# OPEN JOINT STOCK COMPANY TRANSCONTAINER

**Interim Condensed Consolidated Financial Information**

For the Six-Month Period Ended 30 June 2011

# OJSC TRANSCONTAINER

## TABLE OF CONTENTS

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2011**

Management is responsible for the preparation of the interim condensed consolidated financial information that presents fairly the financial position of OJSC TransContainer (the "Company"), its joint ventures and subsidiaries (the "Group") as of 30 June 2011 and the results of its operations, cash flows and changes in equity for the six-month period then ended, in compliance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting".

In preparing the interim condensed consolidated financial information, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the the interim condensed consolidated financial information of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the companies of the Group operate;
- Taking necessary steps to safeguard the Group's assets;
- Preventing and detecting fraud and other irregularities.

The interim condensed consolidated financial information for the six-month period ended 30 June 2011 was approved on 16 September 2011 by:

| | |
|---|---|
| **V.N. Drachev** | **K. S. Kalmykov** |
| First deputy General Director | Chief Accountant |

# *Report on the Review of the Interim Condensed Consolidated Financial Information*

To the shareholders and board of directors of OJSC TransContainer:

**Introduction**

We have reviewed the accompanying interim condensed consolidated statement of financial position of OJSC TransContainer and its subsidiaries as of 30 June 2011, as well as the related condensed consolidated statements of comprehensive income, cash flows and changes in equity for the six-month period then ended. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with IAS 34, “Interim financial reporting”. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

**Scope of review**

We conducted our review in accordance with International Standard on Review Engagements 2400, “Engagements to review financial statements”. 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.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34 “Interim financial reporting”.

**Emphasis of Matter**

Without qualifying our conclusion, we draw attention to Note 21 to the interim condensed consolidated financial information, which indicates that the Group has a significant quantity of transactions with related parties.

ZAO PricewaterhouseCoopers Audit

21 September 2011

Moscow, Russian Federation

*ZAO PricewaterhouseCoopers Audit, White Square Office Center, 10 Butyrsky Val, Moscow, Russia, 125047*
*T:+7 (495) 967 6000, F: +7 (495) 967 6001, www.pwc.ru*

# OJSC TRANSCONTAINER

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

***(Amounts in millions of Russian Roubles)***

| | Notes | 30 June 2011 | 31 December 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | 27,490 | 25,644 |
| Advances for acquisition of non-current assets | 5 | 2,470 | 2,004 |
| Intangible assets other than goodwill | | 591 | 85 |
| Goodwill | 4 | 216 | - |
| Investments in associates | | 87 | 101 |
| Long-term investments | | 48 | 8 |
| Other non-current assets | | 47 | 12 |
| Deferred tax asset | | 4 | 4 |
| **Total non-current assets** | | **30,953** | **27,858** |
| **Current assets** | | | |
| Inventory | | 201 | 179 |
| Trade and other receivables | 6 | 1,658 | 1,331 |
| Prepayments and other current assets | 7 | 2,779 | 2,857 |
| Prepaid income tax | | 223 | 115 |
| Short-term investments | | 58 | - |
| Cash and cash equivalents | 8 | 2,064 | 1,291 |
| | | **6,983** | **5,773** |
| Non-current assets classified as held for sale | 5 | 15 | - |
| **Total current assets** | | **6,998** | **5,773** |
| **TOTAL ASSETS** | | **37,951** | **33,631** |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 9 | 13,895 | 13,895 |
| Treasury shares | 13 | (514) | - |
| Reserve fund | | 304 | 284 |
| Translation reserve | | (41) | 7 |
| Equity-settled employee benefits reserve | 13 | 89 | - |
| Other reserves | | (2,221) | (2,221) |
| Retained earnings | | 8,745 | 7,411 |
| **Total equity attributable to equity holders of the parent** | | **20,257** | **19,376** |
| Non-controlling interest | 4 | 857 | - |
| **Total equity** | | **21,114** | **19,376** |
| **Non-current liabilities** | | | |
| Long-term debt | 10 | 8,314 | 5,976 |
| Finance lease obligations, net of current maturities | 11 | 149 | 392 |
| Employee benefit liability | 12 | 714 | 677 |
| Deferred tax liability | | 1,722 | 1,438 |
| Deferred income | | 5 | 12 |
| **Total non-current liabilities** | | **10,904** | **8,495** |
| **Current liabilities** | | | |
| Trade and other payables | 14 | 3,720 | 3,965 |
| Income tax payable | | 161 | 77 |
| Taxes other than income tax payable | 15 | 483 | 741 |
| Provisions | | 32 | 34 |
| Finance lease obligations, current maturities | 11 | 455 | 545 |
| Dividends payable | 9 | 40 | - |
| Accrued and other current liabilities | 16 | 595 | 248 |
| Deferred income | | 24 | 37 |
| Current portion of long-term debt | 10 | 423 | 113 |
| **Total current liabilities** | | **5,933** | **5,760** |
| **TOTAL EQUITY AND LIABILITIES** | | **37,951** | **33,631** |

**V.N. Drachev**
First deputy General Director
16 September 2011

**K. S. Kalmykov**
Chief Accountant

## OJSC TRANSCONTAINER

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE (UNAUDITED)**
***(Amounts in millions of Russian Roubles, unless otherwise stated below)***

| | Notes | 2011 | 2010 |
|---|---|---|---|
| Revenue | 17 | 13,804 | 9,942 |
| Operating expenses, net | 18 | (11,563) | (9,160) |
| **Operating income** | | **2,241** | **782** |
| Interest expense | 19 | (379) | (473) |
| Interest income | | 20 | 9 |
| Foreign exchange loss, net | | - | (3) |
| Share of result of associates | | (14) | - |
| **Profit before income tax** | | **1,868** | **315** |
| Income tax expense | 20 | (451) | (118) |
| **Profit for the period** | | **1,417** | **197** |
| **Attributable to:** | | | |
| Equity holders of the parent | | 1,394 | 197 |
| Non-controlling interest | | 23 | - |
| **Other comprehensive income** | | | |
| Exchange differences on translating foreign operations | | (70) | - |
| **Total comprehensive income for the period** | | **1,347** | **197** |
| **Attributable to:** | | | |
| Equity holders of the parent | | **1,346** | **197** |
| Non-controlling interest | | **1** | **-** |
| **Earnings per share, basic and diluted (Russian Roubles)** | | **104** | **14** |
| **Weighted average number of shares outstanding** | | **13,857,462** | **13,894,778** |

**V.N. Drachev**
First deputy General Director

**K. S. Kalmykov**
Chief Accountant

16 September 2011



The accompanying notes form an integral part of this interim condensed consolidated financial information.

