and quality;

10.3.6 such disposal is of an equity interest in TCB or such disposal is made by TCB and, in each case, is made on an arm's-length basis;

10.3.7 such disposal is of obsolete or worn out equipment; or

10.3.8 such disposal would not otherwise have a Material Adverse Effect.

10.4 Financial and Other Information

10.4.1 The Borrower will furnish to the Lender, within nine months of the relevant year-end, audited annual financial statements prepared in accordance with applicable Accounting Standards as consistently applied, including a report thereon by the Borrower's auditors.

10.4.2 At the same time as delivering its audited annual financial statements to the Lender pursuant to Clause 10.4.1 and also within 10 Business Days of any request by the Lender, the Borrower shall deliver to the Lender a written notice in the form of an Officers' Certificate (in the form or substantially in the form set out in the Schedule hereto) to the effect that, having made all reasonable enquiries, to the best of the knowledge, information and belief of such officers as at a date of the certificate stating whether, since the date of the last such certificate or (if none) the date of the Original Loan Agreement, the Borrower is complying with its obligations under the Original Loan Agreement and/or this Agreement, as the case may be, and whether a Potential Event of Default or Event of Default or Change of Control has occurred, its status and what action the Borrower is taking or proposes to take with respect thereto.

10.4.3 At any time when the Borrower or any of its Subsidiaries shall have purchased any Notes and retained such Notes for its own account or for the account of any other company (other than any Notes in a principal amount of up to £200,000 purchased by TCB pursuant to a subscription side letter dated 23 March 2011 and a subscription side letter dated 20 June 2011, each between the Lender and TCB), the Borrower will notify the Lender to that effect and thereafter deliver to the Lender as soon as practicable after being so requested in writing by the Lender an Officers' Certificate setting out the total number of Notes which, at the date of such Officers' Certificate, are beneficially held by or on behalf of the Borrower or any of its Subsidiaries and are not cancelled.

10.4.4 The Borrower will, on written request of the Lender, promptly (and in any event within 15 Business Days after such request) provide the Lender with such further information (and substantially in such form as requested by the Lender) including, but not limited to, information about the business and financial condition of the Borrower and its Principal Subsidiaries (including as to those of the Borrower's Subsidiaries which are, at the date of such request, Principal Subsidiaries), other than information containing state secrets and/or commercial secrets as defined in Federal Law No. 5485-1 dated 21 July 1993 (as amended) and Federal Law No. 98-F7 dated 29 July 2004 (as amended), respectively, as the Lender may reasonably require. Without prejudice to the foregoing, on each Interest Payment Date or promptly upon request by the Lender (and in any event within 15 Business Days after such request), the Borrower shall deliver to the Lender, a written notice in the form of an Officers' Certificate listing its Principal Subsidiaries.

10.4.5 Following the occurrence of any matter or event specified in this Agreement where this Agreement provides for a determination of whether such matter or event has or will have a Material Adverse Effect, or if requested in writing by the Lender, the Borrower shall provide the Lender with an Officers' Certificate certifying whether or not such matter or event has or will have a Material Adverse Effect and setting out such additional information as may be required to support such determination. The Lender shall be entitled, without liability to any person, to rely solely on an Officers' Certificate from the Borrower, certifying whether or not such matter has or will have a Material Adverse Effect.

10.4.6 The Borrower shall deliver within 10 Business Days of receipt of any written request by the Lender: (i) an Officers' Certificate as to any fact or matter prima facie within the knowledge of Borrower as sufficient evidence thereof and (ii) a like certificate to the effect that any particular dealing or transaction or step or thing is, in the opinion of the person so certifying, expedient as sufficient evidence that it is expedient, and the Lender shall not be bound in any such case to call for further evidence or be responsible for any loss that may be occasioned by its failing so to do.

10.5 Compliance with Terms of Trust Deed

The Lender agrees that it will observe and comply with its obligations set out in the Trust Deed and will not agree to any amendment to the terms of the Trust Deed without prior consultation if reasonably practicable

with the Borrower and, with regard to any amendment of the Terms and Conditions of the Notes or Provisions for Meetings of the Noteholders as set out in schedules 2 and 4 to the Trust Deed, respectively, without prior written consent of the Borrower. In addition, the Lender agrees that it will only exercise its power to appoint a new Trustee pursuant to clause 26 of the Trust Deed with the consent of the Borrower (such consent not to be unreasonably withheld or delayed).

10.6 Withholding Tax Exemption

10.6.1 The Lender shall use its best endeavours to provide the Borrower, not later than 20 calendar days prior to the date of the first Interest Payment Date (and thereafter as soon as possible at the beginning of each calendar year, but not later than 20 Business Days prior to the first Interest Payment Date in that year), with a certificate, issued and/or certified by the competent Irish authorities, confirming that the Lender is resident in Ireland for the purposes of the Ireland/Russia DTT (the "**Residency Certificate**"), provided that the Residency Certificate shall be properly legalised or apostilled by the Lender. The Lender shall not be liable for any failure to provide, or any delays in providing, the Residency Certificate as a result of any action or inaction of the competent Irish authorities, but shall notify the Borrower without delay about any such failure or delay with a written description of the actions taken by the Lender to obtain the Residency Certificate. In the event that the Lender has not complied with its duty to provide the Residency Certificate as set out in this Clause 10.6, the Borrower may, in accordance with the Trust Deed, require the substitution of the Lender as lender under this Agreement and as issuer of the Notes.

10.6.2 The Borrower and the Lender (using its best endeavours and in accordance with applicable law) agree that should the Russian legislation regulating the procedure for obtaining an exemption from Russian income tax withholding or the interpretation thereof by the relevant competent authority change, then the procedure referred to in Clause 10.6.1 will be deemed changed accordingly.

10.6.3 The Lender shall use its best efforts to within 20 days of the request of the Borrower (to the extent it is able to do so under applicable law including Russian law), deliver to the Borrower such other information or forms to be duly completed and delivered as may be needed to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained. If required, the other forms referred to in this Clause 10.6 shall be duly signed by the Lender and stamped or otherwise approved by the competent tax authority in Ireland and any requisite power of attorney issued by the Lender to the Borrower shall be duly signed and apostilled or otherwise legalised. The Lender shall provide the Borrower with all assistance it may reasonably require to ensure that the Borrower can deliver to the tax authorities the information or forms specified in this Clause 10.6. If a relief from deduction or withholding of Russian Tax under this Clause 10.6 has not been obtained and further to an application of the Borrower to the relevant Russian taxing authorities the latter requests the Lender's Rouble bank account details, the Lender shall, at the request of the Borrower, (x) use reasonable efforts to procure that such Rouble bank account of the Lender is duly opened and maintained and (y) thereafter furnish the Borrower with the details of such Rouble bank account. The Borrower shall pay for all costs, if any, associated with opening and maintaining such Rouble bank account. The Lender shall not be obliged to take any step under this Clause 10.6 if, in the reasonable opinion of the Lender, such step would be materially prejudicial to it (other than incurring of costs and expenses of an administrative nature).

10.6.4 The Borrower shall advise the Lender as soon as reasonably practicable of any modification to or development in Russian tax laws and regulations which affect or are capable of affecting the relief of the Lender from Russian withholding tax in respect of payments under this Agreement in order to ensure that, prior to the first Interest Payment Date and at the beginning of each calendar year, the Lender can provide the Borrower with the documents required under applicable Russian law for the relief of the Lender from Russian withholding tax in respect of payments under this Agreement.

11 Events of Default

11.1 If one or more of the following events of default (each, an "**Event of Default**") shall occur, or has on or after 23 March 2011 occurred, the Lender shall be entitled to the remedies set forth in Clause 11.3.

11.1.1 The Borrower fails to pay within five Business Days either the principal amount under the Loan or any amount of interest payable under this Agreement as and when such amount becomes payable in the currency and in the manner specified therein.

11.1.2 The Borrower fails to pay within five Business Days any other amount payable under this Agreement as and when such amount becomes payable in the currency and in the manner specified therein, provided that such default will not be an Event of Default if such amount is paid within 10 Business Days as and when such amount becomes payable provided that such delay is caused by a technical difficulty affecting transfer of funds due from RZD.

11.1.3 The Borrower fails to perform or observe any of its other obligations under this Agreement and (except where in any such case that failure is not capable of remedy) that failure continues for the period of 45 calendar days.

11.1.4 (i) the Borrower or any of its Subsidiaries fails to pay any of its Financial Indebtedness as and when such Financial Indebtedness becomes due and payable, taking into account any applicable grace period; or (ii) any Financial Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Borrower or such Subsidiary or (provided that no event of default, howsoever described, has occurred) any person or entity entitled to such Financial Indebtedness; provided that the total amount of such Financial Indebtedness unpaid or becoming due and payable exceeds U.S.$75,000,000 (or its equivalent in another currency) and further provided that this Clause 11.1.4 shall not apply to any Rouble-denominated Financial Indebtedness of the Borrower's Subsidiaries owed solely to Russian Persons (being Russian citizens or legal entities organised under Russian law or having their chief place of business in the Russian Federation) other than if incurred by such Subsidiaries under their Domestic Bond Issuances or under syndicated credit facilities.

11.1.5 The occurrence of any of the following events: (i) the Borrower or any of the Principal Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation commission (likvidatsionnaya komissiya) or a similar officer; (ii) the presentation or filing of a petition in respect of the Borrower or any of the Principal Subsidiaries in any court of competent jurisdiction, arbitration court or before any agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of the Borrower or any of the Principal Subsidiaries (ignoring any petition that is not accepted by such court or agency for review on its merits), unless such petition is demonstrated to the reasonable satisfaction of the Lender to be vexatious or frivolous; (iii) the institution of supervision (nablyudeniye), financial rehabilitation (finansovoye ozdorovleniye), external management (vneshneye upravleniye) or bankruptcy management (konkursnoye proizvodstvo) over the Borrower or any of the Principal Subsidiaries; (iv) entry by the Borrower or any of the Principal Subsidiaries into, or the agreement by the Borrower or any of the Principal Subsidiaries to enter into, amicable settlement (mirovoe soglasheniye) with its creditors, as such terms are defined in the Federal Law of Russia No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002 (as amended or replaced from time to time); and/or (v) any judicial liquidation in respect of the Borrower or any of the Principal Subsidiaries.

11.1.6 The Borrower or any of the Principal Subsidiaries is unable or admits inability to pay its debts as they fall due, generally suspends making payments on its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its Financial Indebtedness or makes a general assignment for the benefit of or a composition with its creditors generally; the value of RZD's or any of its Principal Subsidiaries' total consolidated assets is less than its total consolidated liabilities; and/or a moratorium is declared in respect of any Financial Indebtedness of the Borrower or any of the Principal Subsidiaries (provided that, for the purposes of this Clause 11.1.6, in the case of a Principal Subsidiary only the same could have a Material Adverse Effect).

11.1.7 Any governmental authorisation necessary for the performance of any obligation of the Borrower under this Agreement fails to be in full force and effect and, without prejudice to any other

provision of this Clause 11.1, such failure has not been remedied within 30 Business Days after the occurrence thereof.

11.1.8 Any governmental authority or court takes any action that has a Material Adverse Effect on the Borrower's ability to perform its obligations under this Agreement or the validity or enforceability of this Agreement or the rights or remedies of the Lender under this Agreement, save where such action is being contested in good faith by the Borrower and is not removed, paid out, stayed or discharged within 60 calendar days of such action being taken.

11.1.9 Any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part (in the reasonable opinion of the Lender) of, the assets of the Borrower or any event occurs which under the laws of any jurisdiction has a similar or analogous effect and the same could have a Material Adverse Effect unless such execution, distress, enforcement of a Lien or similar or analogous event is being contested in good faith by the Borrower and is not removed, paid out, stayed or discharged within 45 days of such execution, distress being levied, taking of possession or similar or analogous act, as the case may be.

11.1.10 There are unsatisfied final judgments, decrees or orders of courts of competent jurisdiction or other appropriate and competent law-enforcement bodies for the payment of money against the Borrower and its Principal Subsidiaries which could have a Material Adverse Effect and there is a period of 60 calendar days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for 20 calendar days after the notice specified in Clause 11.2.

11.1.11 Any seizure, compulsory acquisition, expropriation, nationalisation without appropriate compensation or renationalisation after 23 March 2011 by or under the authority of a government authority of all or part (the book value of which is 15 per cent. or more of the book value of the whole, as determined under IFRS) of the assets of the Borrower or any Principal Subsidiary, provided that, in the case of a Principal Subsidiary, the same could have a Material Adverse Effect.

11.1.12 The Borrower ceases to carry on the principal business activities it carried on as at 23 March 2011.

11.1.13 At any time it is or becomes unlawful for the Borrower to perform or comply with any or all of its material (in the Lender's reasonable opinion) obligations under this Agreement or any of such material obligations (subject as provided in Clause 9.1.3) are not, or cease to be, legal, valid, binding and enforceable.

11.1.14 Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in Clauses 11.1.4, 11.1.5, 11.1.9 and 11.1.10, subject to the same thresholds and cure periods as set out in the relevant clauses above.

11.2 Notice of Potential Event of Default

The Borrower shall deliver to the Lender and the Trustee: (i) within 10 Business Days of any written request by the Lender or the Trustee; or (ii) promptly upon becoming aware thereof, written notice in the form of an Officers' Certificate stating whether any Potential Event of Default or an Event of Default has occurred, its status and what action the Borrower is taking or proposes to take with respect thereto.

11.3 Default Remedies

If any Event of Default shall occur or has occurred and, in either case, is continuing, the Lender and/or the Trustee as applicable in accordance with the Trust Deed may, by notice in writing to the Borrower: (a) declare the obligations of the Lender under this Agreement to be immediately terminated, whereupon such obligations shall terminate; and (b) declare all amounts payable under this Agreement by the Borrower that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are all expressly waived by the Borrower; provided, however, that if any event of any kind referred to in Clause 11.1.6 or 11.1.7 occurs, the obligations of the Lender under this Agreement shall immediately terminate, and all amounts payable under this Agreement by the Borrower that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are all especially waived by the Borrower.

11.4 Rights Not Exclusive

The rights provided for herein are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12 INDEMNITY

12.1 Indemnification

The Borrower undertakes to the Lender that if the Lender or any director, officer, employee or agent (other than the Principal Paying Agent or any of the Paying Agents) of the Lender (each an "**Indemnified Party**") incurs any loss, liability, cost, claim, charge, expense (including all legal fees properly incurred) demand or damage (the "**Loss**") which may be properly incurred in respect of this Agreement (or enforcement thereof), and/or the issuance, constitution, sale, listing and/or enforcement of the Notes and/or the Notes being outstanding (excluding the Loss that is the subject of the undertakings contained in Clauses 3.4, 8 and 12.5 (it being understood that the Lender may not recover twice in respect of the same Loss)) the Borrower shall pay to the Indemnified Party on demand an amount equal to such Loss (as evidenced by an invoice issued to the Borrower by the Lender in accordance with Clause 15) unless, in any such case, such Loss was either caused by such Indemnified Party's negligence or wilful misconduct or arose out of a breach of the representations and warranties of the Lender contained herein or in the Subscription Agreement. It is understood that the amount of Loss that is to be paid pursuant to the preceding provisions of this Clause 12.1, provided such amount is duly documentarily evidenced, will be paid by the Borrower on the basis of an itemised invoice distributed to the Borrower by the Lender on the letterhead of the latter and a delivery and acceptance act signed by the parties.

12.2 Notice and Payment of Loss, Defence of Action and Settlement

If any proceeding (including a governmental investigation), claim or demand shall be instituted involving an Indemnified Party, it shall promptly notify the Borrower in writing and the Borrower shall have the right to assume the defence thereof and appoint lawyers which are acceptable to the Indemnified Party (acting reasonably in assessing acceptability) and shall be liable to pay the fees and expenses of such lawyers related to such proceeding. In any proceeding, the Indemnified Party shall have the right to retain its own lawyers, but the fees and expenses of such lawyers shall be at the expense of the Indemnified Party unless (i) the Borrower and the Indemnified Party shall have mutually agreed to the retention of such lawyers; (ii) the named parties to any such proceeding (including any joined parties) include the Borrower and the Indemnified Party and representation of both parties by the same lawyers (in the reasonable opinion of the Indemnified Party) would be inappropriate due to actual or potential differing interests between them; (iii) pursuant to the previous sentence the Borrower has elected to assume the defence itself but has within a reasonable time after the notification of the institution of such action failed to appoint lawyers as contemplated above; or (iv) pursuant to the previous sentence the Borrower has elected not to assume such defence itself and the Indemnified Party has assumed such defence and retained lawyers in respect thereof. It is understood that the Borrower shall reimburse such fees and expenses as they are incurred in respect of (i), (ii), (iii) and (iv) above. The Borrower shall not be liable for any settlement of any such proceeding, claim or demand effected without its written consent (provided that such consent shall not be unreasonably withheld or delayed), but if settled with such consent (or without such consent in circumstances where such consent shall have been unreasonably withheld or delayed as aforesaid) or if there be a final judgment for the Indemnified Party, the Borrower agrees to indemnify the Indemnified Party from and against any loss or liability by reason of such settlement or judgment. The Borrower will not settle any proceeding in respect of which indemnity may be sought pursuant to Clause 12.1 without the written consent of the relevant Indemnified Party, unless such settlement includes an unconditional release of each Indemnified Party from all liability arising out of such proceeding, claim or demand.

12.3 Independent Obligation

Clause 12.1 constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issue of the Notes by the Lender and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

12.4 Evidence of Loss

A certificate of the Lender, supported by relevant documentation, setting forth the amount of Loss and specifying in full detail the basis therefor shall, in the absence of manifest error, be conclusive evidence of the amount of such Loss.

12.5 Currency Indemnity

To the fullest extent permitted by law, the obligations of the Borrower under this Agreement in respect of any amount due in the currency (the "**first currency**") in which the same is payable shall, in the event of any payment made by the Borrower in any other currency (the "**second currency**") (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the first currency that the Lender may, acting reasonably and in accordance with normal banking procedures, purchase with the sum paid in the second currency (after any premium and costs of exchange) on the Business Day immediately following the day on which the Lender receives such payment. If the amount in the first currency that may be so purchased for any reason falls short of the amount originally due (the "**Due Amount**"), the Borrower hereby agrees to indemnify and hold harmless the Lender against any deficiency in the first currency. Any obligation of the Borrower not discharged by payment in the first currency shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Agreement, shall continue in full force and effect. If the amount in the first currency that may be purchased by the Lender exceeds the Due Amount the Lender shall promptly pay the amount of the excess to the Borrower.

13 Survival

The obligations of the Borrower pursuant to Clauses 6.2, 6.3, 12 and 14.1 shall survive the execution and delivery of this Agreement, the drawdown of the Facility and the repayment of the Loan, in each case by the Borrower.

14 General

14.1 Stamp Duties

14.1.1 The Borrower shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed on the Borrower by any person in the Russian Federation or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and shall make a payment to the Lender calculated on the basis of all properly documented costs which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to pay such taxes or similar charges.

14.1.2 The Borrower agrees that if the Lender incurs or has incurred a liability to pay any stamp, registration and documentary taxes or similar charges (if any) imposed by any person in the Russian Federation or Ireland which may be or have been payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and any documents related hereto, the Borrower shall repay the Lender on demand an amount equal to such stamp or other documentary taxes or duties and shall make a payment to the Lender in the amount equal to all costs and expenses properly documented and connected with the payment of such amounts.

14.2 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or the Borrower, any right, power or privilege hereunder and no course of dealing between the Borrower and the Lender shall operate or shall have operated as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies provided herein are cumulative and not exclusive of any rights or remedies provided by applicable law.

14.3 Prescription

In the event that any Notes become void pursuant to Condition 11, the Lender shall forthwith repay to the Borrower the principal amount of such Note and the interest accrued thereon, subject to the Lender having previously received from the Borrower a corresponding amount in respect of principal and interest pursuant to this Agreement. If requested by the Borrower in such circumstances, the Lender and the Borrower shall enter into an amendment to this Agreement providing for such repayment and the corresponding reduction of the Loan in form satisfactory to the Borrower.

15 NOTICES

All notices, requests, demands or other communications to or upon the respective parties hereto shall be given or made in the English language by fax or electronic communication or otherwise in writing (by hand or by courier) and shall be deemed to have been duly given or made (if delivered by hand or courier) at the time of delivery, (if sent by facsimile transmission or by airmail) at the time, in the case of a facsimile transmission, when the relevant delivery receipt is received by the sender or (if by electronic communication) when the relevant receipt of such communication being read is given, or where no read receipt is requested by the sender, at the time of sending, provided that no delivery failure notification is received by the sender within 24 hours of sending such communication, and, in each case, provided that any communication that is received (or deemed to take effect in accordance with the foregoing) outside business hours or on a non-business day in the place of receipt shall be deemed to take effect at the opening of business on the next following business day in such place, to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this Agreement addressed as follows:

if to the Borrower:

Joint Stock Company "Russian Railways"
2, Novaya Basmannaya St.
107174 Moscow
Russian Federation

Fax: +7 495 262 9280
E-mail: orlovate@css-rzd.ru
aatok@css-rzd.ru
Attention: Corporate Finance Department

if to the Lender:

RZD Capital Limited
5 Harbourmaster Place
IFSC
Dublin 1
Ireland

Fax: +353 1 680 6050
Email: corporate.services@db.com
Attention: The Directors

If to the Trustee:

Deutsche Trustee Company Limited
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom
Fax: +44 20 7547 6149
Attention: The Managing Director

or to such other postal address, facsimile number or electronic address as any party may hereafter specify in writing to the other.

16 Assignment

16.1 General

This Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender or the forming of an opinion or the making of any determination, following notification to the Borrower of the assignment and/or enforcement of the security, each as referred to in Clause 16.3, shall include references to the exercise of such rights or discretions or the forming of an opinion or the making of any determination by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any determinations by the Lender, or any discussions between the Lender and the Borrower or any agreements of the Lender or the Borrower, pursuant to Clause 6.4, 6.5 or 8.2.

16.2 By the Borrower

The Borrower shall not be entitled to assign or transfer all or any part of its rights or obligations hereunder to any other person.

16.3 By the Lender

Subject to the provisions of clause 16 of the Trust Deed, the Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement other than the Reserved Rights except: (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of certain of the Lender's rights and benefits under this Agreement; and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under this Agreement, in each case pursuant to clause 4 of the Trust Deed. Nothing herein shall prevent the Trustee from assigning or transferring any rights held by it in relation to or under this Agreement, provided that any such assignment or transfer is in accordance with clause 26 of the Trust Deed.

17 Law and Arbitration

17.1 Governing Law

This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law.

17.2 Arbitration

The parties irrevocably agree that any dispute arising out of or in connection with this Agreement, including a dispute as to the validity, existence or termination of this Agreement or the consequences of its nullity and/or this Clause 17.2 (a "**Dispute**"), shall be resolved by arbitration in London, England, conducted in the English language by three arbitrators, in accordance with the rules set down by the LCIA (formerly the London Court of International Arbitration) ("**LCIA Rules**") (provided that any provision of such LCIA Rules relating to the nationality of an arbitrator shall, to that extent, not apply), which rules are deemed to be incorporated by reference into this Clause, save that Article 5.6 of the LCIA Rules shall be amended as follows: unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If he is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA. Notwithstanding the above, and for the avoidance of doubt, in the event that more than two parties are involved in the dispute, and the disputant parties have not agreed that they represent two separate sides for the formation of the tribunal, LCIA Rule 8.1 shall apply. The parties agree to exclude the jurisdiction of the English courts under Sections 45 and 69 of the Arbitration Act 1996. Where disputes arise under this Agreement and/or under any other RZD Agreement, in the event of any further dispute(s) under this Agreement and/or any other RZD Agreement, the first LCIA tribunal to be appointed in any of the disputes shall have the power, upon request of any party to any dispute, to order that the proceedings to resolve the further dispute(s) be consolidated with the arbitration proceedings pursuant to which the first LCIA tribunal has been appointed (whether or not proceedings to resolve the further dispute(s) have yet been instituted), if the further dispute(s) are so closely connected that it is

efficient and appropriate to resolve them in the same proceedings and provided that no date for exchange of witness statements has been fixed in the proceedings pursuant to which the first LCIA tribunal has been appointed. If the LCIA tribunal so orders, the parties to each dispute which is a subject of its order shall be treated as having consented to that dispute being finally decided:

(i) by the LCIA tribunal that ordered the consolidation unless the LCIA decides that any arbitrator would not be suitable or impartial; and

(ii) in accordance with the procedure, at the seat and in the language specified in the arbitration agreement in the contract under which the LCIA tribunal that ordered the consolidation was appointed, save as otherwise agreed by all parties to the consolidated proceedings or, in the absence of such agreement, ordered by the LCIA tribunal in the consolidated proceedings.

17.3 Lender's Process Agent

The Lender irrevocably appoints Freshfields Bruckhaus Deringer LLP (the "**Lender's Agent**"), of 65 Fleet Street, London EC4Y 1HS, United Kingdom, as its agent to accept service of process in England in any Dispute, provided that:

17.3.1 service upon the Lender's Agent shall be deemed valid service upon the Lender, whether or not the process is forwarded to or received by the Lender;

17.3.2 the Lender shall inform all other parties to this Agreement, in writing, of any change in the address of the Lender's Agent within 28 days of such change;

17.3.3 if the Lender's Agent ceases to be able to act as a process agent or to have an address in England, the Lender irrevocably agrees to appoint a new process agent in England acceptable to the other parties to this Agreement and to deliver to the other parties to this Agreement within 14 days a copy of a written acceptance of appointment by the new process agent; and

17.3.4 nothing in this Agreement shall affect the right of the Borrower to serve process in any other manner permitted by law.

17.4 Borrower's Process Agent

The Borrower irrevocably appoints Freshfields Bruckhaus Deringer LLP (the "**Borrower's Agent**"), of 65 Fleet Street, London EC4Y 1HS, United Kingdom, as its agent to accept service of process in England in any Dispute, provided that:

17.4.1 service upon the Borrower's Agent shall be deemed valid service upon the Borrower, whether or not the process is forwarded to or received by the Borrower;

17.4.2 the Borrower shall inform all other parties to this Agreement, in writing, of any change in the address of the Borrower's Agent within 28 days of such change;

17.4.3 if the Borrower's Agent ceases to be able to act as a process agent or to have an address in England, the Borrower irrevocably agrees to appoint a new process agent in England acceptable to the other parties to this Agreement and to deliver to the other parties to this Agreement within 14 days a copy of a written acceptance of appointment by the new process agent; and

17.4.4 nothing in this Agreement shall affect the right of the Lender to serve process in any other manner permitted by law.

17.5 Waiver of Immunity

To the extent that the Borrower or the Lender may, in relation to any Dispute, claim in any jurisdiction, for itself or its assets or revenues, immunity from the jurisdiction of any court or tribunal, service of process, injunctive or other interim relief, or any process for execution of any award or judgment against its property, the Borrower and the Lender irrevocably waive such immunity, other than, in relation to the Borrower only, pursuant to the Resolution of the Government of the Russian Federation No. 57 dated 6 February 2004, which relates to assets such as, inter alia, infrastructure objects which serve national security purposes.

18 SEVERABILITY

If any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

19 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

20 LANGUAGE

The language which governs the interpretation of this Agreement is the English language.

21 AMENDMENTS

Except as otherwise provided by its terms, this Agreement may not be varied except by an agreement in writing signed by the parties hereto.

22 COUNTERPARTS

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties hereto.

