JSC RUSSIAN RAILWAYS’
Ladies and Gentlemen!

In 2006 we entered the third and most critical stage in our reform of rail transport. I can say with satisfaction that in 2006 Company fully achieved goals and tasks set for the industry by the President and Government of the Russian Federation and met target indicators approved by Russian Railways’ Board of Directors.

In 2006 we began large-scale projects and set complex strategic tasks that the company is now pursuing successfully. The accomplishment of these tasks will bring us closer to our ultimate goal of building a highly efficient and competitive holding company.

The results of the third stage of reform have proved the correctness of an evolutionary path of reform aimed at stimulating the country’s economic growth. A distinctive feature of the Structural Reform of Russian Railways is that it is being done without any state expenditure. Moreover, Russian Railways is one of Russia’s biggest taxpayers, paying over 20% of its earnings to budgets and off-budget funds — upwards of RUR 179 bln. And integrated infrastructure and transportation management made it possible to achieve optimal growth in transportation costs.

An analysis of the results shows that our reform has been successful: rapid progress in achieving goals of reform and industry stability are ensured. Transportation safety is increasing, and there are ever more opportunities for attracting private investments for the development of rail transportation. The greatly enhanced quality of transportation services should also be mentioned.

A mechanism for eliminating losses resulting from passenger transportation by means of state subsidizing is envisioned. Russian Railways, developing in conditions of growing competition on the freight and passenger market, should find new ways of enhancing its efficiency during the period of reform.

Another distinctive feature of our reforms is that they are going forward under the sign of the individual and the collective. Maintaining social stability for railway employees is an important success factor of these transformations. I want to wish each and every participant of the reform process solid results in promoting our company’s development as well as sustained growth in the Russian economy.

Chairman of the Board of Directors of JSC Russian Railways
ALEXANDER D. ZHUROV
Dear Shareholders, Partners and Colleagues!

In the reporting year 2006, Russian Railways achieved excellent results in different business areas. The Structural Reform on the Railways delivers tangible results. As we are on the final third and probably the most critical stage of the Reform, it is of great importance for us the positive assessment of structural reform’s results, given by the President and the Government of the Russian Federation.

The minimization of risks remains a priority principle at the third stage: balancing and evolutionary approach to the reform is sustained. I would like to emphasize that the stability and safety of rail transport have been maintained in the course of reform, and national transportation costs have been considerably reduced. The rail industry has revealed the best results in the year 2006 during the last fifteen years.

Last year the Company achieved a high level of key production and financial/economic indicators. All parameters set by the Government for the current year were met in full, and many of them were significantly above the planned level. First of all, high traffic volumes have been achieved. Freight handling increased by 2.9%, freight turnover by 4.3% and passenger turnover by 3%.

Labor productivity grew by 7.5% — among the best results in the country. Our Company is in fact the only company among the country’s major companies and industries, which continuously ensures an economically sound correlation between labor productivity growth and actual labor compensation growth.

The productivity of rolling stock has improved considerably. Net profit and profitability exceed the previous year’s figures.

The Company has made a transition to project-based principles of realizing investment programs and has in this way achieved the goals set by the Government of the Russian Federation and the Board of Directors of Russian Railways with respect to optimizing the investment process. Overall, in 2006, taking leasing into account, the Company invested over 200 billion rubles in the development and modernization of the production base — almost 20% more in comparison with the previous year — enabling it to accomplish the critical tasks of developing and renovating infrastructure — above all, in key transit and export-oriented directions.

In accordance with the Concept of Corporate Construction, the Company continued to form subsidiaries in 2006. All subsidiaries fully met their goals. They are successfully going through the stage of formation and developing their market segments.

Russian Railways is actively entering international markets and making a serious contribution to Russia’s global competitiveness. Today, the task of developing interregional and transcontinental, including Eurasian, rail corridors is growing in importance, and we still have much to do in that direction.

A number of investment projects of the Program for the Development of Express and High-Speed Rail Traffic up to the year 2020 have gained the support of the Government of the Russian Federation. This is a new step in the development of passenger service in the Russian Federation. The year 2007 has become a year of working on strategic development of rail transport in Russia up to the year 2030. Arriving at such a strategy and realizing its relevance is one of the reform’s results.

In the final stage of reform, we have set the bar high. I am confident that our combined efforts will lead to success.

President of JSC Russian Railways
VLADIMIR I. YAKUNIN
# General Information about the Company and Holding Structure

- General Information about the Company
- The Company’s Strategy and Mission
- Corporate Structure
- Subsidiaries and Associates
- Share Capital

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- Management Board

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### Summary of Company Operations Over Three Years

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- Acquisition and update of traction rolling stock in 2006
- The Company’s innovative development in 2006
- JSC Russian Railways’ policy in transportation safety and environmental protection and key initiatives undertaken in this areas

### Key Financial Indicators
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- Key financial indicators
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- Enhancing the efficiency of the planning and budgeting system.
- Development of a new remuneration system
- Cost optimization
- Main results of investment activities
- Measures on drawing construction in progress into business turnover in 2006
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- Payment of Taxes and Levies

### Risk Management

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- The Staff and Social Development
- Sponsorship and Charity
- Work Safety

### Information on the Company’s Large-Scale Transactions and Transactions Involving Interested Parties in the Reporting Year

### Attachments to the JSC Russian Railways’ Annual Report for 2006
GENERAL INFORMATION ABOUT THE JOINT STOCK COMPANY AND HOLDING STRUCTURE
The Company’s full name: Joint Stock Company Russian Railways.


Registration certificate of the legal entity
Moscow Interdistrict Inspectorate No. 39 of the Russian Ministry for Taxes and Levies has issued to Joint Stock Company Russian Railways (JSC Russian Railways) a certificate (series 77 No. 007105126) of its state registration as a legal entity and entered it into the Uniform State Register of Legal Entities. On September 23, 2003, JSC Russian Railways was assigned State Registration Number No. 1037739877295.

Registration certificate with the tax authority
In accordance with provisions of the Tax Code of the Russian Federation, Part 1, JSC Russian Railways has received a certificate (series 77 No. 007105127) that it was registered with Inspectorate No. 8 of the Russian Ministry for Taxes and Levies for the Central Administrative District of Moscow. The established company was assigned Taxpayer Identification Number No. 7708503727.

Legal (mailing) address: 2 Novaya Basmannaya Street, Moscow 107144.
Telephone: (495) 262-1034
Fax: (495) 262-9095
e-mail: rzd@rzd.ru
Web-site: www.rzd.ru

JSC Russian Railways engages in the following types of activity:
- freight transportation services;
- long-distance passenger transportation services;
- suburban passenger transportation services;
- maintenance and operation of rail infrastructure;
- provision of locomotive traction services (for passenger and freight transportation);
- rolling stock repairs;
- construction of infrastructure facilities;
- research and development;
- social infrastructure maintenance;
- other types of activities

JSC Russian Railways’ core activity:
satisfying the needs of the state, legal entities and individuals for railway transportation services, and work and services provided by the railway transport.
The Company’s Strategy and Mission

JSC Russian Railways is the largest Russian transportation company that accounts for 39% of total freight turnover and about 41% of passenger turnover. JSC Russian Railways’ levels of labor productivity and utilization efficiency of the rolling stock and infrastructure are higher than those demonstrated by rail networks of developed European countries, and its electrified mileage is the longest in the world.

At the same time, current issues inherent in the development of railway transportation, increased competition in the transportation services market and search for new ways of improving operating efficiency in the reform context made it necessary to develop a detailed document that would define JSC Russian Railways’ long-term development priorities; therefore, the Russian Railways Strategic Development Program has been developed.

JSC Russian Railways’ operating philosophy lies in ensuring that its corporate goals conform to the long-term national interests. JSC Russian Railways implements the ideology of common fate, which envisages combining public, consumer and its own interests. Fast pace of development, shareholder value, profitability of its operations, social and economic security of its employees, quality in meeting customer needs and mutually beneficial cooperation with partners and suppliers are equally important for JSC Russian Railways.

JSC Russian Railways, being a dynamic vertically integrated national transportation company, defines its mission as follows: effectively meeting market demand for transportation services, increasing its global competitiveness, achieving financial stability and making its business socially responsible.
**Corporate Structure**

JSC Russian Railways’ corporate structure includes the Company’s branches and representative offices, subsidiaries and associates whose shares and equity interests were contributed to the Company’s charter capital at inception, and also subsidiaries that have been established as a result of the Company’s restructuring.

- JSC Russian Railways is a single economic entity that consists of a parent entity, branches and representative offices.
- Its branches total 158 and split functionally as follows:
  - regional railways — 17
  - functional branches — 141, including:
    - carrier companies — 4
    - branches providing technical, economical and financial support — 6
    - capital construction branches — 45
    - rolling stock repair branches — 30
    - branches operating track facilities — 14
    - branches - electrotechnical plants — 8
    - branches in the area of IT development and telecommunications — 3
    - social sphere branches — 20
    - R&D branches — 8
    - other branches — 2

- Representative offices in foreign countries total 10, including those, established in 2006 in the Ukraine (Protocol No. 22 dated December 11, 2006) and in Iran (Protocol No. 23 dated December 12, 2006).

Branches and representative offices established by the Company are not independent legal entities and are vested with assets owned by JSC Russian Railways.

In 2006, as part of the Structural Reform process subsidiaries were established from the Company’s branches which inherit assets of the latter. As the subsidiaries start functioning and after the transfer to them of the Company’s assets indispensable for their normal operation is fully completed, the Company’s reorganized branches will be liquidated.
**S U B S I D I A R I E S  
A N D  A S S O C I A T E S**

**As of December 31, 2006,** the Company has 120 subsidiaries and associates (the full list of JSC Russian Railways' subsidiaries and associates is presented in the Attachment).

During 2006 as part of the Structural Reform of the railways JSC Russian Railways established 12 subsidiaries in the following areas:

- suburban passenger transportation;
- isothermal and container transportation;
- capital construction;
- science;
- rolling stock repair services

express traffic.

Based on the results of 2006 the return on JSC Russian Railways' financial investments into the equity of subsidiaries and associates is planned on the level of 1.03 %, which is below the similar figure for 2005 (1.52%). This is due to the investment of RUR 31,374 mln. into newly established subsidiaries in 2006.

The efficiency of JSC Russian Railways' participation lies not only in receiving dividends from subsidiaries and associates, but in raising the economic efficiency of the business activity of subsidiaries and associates themselves and the holding in general. Thus, based on the results for 2006, the profitability of assets of subsidiaries and associates in general was 8.25% compared to 7.04 % for 2005.

Based on the results for 2006 dividends accrued by JSC Russian Railways from subsidiaries and associates amounted to RUR 689.5 mln (net of dividend tax).

**Subsidiaries established by JSC Russian Railways in 2006 include the following:**

<table>
<thead>
<tr>
<th>Nr.</th>
<th>NAME OF SUBSIDIARY</th>
<th>ADDRESS</th>
<th>INCORPORATION DATE</th>
<th>EQUITY INTEREST, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>JSC Oy Karelian Trains Ltd</td>
<td>Helsinki</td>
<td>October 23, 2006</td>
<td>50.00</td>
</tr>
<tr>
<td>3</td>
<td>Open Joint Stock Company Research and Development Institute of Rolling Stock</td>
<td>410 Oktyabrskoy Revolyutsii str., Kolomna, Moscow Region, Russian Federation 140402</td>
<td>April 07, 2006</td>
<td>99.99</td>
</tr>
<tr>
<td>4</td>
<td>Open Joint Stock Company Vologradtranspriigorod</td>
<td>13/a Kommunisticheskaya str., Volograd, Russian Federation 400066</td>
<td>February 01, 2006</td>
<td>51.00</td>
</tr>
<tr>
<td>5</td>
<td>Open Joint Stock Company Research Institute of Technology, Control and Diagnostics of Railway Transport</td>
<td>59 Lenina str., urban settlement, Tavricheskii District Omsk Region, Russian Federation</td>
<td>March 24, 2006</td>
<td>99.99</td>
</tr>
<tr>
<td>8</td>
<td>Open Joint Stock Company Roslavl Car Repair Plant</td>
<td>20 Engelsa str., Roslavl, Smolensk Region, Russian Federation 216500</td>
<td>February 27, 2006</td>
<td>99.99</td>
</tr>
<tr>
<td>10</td>
<td>Open Joint Stock Company Speedways</td>
<td>35, Kalanchevskaya str., Moscow, Russian Federation 107078</td>
<td>August 08, 2006</td>
<td>75.10</td>
</tr>
<tr>
<td>11</td>
<td>Open Joint Stock Company St. Petersburg Vitebsk Suburban Passenger Company</td>
<td>120 Obvodnoy Canal Embankment, St. Petersburg, Russian Federation, 198095</td>
<td>March 10, 2006</td>
<td>74.00</td>
</tr>
</tbody>
</table>
The Charter Capital of JSC Russian Railways was formed by contributions of assets of federal rail transport organizations. The Russian Federation is the founder and sole shareholder of JSC Russian Railways. The Company’s Charter Capital amounts to **RUR 1,535.7 bln.** The Company’s Charter Capital is represented by **1,535,700,000** registered nominal ordinary shares at par value of **RUR 1,000** each.
2006 HIGHLIGHTS
2006 Highlights

**JANUARY 12**
A presentation of the mobile consultative-diagnostic centre “Therapist Matvey Mudrov” was held in Moscow.

**JANUARY 19**
Registration of OJSC Roszheldorstroy — subsidiary of JSC Russian Railways.

**FEBRUARY 03**
A presentation of the new passenger main-line electric locomotive EP2K, manufactured against the order of JSC Russian Railways within the framework of the program on developing and bringing into production new locomotives in 2004 — 2010, was held in Kolomna.

**MARCH 10**
Registration of OJSC Transcontainer — subsidiary of JSC Russian Railways.

**MARCH 16**
In Vladivostok representatives of JSC Russian Railways, North and South Korea discussed the project aimed at rebuilding the trans-Korean railway and linking it to the trans-Siberian Railway. JSC Russian Railways and the Railway Ministry of North Korea signed a Protocol on the modernization of the main railway from Rajin to Khasan.

**APRIL 11—13**
The 43rd session of the CIS Railway Transportation Council took place in Tallinn.

**APRIL 24**
JSC Russian Railways and OJSC “Company Ust-Luga” signed an Agreement on Cooperation.

**APRIL 27**
Within the framework of the Russian-German summit in Tomsk JSC Russian Railways and Deutsche Bahn AG signed a Declaration on the establishment of a joint enterprise in freight transportation.
**JUNE 18–20**
The first international business forum “Strategic Partnership 1520” took place in Sochi. Within the framework of the forum JSC Russian Railways and Siemens AG signed a contract on the delivery of high-speed trains.

**MAY 25**
JSC Russian Railways was declared to be the best issuer on the ruble-denominated corporate bond market.

**JULY 01**
The Federal Passenger Directorate launched its business activity.

**JULY 25**
Launching of the Lagar-Aul tunnel on the Far-Eastern Railway — branch of JSC Russian Railways.

**JULY 26**
The Fitch international rating agency raised the rating of JSC Russian Railways as an issuer of obligations denominated in foreign and national currencies to BBB+, the short-term rating of the Company — to F2, the forecast for all ratings — stable. The rating on the national scale was confirmed on the AAA (rus) level.

**AUGUST 01**
The new Slavyanskiy Express branded train departed for a maiden trip on the Moscow—Minsk route.

**AUGUST 28**
Within the framework of organizing high-speed traffic on the route Moscow—St.Petersburg the first demo trip of the ER-200 train according to the rapid schedule took place.
SEPTEMBER 05
JSC Russian Railways and the Moscow Government signed a General Agreement on interaction and cooperation in the sphere of railway transport.

SEPTEMBER 10
A new transport route was opened: railway ferry Baltiysk (Kaliningrad Region) – Ust-Luga (Leningrad Region). President of Russia Vladimir Putin, President of JSC Russian Railways Vladimir Yakunin, Chairman of the Management Board of Deutsche Bahn AG Hartmut Mehdorn and other officials took part in the opening ceremony.

SEPTEMBER 19
During the meeting of chief executives of European and Asian railways held in Berlin an agreement was reached between the Heads of the Russian, German and Chinese railways on the joint development of container transportation along the Trans-Siberian route and on the establishment of a logistical company.

OCTOBER 02
A presentation of the new passenger train Megapolis for the Moscow-St. Petersburg route was held at the Leningrad train station in Moscow.

OCTOBER 09
JSC Russian Railways and the Italian concern Finmeccanica with the participation of CJSC Transmashholding and OJSC Speedways signed a Memorandum on Cooperation, one of the areas of focus of which is the joint development and manufacturing of new rolling stock and its components.

OCTOBER 11 – 13
The 44th session of the CIS Railway Transportation Council took place in Erevan.

NOVEMBER 17
The Board of Directors of JSC Russian Railways approved the entry of the Company into the International Union of Railways (UIC) as a full-fledged member.

NOVEMBER 23
In Helsinki JSC Russian Railways and VR Ltd. signed a shareholder agreement of JSC Oy Karelian Trains Ltd. – the owner of express rolling stock of Oy Karelian Trains Ltd.

DECEMBER 06
The international business forum “Strategic Partnership 1520: Central Asia” took place in Almaty. JSC Russian Railways, administrations and national railway companies participating in the forum signed a Memorandum on the development of strategic partnership aimed at boosting the efficiency of the Central Asian transport system based on railroad tracks with a gauge of 1520 mm.

DECEMBER 22
Standard & Poor’s international rating agency assigned a higher rating to JSC Russian Railways. The long-term credit rating was raised by two grades to the sovereign level of BBB+, forecast — stable, rating on the national scale was raised to ru AAA.
GOVERNING AND CONTROL BODIES
Governing and Control Bodies

Pursuant to the Charter of JSC Russian Railways has established governing and internal control bodies required for the Company’s operations. Governing bodies are:
- General Shareholders’ Meeting;
- Board of Directors;
- President;
- Management Board.

The Audit Revision Committee is the internal control body responsible for monitoring the Company’s operational and financial activities.

Shareholders’ Meeting

The Company’s supreme governing body is the Shareholders’ Meeting. The Company’s sole shareholder is the Russian Federation. The Government of the Russian Federation exercises powers of the Company’s shareholder on behalf of the Russian Federation.

The members of the Company’s Board of Directors are as follows (appointed by resolution № 1171-r of the Government of RF dated August 9, 2005) (positions at the time of election):

- M. P. Akulov ●●● Head of the Federal Rail Transport Agency of the Ministry of Transport of the Russian Federation
- V. N. Ampilogov ●●● Deputy Director of the Department for Industry Development of the Government of the Russian Federation
- A. D. Zhukov ●●● Deputy Prime Minister of the Russian Federation
- I. Y. Levitin ●●● Minister of Transport of the Russian Federation
- A. S. Misharin ●●● Deputy Minister of Transport of the Russian Federation
- V. L. Nazarov ●●● Head of the Federal Agency for Federal Property Management
- G. M. Fadeyev ●●● Assistant to the Prime Minister of the Russian Federation
- V. B. Khristenko ●●● Minister of Industry and Power of the Russian Federation
- A. V. Sharonov ●●● State Secretary, Deputy Minister of Economic Development and Trade of the Russian Federation
- I. I. Shuvalov ●●● Assistant to the President of the Russian Federation
- V. I. Yakunin ●●● President of JSC Russian Railways

Board of Directors


Inasmuch as the Russian Federation is the Company’s sole shareholder, and the Russian Government exercises powers on behalf of the Russian Federation, pursuant to Article 47 of the Federal Law “Concerning Joint Stock Companies” decisions on the composition of the Board of Directors of JSC Russian Railways are adopted by the Russian Government alone and drawn up in writing.

In 2006, an eleven-member board of directors was approved.
In 2006, an eleven-member board of directors was approved. A. D. Zhukov, Deputy Prime Minister of the Russian Federation, was elected Chairman of the Board of Directors of JSC Russian Railways. The members of the Board of Directors of JSC Russian Railways receive no remuneration for performing their functions as members of the board of JSC Russian Railways.