# OJSC TRANSCONTAINER

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE (UNAUDITED)

*(Amounts in millions of Russian Roubles)*

| | Notes | 2011 | 2010 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| **Profit before income tax** | | **1,868** | **315** |
| Adjustments for: | | | |
| Depreciation and amortization | 18 | 1,201 | 1,114 |
| Change in provision for impairment of receivables | 18 | 119 | 5 |
| Gain on disposal of property, plant and equipment | 18 | (34) | (27) |
| Loss on impairment of property, plant and equipment | 5 | 4 | 9 |
| Loss from termination of finance lease | | - | 31 |
| Share of result of associates | | 14 | - |
| Interest expense, net | | 359 | 464 |
| Equity-settled employee benefits reserve | 13 | 89 | - |
| Foreign exchange loss, net | | - | 3 |
| Change in provisions | | (2) | - |
| Other non-cash operating costs | | 2 | - |
| **Operating profit before working capital changes** | | **3,620** | **1,914** |
| Decrease/(increase) in inventory | | 37 | (16) |
| Increase in trade and other receivables | | (251) | (735) |
| (Increase)/decrease in prepayments and other current assets | | (37) | 122 |
| Increase in trade and other payables | | 62 | 174 |
| (Decrease)/increase in taxes other than income tax | | (360) | 134 |
| Increase in accrued expenses and other current liabilities | | 231 | 148 |
| Increase in employee benefit liabilities | | 37 | 46 |
| **Net cash from operating activities before income tax** | | **3,339** | **1,787** |
| Interest paid | | (395) | (552) |
| Income tax paid | | (511) | (164) |
| **Net cash provided by operating activities** | | **2,433** | **1,071** |
| **Cash flows from investing activities:** | | | |
| Purchases of property, plant and equipment | | (1,538) | (2,385) |
| Proceeds from disposal of property, plant and equipment | | 2 | 215 |
| Sale of non-current assets classified as held for sale | | 19 | - |
| Acquisition of subsidiary, net of cash acquired of RUR 304 million | 4 | (1,536) | - |
| Purchases of long-term investments | | (39) | - |
| Purchases of short-term investments | | (58) | - |
| Proceeds from disposal of short-term investments | | - | 50 |
| Purchases of intangible assets | | (9) | (21) |
| Dividends received from joint venture | | 1 | - |
| Interest received | | 19 | 14 |
| **Net cash used in investing activities** | | **(3,139)** | **(2,127)** |
| **Cash flows from financing activities:** | | | |
| Proceeds from long-term borrowings | | 2,336 | - |
| Proceeds from issue of long-term bonds | | - | 2,997 |
| Repayments of finance lease obligations | | (333) | (858) |
| Proceeds from sale and leaseback | | - | 404 |
| Acquisition of treasury shares | 13 | (514) | - |
| Principal payments on long-term borrowings | | - | (1,263) |
| Principal payments on short-term borrowings | | (2) | - |
| **Net cash provided by financing activities** | | **1,487** | **1,280** |
| **Net increase in cash and cash equivalents** | | **781** | **224** |
| **Cash and cash equivalents at beginning of the period** | | **1,291** | **449** |
| Foreign exchange effect on cash and cash equivalents | | (8) | (11) |
| **Net cash and cash equivalents at end of the period** | | **2,064** | **662** |

**V.N. Drachev**
First deputy General Director

**K. S. Kalmykov**
Chief Accountant

16 September 2011



The accompanying notes form an integral part of this interim condensed consolidated financial information.

# OJSC TRANSCONTAINER

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

*(Amounts in millions of Russian Roubles)*

| | Notes | Share capital | Treasury shares | Reserve fund | Translation reserve | Equity-settled employee benefits reserve | Other reserves | Retained earnings | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2010** | | **13,895** | **-** | **283** | **-** | **-** | **(2,221)** | **6,486** | **18,443** | **-** | **18,443** |
| Profit and comprehensive income for the period | | - | - | - | - | - | - | 197 | 197 | - | 197 |
| Dividends | | - | - | - | - | - | - | (2) | (2) | - | (2) |
| Transfer to reserve fund | | - | - | 1 | - | - | - | (1) | - | - | - |
| **Balance at 30 June 2010** | | **13,895** | **-** | **284** | **-** | **-** | **(2,221)** | **6,680** | **18,638** | **-** | **18,638** |
| Profit for the period | | - | - | - | - | - | - | 731 | 731 | - | 731 |
| Other comprehensive income for the period | | - | - | - | 7 | - | - | - | 7 | - | 7 |
| **Total comprehensive income for the period** | | **-** | **-** | **-** | **7** | **-** | **-** | **731** | **738** | **-** | **738** |
| **Balance at 31 December 2010** | | **13,895** | **-** | **284** | **7** | **-** | **(2,221)** | **7,411** | **19,376** | **-** | **19,376** |
| Profit for the period | | - | - | - | - | - | - | 1,394 | 1,394 | 23 | 1,417 |
| Other comprehensive income for the period | | - | - | - | (48) | - | - | - | (48) | (22) | (70) |
| **Total comprehensive income for the period** | | **-** | **-** | **-** | **(48)** | **-** | **-** | **1,394** | **1,346** | **1** | **1,347** |
| Acquisition of subsidiary | 4 | - | - | - | - | - | - | - | - | 856 | 856 |
| Acquisition of treasury shares | 13 | - | (514) | - | - | - | - | - | (514) | - | (514) |
| Equity-settled employee benefits reserve | 13 | - | - | - | - | 89 | - | - | 89 | - | 89 |
| Dividends | 9 | - | - | - | - | - | - | (40) | (40) | - | (40) |
| Transfer to reserve fund | | - | - | 20 | - | - | - | (20) | - | - | - |
| **Balance at 30 June 2011** | | **13,895** | **(514)** | **304** | **(41)** | **89** | **(2,221)** | **8,745** | **20,257** | **857** | **21,114** |

**V.N. Drachev**
First deputy General Director

**K. S. Kalmykov**
Chief Accountant

16 September 2011



The accompanying notes form an integral part of this interim condensed consolidated financial information.

***(Amounts in millions of Russian Roubles, unless otherwise stated below)***

## 1. NATURE OF THE BUSINESS

OJSC TransContainer (the "Company" or "TransContainer") was incorporated as an open joint stock company in Moscow, Russian Federation on 4 March 2006.

The Company's principal activities include arrangement of rail-based container shipping and other logistics services including terminal services, freight forwarding and intermodal delivery using rolling stock and containers. The Company owns and operates 46 container terminals along the Russian railway network. As of 30 June 2011, the Company operated 17 branches in Russia. The Company's registered address is 12 Novoryazanskaya Street, Moscow, 107228, Russian Federation. Its principal place of business is 19 Oruzheiniy pereulok, Moscow, 125047, Russian Federation.

The Company has ownership in the following entities:

| | | | | % interest held | | % voting rights | |
|---|---|---|---|---|---|---|---|
| **Name of Entity** | **Type** | **Country** | **Activity** | **30 June 2011** | **31 December 2010** | **30 June 2011** | **31 December 2010** |
| Oy ContainerTrans ScandinaviaLtd | Joint venture | Finland | Container shipments | 50 | 50 | 50 | 50 |
| JSC TransContainer-Slovakia | Subsidiary | Slovakia | Container shipments | 100 | 100 | 100 | 100 |
| Chinese-Russian Rail-Container International Freight Forwarding (Beijing) Co, Ltd. | Joint venture | China | Container shipments | 49 | 49 | 50 | 50 |
| TransContainer Europe GmbH | Subsidiary | Austria | Investment activity | 100 | 100 | 100 | 100 |
| TransContainer Asia Pacific Ltd. | Subsidiary | Korea | Container shipments | 100 | 100 | 100 | 100 |
| Trans-Eurasia Logistics GmbH | Associate | Germany | Container shipments | 20 | 20 | 20 | 20 |
| Far East Land Bridge Ltd. | Associate | Cyprus | Container shipments | 10 | 10 | 25 | 25 |
| LLC Prostor Invest Group (Note 13) | Subsidiary | Russia | Share option programme operator | 100 | - | 100 | - |
| JSC Kedentransservice (Note 4) | Subsidiary | Kazakhstan | Handling | 67 | - | 67 | - |
| Helme's Development Company Ltd. (Note 4) | Subsidiary | British Virgin Isles | Investment activity | 100 | - | 100 | - |
| Helme's Operation UK Limited (Note 4) | Subsidiary | Great Britain | Investment activity | 100 | - | 100 | - |
| Logistic Investment SARL (Note 4) | Subsidiary | Luxemburg | Investment activity | 100 | - | 100 | - |

The interim condensed consolidated financial information of OJSC TransContainer, its subsidiaries and its joint ventures (the "Group") as of 30 June 2011 and for the six-month period then ended was authorized for issue by the First deputy General Director of the Company on 16 September 2011.