23 LIMITED RECOURSE AND NON PETITION

23.1 Non-Petition

Neither the Borrower nor any other person acting on its behalf shall be entitled at any time to institute against the Lender, or join in any institution against the Lender of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender under this Agreement, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

23.2 Limited Recourse

The Borrower hereby agrees that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, received (after deduction or withholding of such taxes or duties as may be required to be made by the Lender by law in respect of such sum or in respect of the Notes and for which the Lender has not received a corresponding payment (also after deduction or withholding of such taxes or duties as may be required to be made by the Lender in respect thereof) pursuant to this Agreement) by or for the account of the Lender pursuant to this Agreement (the "**Lender Assets**"), subject always (i) to the Security Interests (as defined in the Trust Deed) and (ii) to the fact that any claims of the Joint Lead Managers under the Subscription Agreements shall rank in priority to any claims of the Borrower hereunder, and that any such claim by any and all such Joint Lead Managers or the Borrower shall be reduced pro rata so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them. The Trustee having realised the same, neither the Borrower nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to such person in respect of any such further sum. In particular, neither the Borrower nor any person acting on its behalf) shall be entitled at any time to institute against the Lender, or join with any other person as instituting or joining, insolvency proceedings (or any proceedings mentioned in the paragraph above) against the Lender.

The Borrower shall have no recourse against any director, shareholder, or officer of the Lender in respect of any obligations, covenants or agreement entered into or made by the Lender in respect of this Agreement, except to the extent that any such person acts in bad faith or is negligent in the context of its obligations.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Conditions which contains summaries of certain provisions of the Trust Deed and which (subject to completion and amendment) will be endorsed on each Definitive Certificate and will be attached and (subject to the provisions thereof) apply to the Further Global Certificate:

The £650,000,000 7.487 per cent. Loan Participation Notes due 2031 comprising the Original Notes and the Further Notes (as each expression is defined below and together, the "**Notes**", which expression includes any further notes (additional to the Further Notes) issued pursuant to Condition 15 and forming a single series therewith) of RZD Capital Limited (the "**Issuer**", which expression shall include any entity substituted for the Issuer pursuant to Condition 10(C)) which are constituted by, are subject to, and have the benefit of, a trust deed (the "**Original Trust Deed**") dated 25 March 2011 and made between the Issuer and Deutsche Trustee Company Limited (the "**Trustee**", which expression shall include any trustees or trustee for the time being under the Trust Deed) as trustee for the Noteholders (as defined below) as amended and restated by virtue of a supplemental trust deed dated 22 June 2011 between the same parties (the "**Supplemental Trust Deed**" and together with the Original Trust Deed, the "**Trust Deed**", which expression includes such trust deed as from time to time further modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified).

The £300,000,000 7.487 per cent. Loan Participation Notes of the Issuer due 2031 issued on 22 June 2011 (the "**Further Notes**") will be consolidated and form a single series with the £350,000,000 7.487 per cent. Loan Participation Notes of the Issuer due 2031 issued on 25 March 2011 (the "**Original Notes**") and are constituted by, subject to and have the benefit of, the Trust Deed.

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing an aggregate £650,000,000 20-year loan (the "**Loan**") to Joint Stock Company "Russian Railways" (the "**Borrower**"). The terms of the Loan are recorded in a loan agreement (the "**Original Loan Agreement**") dated 23 March 2011 between the Issuer (as lender) and the Borrower, as amended and restated on 20 June 2011 (such amended and restated agreement, the "Loan Agreement").

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any), respectively actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined below). Noteholders must therefore rely on the covenant to pay under the Loan Agreement, the benefit of the Security Interests (as defined below) and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other asset of the Issuer.

The Issuer has charged by way of first fixed charge in favour of the Trustee, for the benefit of the Trustee and the Noteholders certain of its rights and interests as Lender under the Original Loan Agreement and the Loan Agreement as security for its payment obligations in respect of the Notes and under the Trust Deed (the "**Charge**") and has assigned absolutely certain other rights under the Original Loan Agreement and the Loan Agreement to the Trustee (the "**Assigned Rights**" and, together with the Charge, the "**Security Interests**") in each case excluding the Reserved Rights. "**Reserved Rights**" are the rights excluded from the Charge and the Assigned Rights, being all and any rights, interests and benefits in respect of the obligations of the Borrower under Clauses 3.2, 3.4, 5.3 (other than the right to receive any amount payable under such Clause), 6.2 (to the extent that the Borrower shall reimburse the Issuer on demand for any amount paid by the Issuer in respect of taxes, penalties or interest), 6.3 (to the extent that the Issuer has received amounts to which the Noteholders are not entitled), 6.4, 8, 12, 13 and 14.1 of the Loan Agreement.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured and/or pre-funded to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding (as defined in the Trust Deed) or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Borrower) pursuant to a paying agency agreement dated 23 March 2011 (the "**Original Agency Agreement**") and made between the Borrower, the Issuer, Deutsche Bank AG, London Branch, as the principal paying agent (the "**Principal Paying Agent**", which expressions shall include any successors), Deutsche Bank Luxembourg S.A., the registrar (the "**Registrar**", which expression shall include any successors), and the transfer agents and paying agents named

therein (the "**Transfer Agents**" and "**Paying Agents**" respectively, which expressions shall include any successors, and together with the Principal Paying Agent and the Registrar, the "**Agents**") and the Trustee, as supplemented by a supplemental paying agency agreement dated 20 June 2011 between the same parties (the "**Supplemental Agency Agreement**" and together with the Original Agency Agreement, the "**Paying Agency Agreement**").

Copies of the Trust Deed, the Loan Agreement and the Paying Agency Agreement are available for inspection by Noteholders during normal business hours at: (i) the principal office of the Trustee, being, at the date hereof, Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom; and (ii) the Specified Office (as defined in the Paying Agency Agreement) of the Principal Paying Agent.

Certain provisions of these terms and conditions (the "**Conditions**") are summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Paying Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof and are deemed to have notice of all of the relevant provisions of the Loan Agreement.

Capitalised expressions used but not defined herein shall have the meaning given to them in the Trust Deed.

1 STATUS

The Notes are limited recourse obligations of the Issuer secured by a charge and assignment of certain contractual rights, interests and benefits.

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received (net of tax and other deductions whatsoever) by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights, will be made pro rata among all Noteholders, on the Business Day after, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Borrower.

Noteholders have notice of, and have accepted, these Conditions and the contents of the Trust Deed, the Paying Agency Agreement and the Loan Agreement. It is hereby expressly provided that, and Noteholders are deemed to have accepted that:

(a) neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed, in the Loan Agreement (in the case of the Issuer) or in Condition 1(f) below, liability or obligation in respect of, the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal, interest or any additional amounts, if any, due or to become due from the Borrower under the Loan Agreement;

(b) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower;

(c) neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;

(d) neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Agents of their respective obligations under the Paying Agency Agreement;

(e) the financial servicing and performance of the terms of the Notes depend upon performance by the Borrower of its obligations under the Loan Agreement and, in respect of the first Interest Payment Date, the Issuer as provided in Condition 5, and the Borrower's credit and financial standing. The Borrower has represented and warranted to the Issuer in the Loan Agreement that, subject to certain qualifications, the Loan Agreement constitutes legal, valid, binding and enforceable obligations of the Borrower;

(f) the Issuer and (following the creation of the Security Interests) the Trustee shall be entitled to rely on certificates of the Borrower (including an Officers' Certificate (as defined in the Loan Agreement)) without liability to any person (and, where applicable, certification by third parties) (whether or not addressed to or obtained by the Trustee) as a means of monitoring whether the Borrower is complying with its obligations under the Loan Agreement and the Trustee may rely without liability to any person on certificates of the Issuer as a means of monitoring whether the Issuer is complying with its obligations under these Conditions and the Trust Deed and shall not otherwise be responsible for investigating any aspect of the Borrower's or the Issuer's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a lender or a security holder (as applicable) in relation to the property which is the subject to the Security Interests and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value, validity or adequacy of such security;

(g) neither the Trustee nor the Issuer shall at any time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions until the Issuer or the Trustee, as the case may be, has received from the Borrower the funds that are necessary to cover the costs and expenses in connection with such performance or exercise, or has been (in its sole discretion) sufficiently assured that it will receive such funds; and

(h) the Issuer will not be liable for any shortfall in respect of amounts payable by or resulting from any withholding or deduction or for any payment on account of Tax (as defined in the Loan Agreement) required to be made by the Issuer on or in relation to any sum received by it under the Loan Agreement, which will or may affect payments made or to be made by the Borrower under the Loan Agreement, save to the extent that it has received additional amounts under the Loan Agreement in respect of such withholding or deduction or payment, and the Issuer shall, furthermore, not be obliged to take any actions or measures as regards such deduction or withholding or payment, other than those set out in the Loan Agreement. The Trustee shall have no liability for any such shortfall in respect of any such deduction, withholding or payment.

Under the Trust Deed, the obligations of the Issuer in respect of the Notes rank pari passu and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by the Borrower to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will pro tanto satisfy the obligations of the Issuer in respect of the Notes (unless, upon due presentation of a Note, payment is improperly withheld or refused).

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or direct recourse to the Borrower, except through action by the Trustee pursuant to the relevant Security Interests granted to the Trustee in the Trust Deed. Following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall not be required to take any step, action or proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured and/or pre-funded to its satisfaction.

As provided in the Trust Deed, and notwithstanding any other provision hereof, the obligations of the Issuer are solely to make payments of amounts in aggregate equal to each sum actually received by or for the account of the Issuer (after deduction or withholding of such taxes or duties as may be required to be made by the Issuer by law in respect of such sum or in respect of the Notes and for which the Issuer has not received a corresponding payment (also after deduction or withholding of such taxes or duties as may be required to be made by the Issuer in respect thereof) pursuant to Clause 6 of the Loan Agreement) from the Borrower in respect of principal, interest, additional amounts or tax indemnity, as the case may be, pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights, the right to which is being charged by way of security to the Trustee as aforesaid. Noteholders must therefore rely solely and exclusively upon the covenant to pay under the Loan Agreement and the credit and financial standing of the Borrower and no other assets of the Issuer will be available to the Noteholders.

Notwithstanding any other provisions of these Conditions and the provisions in the Trust Deed, the Trustee and the Noteholders shall have recourse only to the Charged Property (as defined in the Trust Deed) in accordance with the provisions of the Trust Deed. After realisation of the security which has become enforceable and application of the proceeds in accordance with Clause 8 of the Trust Deed, the obligations of the Issuer with respect to the Trustee and the Noteholders in respect of the Notes shall be satisfied and none of the foregoing parties may take any further steps against the Issuer to recover any further sums in respect thereof and the right to receive any such sums shall be extinguished.

None of the Noteholders or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors for so long as the Notes are outstanding, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreements entered into or made by the Issuer in respect of the Notes, other than in the case of fraud.

2 FORM AND DENOMINATION

The Notes are issued in registered form without coupons attached in the denomination of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000 (each an "**Authorised Holding**").

3 REGISTER, TITLE AND TRANSFERS

(A) REGISTER

The Registrar will maintain a register (the "**Register**") in respect of the Notes outside the United Kingdom in accordance with the provisions of the Paying Agency Agreement on which shall be entered the names and addresses of the Noteholders and the particulars of the Notes held by them and of all transfers and redemptions of Notes. In these Conditions, the "**holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each a "**Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Certificate will be serially numbered with an identifying number which will be recorded in the Register. Each Noteholder shall be entitled to receive only one Certificate in respect of its entire holding.

(B) TITLE

Title to the Notes will pass by transfer and registration in the Register. The holder of each Note shall (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Certificate) and no person shall be liable for so treating such holder.

(C) TRANSFERS

Subject to the terms of the Paying Agency Agreement and to Conditions 3(F) and 3(G) below, a Note may be transferred in whole or in part upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Certificate may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Notes will be issued to the transferor.

No transfer of a Certificate will be valid unless and until entered on the Register. A Note may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number) or a nominee.

(D) REGISTRATION AND DELIVERY OF CERTIFICATES

Within five business days of the surrender of a Certificate in accordance with Condition 3(C) above, the Registrar will register the transfer in question and deliver a new Certificate of a like principal amount to the Notes transferred to each relevant holder for collection at its Specified Office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this Condition 3(D), "**business day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or the relevant Transfer Agent has its Specified Office.

(E) NO CHARGE

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent but subject to the person making such application for transfer paying or procuring the payment of (or the giving of such indemnity as the Issuer, the Registrar or the relevant Transfer Agent, as the case may be, may require in respect of) any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(F) CLOSED PERIODS

The Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(G) REGULATIONS CONCERNING TRANSFERS AND REGISTRATION

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Paying Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations and is available at the Specified Offices of the Transfer Agents.

4 RESTRICTIVE COVENANT

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or a Written Resolution, agree to any amendment to or any modification, rescission, cancellation, termination or waiver of, or authorise any breach by any counterparty of or proposed breach by any counterparty of, the terms of the Loan Agreement other than in the case of an amendment, modification, waiver, rescission, cancellation, termination or authorisation with respect to the Reserved Rights, and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement, as the case may be. Any such amendment, modification, waiver, rescission, cancellation, termination or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, inter alia, incur any other indebtedness for borrowed moneys other than issues of notes on a limited recourse basis for the sole purpose of making loans to the Borrower, engage in any business (other than entering into any agreements related to the Notes or any other issue of notes as aforesaid and performing any acts incidental to or necessary in connection with the Notes or such related agreements (including the holding of any security in connection therewith), making the Loan to the Borrower pursuant to the Loan Agreement or any future loans to the Borrower and performing any act incidental to or necessary in connection therewith), declare any dividends, have any subsidiaries or employees (save for its directors), purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity (to the extent the same is within the control of the Issuer) to any person (otherwise than as contemplated in these Conditions and the Trust Deed), issue any further shares (to the extent the same is within the control of the Issuer) or make any distribution to its shareholders, give any guarantee or assume any other liability or, except where required under the laws of Ireland, petition for any winding-up or bankruptcy.

5 INTEREST

On each Interest Payment Date, or as soon thereafter as the same is received, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement, which interest under the Loan is equal to 7.487 per cent. per annum calculated on the outstanding amount of the Loan at the end of each Interest Period (as set out in Clause 4 of the Loan Agreement). Each period from (and including) 25 March 2011 (the "**Issue Date**") or any Interest Payment Date to (but excluding) the next (or, if commencing from the Issue Date, first) Interest Payment Date is herein called an "**Interest Period**".

If interest is required to be calculated for any period of less than a year, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

For the avoidance of doubt, notwithstanding these Conditions and provided such amount has actually been received by or for the account of the Issuer on or before the first Interest Payment Date, holders of the Further Notes will receive on the first Interest Payment Date, an amount representing accrued interest on the Further Notes in respect of the period from and including 25 March 2011 to (but excluding) 25 September 2011. Accordingly, all Noteholders will receive on the first Interest Payment Date, provided such amount has actually been received by or for the account of the Issuer, an amount in respect of interest on the Notes from (and including) 25 March 2011 to (but excluding) 25 September 2011.

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall accrue (as well as after as before judgment) at the rate of interest as set out in Clause 4 of the Loan Agreement, provided that the Issuer shall account to the relevant Noteholder for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement.

In this Condition 5, "Interest Payment Date" means 25 March and 25 September of each year.

6 REDEMPTION

(A) SCHEDULED REDEMPTION

Unless previously prepaid or repaid, the Borrower will be required to repay the Loan one Business Day (as defined in the Loan Agreement) prior to 25 March 2031 (the "**Repayment Date**") and, subject to such repayment, as set forth in the Loan Agreement, all Notes then outstanding will on 25 March 2031, or as soon thereafter as such repayment of the Loan is actually received, be redeemed or repaid by the Issuer at 100 per cent. of the principal amount thereof, together with accrued interest.

(B) EARLY REDEMPTION

If the Loan should become repayable (and be repaid) pursuant to the terms and conditions of the Loan Agreement in advance of the Repayment Date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at 100 per cent. of the principal amount thereof together with accrued interest and (subject to the Loan being repaid together with accrued interest) shall be redeemed

or repaid and the Issuer will endeavour to give not less than eight days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

Under the Loan Agreement:

(i) the Borrower may prepay the Loan in whole (but not in part) in the circumstances set out in Clause 5.2 of the Loan Agreement; and

(ii) the Issuer may require the Borrower to prepay the Loan in whole (but not in part) in the circumstances set out in Clause 5.3 of the Loan Agreement.

To the extent that the Issuer receives amounts of principal, interest or additional amounts (other than amounts in respect of the Reserved Rights) from the Borrower under the Loan Agreement following prepayment of the Loan, the Issuer shall pay an amount equal to such amounts on the business day (as defined in Condition 7) following receipt of such amounts, subject as provided in Condition 7.

(C) CANCELLATION

The Loan Agreement provides that the Borrower or any Subsidiary of the Borrower may, among other things, from time to time purchase Notes in the open markets or by tender or by a private transaction or otherwise at any price and deliver to the Issuer Notes, having an aggregate principal value of at least £1,000,000, together with a request for the Issuer to present such Notes to the Registrar for cancellation, whereupon the Issuer shall, pursuant to the Paying Agency Agreement, request the Registrar to cancel such Notes. Upon any such cancellation by or on behalf of the Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes surrendered for cancellation shall be extinguished as of the date of such cancellation, together with accrued interest (if any) thereon, and no further payment shall be made or required to be made by the Issuer in respect of such Notes.

(D) CHANGE OF CONTROL

If a Change of Control Put Event shall have occurred, the holder of a Note will have the option (the "**Change of Control Put Option**") to require the Issuer to redeem such Note on the Change of Control Put Settlement Date (as defined below) at 100 per cent. of its principal amount together with accrued, but unpaid, interest (if any) to, but excluding, the Change of Control Put Settlement Date.

Promptly upon the Issuer becoming aware (by receiving written notice from the Borrower) that a Change of Control Put Event has occurred, the Issuer shall give notice (a "**Change of Control Put Event Notice**") to the Noteholders in accordance with Condition 14 and to the Trustee, specifying the details relating to the occurrence of the Change of Control Put Event and the procedure for exercising the Change of Control Put Option.

In order to exercise the Change of Control Put Option, the holder of a Note must deliver no later than 30 days after the Change of Control Put Event Notice is given (the "**Change of Control Put Period**"), to the specified office of the Principal Paying Agent, evidence satisfactory to the Principal Paying Agent or Paying Agent of such holder's entitlement to such Note and a duly completed put option notice (a "**Change of Control Put Option Notice**") specifying the principal amount of the Notes in respect of which the Change of Control Put Option is exercised, in the form obtainable from the Principal Paying Agent or any Paying Agent. The Principal Paying Agent or Paying Agent will provide such Noteholder with a non-transferable receipt. On the Business Day (as defined in the Loan Agreement) following the end of the Change of Control Put Period, the relevant Paying Agent shall notify the Issuer and the Borrower in writing of the exercise of the Change of Control Put Option specifying the aggregate principal amount of the Notes to be redeemed in accordance with the Change of Control Put Option. Provided that the Notes that are the subject of any such Change of Control Put Option Notice have been delivered to the Principal Paying Agent or a Paying Agent prior to the expiry of the Change of Control Put Period, then the Issuer shall (subject (i) to the receipt of sufficient funds to do so from the Borrower; and (ii) as provided in Condition 8) redeem all such Notes on the date falling five Business Days (as defined in the Loan Agreement) after the expiration of the Change of Control Put Period (the "**Change of Control Put Settlement Date**"). No Change of Control Put Option Notice, once delivered in accordance with this Condition 6(D), may be withdrawn.

"**Change of Control Put Event**" means the occurrence of a Change of Control (as defined in the Loan Agreement).

The Trustee shall not be required to take any steps to ascertain whether a Change of Control Put Event or any event which could lead to the occurrence of a Change of Control Put Event has occurred and will not be responsible or liable to any holder of a Note for any loss arising from any failure by it to do so. The Trustee may assume until notified otherwise pursuant to this Condition 6 that no Change of Control Put Event has occurred and shall have no liability to any person for so doing.

7 PAYMENTS

(A) PRINCIPAL

Payments of principal shall be made by Sterling cheque drawn on, or, upon application by a holder of a Note to the Specified Office (as defined in the Paying Agency Agreement) of the Principal Paying Agent not later than the 15th day before the due date for any such payment, by transfer to a Sterling account maintained by the payee with a bank in London upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or the specified office of the Transfer Agent.

(B) INTEREST

Payments of interest shall be made by Sterling cheque drawn on, or, upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the 15th day before the due date for any such payment, by transfer to a Sterling account maintained by the payee with a bank in London, and (in the case of interest payable on redemption) upon surrender (or, in the case either of an interest payment prior to redemption or of part payment only, endorsement) of the relevant Notes at the specified office of any Paying Agent.

(*C) PAYMENTS SUBJECT TO FISCAL LAWS*

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8, no commissions or expenses shall be charged to the Noteholders in respect of such payments.

(D) PAYMENTS ON BUSINESS DAYS

If the due date for payment of interest or principal is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 7, "**business day**" means a day on which (a) Sterling deposits may be dealt in on the London inter-bank market and commercial banks and foreign exchange markets are open in London, and (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Dublin, London and in the city where the Specified Office of the Principal Paying Agent is located.

(E) RECORD DATE

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's Specified Office) on the 15th day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the holder in the Register at the opening of business on the relevant Record Date.

(F) ACCRUED INTEREST

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, in the case of a due date for redemption or repayment falling prior to the first Interest Payment Date, from the Issue Date (with regard to the Further Notes, as though those Further Notes had been issued on the Issue Date), shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement and, in the case of Accrued Interest on the Further Notes, as a portion of the Further Notes issue proceeds.

(G) PAYMENTS BY BORROWER

Save as directed by the Trustee at any time after the Security Interests become enforceable, the Issuer will require the Borrower to make all payments of principal, interest and additional amounts, if any, to be made pursuant to the Loan Agreement to an account in the name of the Issuer with the Principal Paying Agent. Pursuant to the Charge, the Issuer charges by way of first fixed charge all its rights, title and interest in and to all sums of money (with the exception of sums relating to the Reserved Rights) from time to time deposited in such account in favour of the Trustee for the benefit of the Trustee and the Noteholders.

(H) SUCCESSOR PAYING AGENTS

The Paying Agency Agreement provides that the Issuer may at any time, in consultation with and subject to the consent of the Borrower and also with the prior written approval of the Trustee (which approval may be given without the consent of the Noteholders), appoint a successor Registrar or Principal Paying Agent and/or additional or successor Paying Agents or Transfer Agents provided that the Issuer maintains (i) a Principal Paying Agent; (ii) for so long as the Notes are listed and/or admitted to trading on any stock exchange, a Paying Agent as may be required by the rules and regulations of such stock exchange; (iii) a Registrar having a Specified Office outside the United Kingdom; and (iv) a Paying Agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Any such variation, termination or appointment of successor or other Agents shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the continuing Agents, the Borrower, the Trustee and to the Noteholders in accordance with Condition 14.

(I) FRACTIONS

Each payment by the Issuer to a Noteholder will be rounded down to the nearest penny.

8 TAXATION

All payments in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Ireland or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law.

In such event, the Issuer shall, subject as provided below, make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required. However, the Issuer shall only make such additional payments to the extent and at such time as it shall receive equivalent sums from the Borrower under the Loan Agreement. To the extent that the Issuer does not receive any such equivalent sum, the Issuer shall account to the relevant Noteholder for an additional amount equivalent to a pro rata proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer, provided that no such additional amount will be payable in respect of any Note:

(a) to a Noteholder who (i) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (ii) is liable for such taxes or duties by reason of his having some connection with Ireland other than the mere holding of such Notes or the receipt of payments in respect thereof;

(b) in respect of a Certificate presented for payment of principal or interest on redemption more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Certificate had been presented for payment on such 30th day;

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the

conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) in respect of a Note held by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a Member State of the European Union.

As used herein, "**Relevant Date**" means (i) the date on which the equivalent payment under the Loan Agreement first becomes due but (ii) if the full amount payable by the Borrower has not been received by, or for the account of, the Issuer pursuant to the Loan Agreement on or prior to such date, means the date on which such full amount shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed. If the Issuer becomes subject to any taxing jurisdiction other than or in addition to Ireland, references in these Conditions to Ireland shall be construed as references to Ireland and/or such other jurisdiction.

9 ENFORCEMENT

The Trust Deed provides that only the Trustee (subject to Condition 1) may pursue remedies under general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails to do so within a reasonable period and such failure is continuing.

The Trust Deed also provides that, at any time after an Event of Default (as defined in the Loan Agreement), or if a Relevant Event (as defined in the Trust Deed) has occurred and is continuing, the Trustee may, at its discretion, and shall, if requested to do so by Noteholders whose Notes constitute at least one-quarter in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution or a Written Resolution and, in either case, subject to it being indemnified and/or secured and/or pre-funded to its satisfaction, institute such steps, actions or proceedings as it may think fit to enforce the rights of the Noteholders and the provisions of the Trust Deed, including to (i) declare all amounts payable under the Loan Agreement by the Borrower to be immediately due and payable (in the case of an Event of Default); and/or (ii) exercise any rights under the Security Interests created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid at their principal amount, together with accrued interest thereon and thereupon shall cease to be outstanding.

10 MEETINGS OF NOTEHOLDERS; MODIFICATION; WAIVER; SUBSTITUTION OF THE ISSUER

(A) MEETINGS OF NOTEHOLDERS

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, the Loan Agreement or the Trust Deed. Such meeting may be convened by the Issuer, the Borrower or the Trustee and shall be convened by the Trustee, subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, upon the request in writing of holders of the Notes holding not less than one-tenth of the aggregate principal amount of outstanding Notes. The quorum for any meeting will be one or more persons present holding Notes or being proxies or representatives and holding or representing in the aggregate a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present holding Notes or being proxies or representatives, whatever the principal amount of the Notes so held or represented, unless the business of such meeting includes consideration of matters requiring a special quorum, in which case the necessary quorum will be one or more persons holding Notes or being proxies or representatives and holding or representing not less than two-thirds, or at any adjourned meeting not less than one-half, in principal amount of the Notes for the time being outstanding. The

Trust Deed provides that special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, inter alia, the amount payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

The Trust Deed provides that a resolution in writing (a "**Written Resolution**") signed by or on behalf of the holders of not less than 75 per cent. of the aggregate principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(B) MODIFICATION AND WAIVER

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes and the Trust Deed, the Paying Agency Agreement or the Loan Agreement which in the sole opinion of the Trustee is (i) of a formal, minor or technical nature, is made to correct a manifest error or (ii) (save as provided in the Trust Deed) not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions, or the Trust Deed or by the Borrower of the terms of the Loan Agreement or determine that any event which would or might otherwise give rise to (i) a right of acceleration under the Loan Agreement or (ii) a Relevant Event shall not be treated as such, if in the sole opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders; provided always that (subject to certain exceptions) the Trustee may not exercise such power of waiver in contravention of a request given by the holders of one quarter in aggregate principal amount of the Notes then outstanding or of any express direction by an Extraordinary Resolution or a Written Resolution of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

(C) SUBSTITUTION

The Trust Deed contains provisions to the effect that the Issuer may, having obtained the prior written consent of the Borrower and the Trustee (which latter consent may be given without the consent of the Noteholders) and subject to having complied with certain requirements as set out therein, including the substitute obligor's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes, substitute any entity in place of the Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as obligor under the Trust Deed. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 14 or the Issuer shall use its best endeavours to ensure that the substitute obligor does so.

(D) EXERCISE OF POWERS

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not be obliged to have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, the Borrower or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

11 PRESCRIPTION

Notes will become void unless presented for payment within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12 TRUSTEE AND AGENTS

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking any action or step including proceedings to enforce payment unless indemnified and/or secured and/or pre-funded to its satisfaction, and to be paid its costs and expenses in priority to the claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and/or the Borrower and any entity relating to the Issuer and/or the Borrower without accounting for any profit.

The Trustee may rely without liability to Noteholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Borrower, the Trustee and the Noteholders.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by the Borrower in respect of the Loan Agreement. The Trustee is entitled to assume that the Borrower is performing all of its obligations pursuant to the Loan Agreement (and shall not incur liability for doing so).