Meetings of the Board of Directors of JSC Russian Railways

In the reporting period, the Board of Directors of JSC Russian Railways held 24 meetings and considered 142 issues, the most important of which were:

- measures involved in the third stage of the Structural Reform of rail transport, including the formation of a Railway Station Directorate and subsidiaries in the area of express traffic;
- the concept for the creation of a freight service company;
- approval of an agreement on passenger services for persons eligible for free suburban rail transport;
- approval of a financial plan and investment program for 2006 and up to 2008;
- approval of agreements for the supply of rolling stock, including an agreement with Siemens AG for the development and supply of rolling stock for high-speed traffic, social issues, etc.

More detailed information on meetings of the Board of Directors of JSC Russian Railways, indicating the date, board members in attendance and issues covered, is given in the appendix. Cumulative information on each board member’s personal participation in meetings, including the number of meetings attended, is given in the Attachment to Annual Report № 1.
Brief autobiographical information on members of the Board of Directors of JSC Russian Railways

**Chairman of the Board of Directors — A. D. Zhukov**


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**Vladimir Nikolayevich Ampilogov**


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**Igor Yevgenyevich Levitin**


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**Alexander Sergeyevich Misharin**

Valery Lvovich Nazarov


1999–2004: Chairman of the St. Petersburg Committee for Management of Municipal Property. 2004: concurrently Deputy Chief of Administration and Head of the Main Control Department of the President of the Russian Federation.


Victor Borisovich Khristenko

Born in 1957.

Since 1999: First Deputy Prime Minister of the Russian Federation, Deputy Prime Minister of the Russian Federation, Minister of Industry and Power.

Since 2000: Chairman of the Board of Directors of Transneft and member of the Board of Directors of Gazprom.


Since 2002: Chairman of the Board of Directors of System Operator—Central Dispatching Control of UES and member of the Board of Directors of UES Federal Grid Company.


Since 2004: member of the Board of Directors of JSC Russian Railways.

Since 2005: member of the Board of Directors of RAO UES of Russia.

Andrei Vladimirovich Sharonov

Born in 1964. In 1986 graduated from Ufa Aviation Institute with a degree in electrical engineering. In 1996 graduated from the Russian State Service Academy under the auspices of the President of the Russian Federation with a degree in law.


Since 2003: member of the Board of Directors of JSC Russian Railways.

Since 2005: member of the Board of Directors of RAO UES of Russia, Svyazinvest, Transneft and Vneshtorgbank.

Gennady Matveyevich Fadeyev

Born in 1937.


Since 2005: Assistant to the Prime Minister of the Russian Federation.

Since 2003: member of the Board of Directors of JSC Russian Railways.
**Konstantin Petrovich Shenfeld**

Born August 27, 1955 in Novosibirsk Region. In 1981 graduated from Novosibirsk Railway Engineering Institute, railway engineer specializing in railway operation, Candidate of Science (Engineering), Doctor of Transport.

2001–2002: Professor in the Transport Economics Department at Siberian State Railway University.

2002–2004: Deputy Head of Transport Management Department and Head of Department of Licensing and Engineering Policy with the Russian Ministry of Railways.

Since 2004: Deputy Director of the Federal Railway Agency.

Since November 2005: Acting Director of the Federal Railway Agency.

Since September 2006: Deputy Director of the Russian Railway Scientific Research Institute.

Since June 2006: member of the Board of Directors of JSC Russian Railways.

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**Igor Ivanovich Shuvalov**

Born in 1967. In 1992 graduated from Moscow State University with a degree in law.


Since 2003: Assistant to the President of the Russian Federation.

Since 2004: Assistant to the President of the Russian Federation, member of the Board of Directors of JSC Russian Railways, Sovkomflot and Gazprom.

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**Vladimir Ivanovich Yakunin**

**President of the Company**


On October 24, 2003 the Board of Directors of JSC Russian Railways unanimously approved Vladimir Yakunin’s appointment as First Vice President of JSC Russian Railways.


Vladimir Yakunin is Chairman of the Board of Trustees of the National Achievement Center and the St. Andrew Foundation.

Since January 2006: Chairman of the Board of Trustees of the Center for Problem Analysis and State Administration of the Social Science Division of the Russian Academy of Science.
Chairman of the Management Board:

V. I. Yakunin President of JSC Russian Railways

Members of the Board of Management as of December 31, 2006:

V. N. Morozov First Vice President
F. B. Andreyev Senior Vice President
B. M. Lapidus Senior Vice President
G. V. Kraft Chief Accountant
M. P. Akulov Vice President
O. Y. Atkov Vice President
S. M. Babayev Vice President
A. S. Bobreshov Vice President
V. B. Vorobyov Until December 2006, Director of the North Caucasus Railway; from December 2006, Vice President
V. A. Gapanovich Vice President
S. V. Kozyrev Vice President
G. V. Komilov Vice President
A. A. Mersiyanov Vice President
V. A. Popov Vice President
O. V. Toni Vice President
O. E. Gnedkova Head of Corporate Finance Department
A. G. Ivashkin Chief Administrator
S. A. Kobzev Head of the Locomotive Department
S. V. Mikhailov Head of Corporate Communications
A. Y. Semechkin Until September 2006, Vice President; from September 4, 2006, Director of the Russian Railway Scientific Research Institute
V. I. Starostenko Head of the Moscow Railway
A. V. Tselko Head of the West Siberian Railway
S. Y. Ivanov Head of the Department of Rails and Structures
Vadim Nikolayevich Morozov —
First Vice President of JSC Russian Railways


Fyodor Borisovich Andreyev —
Senior Vice President of JSC Russian Railways


Boris Moiseyevich Lapidus —
Senior Vice President of JSC Russian Railways


Galina Vasilyevna Kraft —
Chief Accountant of JSC Russian Railways

Mikhail Pavlovich Akulov —
Vice President of JSC Russian Railways

Born August 16, 1960 in Moscow.
In 1982 graduated from Moscow State University of Railway Engineering with a degree in railway electrical engineering and in 1998 graduated from the Economics Academy under the Auspices of the Government of the Russian Federation.
In November 2005, appointed Vice President of JSC Russian Railways.

Oleg Yuryevich Atkov —
Vice President of JSC Russian Railways

Born in 1949. Doctor of Medicine, Professor, Hero of the Soviet Union, honored with the Lenin Komsomol Award (1978) and the State Award of the USSR (1989).
After graduating from Sechenov Medical School in Moscow, completed residency (1975) and a fellowship (1978) at the Cardiology Research Institute of the All-Union Cardiology Center of the Academy of Medicine of the USSR and worked as a senior scientist at the Clinical-Functional Department of Myasnikov Institute of Clinical Cardiology of the All Union Cardiology Center.
In 2002 appointed Head of the Department of Health of the Russian Ministry of Railways and in 2003 headed the Department of Medical Care of JSC Russian Railways.
On August 17, 2005, appointed Vice President of JSC Russian Railways.

Salman Magomedrasulovich Babayev —
Vice President of JSC Russian Railways

Born September 1, 1955. In 1978 graduated from Khabarovsk Railway Engineering Institute, railway engineer specializing in railway operation. He began his career in rail transport in 1978 as deputy yardmaster at Komsomolsk-on-Amur Station on the Far Eastern Railway. Later he held the positions of station duty officer and station operator at Komsomolsk Rail Yard on the Far Eastern Railway and traffic controller for the Komsomolsk Division.
1999—2002: Deputy Head of the Moscow Railway and Head of the Rail Center for High-Comfort Rail Service, Deputy Head of the Moscow Railway.
2002: Head of the Advanced Transport Services Center (CFTO) under the Ministry of Railways of the Russian Federation.
2002: Director of the Volga Railway.
2003: Vice President of JSC Russian Railways and Head of the Advanced Transport Services Center (CFTO).
August 2005: Vice President of JSC Russian Railways.

Alexander Sergeyevich Bobreshov —
Vice President of JSC Russian Railways

On August 17, 2005, appointed Vice President of JSC Russian Railways.

Vladimir Borisovich Vorobyov —
Vice President of JSC Russian Railways

Born September 3, 1949 in Kursk Region.
In 1978 graduated from Moscow State University of Railway Engineering.
1999—2002: Deputy Head of the Moscow Railway for Track Facilities.
In 2002 appointed Head of the North Caucasus Railway; member of the Management Board of JSC Russian Railways since 2005.
In December 2006, appointed Vice President of JSC Russian Railways.
Named Honored Rail Worker and Distinguished Transport Worker.
Valentin Alexandrovich Gapanovich —
Vice President of JSC Russian Railways
Born May 23, 1955. In 1992 graduated from
Novosibirsk Railway Engineering Institute and
in 1998 graduated from the Academy of
Economics under the Government of the Russian
Federation. Specialization: rail transport man-
agement, railway engineering in connection with
rail transport management.
2000–2003: Chief Engineer on the October
Railway.
2003: Vice President of JSC Russian Railways.

Georgy Viktorovich Kornilov —
Vice President of JSC Russian Railways
Born April 13, 1953. In 1976 graduated from
Odessa Naval Engineering Institute (shipboard
machines and devices, mechanical engineer)
and in 1981 passed the KGB Higher Training
Course.
1981—2004: Held operative and executive
positions with the KGB, Federal Grid Company
and FSB.
2004: Vice President of JSC Russian Railways.

Sergei Vitalyevich Kozyrev —
Vice President of JSC Russian Railways
Born May 4, 1953. In 1975 graduated from
Moscow State University of Railway Engineering,
railway engineer specializing in railway opera-
tion, Candidate of Science (Engineering).
Distinguished Transport Worker of the Russian
Federation.
1990–2003: Head of Passenger Service and
Deputy Head of the Moscow Railway, Deputy Rail
Chief and Head of the Moscow-Kursk Division of
the Moscow Railway.
2003: Head of Passenger Service Department with
the Russian Ministry of Railways, Head of Long-
Distance Passenger Service Department with
JSC Russian Railways.
2003–2004: Vice President of JSC Russian
Railways, Vice President and Head of Shipping.
Since August 2005: Vice President of JSC Russian
Railways.

Alexei Anvyarovich Mersiyanov —
Vice President of JSC Russian Railways
Born in 1969. In 1991 graduated from
Mozhaisky Military Space Engineering
Institute, radio electronics engineer, Doctor of
Economics.
1999: Assistant to the First Vice Governor
of St. Petersburg, then Deputy Chairman of the
Committee of Economic and Industrial Policy
of the St. Petersburg Administration, Advisor to
the Department of Seaport Industrial Regulation
of the Russian Ministry of Transport.
Since 2002: Deputy, First Deputy, General
Director of Roszheldorsnab (state enterprise for
the logistical support of rail transportation)
of the Russian Ministry of Railways.
In 2003 appointed Vice President and Director
of Roszheldorsnab, a branch of JSC Russian
Railways.
Since 2005: Director of Roszheldorsnab,
as a branch of JSC Russian Railways,
In November 2006, appointed Vice President
of JSC Russian Railways.

Victor Alexeyevich Popov —
Vice President of JSC Russian Railways
Born November 9, 1956 in Vereya, Orekhovo-
Zuyevo District, Moscow Region.
2000–2002: First Deputy Head of the Moscow
Railway for Passenger Traffic.
In 2002 appointed Head of the Far Eastern
Railway; in 2003 appointed head of the Federal
Passenger Directorate, a branch of JSC Russian
Railways, and Vice President of JSC Russian
Railways.
August 17, 2005 — November 30, 2005: Head
of the Federal Passenger Directorate, a branch
of JSC Russian Railways.
In November 2005, appointed Vice President
of JSC Russian Railways.
Oleg Vilyamsovich Toni —
Vice President of JSC Russian Railways


Olga Eduardovna Gnedkova —
Head of the Corporate Finance Department of JSC Russian Railways


Alexei Georgiyevich Ivashkin —
Chief Administrator of JSC Russian Railways


Sergei Alexeyevich Kobzev —
Head of the Locomotive Department of JSC Russian Railways


Sergei Vladimirovich Mikhailov —
Head of the Corporate Communications Department of JSC Russian Railways

Management Board

Andrei Yevgenyevich Semechkin —
Director of the Russian Railway Scientific Research Institute

Born in 1959.
Doctor of Science (Engineering), Professor, Associate Member of the Russian Academy of Science.
Since 2002, Deputy Science Director of the Systems Analysis Institute of the Russian Academy of Science.
On August 17, 2005, appointed Vice President of JSC Russian Railways.

Vladimir Ivanovich Starostenko —
Head of the Moscow Railway

Born September 2, 1948 in Tatarsk in the Tatar District of Novosibirsk Region.
In 1968 graduated from Tomsk Railway Technical School. In 1975 graduated from Novosibirsk Railway Engineering Institute, engineer specializing in railway operation.
In February 2002, named Head of the Moscow Railway by order of the Prime Minister.
Since 2003: member of the Management Board of JSC Russian Railways.

Alexander Vitalyevich Tselko —
Head of the West Siberian Railway

Born June 17, 1956 in Chistoozerny District of Novosibirsk Region.
In 1978 graduated from Novosibirsk Railway Engineering Institute with a degree in railway operation. Decorated as an Honored Rail Worker, for Exceptional Work in Rail Transport and for Twenty Years’ Service, awarded the Medal of Honor.
In May 2000, appointed Deputy Minister of Railways of the Russian Federation; on August 17, 2000, appointed First Deputy Minister of Railways of the Russian Federation.
On February 08, 2002, appointed Head of the West Siberian Railway.
Since 2003: member of the Management Board of JSC Russian Railways.

Sergei Yuryevich Ivanov —
Head of the Department of Rails and Structures

Born July 15, 1961 in Ufa, Republic of Bashkortostan.
In September 2003, appointed Head of the Department of Rails and Structures of the Russian Ministry of Railways.
In October 2003, appointed Head of the Department of Rails and Structures of JSC Russian Railways; in November 2003, appointed Vice President, Head of the Department of Rails and Structures and member of the Management Board of JSC Russian Railways.
In August 2005, appointed Head of the Department of Rails and Structures and member of the Management Board of JSC Russian Railways.
INFORMATION ON COMPANY REFORM IN 2006
**Information on Company Reform in 2006**

**In accordance** with the Program for the Structural Reform of Rail Transport, approved by the Government of the Russian Federation, the third and final stage of structural reform is currently under way. The Government of the Russian Federation, players on the freight and passenger market and foreign experts have all given the first stages of reform a positive assessment. The results of the first year in the third stage of reform were approved at a session of the Russian Government on November 02, 2006.

In the course of Structural Reform, JSC Russian Railways has fully met the growing demand for rail services. In the period 2003 – 2006, freight traffic grew by 17% and passenger traffic by 13%.

The rising demand for transportation services has been satisfied simultaneously with an improvement in quality and rail traffic safety. In 2006, the highest level of rail traffic safety was achieved. Delivery speed is steadily increasing. “On time” deliveries top 90%, and for such important freight as coke, ore, machines and basic foodstuffs, the level reaches 95% and higher, thus meeting world standards. At the same time, the Russian railways have achieved the highest quality use of rolling stock in fifteen years of operation and the highest transportation energy efficiency.

Under JSC Russian Railways’ Plan of Measures for the Realization of the Program of the Structural Reform of Railway Transport for 2006 — 2010, twelve measures were scheduled for 2006, all of which have been carried out in full.

A target model of the rail transport services market at the end of the third stage of the reform has been developed in order to achieve the goals of industry reform: greater stability of rail transport, harmonious development of the national transportation system, a reduction in the national economy’s transport burden and satisfaction of the growing demand for transportation services.

The growth in freight tariffs in previous periods was held down as compared with the growth of prices in industry — a factor that has stimulated the development of the national economy and reduced the inflationary effect of rail transport (around 1% in 2002, down to 0.6% three years later).

In the course of the reform, JSC Russian Railways has expanded its extended reproduction of fixed assets, positively affecting Russia’s economic development. It is well known that investments in railway infrastructure have a threefold effect on the growth of gross domestic product.

All of this goes to show that the reform of Russian rail transport is fully in the interests of society and the national economy in accordance with the Program of the Structural Reform of Rail Transport. Based on an evolutionary principle, it is one of the best examples of rail-system reform, as judged by criteria of stability, safety and efficiency.

In 2006, at the end of the second and beginning of the third stage of Structural Reform, subsidiaries of JSC Russian Railways continued to be created in order to form an efficient, competitive holding company by the end of the third stage.

In 2006 the Board of Directors of JSC Russian Railways decided to create a subsidiary private security company (JSC RZhD-OKHRANA) and a subsidiary in the area of vehicle shipments with the participation of TransGroup AS (JSC RailTransAuto).

All six suburban passenger companies formed in 2006 have begun railway operations. In 2006 the Board of Directors of JSC Russian Railways considered the following matters:

- the concept of reforming the complex involved in repairing and maintaining freight rolling stock;
- formation of JSC Express Lines — a subsidiary of JSC Russian Railways;
- formation of a Rail Station Directorate;
- formation of a joint venture to realize a project for express passenger traffic between St. Petersburg and Helsinki;
- formation of a Freight Service Company — a subsidiary of JSC Russian Railways.
The initial results of the subsidiaries created by JSC Russian Railways have been positive. Based on the results of 2006, net assets, profit from sales and net profit of subsidiaries and affiliates of JSC Russian Railways have increased. Thus, Transcontainer showed a net profit of 1.4 billion rubles, Roszheldorproyekt showed RUR 600 mln., and Kalugaremputmash showed 64 million rubles. This testifies to increasingly effective corporate management of JSC Russian Railways and a steady increase in additional sources of cash receipts from subsidiaries and affiliates. Reform of the passenger complex is among the main objectives of the Program for the Structural Reform of Rail Transport. At the third stage, it is planned to make long-distance passenger service fully autonomous by forming a Federal Passenger Company. The problem of eliminating cross-subsidizing of long-distance passenger service is to be resolved by a mechanism of federal subsidies for passenger service and new approaches to compensating income lost on passengers entitled to reduced tariffs under federal law. This will free up financial resources that JSC Russian Railways has used to support socially oriented passenger service and make it possible to invest more resources in the development of infrastructure and renewal of rolling stock.

The prototype of the future Federal Passenger Company is the Federal Passenger Directorate, a branch of JSC Russian Railways that began operating independently on July, 01, 2006. The Federal Passenger Directorate was formed as a transition stage on the way to a Federal Passenger Company so that reorganization of the long-distance passenger complex would not lead to a reduction in the quality of passenger service. Using the Federal Passenger Directorate as a base, financial, organizational and other mechanisms will be developed for an independent company to handle long-distance passenger service. In 2006 the Board of Directors of JSC Russian Railways decided to form a Rail Station Directorate. The list of stations to be transferred to the Rail Station Directorate was approved by a decision of the Board of Directors of JSC Russian Railways on 26.04.2006. The Rail Station Directorate began independent operations on January 01, 2007. In the process of reforming the passenger complex, suburban passenger companies continue to be established, jointly with constituent entities of the Russian Federation, and brought to a level where they are no longer operating at a loss.

The principal goal at the third stage is to create conditions for significant investments in renovation and development of the general rail-transport infrastructure as a basis for further development of the Russian economy. One source of investments is greater capitalization of the Russian railways as a holding company and effective offering of subsidiaries’ shares on the stock market. JSC Russian Railways is developing a series of measures to increase the capitalization of subsidiaries whose shares are to be offered for sale in 2007 – 2008. The Committee for Corporate Construction and Reform has been created to accomplish tasks in the area of corporate construction and reform and to coordinate the operations of structural units of JSC Russian Railways. Today, as a result of intensive development of the company’s corporate structure in order to realize the reform program, the company is increasingly referred to as Russian Railways Holding Company (the parent company, JSC Russian Railways, plus subsidiary companies).
To improve cooperation within Russian Railways Holding Company, regional operating commissions have been formed and are working to coordinate interaction between the railways and other branches and non-state institutions of JSC Russian Railways within their areas as well as with subsidiaries and affiliates of JSC Russian Railways.

A key task today in the area of corporate construction is the formation of an optimal, diversified holding-company structure to ensure effective management of subsidiaries and affiliates.

In order to develop and implement a new system of management ensuring effective management of current operations and development of all subsidiaries and affiliates of JSC Russian Railways, a project — “Formation of a Management System for JSC Russian Railways in Conditions of Reform” — has been undertaken with the assistance of consulting companies.