## 2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

***Statement of compliance*** – The annual financial statements of OJSC TransContainer are prepared in accordance with International Financial Reporting Standards ("IFRS"). This interim condensed consolidated financial information has been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim financial reporting".

The consolidated statement of financial position as of 31 December 2010, included in this interim condensed consolidated financial information, has been derived from the audited consolidated financial statements of the Group for the year ended 31 December 2010. This interim condensed consolidated financial information should be read in conjunction with the audited annual consolidated financial statements.

***Significant accounting policies*** – Except as discussed below, the accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those used in the preparation of the Group's annual financial statements as of 31 December 2010 and for the year then ended, as described in those annual consolidated financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

The following changes in the accounting policy were introduced to account for the implementation of the revised standard IAS 24 as of 1 January 2011:

***IAS 24 "Related party disclosures" (revised)*** – simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. Due to this amendment, the Group changed the disclosure of operations with related parties regarding operations with associates of OJSC RZD (Note 3, 21).

Due to the occurrence of new transactions for the six-month period ended 30 June 2011, the Group used new positions for their accounting policy in preparing this interim condensed consolidated financial information, discussed below:

***Consolidated financial statements*** – Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are either presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries (other than those acquired from parties under common control). Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of the acquiree's net assets. The Group decides which principle to apply for measuring non-controlling interest is defined by the Group individually for each particular business combination.

Goodwill is measured by deducting the acquiree's net assets from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of the interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

## 2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION (CONTINUED)

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements, but excluding acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt; and all other transaction costs associated with the acquisition are expensed.

***Investments in associates*** – Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of an associate's net assets are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the period as the share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

***Goodwill*** – Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least once a year and whenever there are indications that goodwill may be impaired. Goodwill is allocated to cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on the disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

***Non-current assets classified as held for sale*** – Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the statement of financial position as non-current assets held for sale if their carrying amounts will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management has approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

## 2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION (CONTINUED)

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and includes the liabilities directly associated with those assets that will be transferred in the transaction. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plants and equipment are not depreciated.

***Share-based payment transactions*** – the share option plan allows Group employees to acquire shares of the Company. The fair value of share-based payment awards is measured at the grant date based on the Black-Scholes-Merton model, which takes into account the terms and conditions upon which the instruments were granted. The fair value of the options is then expensed between the grant date and the vesting date written into the share option contract.

***Treasury shares*** – where any Group company purchases the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, and net of income taxes, is deducted from equity attributable to the Company's owners until the equity instruments are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, are included in equity attributable to the Company's owners.

***Estimates*** – The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2010, with the exception of changes in estimates that are required in determining the provision for income taxes (see above).

***Seasonality*** – The business of the Group is subject to significant seasonal fluctuations. Revenue and income from current operations are affected by such factors as river transport seasonality, the summer shipping season (for Northern regions) and consumer market cycles. Typically, the number of orders received between June and August exceeds significantly the annual average, while the number of orders received between January and February is below the annual average. To mitigate the impact of seasonal swings, during the low season, the Group offers its clients favourable tariffs and seeks to schedule flatcars and containers maintenance and repair. In accordance with IFRS, revenue and the related expenses are recognized in the period in which they are realized and incurred respectively. The Group's results for the interim period do not necessarily reflect a continuing trend which will be reflected in the year-end results. In the financial year ended 31 December 2010, 44% of revenues accumulated in the first half of the year, with 56% accumulating in the second half.

## 3. CHANGES IN ACCOUNTING POLICY

Due to the implementation of the revised standard IAS 24 "Related party disclosures" as of 1 January 2011, the comparative data were adjusted by the Group as of 31 December 2010, and for the period ended 30 June 2010. The revised standard considers relations between subsidiaries and associates of the same enterprise as mutual relations between related parties. Given this, the Group began to classify operations with the associates of OJSC RZD as operations with related parties.

The effect on transactions and balances with related parties as of 31 December 2010 and for the period ended 30 June 2010 is as follows:

*(Amounts in millions of Russian Roubles, unless otherwise stated below)*

## 3. CHANGES IN ACCOUNTING POLICY (CONTINUED)

| | RZD, its subsidiaries, joint ventures and associates as originally presented | RZD, its subsidiaries, joint ventures and associates as reclassified | Reclassification |
|---|---|---|---|
| Trade and other accounts payable | | | |
| Trade payables | 32 | 268 | 236 |
| Liabilities to customers | 30 | 32 | 2 |
| Revenue | | | |
| Other services | 30 | 88 | 58 |
| Operating Expenses | | | |
| Repair services | 404 | 406 | 2 |

Trade and other accounts payable includes RUR 236m payable to LLC TMKH Vagonostroenie, an associate of RZD.

Revenue includes RUR 57m received from OJSC Nevskaya Cosmetica, an associate of RZD.

## 4. ACQUISITIONS OF SUBSIDIARIES

*JSC Kedentransservice*

On 18 March 2011 the Company obtained control of JSC Kedentransservice, a leading operator of railway terminals in Kazakhstan, by acquiring a 67% of its share capital, thus enabling the Group to establish its presence in the Kazakh rail terminal services market.

The acquisition has been carried out as follows: the Company directly acquired 20.1% of the share capital of Kedentransservice and indirectly 46.9% by acquisition of a 100% share in Helme's Development Company Ltd, which owns a 100% interest in Helme's Operation UK Limited which in turn owns a 46.9% interest in JSC Kedentransservice. The total consideration as of 30 June 2011, was USD 68m (RUR 1,955m at the Central Bank of Russia exchange rate as of 18 March 2011), of which USD 64.5m (RUR 1,850m at the date of cash transfer) has been paid out in cash as of 30 June 2011. According to the acquisition agreements, the consideration may be subsequently reduced by up to USD 10m (RUR 281m at the Central Bank of Russia exchange rate as of 30 June 2011). The amounts of the adjustments to the consideration are subject to fulfilment of certain terms and conditions by the parties and cannot be determined reliably as of the date this interim condensed consolidated financial information was authorized for issue.

In March 2011, the Group also entered into a joint venture cooperation agreement with JSC Kazakh Temir Zholy (“KTZ”), the second shareholder of Kedentransservice, which owns 33% of its share capital. In accordance with the terms of the agreement, KTZ may purchase 17% of the shares owned by the Group, bringing the Company’s share of ownership in Kedentransservice to 50%, subject to the fulfilment by each party of certain conditions and responsibilities, which must be met according to the agreement. As of the date this financial information was authorized for issue, these necessary conditions have not been met. The joint venture agreement also contains certain clauses which upon formation of the joint venture will serve to protect the interests of both parties and trigger the right of one party to sell its shares to the other party in the event the other party does not comply with certain provisions of the agreement.

In March 2011 in Luxembourg, the Group registered Logistics Investments SARL, a 100% subsidiary, with share capital in the amount of EUR 12,500 (RUR 0,5m at the Central Bank of Russia exchange rate as of 30 June 2011). The shares of Kedentransservice currently directly or indirectly owned by the Company are to be transferred to this new subsidiary.