The Trustee shall have no liability to Noteholders for any shortfall they may suffer if it is liable for tax in respect of any payments received by it or as a result of the Security Interests being enforced by it.

The Trust Deed contains provisions for the appointment of new trustees by the Issuer (subject to approval by an Extraordinary Resolution of Noteholders) and for the removal of a Trustee by a meeting of Noteholders passing an Extraordinary Resolution, provided that in the case of the removal of a Trustee, at all times there remains a trustee (being a trust corporation (as defined in the Trust Deed)) in office after such removal. Any appointment or removal of a Trustee shall be notified to the Noteholders in accordance with Condition 14. The Trustee may also resign such appointment giving not less that sixty days' notice to the Noteholders provided that such retirement shall not become effective unless there remains a Trustee in office after such retirement.

In acting under the Paying Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given by the Issuer to the Noteholders in accordance with Condition 14.

13 REPLACEMENT OF CERTIFICATES

If a Certificate shall become mutilated, defaced, lost, stolen or destroyed, it may, subject to all applicable laws and regulations and requirements of any stock exchange on which the Notes are from time to time listed or quoted, be replaced at the Specified Office of the Registrar and the Transfer Agent having its Specified Office at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (or any other place of which notice shall have been given to the Noteholders in accordance with Condition 14), on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14 NOTICES

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. The Issuer shall also ensure that all notices are duly published (if such publication is required) in a manner which complies with the rules and

regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been given on the date of such notice.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee in accordance with the rules of the stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading shall constitute sufficient notice to such holders for every purpose hereunder.

15 FURTHER ISSUES

The Issuer may from time to time, with the consent of the Borrower but without the consent of the Noteholders, create and issue further notes or bonds having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) so as to be consolidated and form a single series with the Notes. Such further notes shall be issued under a deed supplemental to the Trust Deed. In relation to any further issue which is to be consolidated and form a single series with the Notes, the Issuer will enter into a loan agreement with the Borrower on the same terms as the Loan Agreement and supplemental to the Loan Agreement, or may amend and restate the same with the Borrower on substantially the same terms as the Loan Agreement. The Issuer will provide a first fixed charge in favour of the Trustee in respect of certain of its rights and interests under such loan agreement and will assign absolutely certain of its rights under such loan agreement, which will secure both the Notes and such further notes and which will supplement the Security Interests in relation to the existing Notes or may amend and supplement the Security Interests for such purpose. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the prior written consent of the Trustee), be constituted by a deed supplemental to the Trust Deed containing such provisions as the Trustee may require. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides. Application will be made for such further notes or bonds to be listed and admitted to trading on the stock exchange on which the Notes are from time to time listed or quoted.

16 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17 GOVERNING LAW AND JURISDICTION

The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with them shall be governed by, and construed in accordance with, English law.

The courts of England are to have jurisdiction to hear and determine any suit, action or proceedings and to settle any disputes which may arise out of or in connection with the Notes and accordingly any suits, action or proceedings arising out of or in connection with the Notes ("**Proceedings**") may be brought in such courts. Pursuant to the Trust Deed, the Issuer has irrevocably submitted to the jurisdiction of such courts.

Pursuant to the Trust Deed, the Issuer has irrevocably appointed an agent for the service of process in England to receive service of process in any Proceedings in England based on the Notes.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Further Notes and in the Further Global Certificate which will apply to, and in some cases modify, the Conditions while the Further Notes are represented by the Further Global Certificate.

The Further Notes will be represented by a Further Global Certificate which will be registered in the name of BT Globenet Nominees Limited as nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg.

Subject to receipt of funds from the Company, the Further Global Certificate will become exchangeable in whole but not in part (free of charge to the holder) for Definitive Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reasons of legal holidays) or announces an intention to permanently cease business; or (b) if the Issuer would suffer a material disadvantage in respect of the Further Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 (Taxation) which would not be suffered were the Further Notes in the form of Definitive Certificates.

Whenever the Further Global Certificate is to be exchanged for Definitive Certificates, such Definitive Certificates will be issued in an aggregate principal amount equal to the principal amount of the Further Global Certificate following delivery, by or on behalf of the registered holder of the Further Global Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as required to complete and deliver such Definitive Certificates (including, but without limitation to, the names and addresses of the persons in whose names the Definitive Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Further Global Certificate at the Specified Office (as defined in the Agency Agreement) of the Registrar or the Transfer Agent. Such exchange will be effected in accordance with the provisions of the Agency Agreement, the Trust Deed and the Further Global Certificate.

The Conditions are modified as follows insofar as they apply to the Further Notes in respect of which the Further Global Certificate is issued:

Payments

Payments of principal and interest in respect of the Further Global Certificate shall be made to the person who appears at the relevant time on the register of Noteholders as holder of the Further Global Certificate against presentation and (if no further payment falls to be made on it) surrender thereof to or to the order of the Principal Paying Agent (or to or to the order of such other Paying Agent as shall have been notified to the Noteholders for this purpose) which shall endorse such payment or cause such payment to be endorsed on the relevant schedule thereto (such endorsement being prima facie evidence that the payment in question has been made). No person shall however be entitled to receive any payment on the Further Global Certificate falling due after the Exchange Date, unless the exchange of the Further Global Certificate for Definitive Certificates is improperly withheld or refused by or on behalf of the Issuer. Each payment will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

Meetings

The holder of the Further Global Certificate and any proxy or representative appointed by it will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and, in any such meeting, as having one vote in respect of each Further Note represented by the Further Global Certificate for which it may be exchanged.

Purchase and Cancellation

Cancellation of any Further Notes evidenced by the Further Global Certificate required by the Conditions to be cancelled following its redemption will be effected by reduction in the principal amount of the Further Notes in the Register and notation of the Further Global Certificate.

Trustee's Powers

In considering the interests of Noteholders, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (a) have regard to such information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of

category) with entitlements in respect of Further Notes; and (b) consider such interests on the basis that such accountholders were the holders of the Further Notes in respect of which the Further Global Certificate is issued.

Notices

So long as the Further Notes are represented by the Further Global Certificate and the Further Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system, notices required to be given to Noteholders may be given by their being delivered to the relevant clearing system for communication by it to entitled accountholders in substitution for notification as required by the Conditions. For so long as the Further Notes are listed, the Issuer will also publish notices in accordance with the rules and regulations of the relevant stock exchange.

Prescription

Claims in respect of principal, interest and other amounts payable in respect of the Further Global Certificate will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest or any other amounts) from the due date for payment in respect thereof.

Transfers

Transfers of interests in the Further Notes with respect to which the Further Global Certificate is issued shall be made in accordance with the rules and procedures of Euroclear or, as the case may be, Clearstream, Luxembourg.

Enforcement

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, the persons named in a certificate of the holder of the Further Notes in respect of which the Further Global Certificate is issued shall be recognised as the beneficiaries of the trusts set out in the Trust Deed to the extent of the principal amount of their interest in the Further Notes set out in the certificate of the holder as if they were themselves the holders of Further Notes in such principal amounts.

SUBSCRIPTION AND SALE

The Joint Lead Managers have, pursuant to the Subscription Agreement, upon the terms and subject to the conditions therein, jointly and severally agreed to subscribe and pay for the Further Notes at the issue price of 101.75 percent of their principal amount plus Accrued Interest.

The Joint Lead Managers are entitled to a combined underwriting, management and selling commission pursuant to the Subscription Agreement, a portion of which will be used to pay certain expenses related to the Further Notes and may also be entitled to a discretionary fee. The Joint Lead Managers will retain an amount of the issue proceeds of the Further Notes in respect of such commissions and expenses. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Further Notes.

Selling Restrictions

United States

The Further Notes and the Loan have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Further Notes and the Loan are being sold outside of the United States in reliance on Regulation S. Each of the Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Further Notes and the Loan within the United States. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering of the Further Notes and the Loan, an offer or sale of the Further Notes or the Loan within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each of the Managers has severally, but not jointly, represented, warranted and agreed, that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 ("**FSMA**")) received by it in connection with the issue or sale of the Further Notes in circumstances in which Section 21(1) of FSMA does not apply to the Issuer and the Company; and

(b) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Each of the Managers have severally, but not jointly, represented, warranted and agreed that the Further Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

Ireland

Each of the Managers have severally, but not jointly, represented, warranted and agreed that:

(a) it will not underwrite the issue of, or place the Further Notes, otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3), including, without limitation, Regulations 7 and 152 thereof or any codes of conduct used in connection therewith and the provisions of the Investor Compensation Act 1998;

(b) it will not underwrite the issue of, or place, the Further Notes, otherwise than in conformity with the provisions of the Central Bank Acts 1942-2010 and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989;

(c) it will not underwrite the issue of, or place, or do anything in Ireland in respect of, the Further Notes, otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 and any

rules issued under Section 51 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005, by the Central Bank; and

(d) it will not underwrite the issue of, or place, or otherwise act in Ireland in respect of, the Further Notes, otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/EC) Regulations 2005 and any rules issued under Section 34 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank.

General

No action has been or will be taken in any jurisdiction by the Issuer, the Company or the Managers that would permit a public offering of the Further Notes or possession or distribution of this Prospectus in any country or jurisdiction where action for that purpose is required.

Each Manager, the Issuer and the Company has, severally, but not jointly, agreed that it has (to the best of its knowledge and belief) complied and will comply with all applicable securities laws and regulations in each jurisdiction in which it offers, sells or delivers Notes.

TAXATION

The following is a general description of certain tax considerations relating to the Further Notes and the Further Loan and does not purport to be a comprehensive analysis of all tax considerations relating to the Further Notes and the Further Loan. Prospective purchasers of the Further Notes are advised to consult their own tax advisors with respect to tax consequences of the purchase, ownership and disposal of the Further Notes arising in their particular circumstances, including, but not limited to, the consequences of the receipt of interest on the Further Notes and the sale or redemption of the Further Notes. This summary, therefore, could not be used for the purposes of analysis of any tax implications arising for any instruments other than the Further Notes and the Further Loan.

This summary is based upon the laws as in effect on the date of this Prospectus. Neither the Borrower nor the Issuer assume any obligation to update this summary after the date of issuance of the Further Notes for any such changes in the applicable laws. The information and analysis contained within this section are limited to tax issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Further Notes.

Russian Federation

The following is a general summary of certain Russian tax considerations relevant to the purchase, ownership and disposal of the Further Notes as well as taxation of interest payments on the Further Loan.

The summary is based on the laws of the Russian Federation in effect on the date of this Prospectus (where these laws are subject to changes which could occur frequently, at short notice and may have retroactive effect).

This summary does not seek to address the applicability of, and/or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of the Russian Federation, tax implications arising under special tax regimes nor does it seek to address the availability of double tax treaty to and the eligibility for double tax relief of any Noteholder in respect of income payable on the Further Notes, or practical difficulties connected with claiming such double tax treaty relief in practice.

Many aspects of Russian tax laws are subject to significant uncertainty and lack of interpretive guidance resulting in differing interpretations and inconsistent application thereon by the various authorities in practice. Further, provisions of Russian tax laws applicable to financial instruments may be subject to more rapid and unpredictable changes (possibly with retroactive effect) and inconsistent application than in jurisdictions with more developed capital markets and tax systems. In practice, interpretation and application of tax laws and regulations by different tax inspectorates in Russia and their representatives may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by the law. Furthermore, in absence of binding precedent court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

Prospective investors should consult their own tax advisors in relation to tax consequences relevant to investing in the Further Notes that may arise in their particular circumstances. No representation with respect to Russian tax consequences relevant to any particular Noteholder is made herein.

General

For the purposes of this summary, a "Non-Resident Noteholder" means:

- a legal entity or an organisation, in each case not organised under Russian law which purchases, holds and disposes of the Further Notes otherwise than through its permanent establishment in Russia (the "**Non-Resident Noteholder-Legal Entity**"), and
- an individual who is not actually present in Russia for an aggregate period of 183 calendar days or more in a period comprised of 12 consecutive months (the "**Non-Resident Noteholder-Individual**").

  Presence in Russia for tax residency purposes is not considered interrupted if an individual departs from Russia for short periods (less than six months) for medical treatment or education purposes. Currently, the Russian Tax Code is generally interpreted by both the tax authorities and taxpayers such that days of arrival should not be taken into account as opposed to days of departure when calculating the total number of days of presence of an individual in Russia, and the Group is aware of a court case confirming this position. However, there have been several incidents when the Ministry of Finance of Russia and the Federal Tax Service suggested a different methodology.

For the purposes of this summary, the term "**Resident Noteholder**" means any Noteholder (including any individual and any legal entity or an organisation) not qualifying as a Non-Resident Noteholder.

For the purposes of this summary, definitions of "**Resident Noteholder**" and "**Non-Resident Noteholder**" in respect of individuals are taken at face value based on the wording of Russian tax law as currently written. In practice, however, the application of the above formal residency definition by the tax authorities may differ depending on their position in each case. The law is currently worded in a way that implies the potential for a split year residency for individuals. However, both the Ministry of Finance of Russia and the tax authorities have expressed the view that an individual should be either a resident or non-resident in Russia for the full calendar year. Consequently, if the travel pattern dictates a differing residency status for a part of the tax year, the application of the residency tax rate may in practice be disallowed. This situation may be altered by the introduction of amendments to articles of the Russian Tax Code dealing with taxation of individuals, a change in the position of the tax authorities or by positive outcomes of tax controversy through the courts.

Taxation of the Further Notes

Resident Noteholders

Resident Noteholders will be subject to all applicable Russian taxes in respect of income realised by them in connection with the acquisition, ownership, sale and/or disposal of the Further Notes.

Resident Noteholders should consult their own tax advisers with regard to the effect that the acquisition, holding, sale and/or disposal of the Further Notes may have on their tax position.

Non-Resident Noteholders—Legal Entities

Acquisition of the Further Notes

Acquisition of the Further Notes by Non-Resident Noteholders—Legal Entities should not constitute a taxable event under Russian tax law. Consequently, the acquisition of the Further Notes should not trigger any Russian tax implications for Non-Resident Noteholders—Legal Entities.

Interest on the Further Notes and Repayment of Principal on the Further Notes

Non-Resident Noteholders—Legal Entities should not be subject to any Russian taxes in respect of payments of interest and principal on the Further Notes received from the Issuer.

Sale and/or Disposal of the Further Notes

Proceeds from the sale or other disposal of the Further Notes received by a Non-Resident Noteholder—Legal Entity from a source within Russia should not be subject to any Russian taxes. There is some residual uncertainty regarding tax treatment of the portion of the proceeds from the sale or other disposal of the Further Notes, if any, attributable to accrued interest on the Further Notes. Subject to reduction or elimination under provisions of an applicable double tax treaty relating to interest income, the portion of the proceeds from sale or other disposal of the Further Notes attributable to accrued interest, if received from a source within Russia by Non-Resident Noteholder—Legal Entity, may be subject to Russian withholding tax at the rate of 20 percent (or such other rate as may be in force at the time of payment), even if the sale or other disposal of the Further Notes results in a capital loss.

Non-Resident Noteholders-Individuals

Acquisition of the Further Notes

Acquisition of the Further Notes by Non-Resident Noteholders-Individuals may constitute a taxable event pursuant to provisions of the Russian Tax Code relating to the material benefit (deemed income) received by individuals as a result of the acquisition of securities. In particular, if the acquisition price of the Further Notes is below the lower margin of the fair market value calculated under a specific procedure for the determination of market prices of securities for Russian tax purposes, the difference may be subject to Russian personal income tax at the rate of 30 percent (or such other rate as may be in force at the time of payment).

Under the Russian tax legislation, taxation of income derived by Non-Resident Noteholders-Individuals will depend on whether this income is qualified as received from Russian or non-Russian sources. Although the Russian Tax Code does not contain any provisions in relation to how the related material benefit receivable by individuals should be sourced, the tax authorities may infer that such income should be considered as Russian source income, if the Further Notes are purchased "in Russia". In absence of any explicit guidance as to what should be considered as

a purchase of securities "in Russia", in practice the Russian tax authorities may apply various criteria in order to determine the source of the related material benefit, including looking at the place of conclusion of the acquisition transaction, the location of the Issuer, or other similar criteria.

Interest on the Further Notes and repayment of principal on the Further Notes

Non-Resident Noteholders-Individuals should not be subject to any Russian taxes in respect of payments of interest and principal on the Further Notes received from the Issuer.

Sale or other Disposal of the Further Notes

Subject to any available tax treaty relief, if proceeds from the sale or other disposal of the Further Notes received by a Non-Resident Noteholder—Individual are classified as Russian source income for Russian personal income tax purposes, these proceeds will be subject to Russian personal income tax at the rate of 30 percent or such other rate as may be in force at the time of payment. The tax will apply to the gross amount of sales (disposal) proceeds decreased by the amount of any available cost deductions (including the original purchase value of the Further Notes). There is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the tax authorities and/or the person remitting income to a Non-Resident Noteholder-Individual, the cost deduction will be disallowed and the tax will apply to the gross amount of sales (disposal) proceeds.

Furthermore, there is also some uncertainty regarding tax treatment of the portion of the sales and/or disposal proceeds derived by a Non-Resident Noteholder-Individual from Russian sources in connection with the sale and/or disposal of the Further Notes that is attributable to accrued interest income on the Further Notes, if any. The tax authorities could argue that the portion of sales (disposal) proceeds attributable to interest income provided that these sales (disposal) proceeds are derived from Russian sources should be subject to Russian personal income tax at the rate of 30 percent (or such other rate as may be in force at the time of payment), even if the sale or disposal itself results in a capital loss. This rate however could be reduced or eliminated under provisions of an applicable double tax treaty relating to interest.

In certain circumstances if sales and/or disposal proceeds are paid to a Non-Resident Noteholder—Individual by a licensed broker or an asset manager that is a Russian legal entity or organisation or any other person located in Russia (including a foreign company with a permanent establishment or any registered presence in Russia or by an individual entrepreneur located in Russia), carrying out operations for the benefit of the Non-Resident Noteholder-Individual under an asset management agreement, a brokerage service agreement, an agency agreement, a commission agreement or commercial mandate agreement, the applicable Russian personal income tax at the rate of 30 percent (or such other rate as may be in force at the time of payment) will be withheld at source by that person considered as the tax agent.

If the Further Notes are sold by a Non-Resident Noteholder—Individual to other legal entities, organizations or individuals, generally no Russian personal income tax should be withheld at source by these persons. The Non-Resident Noteholder-Individual will be then required to file a personal tax return individually, report on the amount of income realised to the Russian tax authorities and apply for a deduction relating to the purchase, holding and sale (disposal) of the Further Notes, confirmed by the supporting documentation. The applicable tax will then have to be paid by the Non-Resident Noteholder-Individual on the basis of the filed personal income tax return.

Under certain circumstances gains received and losses incurred by a Non-Resident Noteholder—Individual as a result of the sale or other disposal of the Further Notes and other securities of the same category occurring within the same tax year may be aggregated for Russian personal income tax purposes which could affect the total amount of income of the Non-Resident Noteholder—Individual subject to taxation in Russia.

There is also a risk that any gain derived by a Non-Resident Noteholder—Individual from the sale or other disposal of the Further Notes may be affected by changes in the exchange rate between the currency of the acquisition of the Further Notes, the currency of sale or other disposal of the Further Notes and roubles.

Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These double tax treaties may contain provisions allowing to reduce or eliminate Russian income tax applicable to income on the Further Notes received by Non-Resident Noteholders from Russian sources. In order to obtain the benefits available under the respective

double tax treaty, a Non-Resident Noteholder will have to comply with the certification, information, and reporting requirements which are in force in Russia (relating, in particular, to confirmation of the entitlement and eligibility to treaty benefits).

Currently a Non-Resident Noteholder-Legal Entity will need to provide the payer of income which is considered as a tax agent with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income. The certificate should confirm that the respective Non-Resident Noteholder—Legal Entity is the tax resident of the relevant double tax treaty country (specifically for the purposes of the applicable double tax treaty). This certificate generally should be apostilled or legalised and needs to be renewed on an annual basis. A notarised Russian translation of the certificate will have to be provided to the person paying the income. However, the payer of income in practice may request from a Non-Resident Noteholder—Legal Entity additional documents confirming the entitlement and eligibility of that Non-Resident Noteholder—Legal Entity to the benefits of the relevant double tax treaty in relation to the payable income. There can be no assurance however that the advance treaty relief will be available in practice.

Under Russian domestic tax legislation in order to enjoy benefits of the respective double tax treaty a Non-Resident Noteholder-Individual will have to provide to the Russian tax authorities a tax residency certificate, issued by the competent authorities of his/ her country of residence for tax purposes and a confirmation from the relevant foreign tax authorities of income received and the tax paid outside Russia in relation to income with respect to which the respective double tax treaty benefits are claimed. Such requirements may be imposed even if they directly contradict provisions of the applicable double tax treaty. Technically, these requirements mean that a Non-Resident Noteholder—Individual cannot rely on the applicable double tax treaty until he or she pays the tax in relation to this income in the jurisdiction of his or her tax residency. Individuals in practice may not be able to obtain the advance treaty relief in relation to income derived by them from Russian sources, as it is very unlikely that the supporting documentation required for the treaty relief could be provided to the Russian tax authorities and, consequently, the approval from the latter could be obtained, before the receipt of income by a Non-Resident Noteholder—Individual occurs.

Non-Resident Noteholders should consult their own tax advisors with respect to possible tax treaty relief and procedures which have to be satisfied by them in order to obtain tax relief with respect to any Russian taxes which may apply to interest on the Further Notes or proceeds received by them from the sale or other disposal of the Further Notes.

Refund of Tax Withheld

If Russian withholding tax applicable to income derived from Russian sources by a Non-Resident Noteholder-Legal Entity which is entitled to double tax treaty relief was withheld at source, despite the right of this Non-Resident Noteholder—Legal Entity to rely on benefits of the applicable double tax treaty allowing it not to pay the tax or allowing to pay the tax at a reduced rate in relation to this income, a claim for a refund of the Russian tax that was excessively withheld at source can be filed with the Russian tax authorities within three years following the tax period in which the tax was withheld.

If Russian personal income tax applicable to income derived from Russian sources by a Non-Resident Noteholder—Individual for whom double tax treaty relief is available was withheld at source despite the right of this Non- Resident Noteholder—Individual to rely on benefits of the applicable double tax treaty allowing not to pay the tax in Russia or allowing to pay the tax at a reduced rate in relation to this income, a claim for a refund of tax which was excessively withheld can be filed with the Russian tax authorities within one year following the year in which the tax was withheld.

Although the Russian Tax Code arguably contains the exhaustive list of documents and information which have to be provided by the foreign person for the tax refund purposes, the Russian tax authorities may, in practice, require a wide variety of documentation confirming the right of a Non-Resident Noteholder to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax authorities.

Obtaining a refund of Russian taxes that were excessively withheld at source is likely to be a time consuming process requiring many efforts and no assurance can be given that such refund will be granted in practice.

Non-Resident Noteholders should consult their own tax advisors regarding procedures required to be fulfilled in order to obtain refund of Russian taxes.

Taxation of Interest on the Further Loan

In general, payments of interest on borrowed funds made by a Russian legal entity to a non-resident legal entity or organisation having no registered presence and/or permanent establishment in Russia are subject to Russian withholding tax at the rate of 20 percent (or such other rate as may be in force at the time of payment), which could be reduced or eliminated under the terms of an applicable double tax treaty. The Group believes that payments of interest on the Further Loan to the Issuer should not be subject to Russian withholding tax under the terms of the Russia—Ireland double tax treaty. However, there can be no assurance that this tax relief will be available in practice and/or that such relief will continue to be available during the term of the Further Loan, particularly, if the legislative changes to the anti-avoidance mechanism with respect to double tax treaty benefits in cases where the ultimate beneficiaries of income do not reside in the relevant tax treaty jurisdictions are introduced to the Russian Tax Code (see "*Risk Factors—Risks Relating to the Russian Federation—Weaknesses in the Russian tax system could adversely affect the business of the Group*"). Furthermore, the Group is aware of at least two instances when Russian tax authorities tried to challenge the application of double tax treaty benefits under a similar structure. In one case, the court upheld the position of a taxpayer. In another instance, to the Group's best knowledge, a tax authority withdrew its claim. It is difficult to predict whether there might be other similar disputes in the future.

For treaty relief in relation to Russian withholding tax, preliminary approval from the Russian tax authorities is neither required nor possible. Moreover, the Russian tax authorities may subsequently scrutinize the Issuer's eligibility and entitlement to relief under the Russia-Ireland double tax treaty in course of tax audits of the Company.

If interest under the Further Loan becomes payable to the Trustee pursuant to the Trust Deed any benefit of the Russia—Ireland double tax treaty will cease and payments of interest on the Further Loan will become subject to Russian withholding tax at the rate of 20 percent (or such other rate as may be in force at the time of such payment). It is not expected that the Trustee will, or will be able to claim a Russian withholding tax exemption or reduction under any double tax treaty with Russia under such circumstances. In such cases, the Noteholders may seek reduction or elimination of Russian income tax or a refund of income tax under applicable double tax treaties entered into between their countries of residence and the Russian Federation, where such treaties exist and to the extent they are applicable and could be relied upon by them. There is no assurance however that the respective treaty relief will be available to the Noteholders in practice under these circumstances.

If payments under the Further Loan become subject to Russian withholding tax or any payments under the Further Notes become subject to any withholding of Irish taxes (as a result of which the Issuer will reduce payments made by it under the Further Notes by the amount of such withholding tax), the Company will be obliged (subject to certain conditions) to increase payments made by it under the Further Loan or to pay to the Issuer such additional amounts under the Further Loan as may be necessary so that the net payments received by the Issuer and the Noteholders will be equal to the amounts they would have received in absence of such withholding. It is currently unclear whether the provisions obliging the Company to gross-up interest payments under the Further Loan will be enforceable under Russian law in practice.

If the Company is obliged to increase payments under the Further Loan or pay additional amounts, it may (without premium or penalty), subject to certain conditions, prepay the Further Loan in full. In such case, all Further Notes will each be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of repayment.

No VAT will be payable in Russia in respect of interest and principal payments under the Further Loan.

IRELAND

IRISH TAXATION

Introduction

The following is a summary of the principal Irish tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors **in the Notes should consult their professional**

advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

TAXATION OF NOTEHOLDERS

Withholding Tax

In general, tax at the standard rate of income tax (currently 20 per cent.) is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

(a) the Notes are Quoted Eurobonds i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange (such as the Irish or Luxembourg Stock Exchanges) and which carry a right to interest; and

(b) the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:

  (i) the Notes are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or

  (ii) the Noteholder is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form; and

(c) one of the following conditions is satisfied:

  (i) the Noteholder is resident for tax purposes in Ireland; or

  (ii) the Noteholder is a pension fund, government body or other person (other than a person described in paragraph (c)(iv) below), who is resident in a relevant territory and who, under the laws of that territory, is exempted from tax that generally applies to profits, income or gains in that territory; or

  (iii) the Noteholder is subject, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a relevant territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory; or

  (iv) the Noteholder is not a company which, directly or indirectly, controls the Issuer, is controlled by the Issuer, or is controlled by a third company which also directly or indirectly controls the Issuer, and neither the Noteholder, nor any person connected with the Noteholder, is a person or persons:

    (A) from whom the Issuer has acquired assets;

    (B) to whom the Issuer has made loans or advances; or

    (C) with whom the Issuer has entered into a swap agreement,

    where the aggregate value of such assets, loans, advances or swap agreements represents not less than 75 per cent. of the assets of the Issuer,

  where for these purposes, the term:

  "relevant territory" means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty; and

  "swap agreement" means any agreement, arrangement or understanding that—

    (I) provides for the exchange, on a fixed or contingent basis, of one or more payments based on the value, rate or amount of one or more interest or other rates, currencies, commodities, securities, instruments of indebtedness, indices, quantitative measures, or other financial or economic interests or property of any kind, or any interest therein or based on the value thereof, and

    (II) transfers to a person who is a party to the agreement, arrangement or understanding or to a person connected with that person, in whole or in part, the financial risk associated with a future change in any such value, rate or amount without also conveying a current or future direct or indirect ownership interest in an asset (including any enterprise or investment pool) or liability that incorporates the financial risk so transferred.