JSC Russian Railways manages subsidiaries and affiliates using only corporate methods and does not resort to administrative interference in their operations. In November 2006, the Board of Directors of JSC Russian Railways approved the Rules for JSC Russian Railways’ participation in subsidiaries and affiliates and for corporate management of these companies. Among other things, these rules determine the procedures for creating and liquidating subsidiaries and affiliates of JSC Russian Railways.

In November 2006 the Board of Directors of JSC Russian Railways approved a code of business ethics — rules and standards of behavior in relation to the shareholder, investors, consumers, suppliers, subsidiaries and affiliates and that are mandatory for all employees and executives at JSC Russian Railways.
SUMMARY OF COMPANY OPERATIONS OVER THREE YEARS
Summary of Company Operations over Three Years

In 2004-2006 JSC Russian Railways’ key performance targets, approved by the Board of Directors of JSC Russian Railways were realized and the tasks set by Russian President Vladimir Putin and the Government of the Russian Federation were accomplished. JSC Russian Railways fulfilled President Putin’s instructions with respect to the development of railway infrastructure on the approaches to the port of Ust-Luga, the establishment of ferry service between Ust-Luga, Baltiisk and ports in Germany and the development of express passenger service between St. Petersburg and Helsinki.

In the year 2006 the best figures in fifteen years concerning operations, rail-traffic safety and quality of use of rolling stock were achieved. Energy efficiency was the highest in the history of the Russian railways.

The Government of the Russian Federation has given a high assessment of the work done in realizing the Program of the Structural Reform of Rail Transport. Special note was made of the high quality of short- and long-term planning of JSC Russian Railways’ operations.

Over a three-year period, JSC Russian Railways fully met the demand for rail service on the part of the country’s economy and population. The increase in Freight turnover in this period kept up with growth in industry. Freight turnover in 2006 stood at 2,148 billion ton-kilometers — 8.9% above the level of 2004. Passenger turnover was 8.2% above the level of 2004. Rail services in 2006 were used by 1.355 billion passengers.

JSC Russian Railways used all types of resources more efficiently. Over the last three years, labor productivity grew by 23.8%. And JSC Russian Railways is practically the only major company in Russia to consistently ensure an economically sound correlation between growth in labor productivity and real wages.

The growing demand for transportation services was satisfied simultaneously with an improvement in quality. The average stationary load increased over three years by 1.1 ton, and the average weight of a freight train by 139 tons. A locomotive’s average daily run increased by 33.2 km, and turnover period of freight car accelerated over three years by 0.62 days.

The transition was made to a project-based investment process. The main directions of JSC Russian Railways’ investment policy in this period were further development of railway tonnage capacity and an increase in the safety and quality of transportation services. Therefore, considerable funds were allocated to renew JSC Russian Railways’ infrastructure.

In the framework of the investment program, the 15-km Severo-Muisk Tunnel was put into service on the East Siberian Railway as well as the Tarmanchukans and Lagar-Aul Tunnels on the Far Eastern Railway and Long, Medium and Short loop tunnels on the North Caucasus Railway.
Work was done on side-track construction, station development and the extension of station tracks by over 600 km. During this period the Trans-Siberian Railway and the following routes were fully electrified: Saratov — Volgograd — Tikhoretskaya, Stary Oskol — Valuiki, Malenga — Sumskoi Posad — Obozerskaya, St. Petersburg — Murmansk. New and reconstructed station complexes were put into service — in St. Petersburg (Ladoga), Krasnoyarsk, Khabarovsk, Rostov-on-Don and many others. Over three years, RUR 140 bln. were allocated to the renewal and modernization of rolling stock.

There has been notable success in strengthening the position of JSC Russian Railways on the Eurasian market in transportation services. JSC Russian Railways maintains its competitiveness on the international market with effective support from Russian foreign-policy agencies. This support has become even more appreciable since the signing of a cooperation agreement with the Russian Ministry of Internal Affairs in January 2006.

Considerable attention has been given to strengthening cooperation with railways in CIS and Baltic countries. Meetings of the Rail Transportation Council of CIS Member States continue to demonstrate this organization’s effectiveness.

On the whole, JSC Russian Railways’ results in 2004-2006 indicate that the company has strengthened its position on domestic and international markets, improved the efficiency of its operations and made a significant contribution to the development of the national economy as well as creating a solid base for further efficient development and enhanced global competitiveness.

At the same time, the company’s operations over the last three years revealed a number of systemic weaknesses requiring immediate solutions.

Tariff-indexation parameters and financial plans adopted in 2004-2006 resolved only current financial issues and did not accomplish a number of strategic tasks with respect to developing JSC Russian Railways and the sector as a whole or achieve goals set with respect to activating the investment process, renewing fixed assets and ensuring infrastructure support for national economic growth.

The main problem is a lack of investment resources.

JSC Russian Railways’ shortage of investment resources for the development of infrastructure and renewal of rolling stock, taking into account domestic machine-building capacity, came to over RUR 100 bln. annually.

As a result, based on the results of 2006, the depreciation of fixed assets averaged almost 59%. There was restricted carrying capacity on over 7,000 km of the most heavily traveled sections.

The company’s profitability over the last three-year period remained minimal — below that of similar domestic and foreign companies and, most importantly, below the level required for intensive development of the company.
No less pressing is the issue of developing the Russian railway system, whose length in use has fallen by 2,500 km over the last fifteen years. Integrated approaches to the development of rail transportation are envisaged by the Strategic Development Program for the Development of JSC Russian Railways, and the realization of this program will satisfy the transportation needs of the economy and the population.
OVERVIEW
OF JSC RUSSIAN
RAILWAYS’
INTERNATIONAL
ACTIVITIES AND
THE IMPLEMENTATION
OF THE PRINCIPAL
INTERNATIONAL
PROJECTS
Overview of JSC Russian Railways' International Activities and the Implementation of the Principal International Projects

In 2006, JSC Russian Railways continued to work actively on consolidating the Company's positions on the world transportation services market and its further integration in the system of international freight and passenger traffic. In this respect, a number of activities were carried out and important agreements were signed.

To enlarge the freight base of Eurasian carriage, the following was undertaken:

- The Convention on the Mutual Use of Large Containers and the Electronic Data Exchange Agreement were signed with the Ministry of Railways of the Chinese People's Republic in Moscow, and the Memorandum of Mutual Understanding between the Ministry of Railways of the Chinese People's Republic, Deutsche Bahn AG and JSC Russian Railways for consolidating cooperation in Eurasian rail carriage was signed in Beijing in November;
- A demonstrating trip along the Trans-Siberian Railway was organized for railway executives, freight owners and forwarders of European and Asian countries, and for the representatives of the federal bodies and services of Russia, during which the Memorandum of Mutual Understanding was signed with the Railway Corporation of the Republic of Korea, and the historically first tripartite meeting was held by the heads of the railway administrations of Russia and North and South Korea, at which it was decided to start restoring the Trans-Korean Railway with the implementation of the Hasan-Rajin pilot project;
- A visit was paid by the management of JSC Russian Railways to Japan, during which the possibilities of Russian railways concerning competition with sea routes for the delivery of goods from Asia to Europe were shown to Japanese exporters.

In 2006, JSC Russian Railways worked intensively to gain access to foreign railway infrastructure markets:

- a three-year Memorandum of Mutual Understanding, which determines the general directions of the parties' cooperation in railway development, was signed with the Railway Ministry of India;
- the Memorandum of Mutual Understanding was signed during a visit to Iran, whereby the main directions of joint activities involving the two countries' railways were confirmed;
- the possibilities of participating in the programs oriented on railway infrastructure in other countries and regions are being worked through; the relevant documents have been signed with Syria, Libya and Venezuela, and participation in projects on the territory of Saudi Arabia and Algeria as promising directions is considered to be promising. Developing cooperation with the CIS countries, JSC Russian Railways signed several agreements in 2006, including:
  - the Agreement on the Transportation of Goods, the Use of Freight Railway Cars and Containers, and Mutual Payments Settlements for Their Use in Direct International Rail Carriage via the Ports of Caucasus (Russia) and Crimea (Ukraine);
  - the Agreement on the Transportation of Goods, the Use of Freight Railway Cars and Containers, and Mutual Payments Settlements for Their Use in Direct International Rail and Ferry Carriage via the Ports of Caucasus (Russia) and Poti (Georgia), entered into by JSC Russian Railways, Georgian Railways LLC and Anship LLC;
  - In 2006, fast passenger trains began to run between Moscow and Minsk.

JSC Russian Railways initiated the international business forum “Strategic Partnership 1520” (Sochi, May 2006; Almaty, December 2006), the purpose of which was to unite the interests of the producers and consumers of railway equipment, know-how, and of transportation and infrastructural services with a view to developing business and economic relations between countries having 1520 mm wheel gauge.

One of the key directions of JSC Russian Railways' integration in the world transportation service market and more effective cooperation with foreign partners is the development of cooperation within international transport organization.

In 2006, the Russian Railways' membership in the International Union of Railways (UIC), which currently has 177 railway member-companies from 87 countries, has been restored after a lapse of 70 years break.

JSC Russian Railways' membership in the UIC means that new opportunities to become adapted to the integration processes in Europe and other parts of the world will be provided, and that it will promote the formation of the world transportation service market, which will be more accessible for Russian companies. At the same time, due to closer cooperation between the UIC member-companies, Russia’s transportation routes, enabling trade and economic relations between Europe and Asia become more important.

In 2006, the unified CIM/COTIF consignment note was prepared and put into effect by the joint efforts of two major international organizations, the Organization for Railway Cooperation (ORC) and the International Committee on Rail Transportation (ICRT).

In 2006 JSC Russian Railways directly participated in working out and signing intergovernmental Convention on of trans-Asian railways network within the framework of UN ESCAP.
While implementing the program of upgrading the rolling stock and the infrastructure, JSC Russian Railways focused on mutually beneficial technological cooperation and on the exchange of experience with foreign companies having the latest know-how in producing railway devices and equipment. To this end, the following documents were signed in 2006:

- an agreement with Siemens AG on the first stage of design-engineering high-speed electric trains;
- the memorandum with the Italian corporation Finmeccanica S.p.A. together with OJSC High Speed Railways and CJSC Transmashholding.

Another important line of work is strengthening positions of the Company and its subsidiaries and affiliates on forwarding and logistic services markets. In developing international container carriages, JSC Russian Railways is implementing a strategy based on improving the quality of all aspects of the transport service and their transformation into a first-class competitive product. The know-how of transporting containers by fast trains, implemented by the Company, helps to reduce the time of delivery of goods substantially and to deliver them regularly in fixed consignments and strictly according to schedule.

On the international carriage market, one of the first steps in this direction was to establish, jointly with Fareast Steamship Company, the company Russkaya Troika, which can provide the freight owner with the services on the highest level through its agents in Japan and other countries of the Asian-Pacific region. The subsidiary OJSC TransKonteiner, which owns one of the country’s largest container terminal networks and has a partnership with many forwarders and road carriers within Russia, provides logistic services in Russia. Another aspect of the strategy to create an integrated logistic system will be the establishment of a joint logistic company with Deutsche Bahn AG aiming to increase rail freight carriage between Western Europe, Russia and China.

This logistic company will, among other things, implement the project for direct rail and ferry traffic between Ust-Luga, Baltiisk and German ports. To this end, the first commercial trial voyage of the ferry Baltiisk was organized along the Ust-Luga - Baltiisk route in September 2006. Currently, the norm-related legal regulation of international rail and ferry carriage between Ust-Luga, Baltiisk and German ports is being considered.

In major cities (Moscow, St. Petersburg, Yekaterinburg, etc.), logistic centers will provide services relating to the temporary storage of imports, their customs clearance, the splitting of consignments and delivery to freight owners.

In 2006, the services rendered by JSC Russian Railways to foreign railways amounted to USD 492.1 mln., i.e. a 25% increase against the 2005 level, of which passenger carriage amounted to USD 231.6 mln., and freight carriage, to USD 260.5 mln. Services rendered by foreign railways to JSC Russian Railways amounted to USD 409.6 mln, having grown by 113%.
The general balance of payments for international carriage amounted to USD 82.5 mln. in favor of JSC Russian Railways, having grown by USD 50.3 mln, or 150%.

The Company achieved a positive balance of payments by rationally using the freight cars of foreign railways on the network of JSC Russian Railways, and by following a tariff policy in international passenger carriage and increasing the number of trains formed by JSC Russian Railways in inter-state traffic. For the first time since settlements for the use of railway cars were initiated, the fee rates were indexed on average by 20%, and also an agreement was reached on widening the time intervals with regard to increasing the rates concerning the fees for the use of railway cars, allowing JSC Russian Railways to reduce unsubstantiated payments for the rolling stock belonging to foreign railways considerably.
KEY OPERATIONAL RESULTS
The Company’s position within the industry

The 2006 results make it possible to positively evaluate JSC Russian Railways performance: they either meet the figures planned by the Board of Directors or exceed them. As a result of 2006 the railways have fully met the freight handling plan: the total tonnage handled amounted to 1,311.3 mln. tons, a 3.0% rise from the 2005 level.

With a positive dynamics in freight forward tonnage a stable growth in freight turnover was secured. In 2006, the overall volumetric freight turnover reported by the Company was 1,944.9 bln. tkm, a 5.0% increase year-on-year. The increase in freight turnover was due to the growth in freight carried by 30.8 mln tons (+2.2%) and the growth in average shipping distance by 36.0 km (+2.7%). The accelerated freight handling growth was secured in the high-yield traffic segment (105.0%). The volume of medium-yield traffic handled remained at the 2005 level, and a 2.3% increase was reported in the low paying segment. This dynamics enabled significant improvement in the freight handling structure. The share of high-yield freight traffic rose by 0.6 percentage points (from 31.8% to 32.4%).

Dynamics of Average Daily Loading, thou. tons
The maximum increase from the 2005 level was reported on the following types of cargo: coal — 9.3 mln tons (+3.3%), oil and oil products — 10.0 mln tons (+4.6%), iron ore — 6.9 mln tons (+6.8%), cement — 4.0 mln tons (+11.6%), ferrous metals — 7.1 mln tons (9.7%).

It should be noted that the freight base was sufficient enough to ensure even greater growth rates were it not for 471 conventional service stoppages which resulted in significant freight losses: 92,900 of cars (or 5.5 mln tons of freight) were not handled and RUR 4.1 bln was lost in the non-received carriage fees. The financial losses increased 3.1 times compared to the similar period in 2005.

The higher volume of freight handling was procured through the successful meeting of planned figures, including car turnover, service speed, locomotive productive capacity and average train weight. Compared to the 2005 level the freight car turnover was increased by 0.48 days, service speed by 0.1 km/h, locomotive productive capacity by 34,000 tkm (gross), and the average train weight was increased by 31 tons.

Development of competition in the transport sector is one of the primary objectives for the restructuring of railways in the Russian Federation. However, currently JSC Russian Railways is in unequal competitive conditions vis-à-vis other transport market players as the Company, being a national carrier, is put at an a priori competitive disadvantage in so much as the 'local' transport operators are not encumbered with public functions or any responsibility towards the state.

As a result, redistribution of the market in favor of private transport companies takes place. The volume of cargoes carried in private or leased freight stock in 2006 accounted for 35.0% of the total rail traffic. For reference: this indicator was 34.0% in 2005 and 31.5% in 2004, respectively.
Key Operational Results

The Company’s position within the industry


Competitive advantages of the privately-owned freight stock lie chiefly in that their owners may at their discretion pick those shipping routes which promise maximum efficiency. For example: already 96% of the export-bound oil is carried via land border crossings in tank cars owned by private operators whereas 99% of the export-bound coal is carried in RZD-owned stock.

The privately-owned freight stock accounts for the maximum share in high-yield freight traffic. For instance, currently their share in 2nd tariff class freight traffic is 48.5%, 3rd – 36.7%, and 1st – 29.1%.

RZD-owned stock is engaged in shipping coal and building cargoes which alone account for more than 50 per cent of the total freight turnover. The above cargoes belong to 1st (low-yield) class freight. With the private operators’ conquest of the high-yield freight market going on unabated JSC Russian Railways while incurring significant operational and investment expenses and bearing the burden of freight class 2nd and 3rd transportation is about to lose a significant part of its income base. As a result of the above structural changes the Company’s losses for Q1 2007 alone amounted to approx. RUR 1 billion.

Transportation of staple commodities accounts for more than 50% in the total volume of freight carried by JSC Russian Railways with traffic distribution between privately-owned stock and RZD-owned stock being as follows:

<table>
<thead>
<tr>
<th></th>
<th>Privately-Owned Stock</th>
<th>RZD-Owned Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>coal</td>
<td>6-7%</td>
<td>93-94%</td>
</tr>
<tr>
<td>coal coke</td>
<td>11%</td>
<td>89%</td>
</tr>
<tr>
<td>mineral and building cargoes</td>
<td>17%</td>
<td>83%</td>
</tr>
</tbody>
</table>
### Rail Freight Transportation Growth Rates by Freight Stock Owners in 2006 (% to 2005)

<table>
<thead>
<tr>
<th>FREIGHT GROUP</th>
<th>PUBLICLY-OWNED FREIGHT STOCK</th>
<th>RZD- OWNED</th>
<th>PRIVATELY-OWNED FREIGHT STOCK</th>
<th>TOTAL</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>TOTAL OF WHICH:</td>
<td>RZD- OWNED</td>
<td>PRIVATELY-OWNED TOTAL OF WHICH</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RZD- freight stock owned by railway administration of CIS and Baltic countries</td>
<td></td>
<td>private and leased stock of countries</td>
<td></td>
</tr>
<tr>
<td>High-yield</td>
<td>101.9</td>
<td>102.3</td>
<td>97.2</td>
<td>80.5</td>
</tr>
<tr>
<td>Medium-yield</td>
<td>97.9</td>
<td>96.8</td>
<td>115.2</td>
<td>108.3</td>
</tr>
<tr>
<td>Low-yield</td>
<td>103.8</td>
<td>104.5</td>
<td>91.3</td>
<td>40.9</td>
</tr>
<tr>
<td>Total railways</td>
<td>102.7</td>
<td>103.2</td>
<td>95.8</td>
<td>64.2</td>
</tr>
</tbody>
</table>

Consequently, private operators’ expansion into the high-yield freight market continues.

### Different Yield Freight Traffic Structure by Rolling Stock Owners in 2006 (%)

<table>
<thead>
<tr>
<th>FREIGHT GROUP</th>
<th>PUBLICLY-OWNED FREIGHT STOCK</th>
<th>RZD- OWNED</th>
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<tr>
<td></td>
<td>RZD- freight stock owned by railway administration of CIS and Baltic countries</td>
<td></td>
<td>private and leased stock of countries</td>
<td></td>
</tr>
<tr>
<td>High-yield</td>
<td>49.1</td>
<td>46.1</td>
<td>3.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Medium-yield</td>
<td>79.2</td>
<td>73.7</td>
<td>5.5</td>
<td>6.9</td>
</tr>
<tr>
<td>Low-yield</td>
<td>71.7</td>
<td>68.5</td>
<td>3.2</td>
<td>1.1</td>
</tr>
<tr>
<td>Total railways</td>
<td>65.0</td>
<td>61.7</td>
<td>3.3</td>
<td>1.8</td>
</tr>
</tbody>
</table>

### Structure of Freight Traffic Carried in Stock of Different Owners by ROR in 2006 (%)

<table>
<thead>
<tr>
<th>FREIGHT GROUP</th>
<th>PUBLICLY-OWNED FREIGHT STOCK</th>
<th>RZD- OWNED</th>
<th>PRIVATELY-OWNED FREIGHT STOCK</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TOTAL OF WHICH:</td>
<td>RZD- OWNED</td>
<td>PRIVATELY-OWNED TOTAL OF WHICH</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RZD- freight stock owned by railway administration of CIS and Baltic countries</td>
<td></td>
<td>private and leased stock of countries</td>
<td></td>
</tr>
<tr>
<td>High-yield</td>
<td>24.6</td>
<td>24.2</td>
<td>29.8</td>
<td>34.9</td>
</tr>
<tr>
<td>Medium-yield</td>
<td>10.0</td>
<td>9.8</td>
<td>13.6</td>
<td>30.7</td>
</tr>
<tr>
<td>Low-yield</td>
<td>65.4</td>
<td>66.0</td>
<td>56.6</td>
<td>34.4</td>
</tr>
<tr>
<td>Total railways</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Key operational results

Comparison of ROR (kop/10tkm) by types of services in 2006 with tariffs indexation for the similar period in 2005

The growth in average ROR in 2006 was 108.8% compared to the 2005 level with average tariff indexation being 110%, whereas in 2005 the relative difference was greater. For instance, while freight rates in 2005 were 110.8%, ROR grew by only 108.8%.