*(Amounts in millions of Russian Roubles, unless otherwise stated below)*

## 4. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

*JSC Kedentransservice (continued)*

| | **Fair value as recognised on acquisition** |
|---|---|
| Intangible assets | 545 |
| Property, plant and equipment | 2,336 |
| Inventories | 67 |
| Trade accounts receivable | 177 |
| Advances paid | 69 |
| Income tax receivable | 9 |
| Cash and cash equivalents | 304 |
| Other assets | 4 |
| **Total assets** | **3,511** |
| | |
| Long-term debt | 323 |
| Deferred tax liabilities | 334 |
| Trade and other payables | 152 |
| Taxes other than income tax payable | 102 |
| Other liabilities | 5 |
| **Total liabilities** | **916** |
| **Net assets** | **2,595** |
| Less non-controlling interest | (856) |
| **Net assets acquired** | **1,739** |
| Goodwill | 216 |
| **Cost of acquisition** | **1,955** |

The non-controlling interest represents the acquiree's share in net assets attributable to owners of non-controlling interest.

The amount of goodwill recognized as a result of the acquisition is attributable to the expected synergies from the combining of the operations of the Group and JSC Kedentransservice. The goodwill will not be deductible for tax purposes in future periods.

The gross contractual amount of trade accounts receivable and advances paid was RUR 238m and RUR 105m, respectively. The fair values of accounts receivable at acquisition date represents gross contractual amounts net of the best estimates of the contractual cash flows not expected to be collected.

The acquired subsidiary contributed revenue of RUR 456m and profit of RUR 65m to the Group for the period from the date of acquisition to 30 June 2011. If the acquisition had occurred on 1 January 2011, Group revenue for the six-month period ended 30 June 2011 would have been RUR 14,074m, and profit for six-months period ended 30 June 2011 would have been RUR 1,435m.

*LLC Prostor Invest Group*

In February 2011, the Company acquired 100% ownership interest in LLC Prostor Invest Group, a special purpose entity used in the Group's Share Option Plan (Note 13). Cash consideration of RUR 12,500 was paid. As this entity does not constitute a business, the Group recognized this purchase as an acquisition of its assets and liabilities.

*(Amounts in millions of Russian Roubles, unless otherwise stated below)*

## 5. PROPERTY, PLANT AND EQUIPMENT

| | Land, buildings and constructions | Containers and flatcars | Cranes and loaders | Vehicles and other equipment | Construction in-progress | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **1 January 2010** | **4,227** | **21,239** | **1,173** | **1,762** | **1,167** | **29,568** |
| Additions | - | 2,296 | 4 | 48 | 211 | **2,559** |
| Transfers | 33 | 2 | 57 | 7 | (99) | **-** |
| Disposals | (6) | (76) | (9) | (6) | - | **(97)** |
| **30 June 2010** | **4,254** | **23,461** | **1,225** | **1,811** | **1,279** | **32,030** |
| Additions | 229 | 1,290 | 64 | 194 | 531 | **2,308** |
| Transfers | 414 | 26 | 3 | - | (443) | - |
| Disposals | (1) | (352) | (2) | (81) | (35) | **(471)** |
| **31 December 2010** | **4,896** | **24,425** | **1,290** | **1,924** | **1,332** | **33,867** |
| Additions | 7 | 516 | 59 | 93 | 115 | **790** |
| Transfers | 360 | 36 | 59 | 138 | (593) | **-** |
| Acquisition through business combination | 1,448 | 396 | 132 | 334 | 26 | **2,336** |
| Reclassification to assets classified as held for sale | - | (83) | - | - | - | **(83)** |
| Disposals | (6) | (72) | (22) | (8) | (2) | **(110)** |
| Exchange difference | (37) | (11) | (8) | (8) | - | **(64)** |
| **30 June 2011** | **6,668** | **25,207** | **1,510** | **2,473** | **878** | **36,736** |
| **Accumulated depreciation** | | | | | | |
| **1 January 2010** | **(944)** | **(4,291)** | **(517)** | **(719)** | - | **(6,471)** |
| Depreciation charge | (107) | (755) | (74) | (159) | - | (1,095) |
| Impairment | 4 | - | (13) | - | - | (9) |
| Disposals | 1 | 69 | 5 | 4 | - | 79 |
| **30 June 2010** | **(1,046)** | **(4,977)** | **(599)** | **(874)** | **-** | **(7,496)** |
| Depreciation charge | (103) | (774) | (76) | (153) | - | **(1,106)** |
| Impairment | - | - | - | 1 | (3) | **(2)** |
| Disposals | 3 | 304 | 2 | 72 | - | **381** |
| **31 December 2010** | **(1,146)** | **(5,447)** | **(673)** | **(954)** | **(3)** | **(8,223)** |
| Depreciation charge | (124) | (786) | (78) | (181) | - | **(1,169)** |
| Impairment | - | - | - | - | (4) | **(4)** |
| Reclassification to assets classified as held for sale | - | 68 | - | - | - | **68** |
| Disposals | 1 | 59 | 15 | 7 | - | **82** |
| **30 June 2011** | **(1,269)** | **(6,106)** | **(736)** | **(1,128)** | **(7)** | **(9,246)** |
| **Net book value** | | | | | | |
| **31 December 2010** | **3,750** | **18,978** | **617** | **970** | **1,329** | **25,644** |
| **30 June 2011** | **5,399** | **19,101** | **774** | **1,345** | **871** | **27,490** |

Included under land, buildings and constructions are the amounts of RUR 793m and RUR 231m, which represent the value of land plots owned by the Group as of 30 June 2011 and 31 December 2010, respectively.

During the six-month period ended 30 June 2011, the Group acquired a subsidiary, JSC Kedentransservice (see Note 4), including property, plant and equipment in the total amount of RUR 2,336m.

The vehicles and other equipment category includes motor transport used for terminal services and truck deliveries in the amount of RUR 955m and RUR 859m as of 30 June 2011 and 31 December 2010, respectively.

*(Amounts in millions of Russian Roubles, unless otherwise stated below)*

## 5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As of 30 June 2011, the Group recognised 386 flatcars with a net book value of RUR 15m as non-current assets classified as held for sale, which the Group intends to sell at closed-bid auction within 2011.

Construction in-progress as of 30 June 2011 consisted mainly of the following:

- Capital expenditures incurred for the construction of new container terminals in Novosibirsk, Nizhniy Novgorod and the Moscow Region amounting to RUR 354m, RUR 94m and RUR 71m, respectively;
- Maintenance and reconstruction of container terminals in Yekaterinburg, Irkutsk and Saratov in the amount of RUR 124m, RUR 24m and RUR 10m, respectively;
- Reconstruction of repair depot in the Lipetsk Region in the amount of RUR 24m.

As of 30 June 2011, property, plant and equipment include interest expenses on bonds and other related proceeds from borrowed funds in connection with the construction of new property, plant and equipment items. The total amount of interest capitalised for the six-month period ended 30 June 2011 was RUR 7m at a rate of capitalisation of 9.84%.

Leased assets as of 30 June 2011 and 31 December 2010, for which the Group is a lessee under finance leases, comprised the following:

| | 30 June 2011 | 31 December 2010 |
|---|---|---|
| Cost | 1,737 | 1,994 |
| Accumulated deprecation | (346) | (232) |
| **Net book value** | **1,391** | **1,762** |

See Note 11 for further details regarding finance leases.