Thus, so long as the Notes continue to be quoted on the Irish Stock Exchange, are held in DTC, Euroclear and/or Clearstream, Luxembourg, and one of the conditions set out in paragraph (c) above is met, interest on the Notes can be paid by any Paying Agent acting on behalf of the Issuer free of any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a Paying Agent outside Ireland and one of the conditions set out in paragraph (c) above is met.

Encashment Tax

Irish tax will be required to be withheld at the standard rate of income tax (currently 20 per cent.) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Income Tax, PRSI and Universal Social Charge

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, social insurance (PRSI) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. Firstly, interest payments made by the Issuer are exempt from income tax so long as the Issuer is a qualifying company for the purposes of section 110 of the TCA, the recipient is not resident in Ireland and is resident in a relevant territory and, the interest is paid out of the assets of the Issuer. Secondly, interest payments made by the Issuer in the ordinary course of its business are exempt from income tax provided the recipient is not resident in Ireland and is a company which is either resident in a relevant territory which imposes a tax that generally applies to interest receivable in that relevant territory by companies from sources outside that relevant territory or, in respect of the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which will come into force once all ratification procedures have been completed. Thirdly, interest paid by the Issuer free of withholding tax under the quoted Eurobond exemption is exempt from income tax, where the recipient is a person not resident in Ireland and resident in a relevant territory. For these purposes, residence is determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions is within the charge to income tax, and, in the case of Noteholders who are individuals, is subject to the universal social charge. In the past the Irish Revenue Commissioners have not pursued liability to tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

Capital Gains Tax

A Noteholder will not be subject to Irish tax on capital gains on a disposal of Notes unless such holder is either resident or ordinarily resident in Ireland or carries on a trade or business in Ireland through a branch or agency in respect of which the Notes were used or held.

Capital Acquisitions Tax

A gift or inheritance comprising of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, will be levied at 25 per cent. if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer is domiciled in Ireland irrespective of his residence or that of the donee/successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e. if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland)).

Stamp Duty

No stamp duty or similar tax is imposed in Ireland (on the basis of an exemption provided for in Section 85(2)(c) of the Irish Stamp Duties Consolidation Act, 1999 so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA and the proceeds of the Notes are used in the course of the Issuer's business), on the issue, transfer or redemption of the Notes.

EU Directive on the Taxation of Savings Income

Ireland has implemented the EC Council Directive 2003/48/EC on the taxation of savings income into national law. Accordingly, any Irish paying agent making an interest payment on behalf of the Issuer to an individual or certain residual entities resident in another Member State of the European Union or certain associated and dependent territories of a Member State will have to provide details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address) to the Irish Revenue Commissioners who in turn are obliged to provide such information to the competent authorities of the state or territory of residence of the individual or residual entity concerned.

The Issuer shall be entitled to require Noteholders to provide any information regarding their tax status, identity or residency in order to satisfy the disclosure requirements in Directive 2003/48/EC and Noteholders will be deemed by their subscription for Notes to have authorised the automatic disclosure of such information by the Issuer or any other person to the relevant tax authorities.

LEGAL MATTERS

Certain legal matters in connection with the offering of the Further Notes will be passed upon for the Company with respect to the laws of the Russian Federation by Freshfields Bruckhaus Deringer LLP. Certain legal matters in connection with the offering of the Further Notes will be passed upon for the Joint Lead Managers with respect to the laws of the United Kingdom by Linklaters LLP, London, England and with respect to the laws of the Russian Federation by Linklaters CIS, Moscow, Russian Federation.

INDEPENDENT AUDITORS

The 2009 and 2008 Consolidated Financial Statements included in the Prospectus, have been audited by Ernst & Young LLC in accordance with the International Standards on Auditing, as stated in its report appearing herein. The 2010 Unaudited Interim Condensed Consolidated Financial Statements included in this Prospectus have been reviewed by Ernst & Young LLC in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", as stated in its report appearing herein. All capitalised terms set out in those reports shall have the meaning ascribed to them in those reports.

GENERAL INFORMATION

(1) The Further Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The International Securities Identification Number (ISIN) of the Further Notes is XS0609017917 and the Common Code of the Notes is 060901791.

(2) Application has been made to list the Further Notes on the Irish Stock Exchange by the Issuer, through the Listing Agent, Arthur Cox Listing Services Limited ("**ACLSL**"). ACLSL is acting solely in its capacity as listing agent for the Issuer in relation to the Further Notes and is not itself seeking admission to the official list of the Irish Stock Exchange or to trading on the Market. It is expected that listing of the Further Notes will be granted on or before 22 June 2011.

(3) Transactions will normally be effected for delivery on the third business day after the transaction.

(4) For so long as any Notes are outstanding, copies in English of the following documents in physical form may be obtained free of charge at the registered address of the Issuer and the offices of the Trustee and the Principal Paying Agent during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

- the charter of the Company;
- the Memorandum and Articles of Association of the Issuer;
- this Prospectus, together with any amendment or supplement hereto;
- the Issuer's audited financial statements for the period ended 31 December 2009;
- the latest annual report and consolidated financial statements of the Company for the years ended 31 December 2009 and 31 December 2008 prepared according to IFRS; and
- the Trust Deed in respect of the Notes (including the form of the Further Global Certificate and the Definitive Certificates), the Loan Agreement and the Agency Agreement.

(5) Since 31 December 2009, there has been no material adverse change in the financial position or the prospects of the Company or the Group. Save as disclosed in this Prospectus, since 30 June 2010, there has been no significant change in the financial or trading position of the Company or the Group.

(6) Since 31 December 2009, there has been no significant change in the financial or trading position of the Issuer and no material adverse change in the financial position and prospects of the Issuer. The Issuer has no subsidiaries.

(7) The Issuer and the Company have obtained all necessary consents, approvals and authorisations in Ireland and Russia, respectively in connection with the issue and performance of the Further Notes and the making of the Loan. The issue of the Further Notes and the making of the Loan was authorised by a resolution of the board of directors of the Issuer dated 16 June 2011.

(8) In the 12 months preceding the date of this Prospectus, the Issuer is not and has not been involved in any governmental, legal or arbitration proceedings that may have, or have had in the recent past, a significant effect on the Issuer's financial position or profitability, nor is the Issuer aware that any such proceedings are pending or threatened.

(9) In the 12 months preceding the date of this Prospectus, neither the Company nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings that may have, or have had in the recent past, a significant effect on the financial position or profitability of either of the Company or the Group. The Company is not aware of any such proceedings that are pending or threatened.

(10) The Trust Deed provides, amongst other things, that the Trustee may act or rely upon the opinion or advice of, or upon a certificate or other information from, any lawyer, banker, valuer, surveyor, broker, auctioneer, accountant, auditor or other expert (whether or not addressed to the Trustee), notwithstanding the fact that such opinion, advice, certificate or other information contains a monetary or other limit on the liability of any such persons in respect thereof.

(11) Save for the fees payable to the Joint Lead Managers, the Trustee, the Principal Paying Agent and the Registrar, so far as the Issuer is aware, no person involved in the issue of the Further Notes has an interest that is material to the issue of the Further Notes.

(12) The Issuer does not intend to provide any post-issuance transaction information regarding the Further Notes or the Loan.

(13) The audited financial statements of the Issuer for the period ended 31 December 2009 have been filed with the Irish Stock Exchange and are incorporated by reference herein.

(14) The Company was incorporated as an open joint-stock company under the laws of Russia on 23 September 2003 with main state registration number 1037739877295 for an indefinite period of time.

(15) The Issuer estimates the total expenses directly related to the admission of the Further Notes to trading on the Market to be €2,282.40.

(16) Interest and principal on the Loan will be paid into an account operated by the Principal Paying Agent for the benefit of the Issuer.

(17) The language of the prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

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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

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.

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

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 (Note 5).*

Continued on next page

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

Interim Consolidated Statement of Financial Position
(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 (Note 5).*

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.

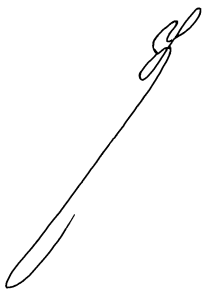
Interim Consolidated Income Statement
(All amounts are in millions of Russian Rubles)

	Notes	Six-month period ended 30 June 2010	2009*
		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 (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.

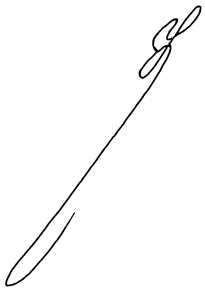
Interim Consolidated Statement of Comprehensive Income
(All amounts are in millions of Russian Rubles)

	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)

	Notes	Share capital		Attributable to equity holders of the parent						
		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 (Note 5).*

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"

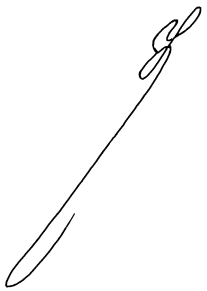
Interim Consolidated Statement of Changes in Equity
(All amounts are in millions of Russian Rubles, except share amounts)

	Notes	Share capital		Attributable to equity holders of the parent						
		Common shares	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 (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.

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 (Note 5) and associates (Note 7).*

Continued on next page

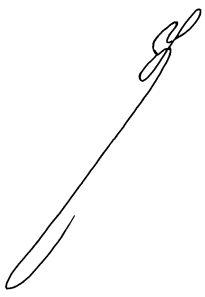
The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

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 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 (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.

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.

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.

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.

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.

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 pass*enger transportatio*n services.
- *Banking* segment includes operations of TransCreditBank, the Company's banking subsidiary.
- *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;
- 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.

(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.

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.

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)**

	Balance as of 30 June 2010	Balance as of 31 December 2009
Net book value		
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

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"*.

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.

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**

(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).

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.

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:

	Amount	Interest (%)	Original maturity
30 June 2010			
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**		

	Amount	Interest (%)	Original maturity
31 December 2009			
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**		

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.

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**

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%.

(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.

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.

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

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.

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

			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)**
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)
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)

Six-month period ended 30 June 2009

Related party	Nature of relations	Type of service / product	Six-month period ended 30 June 2009		At 31 December 2009	
			Sales / income[A]	(Purchases) / (expenses)[A]	Amounts receivable	(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)
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).

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.

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.

(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, signed several 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).

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.

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".

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 December 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).

- 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.

Open Joint Stock Company "Russian Railways"
Consolidated Financial Statements

As of 31 December 2009 and 2008 and for the years then ended

Open Joint Stock Company "Russian Railways"

Consolidated Financial Statements

Years ended 31 December 2009 and 2008

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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of OJSC "Russian Railways" and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at 31 December 2009 and 2008, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

(i) As discussed in Note 2 to the consolidated financial statements, 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. Except for one category of property, plant and equipment — roadbed — which was revalued as of 1 January 2004, the Group has not been able to complete recent revaluations of the other categories. Therefore, we were unable to determine whether the carrying value of the other categories of property, plant and equipment totaling 1,922,799 and 1,700,930 million rubles as of 31 December 2009 and 2008, 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 consolidated financial statements, including but not limited to, the effect on carrying values of property, plant and equipment, deferred tax position as of 31 December 2009 and 2008, depreciation expense, deferred income tax charge, disposal of items of property, plant and equipment for the years then ended, and further on the carrying values of non-current assets classified as held for sale as of 31 December 2009 and 2008 have not been determined.

(ii) In accordance with requirements of IAS 16 "Property, Plant and Equipment", 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 in the years ended 31 December 2009 and 2008. The effects of this departure from International Financial Reporting Standards on the consolidated financial statements, including, but not limited to, the effect on carrying values of property, plant and equipment, deferred tax assets as of 31 December 2009 and 2008, depreciation expense, deferred income tax charge, disposal of items of property, plant and equipment for the years then ended, and further the carrying values of assets classified as held for sale as of 31 December 2009 and 2008 have not been determined.

Qualified Opinion

In our opinion, except for the effects on the consolidated financial statements of the matters described in the Basis for Qualified Opinion paragraphs (i) and (ii) above, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009 and 2008, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 32 to the consolidated financial statements which describes that OJSC "Russian Railways" together with the Ministry of Economic Development and Trade, the Federal Agency of State Property of the Russian Federation and certain other ministries, continued implementation of the Program of railway transportation restructuring.

Ernst & Young LLC

1 September 2010

Consolidated Statements of Financial Position
(All amounts are in millions of Russian Rubles)

	Notes	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	5	**2,305,227**	2,069,409
Goodwill		**2,188**	1,926
Intangible assets other than goodwill		**18,589**	17,128
Investments in associates	6	**9,407**	17,102
Other financial assets	7	**108,641**	92,073
Deferred tax asset	30	**2,094**	1,155
Derivative financial assets	33	**6,031**	16,699
Investment property		**1,880**	—
Other non-current assets	8	**13,447**	13,830
Total non-current assets		**2,467,504**	2,229,322
Current assets			
Inventories	9	**83,620**	83,725
Prepayments and other current assets	10	**34,344**	39,963
Income tax receivable		**1,091**	3,378
Receivables	11	**34,931**	44,274
Receivables from shareholder for shares issued	21	—	16,925
Obligatory reserve with Central Bank of Russia		**1,247**	220
Securities at fair value through profit or loss	12	**22,749**	4,482
Other financial assets	7	**70,371**	61,036
Derivative financial assets	33	**2,320**	—
Cash and cash equivalents	13	**74,457**	117,182
Non-current assets classified as held for sale		**498**	570
Total current assets		**325,628**	371,755
Total assets		**2,793,132**	2,601,077

Continued on next page

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

Consolidated Statements of Financial Position
(All amounts are in millions of Russian Rubles)

	Notes	31 December 2009	31 December 2008
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	21	**1,594,516**	1,583,198
Additional paid-in capital		**2,808**	2,808
Revaluation reserve		**172,051**	172,051
Unrealized gain/(loss) on available-for-sale securities, net of tax		**568**	(212)
Accumulated deficit and other reserves		**(97,903)**	(249,267)
		1,672,040	1,508,578
Minority interest in subsidiaries		**23,145**	17,612
Total equity		**1,695,185**	1,526,190
Non-current liabilities			
Deferred tax liabilities	30	**40,570**	27,997
Long-term borrowings	16	**293,174**	168,930
Finance lease obligations, net of current portion	20	**29,279**	38,092
Employee benefit obligations	19	**198,489**	193,756
Liabilities to customers	14	**19,963**	15,650
Derivative financial liabilities	33	**331**	982
Other long-term liabilities	17	**20,347**	18,712
Total non-current liabilities		**602,153**	464,119
Current liabilities			
Trade and other payables		**99,578**	144,284
Advances received for transportation		**43,843**	38,109
Liabilities to customers	14	**109,078**	82,720
Finance lease obligations, current portion	20	**16,946**	19,136
Income tax payable		**1,375**	735
Taxes and similar charges payable	15	**29,264**	22,278
Short-term borrowings	16	**111,944**	231,081
Derivative financial liabilities	33	**1,087**	2,102
Provisions and other current liabilities	18	**82,679**	70,323
Total current liabilities		**495,794**	610,768
Total equity and liabilities		**2,793,132**	2,601,077

Yakunin V.I. President

Kraft G.V. Chief Accountant
31 August 2010

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

Consolidated Income Statements
(All amounts are in millions of Russian Rubles)

	Notes	Year Ended 31 December 2009	2008
Revenues			
Cargo revenues		**833,360**	887,270
Passenger revenues		**166,656**	162,312
Interest income, fees and commission income (banking operations)		**28,361**	22,281
Other revenues	22	**126,083**	130,807
Total revenues	3	**1,154,460**	1,202,670
Operating expenses			
Wages, salaries and related contributions		**(451,430)**	(518,674)
Materials, repairs and maintenance		**(164,495)**	(217,780)
Fuel		**(47,755)**	(70,771)
Electricity		**(73,094)**	(66,586)
Depreciation and amortization		**(95,471)**	(82,776)
Taxes other than income tax, net	23	**(33,630)**	(26,642)
Commercial expenses		**(1,854)**	(2,240)
Bad debt expense	34	**(16,504)**	(9,230)
Social expenses	25	**(7,220)**	(8,167)
Loss on impairment of property, plant and equipment	5	**(2,116)**	(3,706)
Interest expense, fee and commission expense (banking operations)		**(12,313)**	(10,126)
Loss on construction contract		**(4,153)**	—
Other operating expenses	24	**(89,753)**	(72,067)
Total operating expenses		**(999,788)**	(1,088,765)
Operating profit before subsidies from federal and municipal budgets		**154,672**	113,905
Subsidies from federal and municipal budgets	26	**80,073**	22,097
Income from operations after subsidies from federal and municipal budgets		**234,745**	136,002
Interest expense and similar items		**(27,092)**	(17,884)
Interest income and similar items		**4,092**	992
Interest expense and similar items, net	28	**(23,000)**	(16,892)
Changes in fair value and (loss)/gain on disposals of financial assets	29	**(6,357)**	12,869
Other income, net	27	**4,060**	15,947
Foreign exchange loss		**(5,024)**	(22,845)
Income before taxation		**204,424**	125,081
Income taxes			
Current taxes		**(40,860)**	(39,874)
Deferred taxes		**(11,357)**	(8,787)
Total income taxes	30	**(52,217)**	(48,661)
Net income for the period		**152,207**	76,420
Attributable to:			
Equity holders of the parent		**150,001**	74,335
Minority interests		**2,206**	2,085

Yakunin V.I. — President

Kraft G.V. — Chief Accountant
31 August 2010

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

Open Joint Stock Company "Russian Railways"

Consolidated Statements of Comprehensive Income
(All amounts are in millions of Russian Rubles)

	Notes	Year Ended 31 December 2009	2008
Net income for the period		**152,207**	76,420
Net gains/(losses) on available-for-sale financial assets		**45**	(279)
Other comprehensive income attributable to investments in associates		**930**	—
Translation difference		**75**	92
Income tax effect	30	**(195)**	67
Other comprehensive income for the period, net of tax		**855**	(120)
Total comprehensive income for the period, net of tax		**153,062**	76,300
Attributable to:			
Equity holders of the parent		**150,856**	74,215
Minority interests		**2,206**	2,085

Yakunin V.I. President

Kraft G.V. Chief Accountant
31 August 2010

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

Open Joint Stock Company "Russian Railways"

Consolidated Statements of Changes in Equity
(All amounts are in millions of Russian Rubles, except share amounts)

	Notes	Attributable to equity holders of the parent								
		Share capital								
		Common shares	Amount	Additional paid-in capital	Revaluation reserve	Unrealized gain/(loss) on available-for-sale securities, net of tax	Accumulated deficit and other reserves	Total	Minority 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		—	—	—	—	—	150,001	150,001	2,206	152,207
Other comprehensive income		—	—	—	—	780	75	855	—	855
Total comprehensive income		—	—	—	—	**780**	**150,076**	**150,856**	**2,206**	**153,062**
Capital contribution by shareholder	21	11,318,400	11,318	—	—	—	—	11,318	—	11,318
Acquisition of minority interests in existing subsidiaries		—	—	—	—	—	24	24	(1,702)	(1,678)
Minority interests arising from acquisition of subsidiary	4	—	—	—	—	—	—	—	1,893	1,893
Capital contribution to share capital of subsidiaries by minority shareholders		—	—	—	—	—	1,630	1,630	1,019	2,649
Sale of minority interest in existing subsidiaries (net of income tax of Rbls 319)		—	—	—	—	—	(366)	(366)	2,212	1,846
Dividends	21	—	—	—	—	—	—	—	(95)	(95)
As at 31 December 2009		**1,594,516,219**	**1,594,516**	**2,808**	**172,051**	**568**	**(97,903)**	**1,672,040**	**23,145**	**1,695,185**

Continued on next page

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

Consolidated Statements 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		Additional paid-in capital	Revaluation reserve	Unrealized gain/(loss) on available-for-sale securities, net of tax	Accumulated deficit and other reserves	Total	Minority interests	Total equity
		Common shares	Amount							
As at 31 December 2007		1,541,697,819	1,541,698	2,808	172,051	—	(327,905)	1,388,652	5,381	1,394,033
Net income for the period		—	—	—	—	—	74,335	74,335	2,085	76,420
Other comprehensive income		—	—	—	—	(212)	92	(120)	—	(120)
Total comprehensive income		—	—	—	—	**(212)**	**74,427**	**74,215**	**2,085**	**76,300**
Capital contribution by shareholder	21	41,500,000	41,500	—	—	—	—	41,500	—	41,500
Capital contribution to share capital of subsidiaries by minority shareholders		—	—	—	—	—	—	—	8,870	8,870
Sale of minority interest in existing subsidiaries (net of income tax of Rbls 1,720)		—	—	—	—	—	4,723	4,723	1,510	6,233
Dividends	21	—	—	—	—	—	(512)	(512)	(234)	(746)
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**

Yakunin V.I. President

Kraft G.V. Chief Accountant
31 August 2010

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

Consolidated Statements of Cash Flows
(All amounts are in millions of Russian Rubles)

	Notes	Year Ended 31 December 2009	2008
Cash flows from operating activities			
Income before taxation		**204,424**	125,081
Adjustments to reconcile income to cash generated from operations			
Depreciation and amortization		**95,471**	82,776
Excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of acquired subsidiaries over cost of acquisition	27	**(712)**	—
Goodwill impairment	27	**1,098**	—
Equity income from associates, net	27	**(1,701)**	—
Impairment of investments in associates	27	**9,376**	—
Changes in fair value and loss/ (gain) on disposal of financial assets	29	**6,357**	(12,869)
Bad debt expense	34	**16,504**	9,230
(Gain) on disposal of long-term assets held for sale		—	(2,191)
(Gain)on disposal of property, plant and equipment, net	27	**(940)**	(2,108)
Loss on uncompleted construction contracts		**4,153**	—
Loss on impairment of property, plant and equipment	5	**2,116**	3,706
Interest expense and similar items, net	28	**23,000**	16,892
Change in provision for obsolete and damaged inventory	9	**(680)**	466
Provision for legal claims	18, 27	**853**	454
Provision for tax risks, net	18, 23	**(226)**	(4,535)
Foreign exchange loss		**5,024**	22,845
(Gain)/loss on re-usable spare parts		**(1,848)**	2,563
Operating income before working capital changes		**362,269**	242,310
(Increase) in receivables		**(2,920)**	(18,979)
Decrease / (increase) in prepayments and other current assets		**5,815**	(2,036)
Decrease/(increase) in inventories		**5,716**	(9,948)
(Decrease) in trade and other payables		**(18,744)**	(7,839)
Increase / (decrease) in advances received for transportation		**5,734**	(9,003)
Increase in liabilities to customers		**20,540**	39,749
Increase in taxes and similar charges payable		**6,985**	5,037
Increase in other current liabilities		**2,654**	9,220
(Increase)/decrease in obligatory reserves in Central Bank		**(1,027)**	1,297
(Decrease) / increase in short-term borrowings of banking subsidiary		**(23,198)**	12,680
Increase in employee benefit obligations		**4,387**	101,746
(Increase) in other non-current assets		**(609)**	(7,950)
(Decrease) / increase in other long-term liabilities		**(171)**	14,759
(Increase) / decrease in securities at fair value through profit or loss		**(16,847)**	4,596
(Increase) in other financial assets of banking subsidiary, including non-current part		**(9,953)**	(48,004)
Net cash from operating activities before income taxes		**340,631**	327,635
Income taxes paid		**(38,251)**	(44,874)
Net cash from operating activities		**302,380**	282,761
Cash flows from investing activities			
Capital expenditures		**(332,745)**	(408,879)
Proceeds from disposal of property, plant and equipment		**2,782**	3,401
Purchase of intangibles		**(5,465)**	(7,126)
Proceeds from disposal of / advances received for disposal groups classified as assets held for sale		**72**	3,740
Loans given, deposits placed, net		**(29,279)**	3,272
Acquisition of financial assets available for sale and other financial assets		—	(327)
Acquisition of subsidiaries, net of cash acquired of Rbls 4,342		**(816)**	(2,432)
Acquisition of investments in associates (including related advances paid)		**(29)**	(6,692)
Interest received		**3,000**	992
Net cash used in investing activities		**(362,480)**	(414,051)
Cash flows from financing activities			
Proceeds from long-term borrowings		**251,043**	114,191
(Repayment) of long-term borrowings		**(58,149)**	(23,200)
(Repayment)/proceeds from short-term borrowings, net		**(159,146)**	128,984
(Repayment) of finance lease obligations, including finance charges		**(20,448)**	(22,120)
(Repayment) under derivative contracts		**(1,623)**	(758)
Interest paid		**(33,384)**	(10,760)
Dividends paid		**(95)**	(746)
Cash contributions from minority shareholders		**6,314**	4,800
Proceeds from disposal of minority share in existing subsidiaries		**2,165**	7,837
Acquisition of minority interests in existing subsidiaries		**(1,290)**	(388)
Contribution to share capital from shareholder	21	**28,243**	24,575
Government grants		—	164
		—	
Net cash from financing activities		**13,630**	222,579
Net (decrease)/ increase in cash and cash equivalents		**(46,470)**	91,289
Net foreign exchange differences		**3,745**	1,975
Cash and cash equivalents at the beginning of the year		**117,182**	23,918
Cash and cash equivalents at the end of the year		**74,457**	117,182

Yakunin V.I. — President

Kraft G.V. — Chief Accountant

31 August 2010

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

1. Description of Business and Russian 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 Russian Government.

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

These consolidated financial statements of RZD and its subsidiaries (the "Group") for the years ended 31 December 2009 and 2008 were authorized for issue by the management of RZD on 31 August 2010.

RZD's major subsidiaries included in the consolidation as of 31 December 2009 and for the year then ended are as follows:

Name of Company	Registered offices	Legal form	Nature of business	Equity interest
TransTelecom	Moscow	Joint Stock Company	Fiber-optic cable construction	100% - 1 common share
Elteza	Moscow	Joint Stock Company	Production of electrical engineering equipment	100% - 1 common share
Remputmash	(D)	(D)	Repair works	100% - 1 common share
TransContainer	Moscow	Joint Stock Company	Forwarding Agent, Container transportation	85.4%
Roszheldorstroy	Moscow	Joint Stock Company	Construction works	100% - 1 common share
Roszheldorproekt[(A)]	Moscow	Joint Stock Company	Construction works	50% +1 common share
Refservice	Moscow	Joint Stock Company	Refrigerator transportation	100% - 1 common share
Zhilsotsipoteka	Moscow	Non-commercial organization	Residential construction	100%
Zheldoripoteka[(B)]	Moscow	Joint Stock Company	Residential construction	50% +1 common share
First Cargo Company	Moscow	Joint Stock Company	Forwarding agent	100% - 1 common share
TransCreditBank[(E)]	Moscow	Joint Stock Company	Banking	54.4%
RailTransAvto	Moscow	Joint Stock Company	Forwarding agent	51%
TransWoodService	Moscow	Joint Stock Company	Manufacturing	100% - 1 common share
BetElTrans	Moscow	Joint Stock Company	Manufacturing	100% - 1 common share
Pervaya Nerudnaya Kompaniya	Moscow	Joint Stock Company	Manufacturing	100% - 1 common share
Zeleznodorozhnaya Torgovaya Kompaniya	Moscow	Joint Stock Company	Trading	100% - 1 common share
Federal Passenger Company[(C)]	Moscow	Joint Stock Company	Passenger transportation	100% - 1 common share

(A) During the year ended 31 December 2009, RZD sold 50% minus 2 common shares of Roszheldorproekt shares. The difference of Rbls 366 (net of income tax Rbls 319) between the value of 50% minus 2 common shares in net assets of Roszheldorporekt determined using the Group's accounting policies and proceeds of Rbls 1,720 was recorded as accumulated deficit.