JSC Russian Railways is also losing market competition due to rigid regulation of all components of freight tariff for carriage in RZD-owned stock.

Tariffs for freight carriage in RZD-owned stock include the cost of back run of empty cars subsequent to cargo discharge based on the industry-average empty run distance whilst in reality the freight car owner has to pay for the actual empty run. Where an empty run is shorter than the industry average the operator may attract cargoes by granting preferences to the freight owners not only at the expense of a so-called ‘wagon constituent’ in the freight tariff but through cutting back empty runs costs as well.

Besides, the government-pursued policy with regard to different transport services has had a significant impact on JSC Russian Railways revenues. For instance, due to implementation of the first stage of freight tariffs harmonization that took place in 2001 whereby the cost of international freight transit via Russian ports had been established at the level of domestic shipping tariffs a situation developed when the growth of revenues per ton-km was significantly lagging behind the freight tariffs indexation.

The growth of an average ROR per 10-ton-km was 108.8% compared to the 2005 level with average tariff indexation being 110% (i.e. negative difference was 1.2 percentage points). At the same time it should be noted that the average ROR growth rates were almost 3 percentage points behind the average tariffs indexation in 2005. And as for 2004 the gap between the average ROR per 10-ton-km and the planned tariffs growth amounted to as much as 7 points.
Differentiated indexation of freight tariffs that took place in 2006 enabled to significantly narrow the gap between the cost of international cargoes transit via inland border crossings and the transit via ports. As a result, the negative difference between the actual ROR growth rate and the planned indexation of freight tariffs was reduced to 1.2 percent-age points i.e. more than by half from the 2005 level. Anyway, the negative difference is still there and according to the Company’s estimates may be completely eliminated by 2010.

At the same time the low level of transport costs on routes towards sea ports remains appealing to operators and private stock owners which fact encourages further expansion into this market through the offering of privately-owned or leased rolling stock. Consequently, on service lines towards sea ports privately-owned stock accounts for a share greater than that of the RZD-owned stock as far as certain types of cargo is concerned.
Passenger service

JSC Russian Railways performance in the passenger service segment is indicative of the fact the number of Russians opting for the railway when it comes to traveling is constantly growing. For instance, in 2006 JSC Russian Railways moved 1,350 million passengers, a 2% increase year-on-year. Out of this number 135 million passengers were carried by long-distance trains which is on a par with the 2005 figures whereas the average travel distance increased by 4% to 923 km. This is indicative of the fact that rail transport remains competitive with air transport that has traditionally been targeting routes with distances exceeding 1,000 km.

Passenger turnover plan for 2006 was fulfilled across all service lines with a 4.1% increase from the 2005 level. For long-distance service, the increase amounted to 5.1% or 125.0 bln. passenger-km, a total of 136.0 million passengers were moved.

Suburban traffic amounted to 52.8 bln. passenger-km, a 1.7% rise year-on-year. A total of 1,210.7 mln passengers were carried exceeding the 2005 numbers by 25.1 million (2.5%). Qualitative indicators were also improved: coach occupancy was 29.1 passengers per coach, a 2.5% increase year-on-year, average travel distance was increased from the 2005 level by 36.7 km or 4.1% (923.2 km).

In 2006, revenues from passenger long-distance operations were in the amount of RUR 92 billion whereas expenses amounted to RUR 113.2 billion. Accordingly, the company reported net loss of RUR 21.2 billion. However, it should be noted that compared to the 2005 figures the loss was reduced by 21.5%.

In 2006, JSC Russian Railways fully met the assumed obligations to ensure transportation of privileged categories of passengers including both federal and regional beneficiaries. Measures undertaken by the Company helped to significantly ease social tensions sparked by the adoption of the benefits monetization law.

In 2006, a decision in principle was made by the state authorities to recompense losses from passenger operations out of budgets funds, which was later formalized in Decree No. 207 of the Government of the Russian Federation of April 07, 2007. This will enable JSC Russian Railways to abandon the practice of cross-subsidizing while obtaining investment sources for the extended reproduction of passenger service productive assets, and first and foremost, its rolling stock.

The year 2006 signified a milestone for the passenger operations as the Company entered a new stage in the ongoing structural reform and attained practical results of its long-term efforts by establishing on July 01, 2006 Federal Passenger Directorate, its new branch. The structural perturbations associated with the launching of this new branch had no effect on the quality of passenger servicing.

A work is underway to form a single suburban operations management structure. Spinning off suburban operations in independent activity is carried on through establishment of separate structural units in the form of either passenger suburban directorates of the railways or suburban passenger companies (SPC) as JSC Russian Railways subsidiaries with equity participation by the constituent of the Russian Federation. Presently, 10 suburban passenger companies have been incorporated jointly with the constituents of the Russian Federation. Plans to have such companies have been declared by 41 subject entities of the Russian Federation. The new types and forms of services are being constantly introduced on passenger trains to make passenger trip more comfortable. For instance, coaches on many passenger trains have children’s compartments equipped with PCs, table games and other funs stuff, book racks and video systems where parents make take their kid to during long journey.

Today, passengers may watch videos and DVD movies en-route. Besides, some trains have coaches with shower cabins as well as washing machines and ironing.

For passengers convenience trains have Internet compartment and satellite communication. Today, passengers have a possibility to buy tickets on board the train.

To ensure safe passenger transportation CCTV cameras are installed in the coaches enabling stewards to monitor situation in the coach passages and vestibules.
In 2006, a system of tickets payment by credit cards through integrated payment terminals was introduced and has been much in demand ever since. Currently passengers whose cellular phones have access to WAP protocol may receive online information on trains’ schedule, tickets prices, space availability assignments or train delays directly from MIS Express-3 24 hours a day, provided they have subscribed to this service. The system provides services to all cellular communication subscribers irrespective of the network type.

Besides, an electronic ticket service is being continuously offered by Oktyabrskaya and Gorkovskaya railways and will soon be extended across all other railways. This soft technology enables Russian railway passengers to buy tickets for long-distance trains via Internet. Introduction of another passenger service is being currently finalized. This is online buying of tickets for long-distance trains via self-serve ticket kiosks.

One of the top priorities for the Company’s passenger operations in 2006 was integration of Russian railways into the international transport system and development of international passenger transportation.

Today the Russian railways provide transportation for passengers on 54 international routes to 16 countries in Europe and Asia and to 7 CIS member-states. The regular through service of RZD-owned coaches was organized on new itineraries: Moscow – Frankfurt-on-Maine, Kazan – Berlin, Adler – Berlin and Kazan – Varna (during summer season).

A decision was made to resume starting March 2008 the running of the Polonaise train on the Moscow – Warsaw line with costs being financed on a parity basis. Currently, in conjunction with the Polish and Belorussian railways a new convenient for passengers schedule is being developed for this train.

The transit time of Train No. 13/14 Moscow-Berlin was reduced due to the use of a faster locomotive, EP-10. At the Moscow-Brest leg the transit time was reduced by 3 hours. Starting December 10, 2006 after the train’s arrival at Berlin Central station it was agreed that the train would henceforth proceed via the city center to Berlin-Zoo station, the fact which undoubtedly added publicity to the Russian railways.

Much has been done to improve passenger service to Finland; as a result, a joint venture was created that will help to organize future express passenger transportation on this route with maximum speeds up to 220 km/h.

Renovation and construction of new railway stations and other railway infrastructure facilities is a traditional area of cooperation between JSC Russian Railways and regional administrations.

In 2006, the Company worked jointly with the constituents of the Russian Federation on 75 projects (in 2005: 24 projects). The amount of the RF constituents investments in the joint projects was RUR 1.7 bln., almost 2.5 times as much as in 2005.
The primary objective assigned to the tracks maintenance business is to ensure that tracks, upper-structure and signaling are in the state guaranteeing uninterrupted and safe running of trains at predetermined speeds. This task is fulfilled through the systematic monitoring of track facilities, identification of malfunction and failure causes, and performance of whatever repair and maintenance is required to keep them operational in strict conformity with the prescribed technological norms and standards.

The technical state of track superstructure at JSC Russian Railways-run railways has in general tended to improve over the recent years. Valuation scorecard has improved from the 2003 level by 28 units i.e. reduced almost by half (2006: 42 units; 2003: 70 units, respectively) This was achieved against the growth in average traffic density from 29.1 mln. ton-km gross p.a. to 30.9 mln. ton-km gross p.a.

In 2006, the planned figures by all types of trackwork across the railways were fulfilled in the amount of 11,100 km of tracks (in 2005: 13,600 km).

To ensure stable operation of tracks and safe running of trains the Company introduces new resource saving track repair and maintenance technologies based on the use of specialized track machines. The work was actively continued to increase the amount of laying continuously welded rails on reinforced-concrete sleepers and to introduce resilient rail fastenings. As a result, on the main tracks the length of continuously welded rails was increased by 3,506 km, and the length of rails on reinforced-concrete sleepers with resilient fastenings - by 1,614 km. The total length of tracks with reinforced-concrete sleepers as of the 2006 year-end was 68,000 km (55% of the total length of main tracks), continuously welded rails — 63,300 km (51.1%), with resilient rail fastenings — 7,590 km (6.1%).

The number of concrete-sleepered pointworks will be increased to 49,800 units (29.7 % of the total amount of point sleepers on the main tracks).

The above measures enabled to increase the trains speed (as of 31.12.2006) at the railways sections with a total length of 1,600 km.

The tracks business strategy envisages maximum extension of the total length of tracks built with the use of the most up-to-date technology, massive introduction of modern high capacity track machines and resource saving track repair and maintenance technologies across the railways.

As for electrification of the railway lines it should be noted that currently the total length of the electrified tracks amounts to 42,900 km or 50.3% of the total length of railways in Russia. The percentage of electrically hauled freight in the total rail freight turnover in Russia increased in the period from 2000 to 2006 from 79% to 84%. In the period from 2000 to 2006 a total of 1,958 km of electrified tracks were put on stream.

In the period from 2004 to 2006 a total of 1,758.5 km of total length of our head system were rehabilitated, of this amount for transportation corridors for 2006 alone — 400.8 km; 30 traction substations were completely or partially reconstructed (4%). At the same time, these measures were only enough to slow down the rate of increase in the category of the oldest and most deteriorated electrified tracks being in service for more than 40 years.
Acquisition, renewal and update of rolling stock

As of January 01, 2007 the railways had a fleet of 15,616 electric train cars, of which 4,462 units were AC train cars and 11,154 were DC train cars. A total of 3,272 cars, including 870 AC train cars (19.5% of the stock) and 2,402 AC units (21.5% of the stock) are to be decommissioned due to expiration of useful life.

Over the recent years productive assets of the Russian railways engaged in passenger operations and the amount of passenger traffic have changed drastically. The stock of passenger cars on locomotive traction has dwindled almost 1.5 times, primarily due to retirement of cars with the estimated service lives expired. In the period from 2004 to 2006 JSC Russian Railways purchased 1,912 motor-car rolling stock units, including: 1,802 electric train cars and 110 rail-running buses.

In 2004, a total of 580 electric train cars and 9 rail-running buses were purchased.

In 2005, a total of 521 electric train cars and 56 rail-running buses were purchased.

In 2006, a total of 701 electric train cars and 45 rail-running buses were purchased.

Besides, one should also bear in mind the difference in technical conditions of privately-owned stock and RZD-owned stock as the latter is characterized by significant depreciation.

In 2006, a total of 701 electric train cars and 45 rail-running buses were purchased. It should be noted that the growth in the volumes of traffic that has taken place over the recent 5 years was achieved through better utilization of the rolling stock and the growth in the number of third party-owned stock. During the last year alone the third party-owned stock was increased by 33,800 new freight cars whereas JSC Russian Railways in 2005 bought only 8,500 new freight cars.

Currently, JSC Russian Railways’ rolling stock totals 618,300 freight cars whose average age is 21.1 years (with standard useful life being 28 years). Of these 259,600 units are gondola cars whose average age is 18.3 years (with standard useful life being 22 years). Almost 120,000 freight cars (20% of the total inventory stock) are operated with their service life exceeded, including 97,200 gondola cars (37% of the stock).

At the same time, out of the total privately-owned stock of 309,400 units only 9,000 railcars run with their service life exceeded (i.e. less than 3%).

One of the main problems facing the railways’ rolling stock is the continued tendency of railcar stock ageing which is indicative of the urgent need in the renewal investments. When comparing third party-owned freight stock against RZD-owned stock one should bear in mind that freight cars operated by JSC Russian Railways will be used in the transportation of socially significant cargoes (from primarily low-yield segment) which first and foremost pertains to gondola cars stock.

Passenger stock utilization dynamics

<table>
<thead>
<tr>
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<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger stock on locomotive traction</td>
<td>pcs.</td>
<td>38,229</td>
<td>26,780</td>
<td>26,552</td>
<td>26,198</td>
<td>26,107</td>
<td>25,691</td>
<td>25,658</td>
</tr>
<tr>
<td>Average useful life of passenger cars</td>
<td>yrs</td>
<td>14.9</td>
<td>14.8</td>
<td>15.3</td>
<td>15.8</td>
<td>16.5</td>
<td>18.1</td>
<td>18.34</td>
</tr>
<tr>
<td>Passenger stock percent depreciated</td>
<td>%</td>
<td>53.2</td>
<td>52.9</td>
<td>54.6</td>
<td>56.4</td>
<td>58.9</td>
<td>64.7</td>
<td>65.5</td>
</tr>
<tr>
<td>Number of cars with useful life exceeded</td>
<td>pcs.</td>
<td>4,144</td>
<td>1,536</td>
<td>1,336</td>
<td>1,150</td>
<td>1,385</td>
<td>2,126</td>
<td>2,108</td>
</tr>
<tr>
<td>% to inventory stock</td>
<td>%</td>
<td>10.8</td>
<td>5.7</td>
<td>5.0</td>
<td>4.4</td>
<td>5.3</td>
<td>8.2</td>
<td>8.2</td>
</tr>
</tbody>
</table>
In 2006, 277 locomotives were bought for the Russian railways, of which:

1. Electric passenger locomotives EP-1
2. Electric passenger locomotives EP-10
3. Electric freight locomotives 2ES5K
4. Diesel passenger locomotives TEP-70BS, TEP-70U
5. Diesel freight locomotives – 2TE70
6. Diesel shunting locomotives TEM-18D

As a result of locomotives upgrade in 2006 a total of 329 locomotives were rehabilitated, of which:

1. Electric passenger locomotives ChS-2
2. Electric freight locomotives VL-10
3. Electric freight locomotives VL-11
4. Electric freight locomotives VL-80
5. Diesel freight locomotives – 2TE116
6. Diesel freight locomotives TE-10
7. Diesel freight locomotives M-62
The Company’s innovative development in 2006

The principles underlying JSC Russian Railways’ innovation policy include the following:

- economic efficiency and technological expediency of the proposed innovation;
- assessment, selection and approval of innovation projects at a meeting of JSC Russian Railways’ Chief Engineers’ Council;
- the innovation project finalization through its recognition as an intangible asset and in the balance sheet.

In 2006, the Company performed monitoring of bottlenecks and defined innovation priorities. This pertains in the first place to technological upgrade of production processes, development of normative and technical documentation for the implementation of provisions of Federal Law No. 184-FZ dated December 27, 2002 “Concerning Technical Regulation,” increasing labor productivity and implementation of quality management practices across JSC Russian Railways’ entities. Simultaneously, the Company improved cost efficiency of its R&D in the creation of new rolling stock and track machinery.

During the period of the railway industry structural reform JSC Russian Railways increased purchases of the rolling stock 4.2 times and transferred to long-term guaranteed orders of equipment from Russian manufacturers; it is with its efficient participation that concrete results in the production of new rolling stock have been achieved.

Here is a list of top innovation projects:

- A new generation 7,000 hp mainline diesel locomotive – 2TE25A “Vityaz” — with asynchronous electric engine that meets stringent EURO3 standards undergoes test drives.
- Development of new electric passenger locomotives — EP-20, an advanced dual-voltage passenger locomotive, and some other promising models — is underway.

PASSENGER ELECTRIC LOCOMOTIVE EP-20

MAINLINE DIESEL LOCOMOTIVE WITH ASYNCHRONOUS TRACTIONAL DRIVE 2TE25A
In cooperation with aerospace organizations the first ever 11,300 hp gas turbine locomotive running on LNG has been developed to usher in a principally new direction in the world transport engineering. Its trials are scheduled for June 2007. The Ural Railway Machine Building Plant is developing a new DC electric locomotive, 2ES6K.

On May 18, 2006 a Contract for development, manufacture and delivery of 8 (eight) high-speed electric trains to be operated on the St.-Petersburg-Moscow line and a preliminary Contract on signing an agreement for maintenance and repairs of 8 (eight) high-speed electric trains was made in Sochi by and between JSC Russian Railways and Siemens AG. The unified Russia’s and Finland’s technical requirements to the rolling stock to be operated on the Helsinki-St.-Petersburg line have been developed and approved. In December 2006, JV Oy Karelian Trains Ltd announced international tender for supply of 4 dual-voltage electric trains to be operated on this line.
In conjunction with Voronezh Aviation Corporation, a new gondola car with a body made of aluminum sheets has been built. It claims capacity that exceeds the one of standard freight cars by 11.5 tons. Currently its trials are nearing completion. Demikhov and Torzhok machine building plants are finishing work to put on stream power-saving suburban trains of ED9E, ED4E and ET4E series. A new rail-running bus — RA2 — has been created.

For the purpose of technological upgrade of JSC Russian Railways’ operations, enhancement of their competitiveness and integration into the world transport infrastructure individual agreements on R&D cooperation have been signed with the leading R&D centers both in Russia and abroad. The Company’s primary partners in the area of research and development are presented below.
Among the most interesting joint projects, the cooperation with S. Korean railways should be highlighted. During their working relationship all the issues concerning supposedly existence of above-level vibrations, which break down the integrity of electronic devices during their transportation in containers via the Trans-Siberian railroad have been clarified. Of extreme interest is the cooperation with the Finish railways in the area of tracks and rolling stock interaction.

Works on introduction of hydrogen fuel technologies have been commenced. Another promising project which will enable JSC Russian Railways to not only to procure qualitatively new level of control over the status of infrastructure but to enter the international market of information services as well as the works on infrastructure monitoring conducted jointly with Finmeccanica on the basis of satellite-borne radar technologies. This is a European class innovation product which attracts attention of private and government organizations alike. The Chief Directorate of Cartography of the Russian Ministry of Defense has also come out in favor of this cooperation.

The work has begun with relevant R&D centers of the Russian Academy of Sciences. One of the key objectives pursued by JSC Russian Railways’ innovation policy in 2006 was validation of intellectual property rights and intellectual products adaptation to the business needs.
The Company’s innovative development in 2006

Key Operational Results

A total of 87 licenses were issued in the period 2005-2006 for software and databases alone. In 2006, 509 license applications were prepared. Simultaneously, the work is underway to increase capitalization of JSC Russian Railways through recognition of intellectual property as intangible assets in the Company’s balance sheet. For capitalization dynamics see diagram below.

The amount of intangible assets as of January 01, 2007 was RUR 1,192 mln including RUR 892 mln representing the value of exclusive rights to intellectual property. For the purposes of better implementation of the Company’s strategy in the area of intellectual property protection an agreement was signed between JSC Russian Railways and the Federal Service for Intellectual Property, Patents and Trademarks.