*Advance for acquisition of non-current assets*

As of 30 June 2011 and 31 December 2010, advances for the acquisition of non-current assets consisted of: 1) security deposit paid in accordance with a preliminary purchase-and-sale agreement with LLC Ladya River for the acquisition of premises in a Moscow office building (RUR 1,642m), 2) advances for the acquisition of rolling stock (RUR 716m and RUR 247m, respectively), and 3) advances for the acquisition of other non-current assets (RUR 112m and RUR 115m, respectively).

Under the agreement with LLC Ladya River, the security deposit should be returned to the Company before the signing of the final purchase–and-sale agreement for acquisition of premises, or if the preliminary agreement is cancelled. As the purchase–and-sale agreement stipulates advance payment for acquisition of premises in an amount equalling the security deposit and the Company expects to conclude the aqreement in 2012, the security deposit is classified as an advance for the acquisition of non-current assets.

## 6. TRADE AND OTHER RECEIVABLES

| | Outstanding balance, gross | Provision for impairment | Outstanding balance, net |
|---|---|---|---|
| **30 June 2011** | | | |
| Trade receivables | 1,773 | (203) | 1,570 |
| Other receivables | 100 | (12) | 88 |
| **Total trade and other receivables** | **1,873** | **(215)** | **1,658** |
| **31 December 2010** | | | |
| Trade receivables | 1,382 | (84) | 1,298 |
| Other receivables | 33 | - | 33 |
| **Total trade and other receivables** | **1,415** | **(84)** | **1,331** |

*(Amounts in millions of Russian Roubles, unless otherwise stated below)*

## 6. TRADE AND OTHER RECEIVABLES (CONTINUED)

Movement in the impairment provision for accounts receivable is as follows:

| | |
|---|---|
| **Balance as of 1 January 2010** | **(62)** |
| Additional provision, recognised in the period | (5) |
| **Balance as of 30 June 2010** | **(67)** |
| Additional provision, recognised in the period | (37) |
| Release of provision | 8 |
| Utilisation of provision | 12 |
| **Balance as of 31 December 2010** | **(84)** |
| Additional provision, recognised in the period | (119) |
| Utilisation of provision | 26 |
| Acquisition of Kedentransservice | (104) |
| **Balance as of 30 June 2011** | **(281)** |

As of 30 June 2011 provision for impairment of accounts receivable was recognised in respect of trade and other receivables balances (RUR 215m), advances to suppliers (RUR 53m), advances for acquisition of non-current assets (RUR 5m) and other non-current assets (RUR 8m).

## 7. PREPAYMENTS AND OTHER CURRENT ASSETS

| | 30 June 2011 | 31 December 2010 |
|---|---|---|
| VAT receivable | 1,155 | 854 |
| Advances to suppliers | 1,480 | 1,855 |
| Other current assets | 144 | 148 |
| **Total prepayments and other current assets** | **2,779** | **2,857** |

## 8. CASH AND CASH EQUIVALENTS

| | 30 June 2011 | 31 December 2010 |
|---|---|---|
| Cash and Russian Rouble denominated current accounts with banks | 822 | 533 |
| Foreign currency denominated current accounts with banks | 434 | 154 |
| Russian Rouble denominated bank deposits | 750 | 600 |
| Foreign currency denominated bank deposits | 58 | 4 |
| **Total cash and cash equivalents** | **2,064** | **1,291** |

The terms of Russian Rouble-denominated short-term bank deposits vary from nine days to three months, depending on the Company's immediate cash requirements. Two Russian Rouble-denominated short-term bank deposits in the amount of RUR 150m and RUR 300m, both bearing interest at annual rates of 3.5%, were placed with JSC TransCreditBank, a related party, as of 30 June 2011 (see Note 21). The deposits matured on 29 July 2011. Also, three Russian Rouble-denominated short-term bank deposits in the amount of RUR 100m each, all bearing interest at annual rates of 3.75%, were placed with JSC Alfa-Bank as of 30 June 2011. These deposits matured on 1 July 2011.

Kazakh Tenge-denominated short-term bank deposit in the amount of KZT 300m, bearing interest at annual rate of 2.5%, was placed with JSC ATFBank, as of 30 June 2011. This deposit matured on 14 July 2011.

*(Amounts in millions of Russian Roubles, unless otherwise stated below)*

## 9. EQUITY

*Share capital*

As of 30 June 2011, the Company's authorized and issued share capital as well as its shareholder structure has not changed since 31 December 2010.

*Dividends*

For 2010, dividends of RUR 2.91 per share were approved at the annual shareholders' meeting on 28 June 2011. As of 30 June 2011, total dividends payable amounted to RUR 40m. In August 2011 the dividends were fully paid out to shareholders.

## 10. LONG-TERM DEBT

***Bank loans***

| | Effective interest rate | 30 June 2011 | 31 December 2010 |
|---|---|---|---|
| OJSC Alfa Bank | 9.75%-9.5% | 1,822 | - |
| LLC TransUnion AM | 9.5% | 514 | - |
| **Total** | | **2,336** | **-** |

The Group obtained loans from Alfa Bank during the six-month period ended 30 June 2011 to finance the acquisition of JSC Kedentransservice (see Note 4). The loans mature in seven years and should be secured by at least 67% of the Company's ordinary voting shares in JSC Kedentransservice. As of 30 June 2011 no relevant pledge agreement had yet been signed.

Under the loan terms, the Group is subject to certain financial and non-financial covenants, including compliance with a specific Debt/EBITDA ratio, which is calculated every six months on the basis of annual and interim financial statements. For calculation purposes, debt includes all short- and long-term borrowings, finance lease obligations and interest expenses for the 12-month period ending on the reporting date. EBITDA includes income before interest expense, income tax, depreciation and amortization. In the event of non-compliance with the specified requirements, the bank may increase the annual interest rate by 3%. In addition, the bank may require early loan repayment if non-compliance with the financial covenants is not remediated within 30 calendar days.

As of 30 June 2011 the Group is in compliance with the covenants.

The Group obtained borrowed funds from LLC TrustUnion AM to finance the acquisition of ordinary nominal shares in OJSC TransContainer in order to carry out a Share Option Plan for the Company's management (see Note 13). The loan matures in five years.

***Five-year RUR bonds, series 1*** – On 4 March 2008, the Company issued non-convertible five-year bonds for a total amount of RUR 3,000m at a par value of RUR 1,000 each. The coupon rate for the six-month period ended 30 June 2011 is 9.5% per annum (9.5% per annum for the year ended 31 December 2010).

As these bonds are currently not puttable and will mature in February 2013, they are classified as long-term borrowings as at 30 June 2011.

The carrying value of the bonds as at 30 June 2011 amounted to RUR 3,095m (RUR 3,095m at 31 December 2010). The amount of accrued interest is RUR 95m (RUR 95m at 31 December 2010), and has been included as the current portion of long-term debt in the interim condensed consolidated statement of financial position.

*(Amounts in millions of Russian Roubles, unless otherwise stated below)*

## 10. LONG-TERM DEBT (CONTINUED)

***Five-year RUR bonds, series 2*** – On 10 June 2010, the Company issued non-convertible five-year bonds for a total amount of RUR 3,000m at a par value of RUR 1,000 each. Net proceeds from the issuance after deduction of related offering costs amounted to RUR 2,975m. The annual coupon rate of the bonds for five years is 8.8% with interest paid semi-annually.

The series 2 bonds will be redeemed in four equal semi-annual instalments within the fourth and fifth years. As a result, these bonds are classified as long-term borrowings as at the reporting date.