B. During the year ended 31 December 2009, Zheldoripoteka issued 4,996 additional ordinary shares at nominal value of Rbls 0.1 per share. The additional issue was purchased by a related party for the amount of Rbls 2,048.

C. Federal Passenger Company was established in 2009 on the basis of previously existing branches to operate in long-distance passenger transportation business activity. Federal Passenger Company started operations in 2010.

D. "Remputmash" comprises 9 separate legal entities. All entities were established as joint stock companies on the basis of previously existing branches of RZD.

E. During the year ended 31 December 2009 TransCreditBank completed merger with its former subsidiary banks: OJSC MeTraComBank, OJSC Chitapromstroybank, OJSC Bank Yugo-Vostok, OJSC Superbank, in the form of exchange of its own shares for non-controlling interests in the above subsidiaries. For that purpose, TransCreditBank issued 28,302,112 additional uncertified registered ordinary shares at nominal value of Rbls 0.001 per share. Upon the completion of the merger, the former subsidiary banks became the branches of Transcreditbank.

Details of RZD's major entities included in the consolidation as of 31 December 2008 and for the year then ended are as follows:

Name of Company	Registered offices	Legal form	Nature of business	Equity interest
TransTelecom	Moscow	Joint Stock Company	Fiber-optic cable construction	100% - 1 common share
Elteza	Moscow	Joint Stock Company	Production of electrical engineering equipment	100% - 1 common share
Remputmash	(C)	(C)	Repair works	100% - 1 common share
TransContainer,[B]	Moscow	Joint Stock Company	Forwarding Agent, Container transportation	85% - 1 common share
Roszheldorstroy	Moscow	Joint Stock Company	Construction works	100% - 1 common share
Roszheldorproekt	Moscow	Joint Stock Company	Construction works	100% - 1 common share
Refservice	Moscow	Joint Stock Company	Refrigerator transportation	100% - 1 common share
Zhilsotsipoteka	Moscow	Non-commercial organization	Residential construction	100%
Zheldoripoteka	Moscow	Joint Stock Company	Residential construction	100% - 1 common share
First Cargo Company	Moscow	Joint Stock Company	Forwarding agent	100% - 1 common share
TransCreditBank	Moscow	Joint Stock Company	Banking	55%
RailTransAvto	Moscow	Joint Stock Company	Forwarding agent	51%
TransWoodService[A]	Moscow	Joint Stock Company	Manufacturing	100% - 1 common share
BetElTrans[A]	Moscow	Joint Stock Company	Manufacturing	100% - 1 common share
Pervaya Nerudnaya Kompaniya[A]	Moscow	Joint Stock Company	Manufacturing	100% - 1 common share
Zeleznodorozhnaya Torgovaya Kompaniya[A]	Moscow	Joint Stock Company	Trading	100% - 1 common share

A. These entities were established by RZD during 2008 on the basis of branches previously existing and comprise auxiliary business activities and the related facilities.

B. During the year ended 31 December 2008, RZD sold 15% of TransContainer shares. The difference of Rbls 4,723 (net of income tax of Rbls 1,720 and transaction costs of Rbls 186) between the value of 15% interest in net assets of TransContainer determined using the Group's accounting policies and proceeds of Rbls 7,837 was reported in Accumulated deficit and other reserves.

C. "Remputmash" comprises 9 separate legal entities. All entities were established as joint stock companies on the basis of previously existing branches of RZD.

Factors Affecting Financial Position of the Company

Operating Environment

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in 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 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.

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 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.

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.

Pricing policy

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

The Company is required to price its regulated cargo and third- and fourth-class long-distance passenger transportation services on the basis of a detailed price lists set out in Tariff 10-01 and Tariff 10-02-16, respectively. Prices set out in Tariff 10-01 are subject to annual, and occasionally supplemental, indexation. All classes of suburban passenger transportation services are subject to regulation by municipal authorities although the municipal authorities do not always provide a consistent tariff policy.

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

Foreign Exchange

The exchange rate of the Ruble to 1 US dollar equated to 30.24 and 29.38 as of 31 December 2009 and 31 December 2008, accordingly. The exchange rate of the Ruble to 1 EUR equated to 43.39 and 41.44 as of 31 December 2009 and 31 December 2008, accordingly.

As of 31 August 2010 the exchange rate was Rubles 30.66 to 1 US dollar and Rubles 39.03 to 1 Euro.

Government Subsidies

The Company receives subsidies from federal and local governments to compensate the effects of passenger and cargo transportation tariffs' regulation. These subsidies are shown as separate item in the consolidated income statement.

Liquidity

As of 31 December 2009, the Group's current liabilities exceeded its current assets by Rbls 170,166 (31 December 2008: 239,013). 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:

- Deferral or curtailment of certain investment projects in order to fund the Company's current operating needs,
- Implementation of cost reduction measures commenced in 2009 in relation to repair and maintenance costs, optimization of personnel costs and certain other costs as well as improving inventory management,
- Renegotiation of certain contracts with key suppliers on terms more favorable for the Group,
- Attracting borrowings from lending institutions,
- Raising funds by issuing bonds at domestic and foreign markets,
- Further increase in duration of the Group's debt portfolio and decrease of the share of borrowings denominated in foreign currencies.

Through 2010, management believes that there will be sufficient funding from (a) existing cash balances, (b) cash generated from operations, and (c) debt financing.

2. Summary of Significant Accounting Policies

Basis of Preparation

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

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

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

Changes in Accounting Policy and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except that the Company has adopted those new and revised standards mandatory for financial years beginning on or after 1 January 2009.

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

- IFRS 2 "Share-based Payment" — Vesting Conditions and Cancellations (effective from 1 January 2009);
- IFRS 7 "Financial Instruments: Disclosures". "Improving disclosures about financial instruments". (effective from 1 January 2009);
- IFRS 8 "Operating Segments" (effective from 1 January 2009);
- IAS 1 "Presentation of Financial Statements" (Revised) (effective from 1 January 2009);
- IAS 23 "Borrowing Costs" (Revised) (effective from 1 January 2009);
- IAS 32 "Financial Instruments: Presentation" and IAS 1 "Puttable Financial Instruments and Obligations Arising on Liquidation" (effective 1 January 2009);
- IFRIC 9 "Remeasurement of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" (effective for periods ending on or after 30 June 2009);
- IFRIC 13 "Customer Loyalty Programmes" (effective from 1 July 2008);
- IFRIC 15 "Agreements for the Construction of Real Estate" (effective from 1 January 2009);
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective from 1 October 2008);
- IFRIC 18 "Transfer of Assets from Customers" (effective from 1 July 2009);
- Improvements to IFRSs (May 2008).

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

IFRS 2 "Share-based payment" — Vesting Conditions and Cancellations

The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. The Group adopted this amendment as of 1 January 2009. It did not have an impact on the financial position or performance of the Group.

IFRS 7 "Financial Instruments: Disclosures"

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 34. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 34.

IFRS 8 "Operating Segments"

IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented in a manner that is consistent with the internal reporting provided to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance. The Group determined that the operating segments were different from the business segments previously identified under IAS 14 Segment Reporting. The Group has decided to early adopt improvements to IFRS 8 issued in April 2009, which allows the Group not to disclose information about segment assets and liabilities, since such information is not regularly provided to the chief operating decision maker. Disclosures about operating segments are shown in Note 3, including related revised comparative information.

IAS 1 "Presentation of Financial Statements" (Revised)

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

IAS 23 "Borrowing costs" (Revised)

The amendment to IAS 23 removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The application of these amendments did not affect the Group's consolidated financial statements.

IAS 32 "Financial Instruments: Presentation" and IAS 1 — Puttable Financial Instruments and Obligations Arising on Liquidation

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or the performance of the Group.

IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" (effective for annual periods ending on or after 31 December 2009).

This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The amendment to this interpretation did not have material impact on the financial position or performance of the Group.

IFRIC 13 "Customer Loyalty Programmes"

IFRIC 13 requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and

deferred. This is then recognised as revenue over the period that the award credits are redeemed. The adoption of this interpretation did not have any impact on the financial position or performance of the Group.

IFRIC 15 "Agreements for the Construction of Real Estate"

The interpretation provides guidance on whether revenue recognition under agreement for the construction of real estate falls within the scope of IAS 11 or IAS 18 and when respective revenue is to be recognized. The adoption of this interpretation did not have any impact on the financial position or performance of the Group.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The adoption of this interpretation did not have any impact on the financial position or performance of the Group.

IFRIC 18 "Transfer of Assets from Customers"

This interpretation provides guidance on how to account for items of property, plant and equipment received from customers, or cash that is received and used to acquire or construct specific assets. It is only applicable to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. The adoption of this interpretation did not have any effect on the financial position or performance of the Group.

Improvement to IFRSs (May 2008)

In May 2008 the International Accounting Standards Board (IASB) issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of amendments to the following standards resulted in the changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- *IAS 16 "Property, Plant and Equipment":* The amendment replaces the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.
- *IAS 20 "Accounting for Government Grants and Disclosures of Government Assistance":* Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates. The Group has amended its accounting policy accordingly.
- *IAS 23 "Borrowing Costs":* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one — the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

Other amendments resulting from improvements to IFRSs issued in May 2008 did not have any significant impact on the accounting policies, financial position or performance of the Group.

IFRSs and IFRIC Interpretations not yet effective

The Group has not applied the following new or amended standards and IFRIC Interpretations that have been issued but are not yet effective:

- 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);
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013);

- IAS 24 "Related Party Disclosures" (Revised) (effective for annual periods beginning on or after 1 January 2011);
- IAS 27 "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009);
- IAS 32 "Financial Instruments: Presentation" — Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010);
- IAS 39 "Financial Instruments: Recognition and Measurement" — Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009);
- IFRIC 14/IAS 19 "Prepayments of a Minimum Funding Requirement" (effective for annual periods beginning on or after 1 January 2011);
- IFRIC 17 "Distributions of Non-Cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009);
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010);
- Improvements to IFRS.

IFRS 2 "Group Cash-settled Share-based Payment Transactions"

An amendment to IFRS 2 was issued in June 2009 and becomes effective for financial years beginning on or after 1 January 2010 with early application permitted. This amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. The amendment supersedes IFRIC 8 and IFRIC 11. The Group is assessing the impact of this amendment on the Group's consolidated financial statements.

IFRS 3 "Business Combinations" (Revised)

The revised standard was issued in January 2008 and becomes effective for financial years beginning on or after 1 July 2009 with early application permitted. The standard introduces changes in the accounting for business combinations that will 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 changes will impact the amount of goodwill recognized, the Group's reported results in the period that acquisition occurs and future reported results.

IFRS 9 "Financial Instruments"

The standard was issued in November 2009 as the first phase of IFRS 9 Financial Instruments, the accounting standard that will replace IAS 39. It becomes effective for financial years beginning on or after 1 January 2013 with early application permitted. The issued standard establishes a new classification and measurement framework for financial assets. The Group is assessing the impact of this standard on the Group's consolidated financial statements.

IAS 24 "Related Party Disclosures" (Revised)

The revised standard was issued in November 2009 and becomes effective for annual periods beginning on or after 1 January 2011 with early application permitted. The amendment clarifies the definition of related parties without reconsidering the fundamental approach to related party disclosures. The amendment also adds explicit disclosure requirements for commitments with related parties. In addition, amended IAS 24 provides for a partial exemption to government-related entities of related party disclosures for transactions between government-related entities as well as with the government itself. The Group expects that the changes will have significant impact on disclosures of transactions with government-related entities in the Group's financial statements.

IAS 27 "Consolidated and Separate Financial Statements"

The amendment to the standard was issued in January 2008 and becomes effective for financial years beginning on or after 1 July 2009 with early application permitted. IAS 27 (amended) 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 will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes will affect accounting for future acquisitions and loss of control of subsidiaries of the Group.

IAS 32 "Financial Instruments: Presentation" — Classification of Rights Issues

The amendment to the standard was issued in October 2009 and becomes effective for annual periods beginning on or after 1 February 2010 with early application permitted. The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. The Group is assessing the impact of this amendment on the Group's consolidated financial statements.

IAS 39 "Financial Instruments: Recognition and Measurement" — Eligible Hedged Items

The amendment to the standard was issued in July 2008 and becomes effective for annual periods beginning on or after 1 July 2009 with early application permitted. The amendment clarifies that the entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group is assessing the impact of this amendment on the Group's consolidated financial statements.

IFRIC 14/IAS 19 "Prepayments of a Minimum Funding Requirement"

The amendment to the standard was issued in November 2009 and becomes effective for financial years beginning on or after 1 January 2011 with early application permitted. The amendment requires entities sponsoring defined benefit plans to assess whether prepayments have been made that now need to be re-assessed for their impact on recoverability of pension assets. The Group is assessing the impact of this amendment on the Group's consolidated financial statements.

IFRIC 17 "Distributions of Non-cash Assets to Owners"

IFRIC 17 was issued in November 2008 and is effective for annual periods beginning on or after July 1, 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in the income statement. The Group is assessing the impact of this interpretation on the Group's consolidated financial statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC 19 was issued in November 2009 and becomes effective for annual periods beginning on or after 1 July 2010 with earlier application permitted. The interpretation addresses the accounting of transactions when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. The Group is assessing the impact of this interpretation on the Group's consolidated financial statements.

Improvements to IFRS

In April 2009 and May 2010 IASB issued amendments to IFRS, which resulted from the IASB's annual improvements project. They comprise amendments that lead to accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after January 1, 2010, with

earlier application permitted. The Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

Principles of Consolidation

Subsidiaries

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

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of purchase consideration over the fair value of the Group's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group's share of identifiable net assets of the subsidiary acquired the difference is recognised directly in the income statement.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the reporting date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented within equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All other losses are allocated to the Group.

Changes in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to additionally acquired (sold) interests in subsidiaries and the consideration given (received) for such increases are charged or credited to retained earnings.

Special purpose entities

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

Investments in Associates

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate. Where there has been a change in other comprehensive income of the associate, the Group recognises its share of any changes and presents this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of associates is shown in the income statement. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associates.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the investments in associate and its carrying value and recognises the difference in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are recognised in profit or loss.

Interest in Joint Venture

The Group's interests in its joint ventures are accounted for as follows:

(a) Jointly controlled operations

The Company recognises in its financial statements the assets it controls and the liabilities it incurs, as well as expenses that it incurs and its share of the income that it earns from the sale of goods and services by the joint ventures.

(b) Jointly controlled assets

The Company recognises in its financial statements its share of the jointly controlled assets, classified on the basis of their nature, and liabilities it has incurred and its share of the liabilities incurred jointly with other ventures in relation to the joint venture, any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture, and any expenses that the Company incurred in respect of its interest in the joint venture.

(c) Jointly controlled entities

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

Property, Plant and Equipment

Initial recognition of property, plant and equipment

In accordance with IAS 16 "Property, Plant and Equipment", property, plant and equipment, which qualifies for recognition as an asset, are initially recognised at their cost.

Subsequent to initial recognition, property, plant and equipment are carried at a revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment loss. Revaluations are 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 the fair value at the reporting date.

Revaluation to fair value

In 2004 the Company engaged an independent appraiser to determine the fair value of its property, plant and equipment as of 1 January 2004. This work was finalized in 2006 with respect to roadbed only. Accordingly, the Company adjusted its financial statements to reflect the results of the revaluation of this category of property. In 2009 the Company has engaged an independent appraiser to revalue its property, plant and equipment so that the

fair values of all categories of property, plant and equipment including roadbed could be reported in its consolidated financial statements subsequent to 2009 by adjusting as needed the financial data for comparative financial statements as of 31 December 2009 and for the year then ended.

Depreciation of property, plant and equipment

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

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

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

The residual values, useful lives and depreciation methods are reviewed and adjusted as appropriate at each financial year end.

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

Land occupied by the Group's facilities is owned by the Russian Federation. In 2003, some of such land plots were contributed as in-kind contribution to the Company's newly established share capital and, consequently, were included in Property, Plant and Equipment as of 31 December 2009 and 2008. The land is not depreciated.

Construction-in-progress comprises costs directly related to construction and acquisition of property, plant and equipment plus an appropriate allocation of directly attributable variable and fixed overheads that are incurred in construction. Depreciation commences once the asset becomes available for use.

Property, plant and equipment — subsequent expenditures

Subsequent expenditures relating to an item of property, plant and equipment, which qualify for recognition as assets in accordance with provisions of IAS 16, are capitalized.

Major renewals and improvements are capitalised, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred. When each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

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

Investment Property

Investment property is initially recognized at cost, including directly attributable expenditure, and subsequently remeasured at fair value which reflects market conditions at the end of the reporting period. Fair value measurement of investment property is performed by an independent appraiser who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

Earned rental income is recorded in the income statement within other income. Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement and presented within income or expense arising from revaluation of investment property.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when

incurred. If an investment property becomes owner-occupied, it is reclassified to buildings, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Intangible Assets Other than Goodwill

Initially intangible assets (primarily software) are measured at cost. Intangible assets are recognised if it is probable that the future economic benefits attributable to the asset will flow to the enterprise. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for individual assets, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the recoverable amount is less than the carrying amount of an asset or cash generating unit, an impairment loss is recognised.

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

Financial Assets

The Group's financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus, in case of investments not at fair value through profit and loss, directly attributable transaction costs. The Group determines the classification of its financial assets at initial recognition. All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and cash equivalents, bank deposits, receivables, loans issued, derivative financial instruments, financial assets available for sale, securities at fair value through profit or loss, reverse repurchase agreements.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this category. Held-to-maturity investments are subsequently measured at amortised cost using effective interest rate method.

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as financial assets at fair value through profit or loss unless they are designated as effective hedging instruments. Gains or losses on financial assets at fair value through profit or loss are recognised in income.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method less impairment. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial recognition available-for-sale investments are measured at fair value with unrealised gains or losses being

recognised as other comprehensive income in the available for sale reserve until the investment is derecognised or determined to be impaired at which time the cumulative loss is recognized in the income statement and removed from the available-for-sale reserve.

The Group evaluated its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and managements intent significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or maturity. The reclassification to held to maturity is permitted only when the entity has the ability and intent to hold until the financial asset accordingly.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to the income statement.

Impairment of financial assets

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

(a) Loans and receivables

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

(b) Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated income statement.

(c) Available-for-sale financial assets

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

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement — is removed from other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

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

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

Financial Liabilities

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value plus directly attributable transaction costs, and have not been designated as 'at fair value through profit or loss'.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and

- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Financial Guarantee Contracts

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

Obligatory Reserve with the Central Bank of Russia (CBR)

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the Central Bank of Russia (CBR), the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw such deposit is significantly restricted by the statutory legislation.

Repurchase and Reverse Repurchase Agreements and Securities Lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or re-pledge them, are classified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within borrowings. Securities purchased under agreements to resell ("reverse repo") are recorded as other financial assets. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the consolidated financial statements. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from securities at fair value through profit or loss in the consolidated income statement. The obligation to return them is recorded at fair value as a liability.

Derivative Financial Instruments

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

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

Non-current Assets Classified as Held for Sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Assets classified as held for sale as of 31 December 2009 and 2008 comprised primarily property, plant and equipment.

Inventories

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

Cash and Cash Equivalents

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

Income Tax

Tax expense (tax benefit) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable). Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantially enacted by the reporting date in the countries, where the Group operates and generates taxable income.

Deferred income taxes are provided using the liability method. This method gives consideration to the future tax consequences associated with the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases at the reporting date.

Deferred income taxes are recognized for all temporary differences except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Revenue and Expense Recognition

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

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

Transportation services

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

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

Interest and similar income and expense

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

Interest income earned, and interest expense incurred in the normal course of business by the Group's banking subsidiary are reported as operating income and expense, respectively, for the purposes of presentation of income statement and statement of cash flows. Interest income earned and interest expense incurred by other Group's entities are treated as finance income and expense, respectively.

Fee and commission income (banking operations)

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party — such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses — are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

For the purposes of presentation of the income statement and statement of cash flows, fee and commission income earned by the Group's banking subsidiary are reported as revenues. Similarly, fee and commission expense incurred by this subsidiary are reported as operating expense.

Revenue from Construction Services

In 2009 the Group commenced rendering significant construction services to third parties under long-term construction contracts.

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

Service concession arrangements

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

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

Mutual Offset and Barter

A portion of sales is settled through mutual offset and barter arrangements. Mutual offset and barter transactions are measured at the fair value of the goods and services received or given up, whichever is most reliably measured.

Management estimated that for the year ended 31 December 2009 and 2008 not more than approximately 1% of the Group's sales were performed on a barter (offset) basis.

Borrowing Costs

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

Foreign Currency Translation

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the income statement.

Government Grants

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

Employee Benefits

Defined benefit plans

The Group operates defined benefit pension plans. The obligation and cost of benefits under the plans are determined separately for each plan using the projected unit credit method. This method considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The cost of providing pensions is charged to the income statement, so as to attribute the total

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

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

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

Defined contribution plans

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

State plan

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

Contribution to the Russian Pension Fund together with other social contributions are included within a unified social tax ("UST"), which is calculated by the application of a regressive rate from 26% to 2% to the annual gross remuneration of each employee. UST is allocated to three social funds (including the Russian Pension Fund), where the rate of contributions to the Russian Pension Fund varies from 20% to 2%, respectively, depending on the annual gross salary of each employee.

Other long-term benefits

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

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

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

Service Concession Arrangements

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

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

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

Contractual obligations of the Group stipulated in the service concession agreement to maintain infrastructure and/or to restore infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement is recognized in a manner identical to recognition of provisions (refer below), and is measured at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. As of 31 December 2009, the amount of intangible asset recognized by the Group with regard to service concession agreement comprised Rbls 1,995 (2008: 2,906). The liabilities assumed by the Group in connection with this agreement of Rbls 1,834 (2008: 2,906) are included in other long-term liabilities as of 31 December 2009.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

The Group — lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the income statement. Contingent rent, which represents a portion of the lease payments that is not fixed in amount, but is based on the future amount of a factor that changes other than with the passage of time, is recognized in the income statement as incurred. Leased assets are depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term unless there is a reasonable certainty that the Company will obtain ownership by the end of the lease term, in which case the assets are depreciated over their estimated useful lives.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

The Group — lessor

The Group presents assets leased under finance lease agreement as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the finance lease receivable.

Research and Development Costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

The amount of research and development costs recognised by the Group in the income statement for the year ended 31 December 2009 equated to Rbls 76 (2008: Rbls 352).

Provisions

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

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

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the financial statements. Where an inflow of economic benefits is probable, they are disclosed.

Contractual Commitments

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

The Group discloses significant contractual commitments in the notes to the financial statements.

Use of Management Estimates

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

As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest available, reliable information. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

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

Estimates and Assumptions

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

Useful life of property, plant and equipment

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

Estimation Uncertainty

Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

The determination of impairment of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management.

Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Due to significant uncertainties regarding future changes in the tariff-setting policy and further implementation of the Program of railway transportation restructuring, as more fully described in Note 32, management cannot predict what effect changes in fiscal and political policies may have on the Company's remaining investment or ability to make future investments in property, plant and equipment, which may affect the recoverable amount of such investments. Management plans to revisit such an assessment at the time more certainty regarding factors outlined above exists and upon completion of property, plant and equipment revaluation. Accordingly, the amount of impairment loss may be revised.

These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any property, plant and equipment impairment.

Long-term employee benefits — defined benefit plans

The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuations, which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels and, to a limited extent, expected return on plan assets. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially. More details are provided in Note 19.

Litigations

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

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. Periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As of 31 December 2009 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Notes 18 and 30.

Deferred tax assets

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

Fair value of financial instruments

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

Development costs

Development costs are capitalised in accordance with the Group's accounting policy. Initial capitalisation of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. At 31 December 2009, the carrying amount of capitalised development costs was Rbls 2,319 (2008: Rbls 2,333).

Construction contract

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

Service Concession Agreement

In 2008 the Group commenced activities under the service concession agreement signed with the government of the Republic of Armenia (Armenia) ("the Grantor"). Under the terms of this agreement the Group is obligated to upgrade and operate railways infrastructure of Armenia and further to acquire new rolling stock. The aggregate amount of these expenditures equates to approximately US$570 million (Rbls 19,836 at the exchange rate as of the date of entering into this agreement or Rbls 17,237 at the exchange rate as of 31 December 2009). Under the terms of the agreement the Grantor received a call option with regard to purchase of the rolling stock at the end of concession agreement. However, the agreement does not contain any specifications as to the value and/or quantity of the rolling stock covered by this call option.

On the basis of the analysis performed, management concluded that although certain indicators existed that such rolling stock may be considered to be within the scope of IFRIC 12 "Service Concession Agreement", however, in the absence of (i) any restrictions specified in the agreement limiting the ability of the Group to deal with this rolling stock at its discretion and (ii) provisions sufficient to determine the quantity of rolling stock to which call option apply, such rolling stock is not within the scope of IFRIC 12. Accordingly the rolling stock is recognized as assets of the Group.

Judgements

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

Accounting for non-production property, plant and equipment

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

Accounting for leases

A lease is classified as finance lease if it transfers substantially all the risks and rewards incidental to ownership, otherwise it is classified as operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. In determining the accounting treatment of transactions that involve the legal form or a lease, all aspects and implications of an arrangements are evaluated to determine the substance of such transactions with weight given to those aspects and implications that have an economic effect. If the lease term is for longer than 75 percent of the economic life of the asset, or that at the inception of the lease the present value of the minimum lease payments amount to at least 90 percent of the fair value of the leased asset, the lease is classified by the Group as finance lease, unless it is clearly demonstrated otherwise.

3. Segment Reporting

Following the requirements of IFRS 8 "Operating segments", the Group has changed the presentation and disclosure of segment information by splitting the previously reported business segment "Passenger" into two reportable operating segments: long distance and suburban passenger transportations. In addition the Group separated auxiliary operations segment from all other segments and excluded cargo transportation services provided by the subsidiaries of the Company from cargo segment. Comparative information has been revised accordingly.

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

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.
- *Suburban passenger segment* includes intraregional rail passenger transportation services.
- *Banking segment* includes operations of TransCreditBank, the Company's banking subsidiary.
- *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, 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. Prices between operating segments are generally set on the basis described in Note 1 other than for services outside of domestic and international regulations where prices are set by the management on a basis, where applicable, similar to transactions with third parties.