### Dynamics of increase of JSC Russian Railway’s intangible assets

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Before January 1, 2006</th>
<th>During 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Total, including:</td>
<td></td>
<td>509</td>
</tr>
<tr>
<td>1.1 Processing applications on inventions, useful models</td>
<td>25</td>
<td>134</td>
</tr>
<tr>
<td>1.2 Processing applications on patterns</td>
<td></td>
<td>96</td>
</tr>
<tr>
<td>1.3 Processing applications on trade marks</td>
<td>25</td>
<td>90</td>
</tr>
<tr>
<td>1.4 Processing applications on programs and data bases</td>
<td>39</td>
<td>189</td>
</tr>
<tr>
<td>2 Total number of applications examined by expert commission</td>
<td></td>
<td>148</td>
</tr>
<tr>
<td>3 Applications proceeded and directed to customs payments</td>
<td></td>
<td>192</td>
</tr>
<tr>
<td>4 Customs paid</td>
<td></td>
<td>134</td>
</tr>
<tr>
<td>5 Applications forwarded to Rospatent</td>
<td></td>
<td>132</td>
</tr>
<tr>
<td>6 Protective documents received</td>
<td>201</td>
<td>31</td>
</tr>
</tbody>
</table>
JSC Russian Railways’ policy in transportation safety and environmental protection and key initiatives undertaken in this areas

Over the period since inception of JSC Russian Railways this has not been a single accident involving derailing of a passenger train, nor has any passenger died as a result whereas derailings of freight trains have reduced by half. To maintain efficient control and ensure safety of trains running JSC Russian Railways takes effective relevant measures.

Transportation safety measures adopted in 2006 across the railways made it possible to reduce the number of faulty operations by 5%. The relative number of defects per 1 billion ton-km operations was reduced by 9% from the 2005 level. Vis-à-vis the 2005 level the Company managed to decrease the number of incidents involving rolling stock collision during shunting operations, uncoupling of cars from freight trains in transit, trains headway obstruction by cars, self-uncoupling of automatic couplings, fallings on the rails of rolling stock parts and components, broken wheel pairs, damaged tracks causing complete stoppage or limitation of movement to 15 km/h, broken rails, non-fencing of hazardous spots with special signage, rolling stock parts and components; by 21% – non-fencing of hazardous spots with special signage; by 18% – self-uncoupling of automatic couplings; by 13% – uncoupling of cars from freight trains in transit due to malfunctioning; by 4% – broken rails.

To accelerate the process of recovery from train accidents, crashes and derailing of the rolling stock the Company has done much to create complete stoppage or limitation of movement to 15 km/h, broken rails, non-fencing of hazardous spots with special signage, rolling stock parts and components, broken wheel pairs, damaged tracks causing train’s delay by more than 1 hour, collisions during shunting operations.

On the whole, the following types of faulty operations were reduced:
- by 34% – collisions during shunting operations;
- by 28% – damaged tracks causing complete stoppage or limitation of movement to 15 km/h;
- by 26% – fallings on the rails of rolling stock parts and components;
- by 21% – non-fencing of hazardous spots with special signage;
- by 18% – self-uncoupling of automatic couplings;
- by 13% – uncoupling of cars from freight trains in transit due to malfunctioning;
- by 4% – broken rails.

Transportation Program implementation the total number of train crashes in the period from 1992 to 2006 decreased by a factor of 12 whereas the number of faulty operation instances has dwindled 4.1 times. With the more productive train accident recovery equipment coming on stream the Company has done much to create more productive recovery equipment, replacement or upgrade of the old machinery. As a result during the period of Safe Transportation Program implementation the number of trains running JSC Russian Railways takes effective relevant measures. One of the primary tasks assigned with these laboratories is to raise the railways’ structural units’ awareness of the actual impact that their activities exert on the ecology so that preventive measures are taken on a timely basis to reduce the man-made burden on the environment.
KEY FINANCIAL INDICATORS
The Company’s net profit for 2006 was RUR 26.4 bln, growing by 2.7 times (or by RUR 16.6 bln. against 2005), and the net profit growth rate in 2005 against the same period of 2004 was 1.1 times.

JSC Russian Railways developed and submitted to the General Shareholders Meeting a proposal for distribution of net profits based on the Company’s results for 2006:

### Distribution of the Company’s net profit for 2005

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>AMOUNT (RUR mln)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit for the period</td>
<td>9,751.0</td>
<td>100</td>
</tr>
<tr>
<td>Profits distribution, of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserve capital</td>
<td>487.6</td>
<td>5</td>
</tr>
<tr>
<td>Payment of dividends on issued shares</td>
<td>975.1</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>8,288.3</td>
<td>85</td>
</tr>
<tr>
<td>Profits distribution, of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financing of construction of railway Tommot-Kerdem (Decision of JSC Russian Railways Board of Directors dated October 29, 2004, Minutes No. 12)</td>
<td>1,000.0</td>
<td>10</td>
</tr>
<tr>
<td>Renovation of health-care facilities and educational establishments</td>
<td>1,887.7</td>
<td>19</td>
</tr>
<tr>
<td>Construction of corporate residential facilities for technical staff</td>
<td>1,400.0</td>
<td>14</td>
</tr>
<tr>
<td>Replenishment of current assets, repayment of accounts payable</td>
<td>4,000.6</td>
<td>42</td>
</tr>
</tbody>
</table>

---

**Distribution of profits for 2005 and 2006, payment of dividends to the shareholder**

**The Company’s net profit for 2006**

RUR 26.4 bln, growing by 2.7 times (or by RUR 16.6 bln against 2005), and the net profit growth rate in 2005 against the same period of 2004 was 1.1 times.

**JSC Russian Railways developed and submitted to the General Shareholders Meeting a proposal for distribution of net profits based on the Company’s results for 2006:**

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>AMOUNT (RUR mln)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit for the period</td>
<td>9,751.0</td>
<td>100</td>
</tr>
<tr>
<td>Profits distribution, of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserve capital</td>
<td>487.6</td>
<td>5</td>
</tr>
<tr>
<td>Payment of dividends on issued shares</td>
<td>975.1</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>8,288.3</td>
<td>85</td>
</tr>
<tr>
<td>Profits distribution, of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financing of construction of railway Tommot-Kerdem (Decision of JSC Russian Railways Board of Directors dated October 29, 2004, Minutes No. 12)</td>
<td>1,000.0</td>
<td>10</td>
</tr>
<tr>
<td>Renovation of health-care facilities and educational establishments</td>
<td>1,887.7</td>
<td>19</td>
</tr>
<tr>
<td>Construction of corporate residential facilities for technical staff</td>
<td>1,400.0</td>
<td>14</td>
</tr>
<tr>
<td>Replenishment of current assets, repayment of accounts payable</td>
<td>4,000.6</td>
<td>42</td>
</tr>
</tbody>
</table>

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**Distribution of the Company’s net profit for 2006**

**Distribution of the Company’s net profit for 2005**

- **Financing of construction of railway Tommot-Kerdem (Decision of JSC Russian Railways Board of Directors dated October 29, 2004, Minutes No. 12)**: 1,000.0 mln RUR
- **Renovation of health-care facilities and educational establishments**: 1,887.7 mln RUR
- **Construction of corporate residential facilities for technical staff**: 1,400.0 mln RUR
- **Replenishment of current assets, repayment of accounts payable**: 4,000.6 mln RUR
- **Reserve capital**: 487.6 mln RUR
- **Payment of dividends on issued shares**: 975.1 mln RUR
- **Additions of working capital, settlement of accounts payable**: 4,000.5 mln RUR
- **Construction of corporate residential facilities for technical staff**: 1,400.0 mln RUR
- **Renovation of health-care facilities and educational establishments**: 1,887.7 mln RUR
- **Financing of construction of railway Tommot-Kerdem (Decision of JSC Russian Railways Board of Directors dated October 29, 2004, Minutes No. 12)**: 1,000.0 mln RUR
JSC Russian Railways ensured a stable growth rate of net profit over three years of economic activities (2004—2006). Total net profit for the reviewed period is RUR 45.0 bln. In 2007, JSC Russian Railways launches a strategy of railroads development in Russia up to 2030. The Strategy provides for the development of railway transport to meet domestic needs dictated by the growth of national economy, ensure the development of international transit traffic and the Company’s participation in the construction of transport infrastructure in other countries.

The Company focuses on integration of the national railway network with the Eurasian transport system through the construction of infrastructure, development of required rolling stock and locomotives, creation of up-to-date systems of passenger and freight traffic management.

Implementation of these tasks will require the formation of own sources of funding the ever increasing investments. The most significant source is the Company’s net profit. The Company is constantly increasing the amount of dividends paid to shareholders. In 2004 and 2005, the dividends were RUR 0.88 bln and RUR 0.98 bln, respectively.

Payment of dividends for 2005 in the amount of kRUR 975.1 was made under Payment Order No.494r dated July 20, 2006.

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**Distribution of net profit by the results of 2006, mln rubles**

![Distribution of net profit by the results of 2006, mln rubles](image)

**Dynamics of Earnings per share (EPS) 2004—2006 (Russian accounting standards)**

![Dynamics of Earnings per share (EPS) 2004—2006](image)
JSC Russian Railways ensured a balance between current assets and current liabilities over three years of economic activities (2004 — 2006) which is characterized by the key financial indicators. For example, the current liquidity ratio has been showing a stable growth rate since the Company’s foundation reaching the level of 1.6 last year. The cash ratio, i.e. the ratio of the Company’s most liquid assets (cash and short-term financial investments) and current liabilities, has also increased against 2005 (by 0.03 percent) to 0.13.

It is also noteworthy that the Company has an extensive network of branches and wishes to optimize the balances on the bank accounts, having a liquidity reserve to cover the risk of a decrease in solvency, but at the same time trying not to have extra amounts of free cash on current accounts, as there are no significant cash gaps thanks to advance payments and their efficient distribution based on monthly payment balances. Management of accounts payable and receivable had a positive effect on the quick ratio (ratio of short-term receivables, cash and short term financial investments to current liabilities) was higher by 0.11 percent than last year reaching the level of 0.49.

As in 2004 and 2005, the Company’s financial stability is rather strong (the share of equity in the company’s total assets is 94%). Therefore, the Company may raise finance both for replenishment of current assets and for funding projects, including long-term ones, without affecting its solvency. In 2006, core business profitability was 3.4%, which is almost 2.7 times as high as in 2005 (1.4%). In 2006, the Company fulfilled the task to reach the key production and financial indicators and ensure efficient performance.
Transportation activity

Total revenue from freight and passenger transportation in 2006 was RUR 772.0 bln, which is RUR 95.9 bln or 14% more than in 2005. The Company exceeded the target approved by the Board of Directors by RUR 45.1 bln (or 6.2%). Revenue from freight transportation was RUR 638.0 bln, which is RUR 72.3 bln or 12.4% more than in 2005. The growth rate of this revenue was by 1.8 percent higher than the growth rate in 2005 against the same period in 2004. Revenue from passenger transportation in 2006 was RUR 114.0 bln, which is by RUR 23.5 or more than 25% higher than in 2005. It should be noted that the growth rate in 2005 against 2004 was lower by 7.3 p.p.

Revenue from long-distance transportation was RUR 92.0 bln, which exceeded the target by RUR 10.6 bln or 13%. Revenue from suburban transportation in 2006 was RUR 22.0 bln, which is RUR 4.3 bln or + 24.6% more than in 2005. Loss from suburban transportation was RUR 21.9 bln in 2006 (without subsidies from regional budgets of RF constituents) against RUR 20.4 bln in 2005 and RUR 27 bln in 2004.
Subsidies from regional budgets of RF constituents to compensate for the loss from suburban transportation were RUR 1.5 bln. Losses from suburban transportation were compensated by income from other activities (including subsidies). Compensation accounted for 53.5% on average by regions in 2006 which is a bit more than in the prior year.
Income from other activities

Other types of activities

Income from other types of activities was RUR 8.6 bln in 2006, which was by RUR 2.1 bln or 31.1% more than in 2005. Income from other activities was RUR 25.2 bln over three years since the Company’s foundation.

The growth of other sales profit in 2006 against prior year took place along with the creation of subsidiaries on the basis of the Company’s branches (Transcontainer, Refservice, Roszheldorproekt, Roszheldorstroi, rolling stock repair plants in Barnaul, Saransk, Rosлав) and termination of rolling stock leasing contracts and transfer of rolling stock to main activity.

Divestment of certain activities under the Structural Reform into vertically integrated branches — the Company’s future subsidiaries (Federal Passenger Directorate, Central Directorate for Repair of Freight Cars) directly influenced the growth of income from other activities in 2006. For example, income from repair of rolling stock increased by RUR 0.3 bln (+ 25%) compared to 2005 and RUR 0.5 bln (+ 81%) compared to 2004 and accounted for 16% of total income from other activities. In 2006, the Company managed to keep losses from social infrastructure maintenance and housing and utilities infrastructure at the 2005 level.
Other income and expenses

In 2006, loss from other income and expenses was RUR 11.6 bln which is RUR 21.4 bln less than in 2005 and RUR 16.5 bln less than in 2004.

A decrease in the loss from other income and expenses in 2006 was first of all due to the changes in accounting for property tax and accounting for this tax by types of activities.

A decrease in the 2006 loss was also largely due to the overstatement of the Company’s contribution to subsidiaries created in 2006.

In 2006, the Company continued transferring federal housing and utilities to municipalities and constituents of the Russian Federation, which helped reduce the Company’s expenses by RUR 3.0 bln compared to 2005 and by RUR 7.2 bln compared to 2004.

At the same time, in 2006, the Company created a provision in the amount of RUR 7.0 bln for the debt of the Federal Agency for Health and Social Development for socially necessary passenger transportation which boosted other expenses of the Company.

Accounts receivable/payable

To improve the system of mutual payment settlements with counterparties, in 2006 the Company optimized the procedure of payment settlements under contracts signed on behalf of the Company which had a positive effect on liquidity management. In 2006, with a 10.4% growth of industrial prices and the expected increase in material costs by 10.7%, the amount of advances paid remained practically unchanged by the beginning of the year at RUR 11.3 bln and their share in total receivables decreased by 4.7 per cent at the beginning of 2005. Implementation of a standard payment settlement procedure (JSC Russian Railways Order No. 1594r dated August 01, 2006), setting a policy for contractual limitation of prepayments, allowed the Company to accelerate the turnover of advances issued by 4 days (26%), from 15 days to 11 days, and resulted in a scheduled increase of accounts payable. Trade accounts payable increased by RUR 13.1 bln (42.2%) to total RUR 44.0 bln at the beginning of 2006.

The quality of accounts payable significantly improved, e.g. overdue trade accounts payable reduced almost three times to RUR 0.9 bln (1% of the total amount).

Therefore, the Company took advantage of the free use of borrowings in its economic activities without accrual of overdue liabilities or emergence of related risks.
The balance of advances received by the Company as of January 01, 2007 practically did not change by the beginning of 2006 and amounted to RUR 2.3 bln (2.1 % of the total amount of accounts payable).

The restructured payables to tax bodies and extra-budgetary funds significantly reduced due to writing off fines and penalties: from RUR 13.1 to RUR 2.8 bln, i.e. by RUR 10.3 bln (78.6 %).

In 2006 an intensive process of divesting the Company’s branches into subsidiaries was being observed. Considering the need to finance subsidiaries at the start-up stage, on one hand, and impracticality of diverting the Company’s funds for contributions to charter capitals of subsidiaries and affiliates, it was decided to grant increased advances and deferral of payments to the subsidiaries. The debt of subsidiaries and affiliates to the parent company was RUR 3.5 bln against RUR 0.4 bln at the beginning of 2006.

It should be noted that the subsidiaries OJSC Transcontainer, OJSC Refservice, OJSC Roszheldorstroy, OJSC Roszhelndorproekt and certain suburban trans-
Performance results of 2006. Accounts receivable

This policy resulted in an increase of accounts receivable by RUR 5.0 bln (13.9%) to total RUR 40.5 bln in 2006. At the beginning of 2007 transportation receivables amounted to RUR 5.8 bln (14.3% of total accounts receivable) for the whole Company, with a decrease of RUR 325 bln (5.3%). The debt for socially necessary transportation services accounts for almost half of transportation receivables, i.e. RUR 2.5 bln. Moreover, the debt of military forces and law enforcement bodies is RUR 1.1 bln (grew by 1.6 times as of January 01, 2006).

Overdue accounts receivable as of January 01, 2007 is RUR 1.8 bln, a decrease of more than 1.5 times (by RUR 1.5 bln) at the beginning of 2006. Overdue receivables decreased more than twice and account for 4.4% of total accounts receivable. Overdue accounts receivable are formed mostly by the debt from socially-necessary services (municipal bodies, individuals for utilities and electricity) particularly in the zone of railways in the eastern part of the Russian Federation (Far East, Trans-Baikal region).
Ratings

JSC Russian Railways is one of the major corporations of Russia and the leading transport company by its technical and financial parameters. This fact is recognized by both domestic and foreign business communities and partners of JSC Russian Railways and is reflected in an internationally recognized credit rating. These ratings reflect the stable financial indicators and profitability of the Company. Moreover, the ratings show that the Company is efficiently managed, and the Russian railway reform goes in the right direction helping to develop this sector. In general, assignment of such a high ratings to OJSC Russian Railways has strengthened the Company’s position in Russia and in the world.

The history of increase of JSC Russian Railway’s credit Rating

<table>
<thead>
<tr>
<th>AGENCY</th>
<th>SCALE</th>
<th>2004</th>
<th>2005</th>
<th>2006 (December)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moody’s</td>
<td>International scale in foreign currency</td>
<td>Baa3</td>
<td>Baa2</td>
<td>Baa2 / Stable</td>
</tr>
<tr>
<td>Standard &amp; Poor’s</td>
<td>International scale in foreign currency</td>
<td>BB+</td>
<td>BBB−</td>
<td>BBB + / Stable</td>
</tr>
<tr>
<td>Fitch</td>
<td>International scale in foreign currency</td>
<td>BBB−</td>
<td>BBB−</td>
<td>BBB + / Stable</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>AGENCY</th>
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<th>2004</th>
<th>2005</th>
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<tbody>
<tr>
<td>Moody’s</td>
<td>International scale in foreign currency</td>
<td>Baa3</td>
<td>Baa2</td>
<td>A3 / Stable</td>
</tr>
<tr>
<td>Standard &amp; Poor’s</td>
<td>International scale in foreign currency</td>
<td>BB+</td>
<td>BBB−</td>
<td>BBB − / Stable</td>
</tr>
<tr>
<td>Fitch</td>
<td>International scale in foreign currency</td>
<td>No Rating</td>
<td>BBB</td>
<td>BBB + / Stable</td>
</tr>
</tbody>
</table>

Moody’s, Standard & Poor’s and Fitch reasonably evaluated credit status of JSC Russian Railways: ■ One of the most high credit Ratings among russian corporations; ■ One of the most attractive companies for investing; ■ Moody’s had assigned to JSC Russian Railways Rating above average.

History of the Company’s credit ratings:

<table>
<thead>
<tr>
<th>AGENCY</th>
<th>SCALE</th>
<th>RATING DATE</th>
<th>RATING</th>
<th>FORECAST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard &amp; Poor’s</td>
<td>International foreign currency scale</td>
<td>December 22, 2006</td>
<td>BBB+ *</td>
<td>Stable</td>
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<tr>
<td></td>
<td></td>
<td>November 15, 2006</td>
<td>BBB−</td>
<td>Positive</td>
</tr>
<tr>
<td></td>
<td></td>
<td>October 11, 2005</td>
<td>BBB−</td>
<td>Stable</td>
</tr>
<tr>
<td></td>
<td></td>
<td>July 06, 2004</td>
<td>BB +</td>
<td>Stable</td>
</tr>
<tr>
<td></td>
<td>International national currency scale</td>
<td>December 22, 2006</td>
<td>BBB+ *</td>
<td>Stable</td>
</tr>
<tr>
<td></td>
<td></td>
<td>November 15, 2006</td>
<td>BBB−</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>October 11, 2005</td>
<td>BBB−</td>
<td>Stable</td>
</tr>
<tr>
<td></td>
<td></td>
<td>July 06, 2004</td>
<td>BB +</td>
<td>Stable</td>
</tr>
<tr>
<td></td>
<td>National scale (Russia)</td>
<td>December 22, 2006</td>
<td>RuAAA’</td>
<td>—</td>
</tr>
<tr>
<td></td>
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<td>November 15, 2006</td>
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<td>October 11, 2005</td>
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<td>July 08, 2005</td>
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<td>Fitch</td>
<td>International foreign currency scale</td>
<td>October 26, 2005</td>
<td>A3 *</td>
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<td></td>
<td>International national currency scale</td>
<td>July 25, 2006</td>
<td>BBB+ *</td>
<td>Stable</td>
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<tr>
<td></td>
<td></td>
<td>August 15, 2005</td>
<td>BBB</td>
<td>Stable</td>
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<tr>
<td></td>
<td>International national currency scale</td>
<td>July 25, 2006</td>
<td>BBB+ *</td>
<td>Stable</td>
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<tr>
<td></td>
<td></td>
<td>August 15, 2005</td>
<td>BBB</td>
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</tr>
<tr>
<td>National scale (Russia)</td>
<td>July 25, 2006</td>
<td>BBB (rus)’</td>
<td>Stable</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>August 15, 2005</td>
<td>AAA (rus)</td>
<td>Stable</td>
</tr>
</tbody>
</table>

* — rating value effective as of 31.12.2006
In addition, the Company’s loan portfolio reduced about by RUR 6.0 bln (9.8%) in 2006. Currently the loan portfolio includes only long-term financial instruments raised on the open market.