The carrying value of the bonds as at 30 June 2011 amounted to RUR 2,995m (RUR 2,994m at 31 December 2010). The amount of accrued interest is RUR 17m (RUR 18m at 31 December 2010), and has been included as the current portion of long-term debt in the interim condensed consolidated statement of financial position.

***Foreign currency-denominated bonds.*** Due to the acquisition of the subsidiary, the Group accepted obligations on bonds issued on 3 March 2006 amounting to 1,694,320 coupon bonds at a par value of Kazakh Tenge (KZT) 1,000 each without any security. As at 30 June 2011 the carrying value of the bonds amounted to RUR 304m and the amount of accrued interest was RUR 7m. The weighted average coupon rate for the six-month period ended 30 June 2011 is 8.4% per annum.

The bonds will be redeemed on 3 April 2012 and were included as short-term liabilities in the interim condensed consolidated statement of financial position as at the reporting date.

## 11. FINANCE LEASE OBLIGATIONS

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 30 June 2011 | 31 December 2010 | 30 June 2011 | 31 December 2010 |
| Due within one year | 521 | 610 | 455 | 545 |
| Due after one year but not more than five years | 196 | 530 | 149 | 392 |
| | 717 | 1,140 | 604 | 937 |
| Less future finance charges | (113) | (203) | - | - |
| **Present value of minimum lease payments** | **604** | **937** | **604** | **937** |

During the six-month period ended 30 June 2011 the Group purchased assets leased under the finance lease agreement with LLC FinanceBusinessGroup, which was concluded in 2007 for a 50-month period.

On 31 December 2009 the Group entered into a sale and leaseback agreement with CJSC Gorodskaya Innovacionno-Lizingovaya Kompaniya for the sale and financial leaseback of the Group’s trucks with a net book value of RUR 296m. The Group continued to recognize the assets under the lease agreement at their previous carrying amounts. The excess of sale proceeds over the net book value of the assets in the amount of RUR 109m has been recognized as deferred income in the interim condensed consolidated statement of financial position, and will be amortized over the lease term.

The amortization of this balance during the period ended 30 June 2011 was RUR 20m and is included in interest expense on finance lease obligations in the interim condensed consolidated statement of comprehensive income. The lease agreement is for a three-year period with an effective interest rate of 28.3% (including the effect of offsetting the deferred income over the lease term).

All leases are on a fixed repayment basis and denominated in Russian Roubles. The Group’s obligations under finance leases are secured by the lessors’ title to the leased assets.

*(Amounts in millions of Russian Roubles, unless otherwise stated below)*

## 12. EMPLOYEE BENEFIT LIABILITY

*Defined contribution plans*

The total amount recognized as an expense for payments to defined contribution plans for the six-month periods ended 30 June 2011 and 2010 consisted of the following:

| | 2011 | 2010 |
|---|---|---|
| Pension Fund of the Russian Federation | 284 | 185 |
| Non-state defined contribution plan Blagosostoyanie | 5 | 4 |
| **Total expense for defined contribution plans** | **289** | **189** |

*Defined benefit plans*

The most recent actuarial valuation of the defined benefit obligation was carried out as of 31 December 2010 by an independent actuary. The present value of the defined benefit obligations, and related current service costs and past service cost, were measured using the projected unit credit method. The Group determined employee benefit liabilities as of 30 June 2011 and related costs for the six-month period then ended by making adjustments to the 2010 year-end amounts to reflect significant changes in the number of plan participants, salary increases and other significant events.

The amounts recognized in the interim condensed consolidated profit or loss for the six-month periods ended 30 June 2011 and 2010 in respect of these defined benefit plans, which are included under payroll and related charges, are as follows:

| | 30 June 2011 | 30 June 2010 |
|---|---|---|
| Current service cost | 19 | 14 |
| Interest on obligation | 28 | 23 |
| Expected return on plan assets | (2) | (1) |
| Actuarial losses recognized during the period | 24 | 33 |
| Past service cost | 3 | 10 |
| **Net expense recognized in the interim condensed consolidated profit or loss** | **72** | **79** |

The amounts recognized in the statements of financial position as of 30 June 2011 and 31 December 2010 in respect of these defined benefit plans are as follows:

| | 30 June 2011 | 31 December 2010 |
|---|---|---|
| Present value of defined benefit obligations | 761 | 720 |
| Fair value of plan assets | (41) | (36) |
| (Surplus)/deficit in plan | 720 | 684 |
| Unrecognized past service cost | (6) | (7) |
| **Net liability in the interim condensed consolidated statement of financial position** | **714** | **677** |

The principal assumptions used in computing the Group's defined benefit obligation as of 30 June 2011 have not changed from those used in preparing the annual consolidated financial statements for the year ended 31 December 2010.

The current year actuarial losses related to the defined benefit obligation resulted from an increase in the average salary level of the Group's employees.

*(Amounts in millions of Russian Roubles, unless otherwise stated below)*

## 13. EMPLOYEE SHARE OPTION PLAN

In October 2010, the Board of Directors approved a Share Option Plan for the Company's management (the "Plan"). In general, 1.5% of the Company's outstanding ordinary shares may be allocated under this Plan, which has been in effect since 20 May 2011. Management participation in the Plan and the number of shares in individual manager's share option agreements are determined by the Board of Directors.

The Plan provides for granting share options to the members of the Group's management (the "Plan Participants"). All Plan Participants had signed relevant agreements by the end of June 2011.

The options to be vested in four annual installments over the next four years. Each Plan Participant obtains the right to a certain quantity of share options for each year of service with the Company.

Under certain circumstanses, including breach of specific labour agreement provisions, Plan Participants can forfeit their right to purchase shares.

Ordinary shares will be allocated from treasury shares purchased by the Group for this purpose on the open market by a special-purpose entity, LLC Prostor Invest Group, which is fully controlled by the Group.

The exercise price will be RUR 2,464 per share plus certain costs and expenses related to Plan implementation. Plan Participants will have up until June 2016 to exercise their share options.

As at 30 June 2011, in relation to the Plan, the Group had purchased 208,421 treasury shares. Their purchase cost was RUR 513.6m. The shares were purchased by LLC Prostor Invest Group.

As at 30 June 2011 the following number of share options is outstanding:

| | **Number of shares** |
|---|---|
| Options outstanding at 1 January 2011 | - |
| Options granted in the first six months 2011 | 208,421 |
| **Options outstanding at 30 June 2011** | **208,421** |

The fair value of services received in return for share options granted to employees is measured by reference to the fair value of share options granted. The Black-Scholes-Merton model is used to estimate the fair value of the services received.

| | **Options granted as at 20 May 2011** |
|---|---|
| Share price (in Russian Roubles) | 3,116 |
| Exercise price (in Russian Roubles) (including expenses related to implementation of the Plan) | 2,464-3,145 |
| Expected volatility | 37% |
| Option life | 1-5 years |
| Risk-free interest rate | 4.6%-7.4% |
| **Fair value at measurement date (in Russian Roubles)** | **1,308 – 1,462** |

The measure of volatility used in the Black-Scholes-Merton model is the annualized standard deviation of the continuously compounded rates of return on the share over a period of time. Volatility has been determined on the basis of the historical volatility of the share price over the most recent period (last six months before grant date).

During the six-month period ended 30 June 2011, the Group recognized expenses of RUR 89.3m related to the options. These expenses were included into payroll and related charges disclosed in Note 18.

No options were exercised during the six-month period ended 30 June 2011.