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;
- loss from sale of assets held for sale;

- loss on impairment of property, plant and equipment;
- contributions to finance activities of trade union, pension funds; 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 profit or loss regarding the Group's reportable operating segments:

Year Ended 31 December 2009

	Cargo	Long-distance passenger	Suburban passenger	Auxiliary operations	Banking	All other segments	Eliminations[(A)]	Adjustments[(B)]	Total
Sales to third parties	748,187	132,646	18,361	75,781	28,361	174,354	—	(23,230)	1,154,460
Inter-segment sales	45,867	—	—	29,316	2,282	129,689	(207,154)	—	—
Total revenue	**794,054**	**132,646**	**18,361**	**105,097**	**30,643**	**304,043**	**(207,154)**	**(23,230)**	**1,154,460**
Wages, salaries and related contributions	(283,815)	(70,451)	(16,560)	(36,531)	—	—	—	(44,073)	(451,430)
Fuel	(37,178)	(5,224)	(1,401)	(2,130)	—	—	—	(1,822)	(47,755)
Electricity	(54,804)	(8,981)	(3,511)	(4,877)	—	—	—	(921)	(73,094)
Depreciation and amortization	(142,002)	(24,186)	(6,683)	(11,612)	—	—	—	89,012	(95,471)
Segment result	**94,644**	**(27,491)**	**(24,790)**	**7,858**	**4,315**	**7,790**	**(3,085)**	**145,183**	**204,424**

Year Ended 31 December 2008

	Cargo	Long-distance passenger	Suburban passenger	Auxiliary operations	Banking	All other segments	Eliminations[(A)]	Adjustments[(B)]	Total
Sales to third parties	834,657	130,730	19,676	73,533	22,281	144,899	—	(23,106)	1,202,670
Inter-segment sales	22,962	—	—	20,153	1,857	149,173	(194,145)	—	—
Total revenue	**857,619**	**130,730**	**19,676**	**93,686**	**24,138**	**294,072**	**(194,145)**	**(23,106)**	**1,202,670**
Wages, salaries and related contributions	(266,579)	(66,307)	(19,177)	(32,269)	—	—	—	(134,342)	(518,674)
Fuel	(60,268)	(7,215)	(2,128)	(2,412)	—	—	—	1,252	(70,771)
Electricity	(50,837)	(8,120)	(3,803)	(3,576)	—	—	—	(250)	(66,586)
Depreciation and amortization	(134,766)	(25,153)	(7,879)	(9,769)	—	—	—	94,791	(82,776)
Segment result	**127,096**	**(31,683)**	**(34,826)**	**5,812**	**3,170**	**23,595**	**(6,327)**	**38,244**	**125,081**

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

(B) The operating profit of each operating segment does not include the following adjustments representing differences between management accounts and financial statements prepared in accordance with IFRS as for the year ended 31 December 2009 and 2008:

	2009	2008
Income from rent of cargo cars and other property classified as other income (Note 27)	**(14,734)**	(13,065)
Sales of metal scrap	**(3,776)**	(5,897)
Adjustments to revenue on construction contract	**(2,897)**	—
Other adjustments to revenue	**(1,823)**	(4,144)
	(23,230)	(23,106)
PP&E adjustments[(C)]	**161,788**	171,148
Additional bad debt expense	**(9,344)**	(3,134)
Additional long-term employee benefits obligations	**(3,838)**	(100,150)
Loss on uncompleted construction contract	**(4,153)**	—
Subsidies from federal and municipal budgets not included in segment results (Note 26)	**80,073**	22,097
Interest expense and similar items, net not included in segment results (Note 28)	**(23,000)**	(16,892)
Changes in fair value and (loss)/ gain on disposal of financial assets not included in segment results (Note 29)	**(6,357)**	12,869
Foreign exchange loss, net	**(5,024)**	(22,845)
Impairment loss of investments in associates (Note 27)	**(9,376)**	—
Loss on impairment of property, plant and equipment (Note 5)	**(2,116)**	(3,706)
Other adjustments	**(10,240)**	1,963
Total adjustments to income before taxation	**145,183**	38,244

(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 IFRS.

4. Acquisitions of and Changes in Ownership Interests in Subsidiaries

Acquisition of a controlling interest in TGK 14 achieved in stages

During 2008, the Group through LLC Energopromsbyt, its 51% subsidiary, established with participation of one of the Group's suppliers of electric energy, acquired 49.25% of the shares of the regional power generation station — TGK-14. The aggregate cost of acquisition of the above shares which was completed on 8 July 2008, equated to Rbls 4,962. Based on the results of purchase price allocation, management assessed that goodwill related to this transaction equated to Rbls 956. The goodwill was impaired in full in 2009 (refer to Note 27).

On 30 April 2009, the Group through LLC Energopromsbyt acquired an additional 27.67% ownership interest in TGK 14 for cash consideration of Rbls 1,218, including transaction costs of Rbls 349, increasing the LLC Energopromsbyt's ownership interest to 76.92%. Under provisions of the Russian legislation, LLC Energopromsbyt offered to the minority shareholders to purchase their shares for Rbls 828. As a result of the offer the Group purchased an additional 3.23% ownership interest in TGK 14 for approximately Rbls 204. As a result the ownership interest of LLC Energopromsbyt in TGK 14 increased up to 80.15% as of 31 December 2009. The offer was closed as of 31 December 2009.

As a result, the financial position and results of operations of TGK 14 were included in the Group's consolidated financial statements beginning 30 April 2009 as the Group effectively gained control over operations of TGK 14 since that date. In the period from 8 July 2008 to 30 April 2009, the Group accounted for its investment in TGK 14 under the equity method (Note 6).

The Group finalized its purchase price allocation on the acquisition of 27.67% ownership interest in TGK 14. As the result the Group recognized adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities as at 30 April 2009 and further recognized the excess of the Group's interest in the net fair value of the

TGK-14's identifiable assets, liabilities and contingent liabilities over cost of Rbls 594 in the income statement for the year ended 31 December 2009 (refer to Note 27).

The table below sets forth the fair values of identifiable assets and liabilities of TGK 14 as at the date of acquisition:

	Provisional fair values recognised on acquisition as at 30 April 2009	Final estimation of fair values recognised on acquisition as at 30 April 2009
Property, plant and equipment	4,556	3,159
Inventory	381	357
Accounts receivable	1,405	1,121
Cash and cash equivalents	3,824	3,874
Other assets	595	78
Total assets	**10,761**	**8,589**
Employee benefit obligations	419	346
Deferred tax liability	658	11
Trade and other payables	1,410	1,278
Short-term borrowings	406	406
Total liabilities	**2,893**	**2,041**
Total identifiable net assets at fair value	**7,868**	**6,548**
Fair value of net assets attributable to 27.67% ownership interest	**2,177**	**1,812**
Purchase consideration transferred	**1,218**	**1,218**

As at 31 December 2009 minority interests arising from acquisition of TGK 14 comprised Rbls 1,512. For the period from 30 April 2009 to 31 December 2009 TGK 14 reported net loss amounting to Rbls 748.

Acquisition of Closed Investment Equity Fund "Strategical Investments Fund VI"

In January 2009, the Group through its 54.4% owned banking subsidiary (the Bank) purchased 100% units of Closed Investment Equity Fund "Strategical Investments Fund VI" for cash consideration of Rbls 2,584. As a result the Group obtained control over two entities: CJSC "Expert" and CJSC "New Investment Projects". As these entities do not constitute businesses, the Group recognised these transactions as an acquisition of their assets and liabilities. As at 31 December 2008, the Group owned 19% of each of these entities accounted for as other financial assets in the aggregate amount of Rbls 625 (disclosed as other financial assets in Note 7) in the Group's consolidated financial statements.

In September 2009 the Bank acquired an additional interest of 21.01% in CJSC "New Investment Projects" for cash consideration on Rbls 221.

	Fair value recognised on acquisition
CJSC "New Investment Projects"	
Property, plant and equipment	1,010
Other assets	21
Total assets	**1,031**
Total liabilities	**34**
Net assets	**997**
Less: minority interests	(211)
Net assets acquired	**786**
CJSC "Expert"	
Derivative financial assets	1,374
Securities at fair value through profit or loss	1,062
Investment securities available-for-sale	727
Other assets	336
Total assets	**3,499**
Amounts due to the Bank (eliminated against loans to customers)	1,051
Other liabilities	25
Total liabilities	**1,076**
Net assets acquired	**2,423**
Total net assets acquired	**3,209**
Group's share prior to acquisition	625
Purchase consideration paid by the Group	**2,584**

Acquisition of LLC "FinanceBusinessGroup"

In September-November 2009, the Group through its 54.4% owned banking subsidiary (the Bank) purchased 54% shares of LLC "FinanceBusinessGroup" from a related party for cash consideration of Rbls 6. As at 31 December 2008 the entity was accounted in the Group's consolidated financial statements as investments in associates.

	Fair value recognised on acquisition
Cash and cash equivalents	394
Loans to customers, including net investment in leasing	9,553
Property and equipment	101
Other assets	716
	10,764
Amounts due to the Bank (eliminated against loans to customers)	4,017
Debt securities issued	6,178
Other liabilities	303
	10,498
Net assets	266
Less: non-controlling interests	(122)
Net assets acquired	**144**
Fair value of the previously held equity interest in the acquiree	95
Consideration paid by the Group	**6**

Excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of LLC "FinanceBusinessGroup" over cost of Rbls 43 was recognized in profit or loss for the year ended 31 December 2009 (refer to Note 27).

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 these consolidated financial statements for assets and liabilities of CJSC "West Bridge" and respective non-controlling interests have been determined provisionally because the Bank has not yet completed the initial accounting for this business combination.

	Provisional fair value recognised on acquisition
CJSC "West Bridge"	
Cash and cash equivalents	74
Investment property	1,880
Other assets	39
	1,993
Amounts due to the Bank (eliminated against loans to customers)	581
Amounts due to customers	22
Current tax liabilities	10
Other liabilities	50
	663
Net assets	1,330
Less: non-controlling interests	(48)
Net assets acquired	**1,282**
Consideration paid by the Group	**1,207**

Excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of CJSC "West Bridge" over cost of Rbls 75 was recognized in profit or loss for the year ended 31 December 2009 (refer to Note 27).

From the date of acquisition till 31 December 2009, CJSC "Expert", CJSC "New Investment Projects", LLC "FinanceBusinessGroup" and CJSC "West Bridge" did not have any material effect on the Group's net income.

Other acquisitions

In the period from 1 January 2009 to 31 December 2009 the Group acquired controlling ownership interests in a number of Russian companies, for the aggregate cash consideration of Rbls 143.

The Group finalized its purchase price allocation on the acquisition of a controlling interest of these other entities. As the result the Group recognized adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities as at the date of acquisition.

The financial position and the results of operations of these other entities were included in the Group's consolidated financial statements beginning from the acquisition dates, and did not have a material effect on the Group's consolidated financial position and results of operations.

If all business combinations that occurred during the year had taken place at the beginning of the year, the revenue of the Group would have been Rbls 4,150 higher and the profit of the Group would have been Rbls 353 lower at Rbls 1,158,610 and Rbls 151,854, respectively.

5. Property, Plant and Equipment

Property, plant and equipment as of 31 December 2009 and 31 December 2008 comprised the following:

31 December 2009

Gross book value

	Balance as of 1 January 2009	Additions	Additions in business combinations	Disposals	Transfers	Balance as of 31 December 2009
Land	5,418	469	—	(92)	—	**5,795**
Buildings	164,626	328	2,187	(1,308)	20,415	**186,248**
Constructions	391,338	3,222	637	(15,063)	77,859	**457,993**
Roadbed	399,648	2,049	—	(89)	17,641	**419,249**
Superstructure	273,318	33,817	—	(32,942)	38,435	**312,628**
Operating equipment	447,068	2,735	815	(10,390)	70,587	**510,815**
Locomotives	166,352	—	—	(2,618)	26,937	**190,671**
Rolling stock, cargo	173,640	1,341	—	(3,829)	14,970	**186,122**
Rolling stock, passenger	141,960	2,487	—	(4,282)	27,856	**168,021**
Other fixed assets	106,118	6	139	(1,122)	17,381	**122,522**
Construction-in-progress	280,532	293,530	493	(4,917)	(312,081)	**257,557**
Less: impairment	(24,058)	(2,495)	—	2,587	—	**(23,966)**
Total	2,525,960	337,489	4,271	(74,065)	—	**2,793,655**

Accumulated depreciation

	Balance as of 1 January 2009	Depreciation charge for the year	Accumulated depreciation on disposals	Balance as of 31 December 2009
Land	—	—	—	—
Buildings	(13,654)	(2,545)	191	**(16,008)**
Constructions	(54,544)	(10,198)	5,826	**(58,916)**
Roadbed	(26,757)	(5,780)	8	**(32,529)**
Superstructure	(41,491)	(10,323)	32,911	**(18,903)**
Operating equipment	(123,893)	(33,237)	10,098	**(147,032)**
Locomotives	(57,441)	(7,630)	2,602	**(62,469)**
Rolling stock, cargo	(71,019)	(7,129)	3,673	**(74,475)**
Rolling stock, passenger	(37,090)	(8,129)	3,800	**(41,419)**
Other fixed assets	(30,662)	(6,493)	478	**(36,677)**
Total	(456,551)	(91,464)	59,587	**(488,428)**

31 December 2008

Gross book value

	Balance as of 1 January 2008	Additions	Additions in business combinations	Disposals	Transfers	Balance as of 31 December 2008
Land	4,352	1,159	—	(93)	—	**5,418**
Buildings	146,596	801	230	(1,129)	18,128	**164,626**
Constructions	329,046	6,118	—	(11,180)	67,354	**391,338**
Roadbed	383,036	5,626	—	(234)	11,220	**399,648**
Superstructure	221,811	32,240	—	(25,446)	44,713	**273,318**
Operating equipment	367,072	3,106	407	(11,516)	87,999	**447,068**
Locomotives	134,344	—	—	(4,801)	36,809	**166,352**
Rolling stock, cargo	133,302	4,249	—	(3,054)	39,143	**173,640**
Rolling stock, passenger	119,986	4,609	—	(5,353)	22,718	**141,960**
Other fixed assets	89,039	—	9	(1,554)	18,624	**106,118**
Construction-in-progress	206,157	422,673	108	(1,698)	(346,708)	**280,532**
Less: impairment	(20,993)	(4,276)	—	1,211	—	**(24,058)**
Total	2,113,748	476,305	754	(64,847)	—	**2,525,960**

Accumulated depreciation

	Balance as of 1 January 2008	Depreciation charge for the year	Accumulated depreciation on disposals	Balance as of 31 December 2008
Land	—	—	—	—
Buildings	(11,526)	(2,409)	281	**(13,654)**
Constructions	(49,356)	(9,042)	3,854	**(54,544)**
Roadbed	(21,178)	(5,600)	21	**(26,757)**
Superstructure	(55,423)	(10,187)	24,119	**(41,491)**
Operating equipment	(108,665)	(26,663)	11,435	**(123,893)**
Locomotives	(56,060)	(6,182)	4,801	**(57,441)**
Rolling stock, cargo	(68,211)	(5,830)	3,022	**(71,019)**
Rolling stock, passenger	(33,976)	(7,357)	4,243	**(37,090)**
Other fixed assets	(26,053)	(5,634)	1,025	**(30,662)**
Total	(430,448)	(78,904)	52,801	**(456,551)**

Net book value

	Balance as of 31 December 2009	Balance as of 31 December 2008
Land	**5,795**	5,418
Buildings	**170,240**	150,972
Constructions	**399,077**	336,794
Roadbed	**386,720**	372,891
Superstructure	**293,725**	231,827
Operating equipment	**363,783**	323,175
Locomotives	**128,202**	108,911
Rolling stock, cargo	**111,647**	102,621
Rolling stock, passenger	**126,602**	104,870
Other fixed assets	**85,845**	75,456
Construction-in-progress	**257,557**	280,532
Less impairment	**(23,966)**	(24,058)
Total	**2,305,227**	2,069,409

Property, plant and equipment as of 31 December 2009 and 2008 include borrowing costs incurred in connection with the construction of certain property, plant and equipment. Actual borrowing costs capitalized as property, plant and equipment during 2009 using a capitalization rate of 9.2% equated to Rbls 20,348 (2008: Rbls 4,310 using capitalization rate of 7.4%).

During 2009, the Group recognised impairment loss of Rbls 2,495 (2008: Rbls 4,276) determined at the level of certain items of property, plant and equipment on the basis of management's assessment of probability of future sale or use of property, plant and equipment and construction-in-process projects.

During 2009 the Group disposed of property, plant and equipment with the net book value of Rbls 2,208 (2008: Rbls 641), which was fully impaired as of 31 December 2008. This did not have any impact on the Group's financial position and results of operations.

As of 31 December 2009 included in construction-in-progress are certain projects with the aggregate cost of Rbls 15,757 (2008: 16,681), which the Company abandoned. A 100% impairment was recognised by the Company with regard to such assets as of 31 December 2009 and 2008. Further, impairment recognised by the Company with regard to property, plant and equipment, other than construction-in-progress as of 31 December 2009 equated to Rbls 8,209 (2008: Rbls 7,377).

During the year ended 31 December 2009, the Company received government grants in the amount of Rbls 1,423 (2008: Rbls 1,544) related to the acquisition of property, plant and equipment. These grants were recognised in the consolidated financial statements by deducting the grants in arriving at the carrying amounts of the assets. In addition, during 2009 and 2008 the Company was granted a free-of-charge right to use certain items of property, plant and equipment, which are owned by the government of Moscow.

Leased assets as of 31 December 2009 and 2008 included above, where the Company is a lessee under a finance lease, comprised the following:

	2009	2008
Cost — capitalized finance leases	**101,912**	101,261
Accumulated depreciation	**(13,700)**	(9,599)
Net book value	**88,212**	91,662

Included in leased assets above are assets with the aggregate cost of Rbls 74,015 as of 31 December 2009 (2008: Rbls 76,125), which were obtained from entities considered related to the Company (Note 31). Refer to Note 20 for further details regarding finance leases.

6. Investments in Associates

Investments in associates comprised the following as of 31 December 2009 and 31 December 2008:

	31 December 2009	31 December 2008
The Breakers Investments B.V. (CJSC TransMashHolding)	**6,960**	9,310
OJSC TGK-14 (Note 4)	—	4,962
Other	**2,447**	2,830
	9,407	17,102

The Group acquired investments in a number of associates. The most material investments are described below:

Breakers Investments B.V. (CJSC TransMashHolding (TMH))

On 1 July 2008, the Group completed acquisition of 25% + 1 share in Breakers Investments B.V. a holding company of CJSC TransMashHolding, which is one of the Company's major suppliers of rolling stock, for Rbls 9.3 billion. Based on the results of purchase price allocation, management assessed that goodwill related to this transaction amounted to Rbls 1,624. The following table presents summarized financial information for TMH as of 31 December 2009 and 2008.

	2009	2008
Share of the associate's:		
Non-current assets	**7,440**	8,253
Current assets	**9,770**	9,288
Non-current liabilities	**(2,290)**	(2,644)
Current liabilities	**(7,867)**	(7,211)
Net assets	**7,053**	7,686
Share of the associate's revenue	**16,908**	11,238
Carrying amount of investment	**6,960**	9,310

The Group's share in the associate's net loss for the year 2009 amounted to Rbls 633. The Group's share in the associate's net profit for 2008 was not material.

As of 31 December 2009, the Group recognized impairment loss of Rbls 1,717 on investment in CJSC TransMashHolding (2008: nil) (refer to Note 27).

Acquisition of associates, engaged in provision of banking and financial services and asset management

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 31 December 2009, all Associated Investment Companies have negative net assets and need to continue attracting external financing and sell non-core assets to maintain their liquidity.

As of 31 December 2008, the acquisition of these ownership interests was accounted for at provisional values as approximated by their cost. As at the date of authorization of these consolidated financial statements, the Group completed valuation of assets and liabilities of these associates in accordance with IFRS 3 "Business Combinations".

In 2009 53.05% of the Associated Bank was acquired by the Pension Fund Blagosostoyanie, which is a related party (refer to Note 31).

In July 2009, RZD received a loan of Rbls 22 billion from the state corporation "Deposit Insurance Agency" (refer to Note 16) for the purpose of providing financing to the Associated Bank in accordance with the Plan. The loan provided to RZD incurs interest at 6.5% per annum and is repayable in five years. The state corporation "Deposit Insurance Agency" (hereinafter -"the Agency") also provided Rbls 46 billion to the Associated Bank in accordance with the Plan. RZD provided two 5 year loans totaling Rbls 22 billion to the Associated Bank (refer to Note 7) at a preferential interest rate of 7.5% per annum. The loans were invested by the Associated Bank in the purchase of RZD bonds series 17 and 18.

In accordance with IAS 20 "Government Grants and Disclosure of Government Assistance", RZD discounted the loan payable to the Agency using an appropriate market rate as adjusted for loan premium. As of 31 December 2009 the carrying amount of this loan is Rbls 18,438 million and the gain on initial recognition of Rbls 4,373 million was recognized in the income statement. Further, RZD recognized loss of Rbls 8,040 million on initial recognition of the loans extended by RZD to the Associated Bank of which Rbls 4,422 million was expensed and Rbls 3,618 million, representing the Group's share, was recognized as a part of RZD's equity investment in the Associated Bank.

In 2009, RZD also recognized its share of net loss for the year and other comprehensive income of OJSC KIT Finance Investment bank of Rbls 3,062 and 930 million, respectively, and its share of net income of KIT Finance Holding company LLC of Rbls 6,173 million.

Due to the reasons stated above, in 2009 the Group recognized impairment of its investments in OJSC KIT Finance Investment bank and KIT Finance Holding company LLC (refer to Note 27). As a result, carrying value of the Group's investment into each of these associates was written down to nil.

At 31 December 2009, unrecognized Group's share of losses of Web-invest.ru Ltd. totalled Rbls 1,095 million and carrying value of the Group's investment into this associate is nil.

7. Other Financial Assets

Other financial assets as of 31 December 2009 and 31 December 2008 comprised the following:

Current

	31 December 2009	31 December 2008
Bank deposits[(A)]	**3,278**	93
Loans issued, net of impairment reserve[(C)]	**53,224**	57,088
Reverse repurchase agreements with banks[(B)]	**11,041**	1,237
Other	**2,828**	2,618
Total	**70,371**	61,036

(A) Bank deposits as of 31 December 2009 comprised short-term deposit of Rbls 3,278 placed with the Group's banking associate (2008: nil). Interest on such deposit comprised 6% p.a.

(B) 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 are 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.

As at 31 December 2008 the Group entered into reverse repurchase agreements amounting to Rbls 1,237 with a related party with regard to marketable shares of a Russian company with a fair value of Rbls 994. Settlements under these reverse repurchase agreements were completed in 2009.

Non-current

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

	31 December 2008		
	Cost	Impairment reserve	Carrying value
Loans issued, net of impairment reserve[C]	81,849	(1,037)	80,812
Other[D]	12,024	(763)	11,261
Total	**93,873**	**(1,800)**	**92,073**

(C) As of 31 December 2009 and 31 December 2008 loans issued comprised primarily the loans extended by TransCreditBank as follows:

	31 December 2009		31 December 2008	
	Current	Non-current	Current	Non-current
Loans to corporate customers	**57,129**	**46,758**	56,733	25,913
Loans to individuals	**2,645**	**52,274**	3,089	55,936
Total:	**59,774**	**99,032**	59,822	81,849
Less — allowance for loans impairment	**(6,550)**	**(4,536)**	(2,734)	(1,037)
Loans to customers	**53,224**	**94,496**	57,088	80,812

As at 31 December 2009, long-term loans to corporate customers of Rbls 14,992 (2008: Rbls 21,124) 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 31).

Included in loans to individuals as of 31 December 2009 are consumer loans of Rbls 19,874 (2008: Rbls 24,598) and mortgage loans of Rbls 23,522 (2008: Rbls 21,026) 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 attracting interest at 7.5% per annum, payable on quarterly basis and repayable during the period from 2010 till 2014 (refer to Note 6).

(D) Other non-current financial assets as of 31 December 2009 and 31 December 2008 comprise primarily held-to-maturity corporate bonds, and bonds issued by local and regional governments. The bonds bear interest of 7 to 15% (2008: 7-15%) and mature during the period not exceeding 8 years (2008: up to 7 years).

8. Other Non-Current Assets

Other non-current assets as of 31 December 2009 and 31 December 2008 comprised the following:

	31 December 2009	31 December 2008
Long-term real estate projects	**8,871**	8,336
Prepayments for acquisition of ownership interest in subsidiaries and associates	—	1,023
Other	**4,576**	4,471
Total other non-current assets	**13,447**	13,830

Long-term real estate projects as of 31 December 2009 and 31 December 2008 represent projects, which will be sold in the normal course of business, and for which management assessed the period of realization to exceed twelve months after the reporting date. Prepayments received from buyers in respect of these projects of Rbls 4,697 are included in other long-term liabilities as of 31 December 2009 (2008: Rbls 4,978) (Note 17).

9. Inventories

Inventories as of 31 December 2009 and 31 December 2008 comprised the following:

	31 December 2009	31 December 2008
Raw materials	**30,298**	31,260
Spare parts and construction materials	**36,264**	35,393
Fuel and lubricants	**6,542**	7,348
Merchandise inventories	**5,158**	5,497
Other	**8,637**	8,186
Total	**86,899**	87,684
Less: provision for obsolete and damaged inventory	**(3,279)**	(3,959)
Total inventories, net	**83,620**	83,725

10. Prepayments and Other Current Assets

Prepayments and other current assets as of 31 December 2009 and 31 December 2008 comprised the following:

	31 December 2009	31 December 2008
Input VAT	**15,878**	15,858
Less: allowance for impairment[(A)]	**(1,008)**	(1,259)
	14,870	14,599
Advances paid to suppliers	**12,974**	15,118
Less: allowance for impairment	**(2,768)**	(2,771)
	10,206	12,347
Prepaid other taxes	**6,061**	10,086
Other current assets	**3,207**	2,931
Total prepayments and other current assets	**34,344**	39,963

(A) 100% allowance for impairment was recognized by the Company as of 31 December 2009 and 31 December 2008 with respect of input VAT related to construction-in-progress projects abandoned.

11. Receivables

Receivables as of 31 December 2009 and 31 December 2008 comprised the following:

	31 December 2009	31 December 2008
Receivables for transportation services[(A)]	**9,430**	15,830
Other accounts receivable[(B)]	**25,501**	28,444
Total receivables	**34,931**	44,274

(A) Receivables for transportation services as of 31 December 2009 and 31 December 2008 comprised the following:

	31 December 2009	31 December 2008
Receivables for transportation services	**31,300**	30,015
Less: allowance for impairment	**(21,870)**	(14,185)
Total receivables for transportation services	**9,430**	15,830

(B) Other accounts receivable as of 31 December 2009 and 31 December 2008 comprised the following:

	31 December 2009	31 December 2008
Other accounts receivable	**28,907**	31,314
Less: allowance for impairment	**(3,406)**	(2,870)
Total other accounts receivable	**25,501**	28,444

Included in other accounts receivable as of 31 December 2008 is the amount due from minority shareholder with regard to contribution to the share capital of one of subsidiaries of Rbls 3,665. The contribution was received in full during 2009.

12. 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 31 December 2009 and 31 December 2008:

	Amount	Interest (%)	Original maturity
31 December 2009			
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**		

	Amount	Interest (%)	Original maturity
31 December 2008			
Russian state bonds	**2,273**	6-10%	1-3 years
Corporate bonds	**1,734**	5.9 - 13%	1-6 years
Bonds of local and regional authorities	**15**	8%	1 year
Corporate shares	**460**		
Total	**4,482**		

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 include bonds of leading Russian companies with interest coupon ranging from 8.7% to 16% p.a. (2008: 8.7% to 13.0% p.a.) maturing primarily within eight years (2008: within four years) and Eurobonds issued by Russian companies with coupon rates ranging from 8.4% to 10.5% (2008: 5.9% to 10.0% p.a.) with maturity up to six years (2008: up to six years).

Corporate shares as at 31 December 2009 comprised primarily ordinary shares of Novorossiysk Commercial Sea Port of Rbls 2,321 (2008: Rbls 456) as well as shares of companies operating in energy, oil and gas, manufacturing, telecommunications and services industries. Shares of Novorossiysk Commercial Sea Port with fair value as at 31 December 2009 of Rbls 1,623 were received by the Group through acquisition of CJSC Expert in January 2009 (Note 4).

13. Cash and Cash Equivalents

Cash and cash equivalents as of 31 December 2009 and 31 December 2008 comprised the following:

	31 December 2009	31 December 2008
Cash in local currency	**28,474**	32,009
Bank deposits and other cash equivalents	**35,263**	35,800
Cash in foreign currencies	**10,720**	49,373
Total cash and cash equivalents	**74,457**	117,182

14. Liabilities to Customers

Liabilities to customers as of 31 December 2009 and 2008 represented liabilities related to activities of the banking subsidiary and comprised the following:

	31 December 2009		31 December 2008	
	Current	Non-current	Current	Non-current
Legal entities				
Current accounts	**24,370**	—	20,177	—
Time deposits	**45,008**	**6,591**	35,115	10,182
Subordinated debts	—	**13,372**	—	5,468
	69,378	**19,963**	55,292	15,650
Individuals				
Current accounts	**19,175**	—	12,081	—
Time deposits	**20,525**	—	15,347	—
	39,700		27,428	—
Amounts due to customers	**109,078**	**19,963**	82,720	15,650

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 31 December 2009, customer accounts amounting to Rbls 1,608 (2008: Rbls 285) were held as collateral against letters of credit and guarantees.