The long-term credits include: a syndicated loan; loans for trade financing of supplies of imported equipment and provision of services to the Company. Long-term loans are represented by corporate bonds of Series 03, 05, 06 and 07 issued in 2004 – 2006 at the total par value RUR 29 bln. The Company’s achievements in this area were recognized by a prestigious award “For Proactive Corporate Policy in Information Disclosure”.

Fundraising and investment

The Company’s experience of raising public debt finance obtained in the prior years was in high demand in 2006. The Company released another issue of bonds in the total amount of RUR 10 bln, thus confirming the status of a major corporate issuer of ruble bonds.

Structure of the borrowing costs of the RZD

The average rate of a credit portfolio accounted for 7%.

RZD forms a balanced debt structure based on pay back periods and instruments:
- unsecured bonds make 40% of a total debt (43 bln RUR);
- unsecured syndicated credit in US dollars makes up 16% of a total debt (600 mln USD);
- The debt under leasing contracts of rolling stock makes 44% of a total debt (47 bln RUR).

In addition, the Company’s loan portfolio reduced about by RUR 6.0 bln (9.8%) in 2006. Currently the loan portfolio includes only long-term financial instruments raised on the open market.
Improvement of financial management system

From the very beginning JSC Russian Railways has focused on the implementation of a new approach to financial planning which helps identify significant resources to improve the Company’s performance. For example, the Company has developed a medium-term financial plan for 2007-2009, with balanced financial and economic indicators aimed at efficient development of JSC Russian Railways. The plan envisages profitable operations of JSC Russian Railways, fulfillment of the government’s social and economic tasks and interrelations with federal and tax bodies, balanced cash flows from operating, investment and financial activities.

RF Government Session No. 38 held October 26, 2006 highly praised the Company’s medium-term three-year development program. The transfer to the three-year budgeting at the federal level has become another step to improve the efficiency of Russia’s budgeting system. Railways play an important role in national economy and indexation of freight tariffs is a key macroeconomic indicator.

As an active participant of the budgeting process, the Company prepared a draft financial plan for 2007-2010 which was approved by the relevant ministries. The plan determined key parameters of the Company’s medium-term development based on the national economic needs.

One of the key demands in respect of the railroad transport has been the demand to ensure its financial transparency. The Company has made tremendous efforts in this area over the last three years and ensured an optimal balance between the level of transparency of financial information and reasonable expenses on separate accounting.

First of all, the Company presents separate accounting records by types of activities defined by the RF Government Decree No 871, including for suburban and long-distance passenger transportation.

Accounting records by types of activities provide for separate presentation of revenue, expenses and financial results.

The quality of financial information is confirmed by the company’s Audit Committee and an independent auditor. Moreover, the financial statements are approved by the Board of Directors of JSC Russian Railways.

Second, the Company developed documents regulating management accounting intended to ensure a significantly higher level of detail in the data about financial and economic indicators by types of activities, operational segment and tariff components, including passenger transportation, and ensure a faster provision of such data.

It should be noted that the classifier of railway revenues has been developed for the first time in the history of the railroad sector.
The classifier of revenues and expenses by the type of activities serves as a methodological basis to organize and maintain the management accounting of revenues and expenses and to define financial performance and profitability by the type of activities. Based on such management accounting, it becomes possible to work out a system of analyzing, planning and budgeting revenue, expenses and financial results by separate types of business activities. The described classifier can serve as a basis for automating budgeting and management accounting processes at JSC Russian Railways.

The regulating authorities constantly request not only reporting information but calculations justifying the need for budget financing for compensation of losses from passenger operations. And the Company duly submits them. Thus, the Company duly and in full scope satisfies the requirements of the regulating authorities regarding the information necessary to make the decision on compensating losses from passenger operations.

For the Company as a whole, the new system of separate accounting shall allow to plan and analyze information by types of activities, as well as by tariff components, and to provide the regulating authorities with reliable information necessary to adopt decisions in the sphere of tariff regulation.

Draft methodological documents have been coordinated by all relevant divisions of JSC Russian Railways and approved by the respective ministries and agencies. Currently a Decree of the RF Government is being drafted providing for the introduction of separate accounting on the basis of qualitatively new methodological procedures at JSC Russian Railways starting from January 01, 2008.
JSC Russian Railways’ costs freight and passenger transportation amounted for RUR 709.9 bln on transportation in 2006, up 14.8% on the figure of the preceding year. Under comparable conditions (exclusive of property tax) costs increased by 12.2% compared to 2005. The Company managed to keep the cost growth at the level of 9.3% and under conditions comparable with 2005 (exclusive of property tax), at the level of 6.8%, which is lower than the rate of inflation in 2006 (9.7%) and the industrial price growth rate (12.4%).

The highest growth rate against 2005 was registered with regard to other expenses (RUR 25.0 bln or 66%), other material expenses (RUR 9.1 bln or 17.1%) and fuel (RUR 6.6 bln or 15.4%).

Out of RUR 25.0 bln increase in other expenses — RUR 16.3 bln is property tax, which starting from 2006 is recognized in attributed costs (previously recognized in non-operating expenses).

The growth in other material expenses was due to the change in the component structure of expenses after subsidiaries in the sphere of capital construction (construction and assembly companies and design institutes) were established on the basis JSC Russian Railways’ branches.

Fuel costs were influenced by: the increase in traffic volume, fuel consumption and price growth.

It should be noted that the increase in traffic volumes remains steadily ahead of the fuel and energy resources consumption growth, this being an indicator of the effectiveness of the Company’s technical and organizational energy saving measures.

Thus, whereas diesel-locomotive traffic volumes increased by 4.7% compared to the previous year, the consumption of diesel fuel grew only by 3.6% due to a 1.0% reduction in the specific diesel fuel consumption. The fuel consumption for traction purposes constituted 2.9 mln tons for the amount of RUR 39.1 bln., 26.3 thousand tones for the amount RUR 346.5 mln were saved. In 2005 the price of diesel fuel grew in average by 11%. Whereas electric traction traffic volumes increased by 4.6%, the total electric energy consumption grew by 0.8 bln kWh or 4.2% and amounted to RUR 36.3 bln. Energy consumption per unit was reduced by 0.4%, 84 mln kWh of electricity for the amount of RUR 85.6 were saved.

The trend of the recent years, with petroleum product prices growing faster than electricity tariffs, resulted in energy costs and diesel fuel costs practically matching each other, whereas 83.8% of the traffic volume relies on electric traction.

Due to operational expenses being limited by the amount of freight tariff indexation at a time when prices in the primary industries exceed this indicator by far, the Company is forced to reduce other cost items of expenses. Thus, in 2006 the cost of materials increased only by 4.7% compared to the previous year, whereas industrial prices grew by 12.4%. In these conditions due to lack of financing the Company is forced to reduce the physical volumes of capital repairs of fixed assets.

Due to this the expense structure of the Company by cost item changed. Thus, the share of fuel costs in total expenses increased from 5.5% in 2004 to 7.2% in 2006 and the cost of materials decreased from 16.0% in 2004 to 13.9% in 2006.
Enhancing the efficiency of the planning and budgeting system.
Development of a new remuneration system. Cost optimization

Change of key indices of the Ministry of Economic Development

The reduction of capital repairs program

Capital repairs of fixed assets

Expenses related to the capital repairs of fixed assets in 2006 amounted to RUR 126.96 bln, up RUR 5.2 bln or 4.2% on the figure of the preceding year.

The program of rolling stock capital repairs by branches, as well as by enterprises outside the Company structure, was accomplished in full. An exception was the capital repair of diesel locomotives with 97.6% of the target figure achieved.

More than 21.5 thousand freight cars were repaired in 2006 (in 2005 — 25.5 thousand), 1286 electric locomotives and 1675 diesel locomotive sections (in 2005 — 1582.5 locomotives and 1629 sections respectively), 4013 passenger cars (4348 cars), 800.5 electric trains (745.5 sections).

The reduction in the physical volumes of rolling-stock repairs (with the exception of diesel locomotives and electric sections) was due mainly to the sharp growth of the rolled copper price index in 2006, which constituted (1.67) by far exceeding the average industrial price index (1.124) and the freight tariff index (1.10).

A total of 11.1 thousand kilometers of tracks were rehabilitated through all types of repairs in 2006, which is 2.5 thousand kilometers less than in 2005. As in previous years, intensive capital repairs were a priority, their share amounting to 35.4% with an increase of 5.3% over 2005.

In order to improve the quality of service provided to passengers both in long-distance and in suburban transportation, a large volume of capital repairs of passenger service facilities was conducted; almost RUR 3.1 bln was spent for this purpose in 2006.

An important positive factor indicating a stable and high-quality operation of the Company is the fact that in conditions of continuing price pressure on the costs of the Company from suppliers of material and technical resources, the programs on repairing the rolling stock and tracks were accomplished in order to achieve target traffic volumes and ensure the safety of railway operations.
Enhancing the efficiency of the planning and budgeting system. Development of a new remuneration system. Cost optimization

Structure of the operating costs

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries Expense</td>
<td>37.2</td>
<td>36.8</td>
<td>36.8</td>
</tr>
<tr>
<td>Fuel</td>
<td>5.5</td>
<td>7.0</td>
<td>7.2</td>
</tr>
<tr>
<td>Electricity</td>
<td>6.7</td>
<td>6.7</td>
<td>4.6</td>
</tr>
<tr>
<td>Materials</td>
<td>16.0</td>
<td>14.9</td>
<td>13.9</td>
</tr>
<tr>
<td>Depreciation</td>
<td>19.6</td>
<td>19.9</td>
<td>18.7</td>
</tr>
<tr>
<td>Other Costs</td>
<td>15.0</td>
<td>14.7</td>
<td>15.7</td>
</tr>
</tbody>
</table>

For the period from 2004 to 2006, there was a decrease in the share of materials in total expenses as 7.1% which is estimated at 55 bln RUR. The decrease in the "normal" share of expenses on materials is caused by the growth of expenses on track drive fuel as a result of usage of diesel fuel. The share of expenses on fuel for the period from 2004 to 2006 increased by 7.7%.

*The 2006 year is showed in comparable conditions (without property tax – 16, 1 bln RUR).

Human Resources

In 2006 the scope of work was carried out by a workforce of 1.144 mln people, of whom 1.28 mln were engaged in transportation services. Compared to 2005 the work force engaged in all types of activities vs. those engaged in transportation services was reduced by 25.2 thousand people (2.2%) and by 20.3 thousand people (1.9%), respectively.

To cope with the increased traffic volume the personnel of the core business groups was increased compared to 2005: locomotive crews (by 2031 people or by 1.8%), repairmen engaged in locomotive current repairs (by 171 person or by 0.4%), electricians servicing the signals and interlocking facilities (by 238 people or by 1.1%), freight cars maintenance and current repairs personnel (by 217 people or by 0.5%), overhead system electricians (by 87 people or by 0.9%). Compared to 2005 the average monthly salary of Company employees engaged in transportation services rose by 16.3% and amounted to RUR 14,442. The Company devotes the utmost attention to enhancing labor incentives of personnel engaged in the core business groups.

Along with permanent indexation of salaries, in 2006 core business group personnel responsible for the safety of railway traffic were paid a lump-sum bonus for trouble-free operation. Budget funds in the amount of RUR 2.0 bln were allocated for these purposes. As a result, the average monthly salary of workers employed in key jobs grew at a faster rate. Thus, whereas on the railway network in general labor compensation increased by 16.2% (the average monthly salary was RUR 14,442) the wages of locomotive engineers grew by 17% and reached RUR 23,267, of overhead system electricians—by 16.4% (RUR 12,546), station personnel—17.6% and RUR 13,808 respectively and electricians servicing the signals and interlocking facilities—18.5% and RUR 16,245.

Whereas the real wages increased by 6%, labor productivity grew by 7.1%.

For the fourth year in a row the Company strictly observes the principle of labor productivity growth rates outstripping the dynamics of labor compensation increases.
The labor productivity growth is achieved by a 3% increase of the traffic volume with a simultaneous decrease of the average staff engaged in transportation services by 20.3 thousand people or by 1.9%. The labor productivity target was achieved to an extent of 102.4%.

The labor compensation of railway personnel engaged in core business activities grew in 2006 by 16.3% compared to 2005, whereas the average figures for the industry and for the country in general were 21% and 24.6%, respectively.

Despite the fact that in recent years the Company has been striving to improve the position of railway employees on the labor market, starting from 2005 a faster growth of salaries and wages in various industries as compared to JSC Russian Railways emerged as a trend in the regions.

According to forecasts this trend will also prevail in the medium-term prospect — in 2007-2010 average labor compensation growth rates for Russia in general will outstrip those of railway personnel by 1.7-6.9 points.

In the past two years the labor compensation growth rates in practically all regions where the railway structure of units are located were in certain periods lagging behind the average rates for the industry.

Most of all this is manifested in regions with dynamic industrial growth and in major industrial cities.

In 2006 in 15 regions where the structure of units of JSC Russian Railways are located the average wages of railway personnel were lower than the average level in the industry (in 2005 there were only 6 such regions).

Such a situation leads to labor turnover and as a consequence — to understaffing, primarily with regard to workers directly engaged in transportation services.

Compared to the previous year, in 2006 an increase of labor turnover was registered practically on all railroads and in all core occupations.

Thus, every fifth mechanic engaged in car repairs and track maintenance, every seventh one repairing locomotives, every tenth electrician engaged in servicing the signals and interlocking facilities, communication lines and overhead systems quits the job of his own free will.

On certain railways these figures are even more impressive. Thus, on the Kaliningrad railways the turnover of track technicians, signals and interlocking and communication electricians and of overhead system electricians reached 29.5-30.8%.

In 2006, taking into account the general volume of traffic, the Company was short of 8,464 employees against target figures.

Compared to regulatory requirements the staffing level in the electrification and power supply divisions is 81.2%, in the tracks maintenance service — 80.8%, in the signals and interlocking service — 82.7%.

A large scope of work was carried out in 2006 on development of the corporate labor compensation system for employees of JSC Russian Railways’ branches and structural units, one of its basic principles being to raise the minimum monthly wage in the Company and bring it closer to the legally established minimum subsistence level in the Russian Federation. This is one of the main labor compensation guarantees stipulated by the Labor Code and is conform to the government’s social policy providing for an increase of the minimum monthly wage in the Russian Federation to RUR 2,300 in 2007 and bringing it in line with the minimum subsistence level in 2008.

The new corporate labor compensation system is aimed at creating more labor compensation incentives, primarily for young specialists, while it is among this category of employees that the turnover rate to other branches of the industry is the highest.

JSC Russian Railways has been resorting to budget management since the beginning of 2004. Its purpose is to create an efficient system of managing financial results of the Company and thus ensuring the financial, economic and technological stability of JSC Russian Railways.

The budget system embraces all Company management levels and includes many cross sections, such as business units, types of activity, cost components.

The coordinated budget management system relating to business units contains key performance indicators of their business activity, thus ensuring balanced planning for the Company’s divisions and the channeling of their activity towards achieving financial results set forth by the Strategic Program of JSC Russian Railways. Starting from 2006 the budget system was transformed in such a way as to raise budgeting on the level of a business unit to a key position primarily due to the units being vested with functions of a center of responsibility for complying with their budget parameters.

Moreover, the introduction of the new classifier of revenues and expenses by types of activity and new forms of management accounting shall have a positive effect on the quality of planning (determination of unit costs relating to current operation and maintenance and the unit cost of repair works), as well as deepen the cause and factor and functional-cost analysis, and activity based costing of the business unit’s performance by types of activity.

In order to enhance the reliability of planning and financing current operation costs in linkage to performance indicators, starting from 2007 the production budget envisages the formation of volume indicators illustrating a broader analysis of current operations (indicators to which costs are attributable) with the establishment of corresponding links with the expense budget.

This will enable transparent planning and the priority of financing current operation expenses.
Cost optimization

In recent years JSC Russian Railways has been faced with the fact that the fair estimated value of costs for the reporting period calculated on the basis of actual social development indices in the Russian Federation provided by the Ministry of Economic Development and Trade, previous year costs and actual traffic volumes turn out to be higher than the actual costs incurred by the Company in the given period. Thus, according to calculations based on actual inflation rates and traffic volumes for 2006, traffic-related costs are estimated at RUR 728.7 bln but due to cost saving measures implemented by JSC Russian Railways the Company kept costs at a level of RUR 709.9 bln, having saved RUR 18.8 bln. The best cost saving results were achieved in the tracks maintenance service — RUR 6.7 bln and in rolling stock divisions — RUR 3.4 bln.

To achieve financial balance the Company developed and implemented a program for managing operating costs. Cost optimization measures are worked out on an annual basis. They are aimed primarily at cutting costs, which would have been higher if the following measures were not implemented:
- recycling of materials and spare parts;
- recovery of parts and components in the course of repairing rolling stock, tracks and infrastructure;
- introduction of resource saving technologies (recovery of wheel pair tread surface, wheel pair flanges, axle-box bodies, bogie side frames, profile polishing of rails and track switches, build-up welding of track crossings and rail ends, etc.)

The Company is conducting methodical work on reducing the specific consumption of fuel and energy for train traction, on implementing innovative technologies in capital repairs of productive assets.

A draft program on reducing the Company’s costs for the period of 2007 — 2010 has been worked out based on the innovation project Implementation of Resource Saving Technologies in Railroad Transportation and on investment programs. The main sources of cost reduction lie currently in reviewing manufacturing processes, implementing innovative technologies, carrying out the Company’s investment and innovative projects.
**Main results of investment activities**

In general during 2004—2006 the Company’s investments in 2006 prices amounted to RUR 502 bln. In comparable prices the volume of capital investments in 2006 increased by 3% compared to 2003.

Investment projects on reinforcing the infrastructure on the routes Kuzbass — North-West, Kuzbass — Far Eastern transport hub, Kuzbass — Azov-Black Sea transport hub and a number of others had priority in 2006. Top priority was assigned to all measures aimed at supporting the transportation process, i.e. enhancing the profitability of JSC Russian Railways by removing “bottlenecks” on various railroad stretches and installations, this allowing not only to satisfy the demand for high-quality transportation services but also to increase the utilization efficiency of the rolling stock and thus reduce the number required to satisfy the growing traffic volumes based on a balanced development of all infrastructure components in all directions. Primarily this concerned measures on reinforcing the facilities for the haulage of heavy and long trains (measures concerning all facilities aimed at reinforcing the installations directly supporting the transportation process), reinforcing port and border crossings, as well as measures constituting multi-purpose projects.

During this period significant investments were made for the purpose of developing and enhancing the infrastructure of the major railway routes Kuzbass — North-West, Kuzbass — Far Eastern transport hub, Kuzbass — Azov-Black Sea transport hub that are used for transporting most of the bulk freight destined for the sea ports of Murmansk, the Baltic Sea, the Far East, the Black and the Azov Seas. In this context more than 550 km of new and second tracks and about 340 km of station tracks were constructed, more than 470 km of tracks were electrified.

Unified railway traffic management centers were established on the Oktyabrskaya, Sverdlovskaya, North Caucasus and Far Eastern Railways, thus creating conditions for the implementation of innovative management information technologies.