*(Amounts in millions of Russian Roubles, unless otherwise stated below)*

## 14. TRADE AND OTHER PAYABLES

| | 30 June 2011 | 31 December 2010 |
|---|---|---|
| Trade payables | 476 | 483 |
| Amounts payable for the acquisition of property, plant and equipment | 35 | 495 |
| Liabilities to customers | 3,209 | 2,987 |
| **Total trade and other payables** | **3,720** | **3,965** |

## 15. TAXES OTHER THAN INCOME TAX PAYABLE

| | 30 June 2011 | 31 December 2010 |
|---|---|---|
| VAT | 151 | 561 |
| Property tax | 105 | 120 |
| Social insurance contribution | 113 | 39 |
| Personal income tax | 39 | 16 |
| Other taxes | 75 | 5 |
| **Total taxes other than income tax payable** | **483** | **741** |

## 16. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

| | 30 June 2011 | 31 December 2010 |
|---|---|---|
| Settlements with employees | 400 | 194 |
| Payable for acquisition of Kedentransservice's shares | 103 | - |
| Other liabilities | 92 | 54 |
| **Total accrued expenses and other current liabilities** | **595** | **248** |

Settlements with employees as of 30 June 2011 and 31 December 2010 comprised accrued salaries and bonuses of RUR 261m and RUR 104m, respectively, and accruals for unused vacation of RUR 139m and RUR 90m, respectively.

## 17. SEGMENT INFORMATION

The Company's General Director is its chief operating decision-maker. The Group's business activities are interdependent in providing customers with rail-based container shipping and other logistics services. As such, the Group's internal reporting, as reviewed by the General Director to assess performance and allocate resources, is prepared on a consolidated basis as a single reportable segment. The Group's internal management reports are prepared on the same basis as this interim condensed consolidated financial information.

*Analysis of revenue by category*

| | 2011 | 2010 |
|---|---|---|
| Integrated logistics services | 5,680 | 4,414 |
| Rail-based container shipping services | 4,052 | 3,223 |
| Terminal services and agency fees | 1,463 | 941 |
| Truck deliveries | 840 | 685 |
| Freight forwarding and logistics services | 1,489 | 521 |
| Bonded warehousing services | 197 | 113 |
| Other | 83 | 45 |
| **Total revenue** | **13,804** | **9,942** |

***(Amounts in millions of Russian Roubles, unless otherwise stated below)***

## 17. SEGMENT INFORMATION (CONTINUED)

*Analysis of revenue by location of customers*

| | 2011 | 2010 |
|---|---|---|
| **Revenue from external customers** | | |
| Russia | 12,052 | 8,945 |
| Germany | 348 | 490 |
| China | 254 | 150 |
| Korea | 223 | 99 |
| Switzerland | 116 | 88 |
| Finland | 86 | 57 |
| Other | 725 | 113 |
| **Total revenue** | **13,804** | **9,942** |

During the period ended 30 June 2011, OJSC Russian Railways (RZD) accounted for 11% of the Group's total revenue: RUR 1,485m. During the period ended 30 June 2010 no single custmer accounted for over 10% of the Group's revenue. The largest customer, RZD, accounted for RUR 910m (9% of total revenue) of Group revenues.

More than 90% of the Group's non-current assets are located in Russia, approximately 9% of non-current assets (mainly represented by property plant and equipment and intangible assets other than goodwill) are owned by Kedentransservice and are located in Kazakhstan.

## 18. OPERATING EXPENSES, NET

| | 2011 | 2010 |
|---|---|---|
| Cost of integrated logistics services | 3,837 | 2,473 |
| Freight and transportation services | 2,255 | 2,031 |
| Payroll and related charges | 2,137 | 1,538 |
| Depreciation and amortization | 1,201 | 1,114 |
| Materials, repair and maintenance | 987 | 763 |
| Taxes other than income tax | 294 | 208 |
| Rent | 173 | 274 |
| Security | 139 | 112 |
| Consulting services | 115 | 98 |
| Fuel costs | 81 | 60 |
| License and software | 59 | 53 |
| Communication costs | 47 | 47 |
| Charity | 3 | 42 |
| (Gain) / Loss from termination of finance leases | - | 31 |
| Movement in the provision for impairment | 119 | 5 |
| Gain on disposal of property, plant and equipment | (34) | (27) |
| Other expenses, net | 150 | 338 |
| **Total operating expenses, net** | **11,563** | **9,160** |

## 19. INTEREST EXPENSE

| | 2011 | 2010 |
|---|---|---|
| Interest expense on RUR bonds | 270 | 203 |
| Interest expense on finance lease obligations | 62 | 183 |
| Interest expense on bank loans | 47 | 87 |
| **Total interest expense** | **379** | **473** |

## 20. INCOME TAX

| | 2011 | 2010 |
|---|---|---|
| Current income tax charge | (492) | (173) |
| Deferred income tax benefit | 41 | 55 |
| **Income tax** | **(451)** | **(118)** |

## 21. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

In accordance with IAS 24 “Related party disclosures”, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related-party relationship, attention is directed to the substance of the relationship, 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 nature of the related-party relationships for those related parties with which the Group has entered into significant transactions, or had significant balances outstanding as of 30 June 2011, are disclosed below:

| Related party | Nature of relationship |
|---|---|
| OJSC Russian Railways (RZD) | Parent company |
| OJSC TransCreditBank | Associate of RZD |
| LLC FinanceBusinessGroup | Associate of RZD |
| CJSC Sberbank Leasing | Subsidiary of Sberbank |
| LLC Roszheldorstroy | Fellow subsidiary of RZD |
| OJSC RZD Logistics | Fellow subsidiary of RZD |
| LLC TMKH Vagonostroenie | Associate of RZD |
| Fund Blagosostoyanie | Post-employment benefit plan for Company employees |
| Fund Pochet | Post-employment benefit plan for Company employees |

The Group’s ultimate controlling party is the Russian Federation Government and, therefore, all companies controlled by the Russian Federation Government are also treated as related parties of the Group for the purposes of this interim condensed consolidated financial information.

As a part of its normal operations, the Group enters into various transactions and has outstanding balances with state-controlled entities and governmental bodies, which are shown as “other” in the tables below. The majority of related-party transactions are with OJSC Russian Railways (RZD), its subsidiaries, joint ventures and associates, and OJSC TransCreditBank, which are also state-controlled.

*Relationships with RZD, its subsidiaries, joint ventures and associates*

The Group carries out various transactions with RZD, which is the sole owner and provider of railroad infrastructure and locomotive services in Russia. Furthermore, RZD owns the vast majority of rail-car repair facilities in Russia, which the Group uses to maintain its rolling stock in operating condition.

Under current Russian regulations, only RZD can perform certain functions associated with the arranging the container transportation process. As the assets required for performing such functions were transferred to the Group, RZD engaged the Company to act as its agent in the performance of these functions. Group revenues generated from such transactions with RZD is reported as agency fees in the accompanying interim condensed consolidated statement of comprehensive income.

The Group maintains several bank accounts at OJSC TransCreditBank.