Liabilities to customers include liabilities to related parties (refer to Note 31).

15. Taxes and Similar Charges Payable

Taxes and similar charges payable as of 31 December 2009 and 2008 comprised the following:

	31 December 2009	31 December 2008
VAT	**8,250**	2,510
Settlements with social funds	**9,995**	9,291
Property tax	**6,357**	6,228
Personal income tax	**3,272**	3,399
Other taxes	**1,390**	850
Total taxes and similar charges payable	**29,264**	22,278

16. Long-Term and Short-Term Borrowings

The outstanding balances of short-term and long-term borrowings as of 31 December 2009 and 31 December 2008 comprised the following:

31 December 2009

	Original currency	Principal amount in original currency	Interest rate	Maturity of non-current portion	Current	Non-current
Short-term loans from banks						
Fixed rates						
Central Bank	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 loans from banks						
Fixed rates						
Deposit Insurance Agency (Note 6)	RUR	22,000	6.50%	2014	2,500	15,938
Vnesheconombank	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**

31 December 2008

	Original currency	Principal amount in original currency	Interest rate	Maturity of non-current portion	Current	Non-current
Short-term loans from banks						
Fixed rates						
Sberbank	RUR	61,830	9-17%		61,836	—
	USD	1,000	10%		29,092	—
Central Bank of Russia	RUR	32,467	9.25-12%		32,771	—
Other banks	other		4.85-17.50%		56,424	—
Variable rates						
LIBOR+	USD	500	[0.5-5%]		14,859	—
Mosprime+	RUR	1,400	[2.4-4.5%]		1,400	—
Long-term loans from banks						
Fixed rates						
Vnesheconombank	RUR	6,300	8.75%	2018	—	6,300
Other banks	USD	250	7.5%	2013	—	7,345
Other banks	other		0%	2010-2011	—	1,203
Variable rates						
EURIBOR+[(B)]	EUR	184	[0.09-0.8%]	2012-2020	470	7,142
MosPrime+	RUR	6,905	[2.30-3.15%]	2010	1,768	5,137
LIBOR+						
Syndicated bank loan[(A)]						
Tranche B	USD	240	(A)	2009-2010	3,526	3,526
WEST LB[(C)]						
Tranche A	USD	550	(C)	2010-2011	—	16,159
Tranche B	USD	550	(C)	2011-2013	—	16,159
Other banks	EUR	117	[0.3-0.5%]	2010-2015	—	4,855
Other banks	other		[1-2.45%]	2010-2011	216	5,255
Debt securities issued						
Bonds[(D)]	RUR	101,320	6.59-13.5%	2010-2015	23,345	77,332
Promissory notes	RUR	2,116	6-10%		2,116	—
Loans participation notes	USD	658	7-9%	2010-2011	—	18,464
Other borrowings	RUR	3,312	16-18%		3,258	53
Total					**231,081**	**168,930**

(A) In October 2005 the Company obtained a US dollar denominated unsecured loan from a consortium of international banks led by Barclays Capital, Dresdner Kleinwort Wasserstein, HSBC Bank plc, Raiffeisen Zentralbank Osterreich AG. The loan bears interest calculated as an aggregate of margin (0.90% per annum with respect of Tranche B), LIBOR and mandatory cost (additional interest as calculated by the loan agent in accordance with the provisions of the agreement). The effective interest rate comprised 5.08% (2008: 4.08%) for Tranche B for the year ended 31 December 2009. The loan was fully repaid as of 31 December 2009.

(B) Long-term EUR denominated loans as of 31 December 2009 and 31 December 2008 comprise primarily the loans obtained from Calyon and Deutsche Bank to finance the acquisition of high-speed trains from Siemens AG (refer to Note 32). Unused facility under the loan agreements amounted to EUR 83 or Rbls 3,601 at the exchange rate as of 31 December 2009 (EUR 138 million as of 31 December 2008 or Rbls 5,719 at the exchange rate as of that date).

(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) The aggregate amount of bonds outstanding as of 31 December 2009 comprised series of bonds with the face value of Rbls 1 thousand, coupon rate varying from 7.29% to 17.5% and maturity varying from 2010 to 2024. Coupon interest is paid semi-annually (2008: coupon rate varying from 6.59% to 13.5% and maturity varying from 2010 to 2015).

During the year 2009, the Group issued bonds with the aggregate nominal amount of Rbls 144,079 (2008: Rbls 74,283), coupon rate varying from 9% to 17.5% (2008: 8.5% to 13.5%) and maturity varying from 2012 to 2024 (2008: 2011 to 2015) and acquired subsidiary's bonds with the aggregate amount of Rbls 6,178 (2008: nil), coupon rate varying from 10% to 14% and maturity 2010-2011 through business combination (Note 4).

The terms of certain bonds issued by the Group provide their holders with the right to present these bonds for settlement within twelve months subsequent to 31 December 2009. These bonds of Rbls 40,332 as of 31 December 2009 were classified as short-term liabilities (2008: Rbls 10,000).

The amount of accrued interest on bonds of Rbls 6,539 as of 31 December 2009 (2008: 2,324) is included in other current liabilities.

(E) Included in the amount of other borrowings as of 31 December 2009 are borrowings in the amount of Rbls 988 (2008: nil) secured by shares of TGK-14 comprising 37.12% of its share capital.

(F) Included in the amount of the loans from banks as of 31 December 2009 are long-term loans in the aggregate amount of Rbls 1,520 (2008: nil) secured by the Group's rolling stock with a carrying value of Rbls 1,552 (2008: nil).

(G) Included in the amount of the loans from EBRD as of 31 December 2009 are long-term loans in the aggregate amount of Rbls 3,890 (2008: nil) secured by the Group's rolling stock with a carrying value of Rbls 9,591 (2008: nil).

(H) Included in the amount of the loans from banks as of 31 December 2009 are long-term loans in the aggregate amount of Rbls 2,996 (2008: nil) secured by the Group's rolling stock with a carrying value of Rbls 3,001 (2008: nil).

17. Other Long-Term Liabilities

Other long-term liabilities as of 31 December 2009 comprise prepayment received with regard to long-term construction project of Rbls 13,378 (2008: Rbls 10,830), prepayments received from the buyers with regard to real estate projects of Rbls 4,697 (2008: Rbls 4,976) and other liabilities of Rbls 438 (2008: Rbls nil), for which the term of their settlements exceeds twelve months period after the date of financial statements (refer to Note 8).

Further, included in this balance is the amount of liability of Rbls 1,834 as of 31 December 2009 (2008: Rbls 2,906) assumed by the Group in connection with a service concession agreement signed.

18. Provisions and Other Current Liabilities

Provisions and other current liabilities as of 31 December 2009 and 31 December 2008 comprised the following:

	31 December 2009	31 December 2008
Provision for tax liabilities	**26,694**	27,066
Settlements with employees	**37,388**	35,225
Provision for legal claims	**2,030**	1,646
Accrued liabilities in connection with expected loss on uncompleted construction contracts	**4,153**	—
Accrued interest on loans	**6,828**	2,686
Other liabilities	**5,586**	3,700
Total provisions and other current liabilities	**82,679**	70,323

The movements of provisions for the year ended 31 December 2009 were as follows:

	Tax liabilities	Legal claims
As of 1 January 2009	27,066	1,646
Arising during the year	7,434	1,636
Utilised	(146)	(469)
Unused amounts reversed	(7,660)	(783)
As of 31 December 2009	**26,694**	**2,030**

19. Employee Benefits

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

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

1) active participants in defined benefit plan[(A)] born before 1967 and joined pension plan before 1 July 2007— 15 years of past service with the Company or 10 years of participation in the defined benefit plan;

2) all other employees who are not active participants in the defined benefit plan[(A)] referred to above or in defined contribution plans:

   i. joined pension plan before 1 January 2005 — 15 years of past service with the Company, including 5 years of continuing service before retirement;

   ii. joined pension plan after 1 January 2005 — 15 — 20 years (15 years for women, 20 years for men) of continuing service before retirement;

3) employees (including active participants in defined benefit plan[(A)]) should retire from the Company.

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

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

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

Similarly to pension plans above, entitlements to such additional benefits are accrued using the projected unit credit method. During the years ended 31 December 2009 and 2008 the Company increased some of these benefits. Such benefits which vested immediately were recognised as past service cost in the consolidated income statements for the years ended 31 December 2009 and 2008.

Further, during the year ended 31 December 2008 the Company introduced a number of long-term employee benefits, such as long-service (loyalty) bonus. Loyalty bonus plan provides for a benefit of approximately one monthly salary for each year of service. The plan further provides for periodic payment of accumulated bonus after three, five, ten, fifteen and each next five years of service.

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

There were approximately 1.3 and 1.4 million employees eligible to some part of the post employment and post retirement benefit program of the Company as of 31 December 2009, and 2008 respectively, of which 139 thousand employees were considered active participants in the defined benefit pension plan as at 31 December 2009 (2008: 172 thousand). In addition, there are approximately 507 thousand retired employees eligible for the post retirement benefit program of the Group provided through not-for-profit fund "Pochet" as of 31 December 2009 (2008: 548 thousand).

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

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

As of 31 December 2009:

	Blago-sostoyanie	Pochet	Other long-term benefits	Other post-employment benefits	Total
Present value of defined benefit obligations	57,701	20,817	52,282	81,200	**212,000**
Fair value of plan assets	(8,895)	—	—	—	**(8,895)**
Present value of unfunded defined benefit obligations	48,806	20,817	52,282	81,200	**203,105**
Unrecognised past service cost	(3,265)	—	—	(1,351)	**(4,616)**
Net pension liability in the statement of financial position	**45,541**	**20,817**	**52,282**	**79,849**	**198,489**

As of 31 December 2008:

	Blago-sostoyanie	Pochet	Other long-term benefits	Other post-employment benefits	Total
Present value of defined benefit obligations	59,146	22,186	49,075	78,910	**209,317**
Fair value of plan assets	(7,866)	—	—	—	**(7,866)**
Present value of unfunded defined benefit obligations	51,280	22,186	49,075	78,910	**201,451**
Unrecognised past service cost	(6,150)	—	—	(1,545)	**(7,695)**
Net pension liability in the statement of financial position	**45,130**	**22,186**	**49,075**	**77,365**	**193,756**

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

For the year ended 31 December 2009:

	Blago-sostoyanie	Pochet	Other long-term benefits	Other post-employment benefits	Total
Current service cost	2,498	—	12,088	3,500	**18,086**
Interest on benefit obligations	5,619	2,108	4,664	7,497	**19,888**
Expected return on plan assets	(787)	—	—	—	**(787)**
Loss on settlement	2,207	—	—	—	**2,207**
Net actuarial (gain)/loss recognised in the year	7,842	(842)	(6,777)	(2,788)	**(2,565)**
Past service cost vested immediately	—	—	—	692	**692**
Amortization of past service cost	2,885	—	—	194	**3,079**
Net expense for the year	**20,264**	**1,266**	**9,975**	**9,095**	**40,600**
Actual return on plan assets:	*616*				

For the year ended 31 December 2008:

	Blago-sostoyanie	Pochet	Other long-term benefits	Other post-employment benefits	Total
Current service cost	2,369	—	4,170	1,972	**8,511**
Interest on benefit obligations	2,947	1,303	1,240	3,555	**9,045**
Expected return on plan assets	(456)	—	—	—	**(456)**
Loss on settlement	1,589	—	—	—	**1,589**
Net actuarial loss recognised in the year	17,848	3,863	6,706	26,538	**54,955**
Past service cost vested immediately	—	—	40,051	5,533	**45,584**
Amortization of past service cost	2,867	—	—	194	**3,061**
Net expense for the year	**27,164**	**5,166**	**52,167**	**37,792**	**122,289**
Actual return on plan assets:	*257*				

In addition, in 2009 the Group recognized Rbls 1,092 as an expense under defined contribution plan (2008: 2,033).

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

	Blago-sostoyanie	Pochet	Other long-term benefits	Other post-employment benefits	Total
Defined benefit obligation at 1 January 2008	**43,654**	**19,300**	—	**45,651**	**108,605**
Current service cost	2,369	—	4,170	1,972	8,511
Interest on benefit obligations	2,947	1,303	1,240	3,555	9,045
Settlement of liability	(9,062)	—	—	—	(9,062)
Benefits paid	—	(2,280)	(3,092)	(4,339)	(9,711)
Loss on settlement	1,589	—	—	—	1,589
Actuarial loss	17,649	3,863	6,706	26,538	54,756
Past service cost vested immediately	—	—	40,051	5,533	45,584
Defined benefit obligation at 31 December 2008	**59,146**	**22,186**	**49,075**	**78,910**	**209,317**
Current service cost	2,498	—	12,088	3,500	**18,086**
Interest on benefit obligations	5,619	2,108	4,664	7,497	**19,888**
Settlement of liability	(19,440)	—	—	—	**(19,440)**
Benefits paid	—	(2,635)	(6,768)	(6,611)	**(16,014)**
Loss on settlement	2,207	—	—	—	**2,207**
Actuarial (gain)/loss	7,671	(842)	(6,777)	(2,788)	**(2,736)**
Past service cost vested immediately	—	—	—	692	**692**
Defined benefit obligation at 31 December 2009	**57,701**	**20,817**	**52,282**	**81,200**	**212,000**

Movements in the net assets of defined benefit pension plans during 2009 and 2008 were as follows:

	2009	2008
Fair value of plan assets at 1 January	**7,866**	5,929
Actuarial loss on plan assets	**(171)**	(199)
Expected return on plan assets	**787**	456
Employer contributions	**19,853**	10,742
Settlement of liability	**(19,440)**	(9,062)
Fair value of plan assets at 31 December	**8,895**	**7,866**

The Group expects to contribute approximately Rbls 21,478 billion to its defined benefit pension plans in 2010.

The major categories of plan assets administered by non-state pension fund "Blagosostoyanie" as a percentage of the fair value of total plan assets were as follows as of 31 December 2009 and 2008:

	2009 (%)	2008 (%)
Cash equivalents and bank deposits	**18%**	26%
Corporate bonds and stocks of Russian legal entities	**46%**	48%
Promissory notes of Russian legal entities	**—%**	3%
Shares in other closed investment funds	**26%**	19%
Russian Federal government and municipal bonds	**2%**	2%
Other	**8%**	2%
Total	**100%**	100%

As of 31 December 2009 and 2008 actuarial assumptions used were as follows:

	2009	2008
Discount rate	**8.6%**	9.5%
Rate used for calculation of annuity value	**4%**	4%
Average remaining working life	**19 years**	19 years
Expected return on plan assets	**10.0%**	10.0%
Mortality tables	**Year 2008**	Year 2005

The Group assumed that salary will increase by 10.4% and 9.4% in 2010 and 2011 respectively; and in subsequent years the salary will increase in line with inflation rate. The Group estimates future inflation rates in line with the assessments made by Economist Intelligence Unit.

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligations are to be settled. The decrease in discount rate in 2009 resulted from a decrease noted in the reporting period in the market yields of high quality corporate and government bonds.

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

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					2005	
	2009	2008	2007	2006	Restated-(A)	As previously reported
Present value of defined benefit obligations	**57,701**	59,146	43,654	38,761	44,711	34,853
Fair value of plan assets	**(8,895)**	(7,866)	(5,929)	(4,442)	(2,941)	(2,941)
Present value of unfunded defined benefit obligations	**48,806**	51,280	37,725	34,319	41,770	31,912
Experience adjustment on plan liabilities: (gain)/loss	**5,330**	6,682	6,014	1,244	(A)	5,826
Experience adjustment on plan assets: loss / (gain)	**171**	199	(249)	(74)	—	—

The Group re-visited classification of components of expenses recognised in statement of the income with regard to pension and other long-term employee benefits for the purposes of presentation of experience adjustment by extending the list of items included in such experience adjustment for the loss on settlement. These amounts equated to 1,508 and 4,055 for the years ended 31 December 2006 and 2005 (reported in column "As previously reported"), respectively.

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	2009	2008	2007	2006	2005 Restated-(A)	2005 As previously reported
Present value of unfunded defined benefit obligations	**20,817**	22,186	19,300	15,279	15,815	15,815
Experience adjustment on plan liabilities: loss/(gain)	**550**	718	—	(78)	36	36

Other post-employment benefits

	2009	2008	2007	2006	2005 Restated-(A)	2005 As previously reported
Present value of unfunded defined benefit obligations	**81,200**	78,910	45,651	31,505	24,139	20,525
Experience adjustment on plan liabilities: (gain)/ loss	**(1,035)**	11,701	4,960	50	(A)	—

(A) The Company discovered an error in the application of the projected unit credit method in periods prior to 2006. Management resolved that it is impracticable to determine the period-specific effects of this error on comparative information presented. Accordingly, the cumulative effect of this error was recognized by restating the balance of defined benefit liabilities as of 31 December 2005.

20. Finance Lease Obligations

The Group entered into several finance lease agreements for cargo and passenger transport, locomotives and other operating equipment. The lease agreements are for periods from 1.5 to 9 years with the effective interest rate varying from 7% to 23% p.a (2008: 8% to 35%). Future minimum lease payments together with the present value of the net minimum lease payments as of 31 December 2009 and 2008 are as follows:

	2009	2008
Finance lease liabilities — minimum lease payments		
Not later than 1 year	**19,977**	20,875
Later than 1 year and not later than 5 years	**38,114**	52,645
Later than 5 years	**2,636**	4,247
Total minimum lease payments	**60,727**	77,767
Less: interest	**(14,502)**	(20,539)
Present value of minimum lease payments	**46,225**	57,228
Representing lease liabilities		
Current	**16,946**	19,136
Non-current	**29,279**	38,092

Finance charges for the year ended 31 December 2009 amounted to Rbls 7,666 (2008: Rbls 8,561) and are included in "Interest expense and similar items" in the consolidated income statement.

The aggregate amount of finance lease liabilities on agreements signed with the Group's related parties (refer to Note 31 for definition) equated to Rbls 36,677 as of 31 December 2009 (2008: Rbls 44,011). Effective interest rate on these agreements varies 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 RZD. The amount of such loans outstanding as of 31 December 2009 equated to Rbls 900 (2008: Rbls 1,880) (refer to Note 7).

21. Equity

Share Capital

The share capital of the Company as of 31 December 2009 consists of 1,594,516,219 (2008: 1,583,197,819) authorized, issued and outstanding common shares with par value of Rbls 1 thousand.

In December 2008 the Company issued 41,500,000 additional shares with par value of Rbls 1 thousand. Cash received for these shares during 2008 equated to Rbls 24,575. The amount of accounts receivable with regard to these shares equated to Rbls 16,925 as of 31 December 2008, which was paid during the year ended 31 December 2009.

In July 2009 the Company issued 11,318,400 additional shares with par value of Rbls 1 thousand. Cash received for these shares during 2009 equated to the whole amount of issue Rbls 11,318.

In accordance with Russian legislation the dividends may only be distributed from the net profit as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles.

In 2008, shareholders of the Company approved the payment of final dividends for 2007 in the amount of Rbls 512.

In 2009, shareholders of the Company decided to pay no dividends for the year 2008.

22. Other revenues

Included in other revenues for the year ended 31 December 2009 are revenues from telecommunication services of Rbls 21,122 (2008: Rbls 20,604), healthcare services of Rbls 16,955 (2008: Rbls 15,040), repair of rolling stock of Rbls 9,357 (2008: Rbls 10,332), transit of electricity of Rbls 5,192 (2008: Rbls 4,337) and other less significant types of revenues.

23. Taxes Other than Income Tax, net

Included in the amount of taxes other than income tax expense, net for the years ended 31 December 2009 and 2008 are the amounts of Rbls 226 and Rbls 4,535, respectively, which represent a movement of provision for tax liabilities recognised by the Company (refer to Note 18).

24. Other Operating Expenses

Included in the amount of other operating expenses for the year ended 31 December 2009 are security costs of Rbls 11,784 (2008: Rbls 11,193), telecommunication fees of Rbls 6,960 (2008: Rbls 5,808), rolling stock servicing of Rbls 5,489 (2008: Rbls 5,220), services of other sub-contractors and other operating expenses.

25. Social Expenses

Social expenses for the years ended 31 December 2009 and 2008 comprised the following:

	2009	2008
Expenses of healthcare and educational departments	**5,097**	5,301
Other miscellaneous social expenses	**2,123**	2,866
Total social expenses	**7,220**	8,167

26. Subsidies from federal and municipal budgets

Subsidies from federal and municipal budgets for the year ended 31 December 2009 and 2008 comprised the following:

	2009	2008
Subsidies received from federal budget for compensation of the effects of tariffs' regulation with regard to cargo transportation	**40,688**	—
Subsidies received from federal budget for compensation of the effects of regulation with regard to third- and fourth class passenger transportation tariffs	**36,233**	19,370
Subsidies received from regional and municipal budgets and other subsidies	**3,152**	2,727
Total	**80,073**	22,097

27. Other Income, Net

Other income, net for the years ended 31 December 2009 and 2008 comprised the following:

	2009	2008
Income from rent of cargo cars and other property	**14,734**	13,065
Penalties charged to customers	**4,426**	6,016
Gain on disposal of property, plant and equipment, net	**940**	2,108
Gain on disposal of assets held for sale	**—**	2,191
Rent expense	**(2,453)**	(1,419)
Bank charges	**(2,299)**	(1,154)
Provision for legal claims (Note 18)	**(853)**	(454)
Goodwill impairment	**(1,098)**	—
Equity income from associates, net	**1,701**	—
Impairment of investments in associates	**(9,376)**	—
Excess of the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of acquired subsidiaries over cost of acquisition	**712**	—
Other expenses, net	**(2,374)**	(4,406)
Total other income, net	**4,060**	15,947

28. Interest Expense and Similar Items, Net

Interest expense and similar items, net for the years ended 31 December 2009 and 2008 comprised the following:

	2009	2008
Interest income and similar items	**4,092**	992
Interest expense and similar items	**(19,426)**	(9,323)
Finance charge and other	**(7,666)**	(8,561)
Total interest expense and similar items, net	**(23,000)**	(16,892)

29. Changes in Fair Value and (Loss)/ Gain on Disposal of Financial Assets

Changes in fair value and (loss)/gain on disposal of financial assets for the years ended 31 December 2009 and 2008 comprised the following:

	2009	2008
(Loss)/gain from changes in fair value and transactions involving derivative instruments	**(8,346)**	13,474
Loss on initial recognition of the loans issued to associate (Note 6)	**(4,422)**	—
Gain on initial recognition of loan payable (Note 6)	**4,373**	—
Other gain/(loss)	**2,038**	(605)
Total changes in fair value and (loss)/gain on disposal of financial assets	**(6,357)**	12,869

30. Income Taxes

Income taxes for the twelve-month periods ended 31 December 2009 and 2008 comprised the following:

	2009	2008
Current tax charge	**(40,143)**	(39,673)
Deferred tax charge, net	**(11,357)**	(8,787)
	(51,500)	(48,460)
Current tax charge per Russian accounting regulations — recalculation for prior periods	**(611)**	(843)
Penalties/ (forgiveness of penalties) related to income tax, net	**(106)**	642
Total income taxes	**(52,217)**	(48,661)

Deferred tax related to items charged or credited directly to equity during the year:

	2009	2008
Other comprehensive income attributable to investments in associates	(186)	—
Net gain/(loss) on available-for-sale financial assets	(9)	67
Income tax charged directly to equity:	**(195)**	67

Deferred Tax (Liability) / Asset, Net

	2009	2008
Valuation of property, plant and equipment	**(91,610)**	(66,505)
Valuation of intangible assets	**(704)**	(658)
Payables / Accruals	**18,367**	18,370
Employee benefit obligations (refer to Note 19)	**27,626**	17,787
Valuation of accounts receivable	**4,949**	3,268
Valuation of inventory and related reserves	**1,398**	1,644
Other	**1,498**	(748)
Total deferred tax (liability) asset, net	**(38,476)**	(26,842)
Deferred tax asset	**2,094**	1,155
Deferred tax liability	**(40,570)**	(27,997)

Included in deferred tax liabilities as of 31 December 2009 is the aggregate amount of Rbls 82 (2008: Rbls 421) recognised by the Group in connection with business combinations undertaken during the year, and related to valuation of property, plant and equipment and other long-term assets.

Tax effects of temporary differences referred to above are measured at the tax rates that are expected to apply to the periods when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the reporting date. During 2008 income tax rate was 24%. Effective from 1 January 2009 the income tax rate was reduced to 20%.

As discussed in Note 21, dividends may only be declared from the net profit as recorded in the Company's statutory financial statements prepared in accordance with Russian accounting principles. On this basis, management concluded that it is impracticable to assess the amount of temporary differences associated with investments in subsidiaries and associates.

Provision for current income taxes is calculated on the basis of income, which is determined in accordance with the Russian statutory tax regulations.

A reconciliation of theoretical income tax to the actual income tax expense recorded in the consolidated income statements for the years ended 31 December 2009 and 2008 is as follows:

	2009	2008
Income before taxation	**204,424**	125,081
Statutory income tax rate	**20%**	24%
Theoretical tax expense at statutory rate	**40,885**	30,019
Add (deduct) tax effect of:		
Non-deductible / (taxable) differences:		
non-deductible employee benefits	**3,766**	13,594
non-deductible social expenses	**4,884**	3,648
Other non-deductible expenses, net and other effects	**1,461**	6,239
Effect on deferred tax balances of change in income tax rate effective 1 January 2009	—	(5,368)
Temporary difference, for which deferred tax asset was not recognized	**504**	328
Total income taxes	**51,500**	48,460

31. 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.