Work continued on electrifying routes on the Oktyabrskaya, North, South-East, Kuibyshevskaya, North Caucasus and Far Eastern Railways. Total electrification has been completed on the Trans-Siberian Railway and on the following routes: St. Petersburg — Murmansk, Saratov — Volgograd — Tikhoretskaya, Staryi Oskol — Valuiki, Malenga — Sumskoi Posad — Obozerskaya.

The reconstruction of major bridges and tunnels of the whole railway network went on, measures on reinforcing the coastline in order to ensure traffic safety on the route section Tuapse — Adler continued, as did the reconstruction of the Sakhalin Railway. The construction of the 15-km long Severo-Muisk Tunnel on the BAM western section of the East Siberian Railway, the Tarmanchukansk and Lagar-Aul Tunnels on the Far Eastern Railway and a number of tunnels on the North Caucasus Railway were completed and the tunnels were put into operation.

A number of major freight yards and port railway stations were constructed and reconstructed, among them: Bekasovo, Losta, Nakhodka-East, Tuapse, Novorossiisk and others. Significant capital investments were made into the re-equipment and modernization of installations pertaining to the locomotive, car and track business units, into programs ensuring safety of operations, information technologies and cost-effective use of resources.

New and reconstructed station complexes were put into service — in St. Petersburg (Ladoga), Rostov-on-Don, Omsk, Novosibirsk, Krasnoyarsk, Khabarovsk, and many others. Over 1000 km of automatic block signaling lines, more than 2 thousand km of overhead system, over 2.5 thousand sets of electric interlocking switches were renewed.

The investment program emphasizes the need for rolling stock renewal. The share of funds allocated under the capital investment program for the purchase and modernization of rolling stock constitutes over 22%. Since the establishment of the Company the railways received (including under lease) over 560 locomotives, about 1.9 thousand passenger cars, over 22 thousand freight cars, over 840 locomotives, 18.1 thousand freight cars, more than 1.8 thousand passenger cars, over 840 electric train sections were modernized. Over 650 thousand square meters of housing were built, a significant number of health-care and educational facilities were modernized, a number of sports facilities were constructed, etc.

One of the aims pursued in organizing investment activity is to step up to the utmost efforts on attracting external investments from private companies into the Company.
First steps in this direction have been made. Namely, in recent years the Company managed to attract significant investments from leasing companies. Due to these transactions additional assets in the amount of RUR 60 bln were raised for the Company.

Leasing allows JSC Russian Railways to renew rolling stock and equipment at a faster rate. Besides, leasing has an enormous multiplicative effect for the development of the domestic machine-building industry. As the major consumer of such products, by enhancing the program of acquiring equipment under lease, JSC Russian Railways is investing significant funds in the support and development of manufacturing capacities of domestic producers.

In general it should be noted that the investment program targets approved annually by the Board of Directors and the Management Board of the Company are systematically met. In 2006 in total the investment program of JSC Russian Railways financed from all sources was realized in the amount of RUR 172.4 bln, of them over RUR 170 bln were financed by the Company’s own funds.

The amount of capital investments financed by the Company from its own sources within the industry increased by 3% against 2005 (in comparable prices).

External sources accounted for about RUR 2 bln of capital investments. Raised and budget funds were used primarily for financing the reconstruction of the railway route Izvestkovaya — Chegdomyn which lies in the zone of flooding caused by Bureiskaya hydroelectric station, the reconstruction of the long-distance and suburban passenger station complexes, preventive measures related to the rail safety operations program and expenses in connection with linking individual access tracks to thoroughfares.

New fixed assets for the amount of RUR 178 bln (including leasing) were put into service during the year. 304.5 km of main and 133.6 km of station tracks were put into operation, 723 sets of track switches were equipped with electric interlocking, 2,255.6 km of automatic block signaling lines were commissioned, 1,623 km of long-distance cable communication lines were laid, 69 km of main tracks were electrified.

Based on the results for the year, 787 sets of electric interlocking switches and 612.1 km of overhead system were reconditioned. More than 200 small and medium-sized bridges (3,000 meters) were reconstructed, 200 faulty roadbed reconstruction sites were repaired and significant work was conducted on reconditioning power supply installations and on updating systems providing safety of rail operations and automation of management activities. Among the most important commissioned sites were the following:

- The Lagar-Aul Tunnel on the 8,250 km of Obluche — Izvestkovaya stretch of the Far Eastern Railway and the Long Loop Tunnel on the 1,853 km of the Belorechenskaya — Tuapse stretch of the North Caucasus Railway.

- The Transit-exhibition park Yuzhniy of the pre-port station Luzhskaya of the Oktjabrskaya Railway for serving the trade sea port Ust-Luga in the Luzhskaya Guba of the Gulf of Finland.

- The electrified stretch Mineralnye Vody — Kislovodsk of the North Caucasus Railway was switched to alternating current.

- Launching site installations according to the title of the construction “Electrification of the Ide1 — Svir stretch of the Oktjabrskaya Railway”.

Within a short period of time work was completed on reinforcing the infrastructure on the railway route Moscow — St. Petersburg, which allowed to reduce the travel time of express passenger trains on this stretch to 3 hours 55 minutes.

Pursuant to the title "Respiking of the Sakhalin Railway", six bridges were put into service and the first stage of reconstructing Chekhov station as well as the reconstruction of the fiber-optic line on the Pobedino - Onor stretch were completed.

Reconstructed suburban train stations in Novosibirsk, Semenov, Alatyry and other places were put into service. A number of installations pertaining to the locomotive, car and track business units were commissioned.

Significant work was conducted on reconstructing engineering structures, namely, besides the above mentioned the following sites were put into operation:

- A 260 m long double-track bridge across the Moscow river on the Moscow Railway;
- A 180 m long bridge across the river Kotorosl on the Northern Railway;
- The damaged viaduct on the route Ryazan — Kustarevka of the Moscow Railway underwent capital repairs, over 200 small and medium-sized bridges with a total length of about 3000 km were reconstructed;
- A 110 m long bridge across the Tyysa river was opened for traffic on the Moscow Railway;
- A by-pass of the Kotly station according to the construction title "Complex Reconstruction of the Mga — Gatchina — Vinmarn — Ivangorod stretch".

All these measures helped increase the traveling speed, enhance the safety of rail operations on the major routes of the railway network.
The construction in progress at the beginning and the end of the reporting period is presented in the following table.

<table>
<thead>
<tr>
<th></th>
<th>BALANCE AT THE BEGINNING OF THE FISCAL YEAR, RUR</th>
<th>ADDITIONS, RUR</th>
<th>DISPOSALS, RUR</th>
<th>BALANCE AT THE END OF FISCAL YEAR, RUR</th>
<th>DEVIATION (+, -), RUR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Construction in progress total:</strong></td>
<td>133,766,943</td>
<td>211,569,802</td>
<td>180,473,431</td>
<td>164,863,314</td>
<td>+ 31,096,371</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>investments in non-current assets</td>
<td>109,286,953</td>
<td>79,293,987</td>
<td>141,830,913</td>
<td>146,722,027</td>
<td>+37,435,074</td>
</tr>
<tr>
<td>equipment for installation</td>
<td>5,613,871</td>
<td>22,746,262</td>
<td>23,996,919</td>
<td>4,363,214</td>
<td>-1,250,657</td>
</tr>
<tr>
<td>real estate put into operation, documents on which have not been submitted for state registration at the reporting date</td>
<td>18,866,119</td>
<td>9,529,533</td>
<td>14,617,599</td>
<td>13,778,073</td>
<td>-5,088,046</td>
</tr>
</tbody>
</table>

According to the results of 2006 construction in progress was on the level of RUR 164.9 bln with an increase by the beginning of the year to RUR 31.1 bln or 23.2%, of which facilities for the amount of RUR 29.5 bln were put into operation but not registered.

The increase in the volumes of construction in progress is due to the launching of measures with a normative duration exceeding one year aimed at developing and renewing the infrastructure, namely: reconstruction of a significant number of engineering structures, such as the 2nd Jebskiy Tunnel (Krasnoyarskaya Railway), bridge across the Kotorosl river (Northern Railway), Korshunovskiy and Koroljskiy Tunnels, bridge across the Amur river (Khabarovsk Directorate for the Construction of Railway Facilities), bridge across the Volga river on the 869th km (Directorate for the Construction of Railway Facilities in the South of Russia) and others.

In November 2005 the meeting of the Board of Directors of JSC Russian Railways approved the Company’s approach to reducing the volumes of construction in progress and adopted decisions on accelerating measures on the sale of non-core CIP facilities and withdrawal from non-core projects with a CIP volume of RUR 19.7 bln. A plan of action on reducing CIP volumes was approved in order to achieve the set targets.

In order to increase the efficiency of CIP facilities utilization and draw them into the business turnover JSC Russian Railways established a Central Commission on the utilization of CIP facilities. In the current period the Commission deals with issues of writing-off, conservation and sale of CIP facilities. In 2006 the JSC Russian Railways’ Central Commission decided to write-off CIP on unrealized construction, obsolete development work and equipment for the amount of RUR 1.4 bln.
LONG-TERM AND SHORT-TERM FINANCIAL INVESTMENTS

As of December 31, 2006, JSC Russian Railways has investments into the charter capital of 103 subsidiaries and affiliates, of them 45 being subsidiaries (with an interest of over 50%) and the remaining 58 — affiliates (with an interest of 20% to 50%). JSC Russian Railways’ financial investments totaled RUR 96.3 bln, of them RUR 53.7 bln were long-term and RUR 11 bln were short-term. Financial investments include also property provided under operational management to non-state health-care and educational institutions for the amount of RUR 31.6 bln, of which RUR 30.6 bln are recognized in the balance sheet as a component of other non-current assets and RUR 1 bln — as a component of current assets. Long-term financial investments consist mainly of contributions to the charter capital of subsidiaries — RUR 41.6 bln. Compared to 2004 this figure increased by RUR 38.2 bln due to the establishment of subsidiaries on the basis of property of JSC Russian Railways’ branches:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total; of them the major:</td>
<td>6.9</td>
<td>38.2</td>
<td>31.1</td>
<td></td>
</tr>
<tr>
<td>OJSC Eiteza</td>
<td>2.4</td>
<td>2.4</td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td>Remputmass Group plants</td>
<td>4.3</td>
<td>4.3</td>
<td>1.4</td>
<td></td>
</tr>
<tr>
<td>OJSC Roszheldorproekt</td>
<td>1.4</td>
<td>1.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OJSC Roszheldorstroy</td>
<td>10.2</td>
<td>10.2</td>
<td>10.2</td>
<td></td>
</tr>
<tr>
<td>OJSC Refservice</td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>OJSC TransContainer</td>
<td>13.9</td>
<td>13.9</td>
<td>13.9</td>
<td></td>
</tr>
<tr>
<td>Car repair subsidiaries</td>
<td>2.3</td>
<td>2.3</td>
<td>2.3</td>
<td></td>
</tr>
</tbody>
</table>

Besides, the following is included in long-term investments:
- loans granted — RUR 5.3 bln (CJSC Zheldoripoteka — RUR 3.4 bln; Non-Profit organization Zhilsotsipoteka — RUR 0.7 bln; coal companies — RUR 1.2 bln)
- deposits — RUR 6.1 bln

As of December 31, 2006, short-term financial investments increased by RUR 11 bln compared to January 01, 2006. The increase was due to the cash being placed on deposits — RUR 374.6 bln. Income received in the reporting period amounted to RUR 930 bln.

THE STRUCTURE OF SHORT-TERM FINANCIAL INVESTMENTS (EXCLUDING PROPERTY UNDER OPERATIONAL MANAGEMENT)

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>FINANCIAL INVESTMENTS AS OF JANUARY 1, 2006</th>
<th>ADDITIONS</th>
<th>DISPOSALS</th>
<th>FINANCIAL INVESTMENTS AS OF DECEMBER 31, 2006</th>
<th>DEVIATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total short-term Financial investments:</td>
<td>0.1</td>
<td>374.6</td>
<td>363.7</td>
<td>11.0</td>
<td>10.9</td>
</tr>
<tr>
<td>Securities of organizations:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans granted</td>
<td>0.1</td>
<td></td>
<td>0.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Promissory notes</td>
<td></td>
<td>0</td>
<td></td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td>0</td>
<td>374.6</td>
<td>363.7</td>
<td>10.9</td>
<td>10.9</td>
</tr>
<tr>
<td>Other investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Payment of Taxes and Levies

Pursuant to Federal Law Nr. 115-FL of July 07, 2003, JSC Russian Railways is the legal successor to tax payables of the federal railway transport organizations whose property and property complexes have been contributed to the charter capital of JSC Russian Railways.

Income tax and other compulsory payments (RUR mln)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income before tax</td>
<td>59,163</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>3,184</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>11,287</td>
</tr>
<tr>
<td>Current tax charge</td>
<td>30,714</td>
</tr>
<tr>
<td>Income tax for previous periods</td>
<td>2,528</td>
</tr>
<tr>
<td>Unified imputed income tax</td>
<td>139</td>
</tr>
<tr>
<td>Deferred tax assets written off to the profit and loss account in the reporting period</td>
<td>80</td>
</tr>
<tr>
<td>Deferred tax liabilities written off to the profit and loss account in the reporting period</td>
<td>343</td>
</tr>
<tr>
<td>Expenses on penalty payments to the budget</td>
<td>-8,525</td>
</tr>
<tr>
<td>Expenses on social security penalty payments</td>
<td>56</td>
</tr>
<tr>
<td>Net income (retained earnings) for the period</td>
<td>26,410</td>
</tr>
</tbody>
</table>

In conformity with the Decree of the Government of the Russian Federation Nr. 603 dated September 29, 2003, from the date of approval of the transfer act JSC Russian Railways is entitled to restructure its taxes payable. The restructured debt reimbursement schedules relating to compulsory payments to the federal budget have been fully met; therefore in 2006, pursuant to the Decrees of the Government of the Russian Federation Nr. 1002 dated September 03, 1999, and Nr. 890 dated December 25, 2001, the Interregional Inspectorate for Major Taxpayers Nr. 6 of the Federal Tax Service of the Russian Federation decided to write-off JSC Russian Railways’ restructured debt relating to federal budget penalties and fines in the amount of RUR 9.6 bln (Decisions Nr. 6 and 7 dated November 02, 2006, and Decision Nr. 15 dated November 15, 2006).

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Key Financial Indicators

<table>
<thead>
<tr>
<th>Description</th>
<th>As of December 01, 2006</th>
<th>As of December 31, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets</td>
<td>9,001</td>
<td>12,105</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>14,953</td>
<td>25,897</td>
</tr>
</tbody>
</table>
Risk Management

In 2006 a concept for managing the risks of JSC Russian Railways was developed and approved in order to create a system for managing the following risks:

- market risks — protecting the company against a strengthening national currency;
- credit risks — reducing the risk of default of the company’s financial investments;
- liquidity risk — ensuring timely financing of the company’s structural units;
- property risks — an effective system of insuring the Company’s interests.

All insurance agreements concluded centrally envisage the formation by insurance companies of a reserve to finance preventive measures aimed at minimizing damage.

As of December 31, 2006, the following property had been insured at JSC Russian Railways:

- rolling stock, bridges, tunnels, track structure, platforms, station buildings, other buildings and structures as well as the company’s liability as a carrier and an owner of railway infrastructure.
The JSC Russian Railways Strategic Program defines the social sphere as an important part of the Company’s viability and steady work. Investing in the social sphere is not merely a means of fulfilling the obligations to employees and veterans, but is also an instrument to enhance effectiveness and efficiency of JSC Russian Railways’ operations.

The social package includes medical and health resort treatment for employees, cooperation with government bodies, work safety, an effective housing policy, sports and cultural activities, and the formation of social security system within the Company.

The corporate medical system of JSC Russian Railways allows not only the Company’s employees, their family members and retired railway workers, but also the residents of areas encompassed by the railways to use medical services on a contractual basis.

Medical service in the non-state health institutions of JSC Russian Railways (“NHI”) is provided to about 4 million individuals, of which 37.7% are employees of JSC Russian Railways, 20.3% are their family members, 20.1% are the company’s non-working retirees, 20.1% are inhabitants of the railway area, and 1.8% are employees of the Federal Railway Transport Agency.

The Company’s staff and social policies are based on the following principles:

- A highly professional staff is the main source of the Company’s successful work, its competitiveness and market value.
- The Company actively pursues staff policy oriented on hiring highly qualified personnel, preventing the outflow of skilled employees and ensuring that each employee is doing his job according to his professional knowledge and skills.
- All the managers pursue a staff policy based on assessing the staff as the Company’s extremely important resource, including the expenses incurring while searching for and training new managers and specialists.
- The Company provides conditions for its employees’ professional and cultural development and for their wealth growth.

JSC Russian Railways has more than 1,300,000 employees who ensure stable operation of railways 24-hours a day and freight and passengers transportation.

In the year 2006, 56,000 employees took retraining, raised their professional skills and learned another profession; 8,300 graduates of higher institutions and secondary educational establishments were employed by the branches and structural units of JSC Russian Railways.

Based on social partnership principles, JSC Russian Railways created an operating mechanism to settle collective and individual labor conflicts in working groups in compliance with the law, and to provide them with stable work and give social protection to the company’s employees and veterans.

The Company has a considerable number of cultural units for holding cultural activities. They are intended to preserve and use the historical and cultural heritage, including the legacy of railway transportation, and to renovate and develop classical and amateur arts of the peoples of Russia.

To enable Company employees and their family members to lead a healthy way of life, considerable attention is paid to physical training and sports. Many sports sections are using the Company’s sports facilities, and local inhabitants actively use them also. Summer and winter sports competitions are regularly held.

The Company’s employees and their family members are provided year-round with foodstuffs and industrial goods at the remote stations and junctions by special catering divisions. In this respect a special network of stores, catering facilities, bakeries, footwear repair shops, barbershops, etc. is functioning.
A considerable attention in the company is paid to the development of human resources. This functional stage of work with the staff is among the most important stages. It includes staff training and raising professional skills, the formation of the instruments for carrier planning, including improved work with the personnel reserve and young specialists, the diversified development of corporate culture, etc.

The Company’s Management Board approved a special purpose-oriented program, Young Employees of JSC Russian Railways (2006-2010), which is mainly intended to draw a young employee’s and the Company’s interests closer together.

The Company’s innovatory youth potential is formed mainly in the following directions:

■ training the Company’s own personnel reserve;
■ attracting highly professional young specialists on the labor market;
■ providing conditions for keeping young employees for a long time in the Company.

As of 01.10.2006 the Directorates of the Social Sphere on the railways were set up, Their main responsibilities are increasing the efficiency of social assets operations, attracting investments to renovate them, and using the progressive forms of social assets management.

In the year 2006, the mortgage subsidy program was initiated, whereby part of the mortgage loan rate in the amount of 9% is to be subsidized. The loan rates are among the best in the Russian Federation, being 11% for 15 years with a down payment of not more than 15%.

Since autumn 2006, more than 5,000 employees were provided with housing as the mortgage program of JSC Russian Railways came into effect. In this respect, the employees’ mortgage payments are within the limits of their solvency. In the year 2007, limits for subsidizing branches of JSC Russian Railways will be established. In the new year, the employees of JSC Russian Railways will receive subsidies amounting to 970 million rubles, of which 400 million rubles will be allocated for loans granted in 2006 and 420 million rubles for loans granted in 2007; 100 million rubles will be allocated to subsidize certain categories of employees gratis (large families, disabled persons, etc.), and 50 million rubles, to subsidize part of the mortgage loans gratis upon childbirth.

Cooperation with Government Bodies

In the year 2006, taking joint projects in the sphere of public-private partnership with the participation of constituents of the Russian Federation and business structures was promoted further.

In this respect, the Company cooperates more intensively with the Republic of Chuvashia, the Republic of Tatarstan, the Udmurt Republic, the Chelyabinsk, Sverdlovsk and Rostov Regions, and some other areas. In the year 2006, JSC Russian Railways signed a memorandum on cooperation with 150 manufacturers in the Russian machine-building industry.

The development of cooperation with business structures on a regional level is among the most promising lines of the Company’s regional policy, because the placement of delivery orders of industrial goods for the needs of JSC Russian Railways enhances social stability in the region, increasing the number of workplaces and the amount of tax receipts going to the regional budget.