*(Amounts in millions of Russian Roubles, unless otherwise stated below)*

## 21. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Transactions and balances with related parties as at and for the six-month period ended 30 June 2011 are shown below:

| | **Total** | **RZD, its subsidiaries, joint ventures and associates** | **Other** |
|---|---|---|---|
| Cash and cash equivalents | 1,322 | 1,322 | - |
| Trade and other accounts receivables | | | |
| Trade receivables | 745 | 325 | 420 |
| Other receivables | 41 | 5 | 36 |
| | 786 | 330 | 456 |
| Prepayments and other current assets | | | |
| Advances to suppliers | 1,132 | 1,129 | 3 |
| Investments in associates | 87 | - | 87 |
| Advances for acquisition of non-current assets | 300 | 300 | - |
| **Total assets** | **3,627** | **3,081** | **546** |
| Trade and other accounts payable | | | |
| Trade payables | 54 | 45 | 9 |
| Liabilities to customers | 47 | 23 | 24 |
| | 101 | 68 | 33 |
| Accrued and other liabilities | | | |
| Other payables | 56 | 5 | 51 |
| Finance lease obligations | 460 | - | 460 |
| **Total liabilities** | **617** | **73** | **544** |
| Revenue | | | |
| Rail-based container shipping services | 272 | 249 | 23 |
| Agency fees | 902 | 899 | 3 |
| Integrated logistics services | 376 | 294 | 82 |
| Other services | 89 | 43 | 46 |
| | 1,639 | 1,485 | 154 |
| Interest income on deposits | 14 | 14 | - |
| **Total income** | **1,653** | **1,499** | **154** |
| Operating Expenses | | | |
| Freight and transportation services | 1,566 | 1,522 | 44 |
| Third-party charges relating to integrated logistics services | 2,911 | 2,797 | 114 |
| Repair services | 551 | 549 | 2 |
| Rent of property and equipment | 19 | 19 | - |
| Other expenses | 112 | 71 | 41 |
| | 5,159 | 4,958 | 201 |
| Interest expense on finance lease obligations | 46 | 9 | 37 |
| **Total expenses** | **5,205** | **4,967** | **238** |
| Acquisition of property, plant and equipment | 211 | 201 | 10 |
| Purchase of materials | 6 | - | 6 |
| Contributions to non-state pension funds | 25 | - | 25 |
| **Total other transactions** | **242** | **201** | **41** |

***(Amounts in millions of Russian Roubles, unless otherwise stated below)***

## 21. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Transactions and balances with related parties as at 31 December 2010 and for the six-months period ended 30 June 2010:

| | Total | RZD, its subsidiaries, joint ventures and associates | Other |
|---|---|---|---|
| Cash and cash equivalents | 1,262 | 1,261 | 1 |
| Trade and other accounts receivables | | | |
| Trade receivables | 527 | 306 | 221 |
| Other receivables | 40 | 1 | 39 |
| | 567 | 307 | 260 |
| Prepayments and other current assets | | | |
| Advances to suppliers | 1,651 | 1,648 | 3 |
| Investments in associates | 101 | - | 101 |
| **Total assets** | **3,581** | **3,216** | **365** |
| Trade and other accounts payable | | | |
| Trade payables | 46 | 32 | 14 |
| Liabilities to customers | 56 | 30 | 26 |
| | 102 | 62 | 40 |
| Accrued and other liabilities | | | |
| Other payables | 33 | 5 | 28 |
| Finance lease obligations | 756 | 208 | 548 |
| **Total liabilities** | **891** | **275** | **616** |
| Revenue | | | |
| Rail-based container shipping services | 397 | 392 | 5 |
| Agency fees | 740 | 737 | 3 |
| Integrated logistics services | 10 | 2 | 8 |
| Other services | 43 | 28 | 15 |
| | 1,190 | 1,159 | 31 |
| Interest income on deposits | 7 | 7 | - |
| **Total income** | **1,197** | **1,166** | **31** |
| Operating expenses | | | |
| Freight and transportation services | 1,517 | 1,515 | 2 |
| Third-party charges relating to integrated logistics services | 2,011 | 1,762 | 249 |
| Repair services | 406 | 404 | 2 |
| Rent of property and equipment | 162 | 162 | - |
| Other expenses | 125 | 88 | 37 |
| | 4,221 | 3,931 | 290 |
| Interest expense on finance lease obligations | 75 | 18 | 57 |
| **Total expenses** | **4,296** | **3,949** | **347** |
| Acquisition of property, plant and equipment | 458 | 456 | 2 |
| Purchase of materials | 4 | - | 4 |
| Contributions to non-state pension funds | 26 | - | 26 |
| **Total other transactions** | **488** | **456** | **32** |

The amounts outstanding to and from related parties are unsecured except as disclosed for finance leases (see Note 11) and expected to be settled by cash or supplies of goods or services (in respect of advances to suppliers and liabilities to customers) in the normal course of business.

***(Amounts in millions of Russian Roubles, unless otherwise stated below)***

## 21. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

*Compensation of key management personnel*

Key management personnel consist of members of the Company's Board of Directors, as well as the General Director and his deputies, and comprised 21 and 20 persons as of 30 June 2011 and 30 June 2010, respectively. Total gross compensation (including insurance contributions and before withholding of personal income tax) to key management personnel amounted to RUR 95m (including total insurance contributions of RUR 2m) and RUR 46m (including total insurance contributions of RUR 1m) for the six-month periods ended 30 June 2011 and 30 June 2010, respectively. This compensation is included under payroll and related charges in the interim condensed consolidated profit and loss and comprises primarily short-term benefits. Post-employment and other long-term benefits of key management personnel were immaterial.

As stated in Note 13, during the six-month period ended 30 June 2011, the Group recognized expenses of RUR 89.3m related to the Share Option Plan approved by the Board of Directors in October 2010. Expenses related to options provided to the General Director and his deputies comprised RUR 48m.

## 22. COMMITMENTS UNDER OPERATING LEASES

As at 30 June 2011, the Group leases a loading platform at Dostyk Station in Kazakhstan. This agreement has been concluded for a 15-year term.

The Group leases certain production buildings and office premises in Russia. The relevant lease agreements have terms varying from one to six years. Additionally, the Group leases the land on which its container terminals are located.

The Group continues to rent flatcars from OJSC RusTransVagon under an operating lease agreement.

Future minimum lease payments under contracted operating leases are as follows:

| | **30 June 2011** | **31 December 2010** |
|---|---|---|
| Within one year | 194 | 192 |
| Within two to five years | 160 | 56 |
| After five years | 288 | 4 |
| **Total minimum lease payments** | **642** | **252** |

## 23. CAPITAL COMMITMENTS

The Group's capital commitments as of 30 June 2011 and 31 December 2010 consisted of the following:

| | **30 June 2011** | **31 December 2010** |
|---|---|---|
| Construction of container terminal complexes and modernization of existing assets | 700 | 786 |
| Acquisition of containers and flatcars | 1,164 | 789 |
| Acquisition of lifting machines and other equipment | 4 | 76 |
| **Total capital commitments** | **1,868** | **1,651** |

## 24. SUBSEQUENT EVENTS

***Acquisition of flatcars*** – In July-August 2011 the Group obtained 190 flatcars from LLC Tehmaktrans, for a total amount of RUR 452m (plus VAT in the amount of RUR 81m), 120 flatcars from LLC TMKH Vagonostroenie, for a total amount of RUR 239m (plus VAT in the amount of RUR 43m) and 37 flatcars from Tatravagonka a.s., for a total amount of RUR 123m (not subject to VAT).

***Establishment of Logistic System Management B.V.*** – In July 2011 the Group registered a 100% subsidiary of Logistic Investment SARL, Logistic System Management B.V., in the Netherlands with share capital in the amount of EUR 90,000 (equivalent to RUR 4m at the Central Bank of Russia exchange rate on 30 June 2011).

***Sale of property*** – In August 2011, the Group entered into a sale agreement with LLC Rostovskiy Universalniy Port for the sale of property (land, building and constructions in Rostov-on-Don) for a total amount of RUR 382m (plus VAT in the amount of RUR 42m). The net book value of the property sold was RUR 280m.