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

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

The Group entered into a variety of transactions with related parties during the twelve-month periods ended 31 December 2009 and 2008. The most significant of these transactions are as follows (for description of the nature of relationships between the Group and its related parties refer to definitions in a.-f. above):

Year ended 31 December 2009

Related party	Nature Of relations	Type of service / product	Year ended 31 December 2009		At 31 December 2009	
			Sales / income[(A)]	(Purchases) / (expenses)[(A)]	Amounts receivable	(Amounts payable)
1. Services rendered						
State controlled companies	(a)	Cargo transportation	86,564	—	—	(6,885)
	(a)	Construction	3,577	—	—	—
	(a)	Telecom services	2,178	—	103	(17)
	(a)	Other	4,642	—	324	—
Ministries of the Russian Federation	(a)	Cargo transportation, telecom services	22,657	—	1,786	—
Financing received from Regional and Federal budgets	(a)	Subsidies for passenger transportation	36,427	—	—	—
	(a)	Subsidies for cargo transportation	40,688	—	—	—
	(a)	Other subsidies	—	—	—	(1,039)
Associates	(b)	Cargo transportation and other services	11,542	—	1,672	—
	(b)	Research and development works	322	—	49	—
2. Purchases						
State controlled companies	(a)	Electricity	—	(3,949)	—	(20)
	(a)	Fuel, oil	—	(10,964)	—	(153)
	(a)	Security services	—	(11,810)	—	(576)
	(a)	Rolling stock	—	(6,644)	—	(234)
	(a)	Research and development works	—	(462)	—	(454)
	(a)	Other services	—	(2,167)	—	(136)
Associates	(b)	Equipment	—	(3,135)	—	(356)
	(b)	Maintenance services	—	(2,809)	—	(431)
	(b),(f)	Rolling stock	—	(57,247)	2,062	(2,553)
Parties related to pension funds	(f)	Insurance premiums received / (paid)	4,640	(6,348)	—	(288)

Related party	Nature of relations	Type of service / product	Year ended 31 December 2009 Sales / income[(A)]	Year ended 31 December 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	—	(11,250)	—	(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)
	(f)	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 or 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	—	(25,964)	—	(2,931)

Year ended 31 December 2008

Related party	Nature of relations	Type of service / product	Year ended 31 December 2008 Sales / income[(A)]	Year ended 31 December 2008 (Purchases) / (expenses)[(A)]	At 31 December 2008 Amounts receivable	At 31 December 2008 (Amounts payable)
1. Services rendered						
State controlled companies	(a)	Cargo transportation	65,453	—	—	(3,215)
	(a)	Telecom services	1,133	—	112	—
	(a)	Other	2,568	—	135	—
Ministries of the Russian Federation	(a)	Cargo transportation, telecom services	21,871	—	2,129	—
Financing received from Regional and Federal budgets	(a)	Subsidies for passenger transportation	21,413	—	—	—
Associates	(b)	Cargo transportation and other services	7,412	—	828	(29)
	(b)	Research and development works	1,016	—	400	—
2. Purchases						
State controlled companies	(a)	Electricity	—	(9,879)	9	(83)
	(a)	Fuel, oil	—	(11,453)	158	(349)
	(a)	Security services	—	(10,835)	—	(565)
	(a)	Rolling stock	—	(29,368)	—	(2,852)
	(a)	Research and development works	—	(1,805)	—	(838)
	(a)	Other services	—	(2,615)	—	(3)
Associates	(b)	Equipment	—	(5,970)	—	(724)
	(b),(f)	Maintenance services	—	(774)	—	(188)
	(b)	Rolling stock	—	(73,319)	—	(6,291)
Parties related to pension funds	(f)		4,378	(4,917)	—	(13)

Related party	Nature of relations	Type of service / product	Year ended 31 December 2008		At 31 December 2008	
			Sales / income[(A)]	(Purchases) / (expenses)[(A)]	Amounts receivable	(Amounts payable)
3. Financial services						
3.1 Financial liabilities						
State controlled companies	(a)	Loans payable	—	(4,416)	—	(125,687)
	(a)	Liabilities to customers	—	—	—	(8,804)
	(a)	Other payables	—	—	—	(624)
Central Bank	(a)	Loans payable	—	—	—	(32,771)
Ministries of the Russian Federation	(a)	Other payables	—	—	—	(1,397)
Pension funds and their related parties	(f)	Liabilities to customers	—	—	—	(11,543)
Associates	(b)	Loans payable	—	—	—	(3,000)
	(b)	Liabilities to customers	—	—	—	(8,997)
Other entities	(b),(e)	Liabilities to customers	—	—	—	(799)
	(b),(e)	Other payables	—	—	—	(1,270)
3.2 Loans issued						
State controlled entities	(a)	Loans issued	—	—	16,070	—
Associates	(b)	Loans issued	—	—	22,872	—
3.3 Securities held to maturity						
State controlled companies	(a)		—	—	2,072	—
Associates	(b)		—	—	646	—
3.4 Securities at fair value through profit and loss	(a)		—	—	3,052	—
3.5 Other financial assets						
Central Bank	(a)	Obligatory reserve	—	—	220	—
4. Pension funds	(f)	Pension contribution and contribution to finance activities	—	(15,864)	—	(2,239)

(A) Amounts are reported before elimination of VAT.

(B) Loans issued to associates as at 31 December 2009 include loan issued by RZD to OJCS KIT Finance Investment Bank for the contractual amount of Rbls 22,000 for 5 years and bearing 7.5% interest rate p.a. (refer to Note 6 and Note 7).

During the year 2009 a pension fund related entity (f) purchased 4,996 additionally issued ordinary shares comprising 50% less 2 shares of share capital of JSC "Zheldoripoteka" for the consideration of Rbls 2,048.

In the year ended 31 December 2009 the Group's companies maintained several accounts in state-controlled banks. The amount of cash and deposits held in these banks as of 31 December 2009 equated to Rbls 17,931 (2008: Rbls 27,035), which comprised the following:

	31 December 2009	31 December 2008
Cash and cash equivalents	**14,653**	27,035
Short-term deposits	**3,278**	—
Total	**17,931**	27,035

Interest income, fees and commission income (banking operations) from related parties comprised Rbls 6,810 for the year ended 31 December 2009 (2008: Rbls 3,085) and interest income from related parties comprised Rbls 1,257 for the year ended 31 December 2009 (2008: Rbls 480). Interest expenses, fee and commission expense (banking operations) from related parties comprised Rbls 4,426 for the year ended 31 December 2009 (2008: Rbls 2,556) and interest expense from related parties comprised Rbls 9,512 for the year ended 31 December 2009 (2008: Rbls 4,688).

Loans obtained by the Group from related parties attract interest varying during year ended 31 December 2009 from 1% to 17% (year ended 31 December 2008: 4.15% to 18%). Guaranties issued in favor of related parties equated to Rbls 8,583 as of 31 December 2009 (2008: Rbls 3,404). Guaranties received from related parties as of 31 December 2009 equated to Rbls 12,942 (2008: Rbls 11,725).

Further, for year ended 31 December 2009 the Company is entitled to receive tariff compensation of Rbls 11,230 (year ended 31 December 2008: Rbls 9,322) for transportation of certain categories of passengers from Health Care and Social Development Agency of Russia. Accounts receivable balance outstanding regarding to the tariff compensation for transportation of certain categories of passengers as of 31 December 2009 is Rbls 19,776 (2008: Rbls 12,746): The Company recognized an impairment of Rbls 19,776 relating to this accounts receivable balance outstanding as of 31 December 2009 (2008: Rbls 12,746).

The aggregate amount of finance lease liabilities on agreements signed with the Group's related parties) equated to Rbls 36,677 as of 31 December 2009 (2008: Rbls 44,011). Effective interest rate on these agreements varies 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. Leased assets with the aggregate cost of Rbls 74,015 as of 31 December 2009 (2008: Rbls 76,125) were obtained from state-controlled and other entities considered related to the Company.

Key management personnel comprise members of the Management Board and the Board of Directors of the Company. Total remuneration to the members of the Management Board included in "Wages, salaries and related contribution" in the income statement amounted to Rbls 642 for year ended 31 December 2009 (2008: Rbls 550) and consists of short-term benefits.

32. 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, Federal Agency 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. During 2009 the Company continued the process of incorporation of such entities (Note 1). However, in respect to other activities their definition, identification of their related assets and corresponding liabilities and further the definition of ownership and business relations between the Company and such new entities have not been finalized as of 31 December 2009. The Company retained control over major part of such new entities as of 31 December 2009.

Tariff Regulation Policy

Potential reforms in tariff-setting policy, including abandonment of cross subsidy practices, may have a significant effect on the Company. The Company is continuously discussing the tariff setting policy, including both unification of such tariffs between domestic and foreign transportation and increases in the tariffs, with the Government of the Russian Federation. 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 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 Company may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. In addition, the complexities of the Group's organizational and business structure negatively affect the Group's ability to ensure proper application of certain provisions of tax laws, thus creating additional risks, and, as a consequence, tax-related contingent liabilities.

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

Management believes that it has adequately provided for tax liabilities in the consolidated financial statements as of 31 December 2009 (refer also to Note 18). However, the general risk remains that relevant authorities could take different positions with regard to interpretative issues and the effect on the Group's financial position could be significant.

Claims and Potential Claims against the Group

The Group is subject to a number of proceedings arising out of the normal course of its business. These proceedings revolve primarily around application of transportation tariffs. As of 31 December 2009 a provision regarding such proceedings of Rbls 2,030 (2008: Rbls 1,646) was recognised by the Group (Note 18).

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 2009 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) 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 15,359 at the exchange rate as of 31 December 2009). 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 equated to Rbls 594 as of 31 December 2009. This prepayment is reported as other non-current assets as of 31 December 2009. Outstanding purchase commitments of the Group under this contract comprise Rbls 14,765 as of 31 December 2009. This contract is financed by long-term loans obtained by the Company (refer to Note 16).

(2) The Company has several long-term contracts signed with OJSC "Torgovy Dom RZD", a related party, for purchase of locomotives and electric trains for the aggregate amount of approximately Rbls 59.7 billion. Purchase commitments under these contracts as of 31 December 2009 equated to Rbls 16.6 billion.

(3) 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 equated to approximately USD 1.3 billion. The approximate amount of deliveries under the contract expected after 31 December 2009 amounts to Rbls 12.8 billion.

(4) 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 31 December 2009, the Company has commitments under these contracts in the amount of Rbls 38.7 and Rbls 23 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 14.4 billion.

(5) In August 2009 RZD signed agreement with Tver rail car construction plant (TVZ), a related party, for purchase of 200 passenger cars within 5 years. The contract's value including VAT is EUR 668 million (Rbls 28,983 million at the exchange rate as at 31 December 2009). According to the contract, Siemens Transportation Systems GmbH acts as a main subcontractor of TVZ. In 2009 the Group made an advance payment to contractor under this agreement in the amount of Rbls 2,062 representing 7% of total contractual value. Net of this advance, the Group's commitments under this agreement comprise Rbls 26,921 as of 31 December 2009.

Undrawn Loan Commitments, Guarantees and Letters of Credit

Financial commitments as at 31 December 2009 comprise commitments and guarantees issued of Rbls 35,114 (2008: Rbls 19,214), undrawn loan commitments and letters of credit issued by the Group of Rbls 15,168 (2008: Rbls 5,786). As at 31 December 2009, letters of credit were secured by clients' funds in the amount of Rbls 1,608 (2008: Rbls 285).

33. Derivative Financial Instruments

Derivative Financial Instruments

The principal amounts and fair values of derivative instruments held are set out in the following table.

The outstanding derivative contracts as of 31 December 2009 and 31 December 2008 were as follows:

	31 December 2009			31 December 2008		
	Notional principal	Fair values		Notional principal	Fair values	
		Asset	Liability		Asset	Liability
Interest rate contracts						
Swaps — foreign	36,898	—	(1,251)	41,133	—	(1,867)
Foreign exchange contracts						
Swaps — foreign	26,021	8,227	—	34,394	16,440	—
Forwards — domestic	25,946	101	(102)	12,707	230	(104)
Forwards — foreign	5,319	16	(65)	3,016	29	—
Securities contracts	43	7				
Forwards — domestic				2,666	—	(1,113)
Total derivative assets/(liabilities)		**8,351**	**(1,418)**		**16,699**	**(3,084)**

34. Financial Instruments and Risk Management Objectives and Policies

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

Credit Risk

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

Cash is placed in financial institutions, which are considered at a time of deposit to have minimal risk of default. Management monitors the creditworthiness of the banks in which it deposits cash and ensures that the deposits placed by RZD in each financial institution do not exceed approved upper limit.

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

The largest part of the Company's sales of transportation services are made on prepayment basis. Accordingly, the Group's trade receivables are originated by a limited number of customers, primarily governmental agencies. Further, certain of the Group's debtors for auxiliary products, such as heat and electricity, represent municipal enterprises and governmental organisations that experience financial difficulties. The largest debtor of the Group is Ministry of Health Care and Social Development, which administers compensation to RZD for rail transportation tariff for certain categories of passengers (refer to Note 31). Impairment allowance recognised by the Group primarily consists of receivables from such customers. The Group has no practical ability to amend the legislation governing provisions of subsidies to certain categories of passengers, or to terminate the supply to these counterparties. The Group continuously negotiates with federal, regional and municipal authorities the terms of these receivables collection.

With regard to its banking operations, the Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. Counterparty limits are established by the use of a credit risk classification system which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. As discussed in Note 7, as of 31 December 2009 and 2008 the Group had a significant concentration of loans extended to its employees of Rbls 43,396 and Rbls 45,624, respectively.

The maximum exposure to credit risk is equal to the carrying amount of financial assets as at 31 December 2009 and 2008 which is disclosed below:

	2009	2008
Cash and cash equivalents (excluding cash on hand)	**61,116**	103,654
Bank deposits	**11,665**	93
Debt securities purchased	**25,558**	14,451
Reverse repurchase agreements with banks	**11,041**	1,237
Loans issued	**147,720**	137,900
Receivables	**34,931**	44,274
Receivables from shareholder for shares issued	—	16,925
Derivatives	**8,351**	16,699
Other	**3,789**	4,158
Total credit risk exposure	**304,171**	339,391

In addition, the Group, through its banking subsidiary, makes available to its customers commitments and guarantees, undrawn loan commitments and letters of credit, which may require that the Group makes appropriate payments. These arrangements expose the Group to risks similar to loans issued which are mitigated by the same control processes and policies. The Group's maximum exposure with regard to such financial commitments is disclosed in Note 32.

The table below summarizes the ageing analysis of financial assets that are either past due or individually determined to be impaired as at 31 December 2009 and 2008.

	2009		2008	
	Gross amount	Impairment	Gross amount	Impairment
Not past due	**258,224**	**(13,922)**	242,046	(6,593)
Past due	**23,504**	**(23,504)**	15,611	(15,106)
less than one year	**7,869**	**(7,869)**	5,445	(4,940)
more than one year	**15,635**	**(15,635)**	10,166	(10,166)
Total	**281,728**	**(37,426)**	257,657	(21,699)

In the years ended 31 December 2009 and 2008, the movement in allowance for impairment was as follows:

	Balance as of 1 January 2009	Charge for the year	Reversed	Utilized	Balance as of 31 December 2009
Allowance on Current financial assets					
Receivables for transportation services	(14,185)	(8,402)	467	250	(21,870)
Other accounts receivable	(2,870)	(1,476)	875	65	(3,406)
Loans issued	(2,734)	(3,869)	—	53	(6,550)
Investment securities held-to-maturity	(110)	(628)	—	—	(738)
	(19,899)	**(14,375)**	**1,342**	**368**	**(32,564)**
Allowance on Non-current financial assets					
Loans issued	(1,037)	(3,499)	—	—	(4,536)
Other financial assets	(763)	(191)	628	—	(326)
	(1,800)	**(3,690)**	**628**	—	**(4,862)**
Total	**(21,699)**	**(18,065)**	**1,970**	**368**	**(37,426)**

	Balance as of 1 January 2008	Charge for the year	Reversed	Utilized	Balance as of 31 December 2008
Allowance on Current financial assets					
Receivables for transportation services	(10,280)	(5,644)	1,722	17	(14,185)
Other accounts receivable	(3,960)	(1,253)	1,198	1,145	(2,870)
Loans issued	—	(2,734)	—	—	(2,734)
Investment securities held-to-maturity	—	(110)	—	—	(110)
	(14,240)	**(9,741)**	**2,920**	**1,162**	**(19,899)**
Allowance on Non-current financial assets					
Loans issued	(630)	(550)	143	—	(1,037)
Other financial assets	(248)	(515)	—	—	(763)
	(878)	**(1,065)**	**143**	—	**(1,800)**
Total	**(15,118)**	**(10,806)**	**3,063**	**1,162**	**(21,699)**

Bad debt expense recognized in the income statement comprised effect of allowance for impairment relating to financial assets charged or reversed for the year 2009 of Rbls 16,095 (2008: Rbls 7,743), direct write-off of accounts receivable and other financial assets of Rbls 871 (2008:Rbls 300) and allowance for impairment of advances issued, input VAT and other non-financial assets accrued, reversed or written for the year 2009 resulting in net gain of Rbls 462 (2008: net loss of Rbls 1,187).

Liquidity Risk

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

The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group prepares a financial plan on a monthly basis which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities. The Group developed standard payment periods in respect of trade accounts payable and monitors the timeliness of payments to its suppliers and contractors.

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

As at 31 December 2009	Less than 1 year	1 to 5 year	Over 5 years	Total
Fixed- rate debts				
Loans and borrowings	140,150	225,918	155,664	521,732
Derivative financial instruments				
— Contractual amounts payable	1,105	1,053	—	2,158
— Contractual amounts receivable	(183)	(716)	—	(899)
Finance lease liabilities	19,977	38,114	2,636	60,727
Liabilities due to customers	111,969	23,178	14,708	149,855
	273,018	**287,547**	**173,008**	**733,573**
Variable -rate debts				
Loans and borrowings	23,111	47,672	16,855	87,638
	23,111	**47,672**	**16,855**	**87,638**
Non-interest bearing debts				
Trade and other payables	86,859	15,261	—	102,120
Other liabilities	43,848	—	—	43,848
	130,707	**15,261**	—	**145,968**
Total	**426,836**	**350,480**	**189,863**	**967,179**

As at 31 December 2008	Less than 1 year	1 to 5 year	Over 5 years	Total
Fixed- rate debts				
Loans and borrowings	222,021	120,017	24,344	366,382
Derivative financial instruments				
— Contractual amounts payable	4,027	2,153	—	6,180
— Contractual amounts receivable	(469)	(1,140)	—	(1,609)
Finance lease liabilities	20,875	52,645	4,247	77,767
Liabilities due to customers	85,540	19,515	6,852	111,907
	331,994	**193,190**	**35,443**	**560,627**
Variable -rate debts				
Loans and borrowings	25,537	56,536	5,081	87,154
	25,537	**56,536**	**5,081**	**87,154**
Non-interest bearing debts				
Trade and other payables	118,468	10,925	148	129,541
Other liabilities	37,829	—	—	37,829
	156,297	**10,925**	**148**	**167,370**
Total	**513,828**	**260,651**	**40,672**	**815,151**

Market Risk

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

Currency risk

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

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

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

The Group hedges its exposure to fluctuations on the US dollar denominated borrowings by using foreign currency swaps and forwards. As of 31 December 2009, the Group had hedged approximately 38% (2008: 35%) of its US dollar denominated borrowings.

Sensitivity analysis

The following table demonstrates the sensitivity of the Group's profit before tax (PBT) to reasonably possible changes in the respective currencies with regard to its net monetary position as of 31 December 2009 and 2008 after consideration of currency swaps referred to above, with all other variables held constant:

	2009		2008	
	Change in exchange rate (%)	Effect on PBT	Change in exchange rate (%)	Effect on PBT
USD/Rbls	**+10.0**	**(3,196)**	+10.0	(3,694)
	− 10.0	**3,196**	− 10.0	3,694
Libyan Dinar / Rbls	**+10.0**	**(1,086)**	+10.0	(1,438)
	− 10.0	**1,086**	− 10.0	1,438
EUR/Rbls	**+10.0**	**809**	+10.0	238
	−10.0	**(809)**	−10.0	(238)
CHF/Rbls	**+10.0**	**89**	+10.0	56
	−10.0	**(89)**	−10.0	(56)

Interest rate risk

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

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

The Group has not yet implemented a formal policy with regard to acceptable exposure to fixed and variable interest rates. However, the Group periodically reviews current interest rates and uses the results of this analysis to decide whether attraction of fixed-rate or variable-rate borrowings is more beneficial for the Group. Further, the Group manages its exposure to variable interest rates by entering into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between variable and fixed rate interest calculated by reference to an agreed notional principal amount. At 31 December 2009, after taking into account the effect of interest rate swaps, approximately 90% of the Group's borrowings, including finance lease obligations, were at a fixed rate of interest (2008: 91%).

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (PBT) (through the impact on variable-rate borrowings) for the years ended 31 December 2009 and 2008.

	2009		2008	
	Change in rate (%)	Effect on PBT	Change in rate (%)	Effect on PBT
Variable interest financial assets	**+1.5%**	—	+1.5%	3
	−1.5%	−	−1.5%	(3)
Variable interest financial liabilities	**+1.5%**	**(736)**	+1.5%	(592)
	−1.5%	**736**	−1.5%	592

Equity risk

The equity risk is the risk of losses due to adverse changes in the market prices of equity instruments, including financial instruments classified as available for sale, trading portfolio and derivative financial instruments driven both by factors related to the issuer of equity instruments and derivative financial instruments and general movements in market prices for financial instruments.

The effect as of 31 December 2009 and 2008 (as a result of a change in the fair value of equity instruments) due a reasonably possible change in RTS equity index, with all other variables held constant is as follows:

2009

	Exposure	Change in equity indexes	Effect on PBT	Effect on equity
Corporate shares - available for sale	917	+ 46%		422
		− 46%		(422)
Corporate shares - at fair value through profit or loss	2,430	+ 46%	1,118	
		− 46%	(1,118)	

2008

	Exposure	Change in equity indexes	Effect on PBT	Effect on equity
Corporate shares - available for sale	111	+ 66%		73
		− 66%		(73)
Corporate shares - at fair value through profit or loss and derivatives	1,573	+ 66%	1,038	
		− 66%	(1,038)	

Fair Value of Financial Instruments

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

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

With regard to fixed rate financial instruments, their fair value was estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The following table summarises differences between the carrying amounts and fair values of financial assets and liabilities of the Group as at 31 December 2009.

	Carrying value excluding accrued interest	Fair Value	Unrecognised gain / (loss)
Financial assets			
Loans issued	147,720	146,689	(1,031)
Investment securities available for sale	950	950	—
Investment securities held-to-maturity	4,240	4,460	220
Bank deposits	11,665	11,665	—
Reverse repurchase agreements	11,041	11,041	—
Other	3,396	3,396	—
Derivative financial assets	8,351	8,351	—
Securities at fair value through profit or loss	22,749	22,749	—
Financial liabilities			
Long-term fixed rate loans	49,934	46,776	3,158
Debt securities issued:			
— Bonds	235,456	245,642	(10,186)
— Loan participation notes	20,731	20,291	440
Long-term Liabilities to customers	19,963	19,470	493
Finance lease obligations	46,225	36,616	9,609
Derivative financial liabilities	1,418	1,418	—
Total			**2,703**

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

— Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

— Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

— Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	Level 1	Level 2	Level 3	Total
Assets valued at fair value				
Derivative financial instruments	—	8,344	7	**8,351**
Securities at fair value through profit or loss	22,749	—	—	**22,749**
Investment securities — available-for-sale	787	6	157	**950**
Liabilities valued at fair value				
Derivative financial instruments	—	1,418	—	**1,418**
Total	**23,536**	**9,768**	**164**	**33,468**

The following table summarises differences between the carrying amounts and fair values of financial assets and liabilities of the Group as at 31 December 2008.

	Carrying value excluding accrued interest	Fair Value	Unrecognised gain / (loss)
Financial assets			
Loans issued	137,900	134,717	(3,183)
Reverse repurchase agreements	1,237	1,237	—
Other	11,072	10,232	(840)
Financial liabilities			
Long-term fixed rate loans	14,848	11,814	3,034
Debt securities issued:			
— Bonds	100,677	95,627	5,050
— Loan participation notes	18,464	15,374	3,090
Long-term Liabilities to customers	16,142	15,650	492
Finance lease obligations	57,228	50,658	6,570
Total			**14,213**

Management believes that the carrying values of other financial assets and liabilities not detailed in the above table approximate their fair values as of both 31 December 2009 and 2008.

Capital Management

Capital includes equity attributable to the equity holders of the parent entity. Revaluation surplus which is included in capital is not subject to capital management because of its nature (Note 2).

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise the return to shareholder. The Board of directors reviews the Group's performance and establishes key performance indicators. In addition, certain of Group's subsidiaries are subject to externally imposed capital requirements (CBR ratios for banking subsidiary) which are used for capital monitoring. There were no changes in the objectives, policies and processes of capital management during 2009.

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

35. Events After the Reporting Period

Borrowings

Subsequent to 31 December 2009, the Group attracted additional borrowings as follows:

RZD

- In April 2010, the Company placed Eurobonds at Irish Stock Exchange with the nominal value of USD 1.5 billion (Rbls 45,366 at CBR exchange rate as of 31 December 2009) with the maturity of 7 years and initial coupon rate 5.739%. The Company signed cross currency and interest rate swap agreements with BNP-Paribas, J.P.Morgan, VTB and Goldman Sachs banks for the full amount of Eurobonds issued with notional amount denominated in Swiss francs and approximate average interest rate 4.3% p.a.
- In February 2010, the Company issued Ruble-denominated bonds in the aggregate amount of Rbls 15 billion maturing in 2025. The bonds grant a put option to the bondholders on 5 February 2015. The coupon rate is 9% and is fixed for the first ten semi-annual interest periods.
- In February-March 2010, the Company received one tranche in the total amount of EUR 83 million (Rbls 3,601 at CBR exchange rate as of 31 December 2009) 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%;

- In May 2010, under the put options granted to the holders of bonds series 9 and 11, the Company 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. Both series of bonds are classified as short-term borrowings as of 31 December 2009.
- Subsequent to 31 December 2009 the Company performed early repayment of long-term loan received from Vnesheconombank in the amount of Rbls 6.3 billions and partial early repayment of long-term loan received from EBRD in the amount of USD 484 millions (Rbls 14,646 at the exchange rate as of 31 December 2009).

TransCreditBank

- Subsequently to 31 December 2009, TransCreditBank issued the bonds series 5 and 6 in the aggregate amount of Rbls 7 billion with maturity varying from 3 to 4 years and the coupon rate set at 7.9% and 8.25%, respectively;
- In May 2010, TransCreditBank subsidiary FinanceBusinessGroup issued the bonds series BO-1 in the amount of Rbls 3 billion with initial coupon rate of 10%. Bonds mature in 2013.

TransContainer

- In June 2010, TransContainer issued bonds series 2 in the amount of Rbls 3 billion with initial coupon rate of 8.8%. Bonds mature in 2015.

Transtelecom

- Subsequent to 31 December 2009, Transtelecom concluded two loan agreements for the total amount of Rbls 2 billion with interest rates set at the floating rate of MosPrime increased by the margins of 3.3% and 4.4%, respectively, and maturing in 2 years.

Subsidiaries and Other Investments

- In April 2010, Federal Passenger Company, a subsidiary of RZD established in 2009, started its operations. RZD contributed assets, mainly passenger cars, with total value of Rbls 137.2 billion into the charter capital of Federal Passenger Company;
- In April 2010, OJSC TransCreditBank registered a new investment company CJSC TCB Capital. The core activities of the company include management of clients' accounts on the open markets of securities, obtaining equity and debt financing and other financial services. The share capital of CJSC TCB Capital comprises Rbls 800 million. The main shareholder of CJSC TCB Capital is OJSC TransCreditBank, holding 51% of the share capital of the company, the second shareholder is a related party;
- In August 2010, the Company's Board of Directors approved creation of a new subsidiary — OJSC "Second Cargo Company";
- Subsequently to 31 December 2009, the Group established subsidiaries in Austria and South Korea and entered into joint ventures in Austria and China;
- In August 2010, TransCreditBank purchased 14.5% shares of OJSC "TD RZD" (a related party). As of 31 December 2009, the Group's interest in this entity comprised 19.9%;
- In July 2010, OJSC KIT Finance Investment bank repaid to RZD Rbls 2.5 billion in accordance with the loan repayment schedule (refer to Notes 6 and 7);

Share Capital

Subsequent to 31 December 2009, the Company issued 60,000,000 of additional common shares with par value of 1 thousand rubles in the aggregate amount of Rbls 60 billion. The issue was approved by the Company's shareholder in December 2009 for the purposes of financing construction of the transport infrastructure for the Sochi Olympic Games 2014.

Dividends

In June 2010, the shareholder approved dividends for 2009 in the amount of Rbls 3,612 representing 25% of the net income reported under statutory accounting principles for the year 2009. These dividends will be reported in the Group's consolidated financial statements for the year 2010.

Government Grants and Assistance

Russian government approved provision of subsidies to RZD for the year 2010 in the amount up to Rbls 50 billion and Rbls 28 billion to compensate for the effects of tariffs' regulation with regard to cargo and passenger transportation, respectively.

Commitments

Subsequently to the reporting date, the Company's subsidiary OJSC PGK concluded several agreements for the purchase of 16,800 units of rolling stock for the total amount of Rbls 24,828.

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