One of cooperation alternatives in this respect is signing tripartite agreements in the industrially developed regions with the participation of the constituent’s authorities of the Russian Federation, JSC Russian Railways and the manufacturers of railway equipment, and also other representatives of the business community.

Another line of cooperation between the Company and government bodies is budgetary support for using railway lines with insignificant traffic, whose losses ran to 2 billion rubles in the year 2006.

Among 98 railway lines, 51 are of social and economic significance. Using these lines, JSC Russian Railways bears a social burden by connecting remote inhabited areas with regional centers in a locality which is difficult to access, and also by providing workplaces for the local inhabitants, thereby stabilizing the social climate in the country’s remote areas.
**Sponsorship and Charity**

**JSC Russian Railways** is engaged in charity in accordance with the plan approved by the Company’s Board of Directors and designed to improve the Company’s image further and allow the Company to pursue a unified policy in supporting social units and charity programs, promoting education, health improvement, science, art, learning, sports, and intellectual growth of an individual. Attention is particularly paid to improving the living conditions of railway veterans as well as war and labor veterans and providing them with expensive medicines.

On the eve of celebrating the 65th anniversary of the Battle of Moscow, the Company paid for the Memory Train undertakings for war veterans, and the representatives of veteran organizations were transported free of charge for participation in the celebrations. During the school holidays, free train trips were organized for children from the city of Beslan and for children of the workers of the law-enforcement bodies who died on duty. Over 20 million rubles were allocated to maintain children’s preschool establishments, kindergartens, child care centers, and schools.

At the request of religious organizations, charity has been provided to 17 monasteries and temples.

By supporting sports of the highest level, JSC Russian Railways is actively participating in the Russian government’s social programs on the federal and regional levels. By financing professional sport clubs, JSC Russian Railways is supporting children’s and teenagers’ sports, as sport schools are based on sport clubs, where, among other children, railway workers’ children are trained.

The development of general sports for children and teenagers is in line with the objectives of the government policy for youngsters and the JSC Russian Railways’ program for youngsters.

The JSC Russian Railways’ professional sports clubs show good results in sports in Russia and other countries. Advertising campaigns with the participation of professional sport clubs during Russia, Europe and World championship allow JSC Russian Railways to act as a socially oriented company; they help to raise its prestige and image, and make the trademark of JSC Russian Railways knowable not only in Russia, but also in other countries.

Financial support of professional sport clubs provided by JSC Russian Railways allows them to achieve good results in Russian and international championships.

By financing sports training at higher railway institutions and technical colleges, the Company promotes the future railway workers’ healthy way of life.

**Work Safety**

One of the most important objectives of JSC Russian Railways in all its activities is to ensure safe working conditions and reduce the number of railway workers’ occupational injuries.

The main way of meeting this objective is to implement middle term and annual programs for improving working conditions and work safety.

In 2006, 335 sanitary maintenance buildings and premises with 1,450 warming and eating rooms were built, reconstructed or repaired. Work was done in fitting out, reconstructing and repairing roughly 5,000 general lighting systems, more than 750 ventilation systems, etc. 1,009 locomotive booths were provided with extra strong glass, and 960 booths, with vibration-resistant driver’s seats, etc. 5.8 billion rubles, or 1.2% of the operating costs, were spent on work safety from all the financing sources.

In 2006, over 13,000 workplaces were standardized, and working conditions were improved at 31,000 workplaces. All the employees of the structural units of JSC Russian Railways were provided with special heat-insulating clothing and special footwear in accordance with the rules.

For work safety, it is important to train employees. In 2006, 11,820 employees took work safety training; 7,421 of them were managers and 4,399 were work safety specialists.

As a result of the preventive measures taken in the Company, occupational injuries were reduced in 2006 vs. 2005. Occupational injuries decreased by 18%, and fatalities, by 2%. In the railway structural units general injuries decreased by 21%, and fatalities, by 7%.
INFORMATION ON THE COMPANY’S LARGE-SCALE TRANSACTIONS AND TRANSACTIONS INVOLVING INTERESTED PARTIES IN THE REPORTING YEAR
In the year 2006, JSC Russian Railways did not enter into transactions involving assets constituting 25% or more of the carrying amount of the Company’s total assets as of the most recent reporting date.

At the same time, the charter of JSC Russian Railways states that according to the procedure established by the Federal Law “Concerning Joint-Stock Companies” for large-scale transactions, the Board of Directors is empowered to approve a transaction or several interconnected transactions, including those performed in the course of the Company’s routine business and associated with the Company’s acquisition, disposition or possible disposition of assets directly or indirectly, valued at more than 3 billion rubles without exceeding 25% of the carrying amount of the Company’s total assets.

All the decisions on large-scale transactions and transactions involving interested parties were adopted unanimously by all the members of the Board of Directors.
ATTACHMENTS TO
THE JSC RUSSIAN
RAILWAYS' ANNUAL REPORT FOR 2006
<table>
<thead>
<tr>
<th>BOD MINUTES No.</th>
<th>DATE OF THE BOD MEETING</th>
<th>ATTENDING DIRECTORS</th>
<th>AGENDA ITEMS</th>
</tr>
</thead>
</table>
| Minutes No. 1  | 16.01.06                | All BoD members     | 1. Concerning Approval of the State Contract to Execute Order for Military Railway Freight and Transport Services No. 60 dated March 9, 2005 and Additional Agreement No. 1 to this Contract dated November 24, 2005.  
| (a meeting in absentia) |                        | participated in the vote. |              |
| Minutes No. 2  | 24.01.06                | All BoD members     | 1. Concerning Adoption of Decisions on the Issues in the Scope of General Shareholders’ Meeting at Subsidiaries and Affiliates 100% — owned by JSC Russian Railways.  
2. Concerning Approval of the State Contract to Execute the Order for Military Railway Freight and Transport Services.  
| (a meeting in absentia) |                        | participated in the vote. |              |
| Minutes No. 3  | 1.02.06                 | All BoD members     | 1. Concerning Approval of Deals Exceeding RUR 3 (three) bln. |
| (a meeting in absentia) |                        | participated in the vote. |              |
| Minutes No. 4  | 20.02.06                | 10 BoD members      | 1. Concerning the Supplementing of the Compensation System for JSC Russian Railways Management Board Members, Approved by JSC Russian Railways BoD (Minutes No. 7 of December 24, 2003 and Minutes No. 14 of November 8, 2005).  
3. Concerning Amendment of the Statement on the BoD Committee of JSC Russian Railways in part of JSC Russian Railways Reform and Composition of the BoD Committee.  
4. Concerning the Composition of JSC Russian Railways Commission to Deal with the Issues Concerning Setting up a Long-Distance Passenger Company. |
| (a meeting in absentia) |                        | participated in the vote. Directors who did not participate in the vote: I.I.Shuvalov |              |
| Minutes No. 5  | 26.02.06                | 9 BoD members       | 1. Concerning the Position of JSC Russian Railways (JSC Russian Railways’ Representatives) on the Issue "Concerning Approval of OJSC Omsk-Prigorod 2006 Budget” on the Agenda of OJSC Omsk-Prigorod BoD Meeting.  
| (a meeting in absentia) |                        | participated in the vote. Directors who did not participate in the vote: V.N.Amplilogov I.I.Shuvalov |              |
Minutes No. 6
3.03.06
The meeting was attended by:
(a meeting in absentia) A.D.Zhukov
M.P.Akulov
I.Y.Levitin
A.S.Misharin
V.I.Yakunin
The following members submitted their written opinions:
V.N.Ampilogov
V.L.Nazarov
G.M.Fadeyev
V.B.Khristenko
A.V.Sharonov
I.I.Shuvalov

Minutes No. 7
27.03.06
All BoD members participated in the vote.
1. Concerning Approval of Investment and Financial Programs for the Year 2006 and up to 2008.
3. Concerning Approval of Deals Requiring Adoption of Decisions in Line with the Procedures Set out in Article 71.15 of JSC Russian Railways Charter.
3.1. Concerning Approval of 2005 Deals, Where the Delivery Scope, Term and Transaction Price Exceeded Indicators Approved by JSC Russian Railways September 30, 2005 BoD Meeting (Minutes No. 12, Article 11.4.1).
3.2. Concerning Approval of a Deal to Exceed RUR 3 (three) bln in 2006.
4. Concerning the Appointment of Company’s Representatives to Participate in the General Shareholders’ Meetings of Subsidiaries and Affiliates.
### Minutes No. 8
(a meeting in absentia) 11.04.06

<table>
<thead>
<tr>
<th>Attending Directors</th>
<th>Agenda Items</th>
</tr>
</thead>
</table>
| All BoD members participated in the vote. | 1. Concerning Approval of the Loan Agreement between JSC Russian Railways and OJSC Elgaugol, as a Deal in Which There is Interest.  
2. Concerning Changing the Composition of JSC Russian Railways Restructuring Committee.  
4. Concerning Appointing a Member of JSC Russian Railways Management Board. |

### Minutes No. 9
(a meeting in absentia) 11.05.06

<table>
<thead>
<tr>
<th>Attending Directors</th>
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</tr>
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</table>
| A.D.Zhukov  
V.N.Ampilogov  
I.Y.Levitin  
A.S.Misharin  
V.L.Nazarov  
G.M.Fadeyev  
2. Concerning the Concept for Setting up JSC Russian Railways Trade and Catering Subsidiaries and Affiliates to Meet the Needs of JSC Russian Railways’ employees.  
3. Concerning Construction of the Chernishevskoye Railway Station in the Kaliningrad Region.  
4. A report on the effectiveness of JSC Russian Railways’ management of immovable property in 2005 (including without limitation social and cultural, as well as utilities units), including leasing schemes and the economic effect (profitability) of deals relating to condemnation of the corresponding property.  
7. Concerning Approval of Schedule for Withdrawing Competing Entities by Setting up Subsidiaries or Selling Such Entities.  
<table>
<thead>
<tr>
<th>BOD MINUTES No.</th>
<th>DATE OF THE BOD MEETING</th>
<th>ATTENDING DIRECTORS</th>
<th>AGENDA ITEMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minutes No. 11</td>
<td>23.06.06 (a meeting in absentia)</td>
<td>All BoD members participated in the vote.</td>
<td>Concerning the Results of the Auditor Tender to Conduct the Annual Audit of JSC Russian Railways Financial and Economic Performance and Determination of Professional Fees for Auditor’s Services.</td>
</tr>
<tr>
<td>BOD MINUTES No.</td>
<td>DATE OF THE BOD MEETING</td>
<td>ATTENDING DIRECTORS</td>
<td>AGENDA ITEMS</td>
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<tr>
<td>Minutes No. 13</td>
<td>4.07.06</td>
<td>The meeting was attended by:</td>
<td>1. Concerning the Appointment of Chairman at JSC Russian Railways BoD Meeting.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The following members submitted their written opinions:</td>
<td>3. Concerning Establishing a Joint Venture to Acquire and Lease to JSC Russian Railways and VR Ltd. a High-Speed Rolling Stock to be Operated on the Mainline St. Petersburg-Helsinki.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>A.V. Sharonov, K.P. Shenfeld</td>
<td>5. Concerning Approval of Major, including Associated, Deals (Construction Contracts).</td>
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<td></td>
<td>9. Concerning Approval of Deals Exceeding RUR 3 bln between JSC Russian Railways and Siemens AG.</td>
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<td></td>
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<td></td>
<td>10. Concerning the Chairman and Composition of JSC Russian Railways BoD Committee Dealing with JSC Russian Railways Reform Issues.</td>
</tr>
</tbody>
</table>
Minutes No. 14 (a meeting in absentia) participated in the vote. BoD Chairman.

Directors who did not participate in the vote:
V.L. Nazarov
I.L. Shuvalov

1. Concerning the Appointment of JSC Russian Railways BoD Chairman.
## 2006 Meetings of JSC Russian Railways Board of Directors (BOD)

<table>
<thead>
<tr>
<th>BOD Minutes No.</th>
<th>Date of the BOD Meeting</th>
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<th>Agenda Items</th>
</tr>
</thead>
</table>

**Minutes No. 15**

(a meeting in absentia)

19.08.06

- 6 BoD members participated in the vote.
- Directors who did not participate in the vote:
  - I.Y. Levitin
  - V.L. Nazarov
  - G.M. Fadeyev
  - A.V. Sharonov
  - K.P. Shenfeld

1. Concerning the Dismissal and Appointment of JSC Russian Railways BoD Member.

**Minutes No. 16**

(a meeting in absentia)

14.09.06

- 6 BoD members participated in the vote.
- Directors who did not participate in the vote:
  - V.B. Khristenko
  - K.P. Shenfeld
  - I.I. Shuvalov

2. Concerning Changing the Composition of JSC Russian Railways Restructuring Committee.

**Minutes No. 17**

(a meeting in absentia)

22.09.06

- The meeting was attended by:
  - A.D. Zhukov
  - A.S. Misharin
  - V.L. Nazarov
  - G.M. Fadeyev
  - A.V. Sharonov
  - K.P. Shenfeld
  - I.I. Shuvalov
  - V.I. Yakunin

- The following members submitted their written opinions:
  - V.N. Ampilogov
  - I.Y. Levitin
  - V.B. Khristenko

1. Concerning the Concept for Establishing a Freight Service Company — JSC Russian Railways Subsidiary
2. Concerning Approval of Investment and Financial Programs for the Year 2007 and up to 2009.
3. Concerning Approval of Deals where There Is Interest (Construction and Assembly, and Project Development and Exploration Contracts).
<table>
<thead>
<tr>
<th>BOD MINUTES No.</th>
<th>DATE OF THE BOD MEETING</th>
<th>ATTENDING DIRECTORS</th>
<th>AGENDA ITEMS</th>
</tr>
</thead>
</table>
| Minutes No. 18  | 30.10.06                | All BoD members participated in the vote. | 5. Concerning the Position of JSC Russian Railways (JSC Russian Railways’ Representatives) on the Issue “Concerning Approval of CJSC Zheldorpoteka 2006 Budget” on the Agenda of CJSC Zheldorpoteka BoD Meeting.  
6. Concerning Establishing a Russian-Finnish Joint Venture to Implement a Project for Arranging a Railway Link between St. Petersburg and Helsinki.  
3. Concerning Approval of Schedule of JSC Russian Railways’ Participation in its Subsidiaries and Affiliates, and Corporate Governance Activities at these entities.  
5. Concerning Approval of the Real Estate Lease Agreement between JSC Russian Railways and CJSC TransTeleCom Company, As a Deal, in which There Is Interest.  
7. Concerning the Position of JSC Russian Railways’ Representatives on the Agenda Items of General Shareholders’ Meetings at OJSC Roszheldorstroy, OJSC Roszheldorproject, OJSC Barnaulsky Car Repair Plant, OJSC Roslavsky Car Repair Plant, and OJSC Saransky Car Repair Plant.  
9. Concerning the Position of JSC Russian Railways (JSC Russian Railways’ Representatives) on the Issue to Be Reviewed by LLC St. Petersburg Trading Company (ORS) Board of Directors Concerning the Decision to Terminate LLC St. Petersburg Trading Company (ORS) Participation in CJSC Kronverk through Concluding a Purchase Agreement between LLC St. Petersburg Trading Company (ORS) and LLC Alien for Purchase of 2,999 Ordinary Registered Shares of CJSC Kronverk Held by LLC St. Petersburg Trading Company (ORS).
10. Concerning JSC Russian Railways Joining the International Union of Railways as a Full-Fledged Member.
11. Concerning the Position of JSC Russian Railways (JSC Russian Railways’ Representatives) on the Issue “Concerning Reestablishing, in Conjunction with VR Ltd. (Finland), a Joint Stock Company Engaged in Container Shipping between Russia and Finland” on the Agenda of OJSC Transcontainer BoD Meeting.
13. Concerning Approval of Purchase by JSC Russian Railways of 8.5% of Shares in OJSC Ust-Luga Company.

<table>
<thead>
<tr>
<th>BOD MINUTES No.</th>
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<tbody>
<tr>
<td>BOD MINUTES No.</td>
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<tr>
<td>Minutes No. 21</td>
<td>8.12.06</td>
<td>All BoD members participated in the vote.</td>
<td>6. Concerning the Position of JSC Russian Railways (JSC Russian Railways’ Representatives) on the Agenda Items of General Shareholders’ and BoD Meetings at Companies on the List of Subsidiaries and Affiliates, on which JSC Russian Railways Adopts Decisions under Paragraph 1 of Article 71.23 of JSC Russian Railways Charter approved by JSC Russian Railways Board of Directors.</td>
</tr>
<tr>
<td>(a meeting in absentia)</td>
<td></td>
<td></td>
<td>7. Concerning the Position of JSC Russian Railways’ Representatives on the Agenda Item of the BoD Meetings at Its Subsidiaries and Affiliates Included on the List Annually Approved by JSC Russian Railways BoD “Concerning Approval of the Agenda for the General Shareholders’ Meeting”.</td>
</tr>
<tr>
<td>Minutes No. 22</td>
<td>11.12.06</td>
<td>All BoD members participated in the vote.</td>
<td>8. Concerning the Bonus for JSC Russian Railways CEO and Evaluation of His IIIQ2006 Business Performance.</td>
</tr>
<tr>
<td>(a meeting in absentia)</td>
<td></td>
<td></td>
<td>9. Concerning the Position of JSC Russian Railways (JSC Russian Railways’ Representatives) on the Issue “Concerning Approval of the Loan Agreement between CJSC Transmashholding and OJSC Speedways as a Material Transaction and a Deal, in which There Is Interest” on the Agenda of the General Shareholders’ and BoD Meetings of OJSC Speedways, included on the List of Subsidiaries and Affiliates, on which JSC Russian Railways Adopts Decisions under Paragraph 1 of Article 71.23 of JSC Russian Railways Charter.</td>
</tr>
</tbody>
</table>
**Minutes No. 23**
(a meeting in absentia) participated in the vote.

1. Concerning Establishing JSC Russian Railways Representative Office in Iran.
2. Concerning Approval of the Security Services Agreement for JSC Russian Railways' Facilities.
3. Concerning the Position of JSC Russian Railways (JSC Russian Railways’ Representatives) on the Agenda Items of General Shareholders’ and BoD Meetings at Companies on the List of Subsidiaries and Affiliates, on which JSC Russian Railways Adopts Decisions under Paragraph 1 of Article 71.23 of JSC Russian Railways Charter approved by JSC Russian Railways Board of Directors: “Concerning the Sale of Shares Acquired by the Company” and “Concerning Approval of the Deal, in Which There is Interest”.
<table>
<thead>
<tr>
<th>BOD MINUTES No.</th>
<th>DATE OF THE BOD MEETING</th>
<th>ATTENDING DIRECTORS</th>
<th>AGENDA ITEMS</th>
</tr>
</thead>
</table>
2. Concerning the Status of Work Relating to the Conclusion of Agreements for Suburban Rail Transport of Subsidized Categories of Passengers between JSC Russian Railways and the Executive Bodies of the Subject Entities of the Russian Federation.  
6. Concerning Improving the Key Indicators under the Motivation System for Members of JSC Russian Railways Management Board and Executives.  
8. Concerning the Position of JSC Russian Railways (JSC Russian Railways’ Representatives) on Issues “Concerning Approval of Agenda for Extraordinary General Shareholders’ Meeting”; “Identifying the Number, Nominal Value, Category (Type) of Authorized Shares, and Rights Provided by these Shares”; “Concerning Increasing the Charter Capital Through Placing Additional Shares”; “Concerning Approval of Deals, in which There is Interest - Share Purchase Agreements” on the Agenda of CJSC Russkaya Troika Extraordinary Shareholders’ and BoD Meetings.  
<table>
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<tr>
<th>CONSIGNOR</th>
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<th>2006 SHARE, %</th>
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<tr>
<td>OJSC SUEK</td>
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<td>OJSC MIKHAILOVSKY GOK</td>
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<td>16.4</td>
<td>19.5</td>
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<tr>
<td>OJSC RAZREZ BORODINSKY</td>
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<tr>
<td>OJSC NLMK</td>
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<td>LLC KINEF</td>
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<tr>
<td>OJSC MMK</td>
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<td>OJSC STOILENSKY GOK</td>
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