Corporate Social Report 2010, JSCo “Russian Railways”

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Introduction

1. General information about the Report

The preparation of the Corporate Social Report of the Russian Railways for 2010 opened the fifth annual reporting phase for coverage of the non-financial activities (reporting social responsibility and sustainable development) of the Company. The present Report has been prepared in compliance with Russian Railways Order No. 1313p of June 16, 2011 "The preparation of the Corporate Social Report by Russian Railways for 2010" taking into account the principal requirements of the Reporting Guidelines oriented at the sustainable development (GRI, version G3). The previous social reports of the Company for 2006, 2007, 2008, 2009 are available at the official web-site of JSCo "RZD". Russian Railways is collaborating on a larger scale with NGOs regarding the social responsibilities of the business structures, and above all, with Russian Union of Industrialists and Entrepreneurs. The Company strictly follows the directives of UN Global Agreement and joined the Social Charter of Russian Business. The Corporate Social Report has been prepared to solve the following problems:

- awareness of all concerned parties of the policy, management principles and substantial aspects of the Company actions in terms of social responsibility;
- the development of dialogue with the concerned parties to meet social requirements and demands by the Company;
- the establishment of the grounds for better assessment of the Company social activities by Company management and experts, including the problems, opportunities and perspective targets in the sphere of economic development, environment protection, Company human potential management and interaction with consumers and society.

2. Scope and limits of the Report.

The Report covers the information regarding all aspects of corporate social responsibility implemented by Russian Railways. Moreover, such aspects as the responsibilities towards personnel, consumers and business partners, including the environment protection, have been reviewed in the Report. The Report analyzes management methodology, actions and efficiency indicators that provide for stable economic, ecological and social development of the Company. The information given in the Report refers to the activities of the Central Office of the Company and its affiliates. The activities of subsidiary and affiliated companies as well as its associates have not been reviewed in the Report.

3. Regulatory and methodological framework used for the preparation of the Report

The following documents have been used for the preparation of the Corporate Social Report:

- Reporting Guidelines for sustainable development, i.e. GRI Version G3.
- UN Global Agreement.
- Report verification standards AA1000.
- Social Charter of Russian Business.
- Principal efficiency indicators of Russian Union of Industrialists and Entrepreneurs.
- Recommendations for corporate non-financial reporting.

4. The methods used in preparation of the Corporate Social Report and its implementation.

The Corporate Social Report has been elaborated in compliance with reporting principles oriented at the sustainable development, covered by GRI. Scope of the GRI principles and their compliance at the stage of preparation of the Report are given in Table 1.1 below.

Table 1.1.
Scope of the GRI principles and their compliance at the stage of the preparation of the Russian Railways Social Report 2010.

No.	GRI principles	Principles description in the Corporate Social Report
1	Stability	The essential external and internal factors with respect to the social responsibility of the Company have been considered at the stage of determining the task of the Report. Every Chapter of the Project that refers to the efficiency indicators in each aspect of social responsibility (Chapters 4-9) covers the information of relevant factor, defining the themes of the Report, such as below: • Key risks and opportunities; • Company strategy. The Report illustrates the issues and indicators that attracted specific attention of concerned parties.
2	Inclusion of Concerned Parties	The inclusion of concerned parties might be realized due to actions that were implemented at the stage of the Report preparation: **The identification and assessment of the concerned parties of the Company.** The chart of concerned parties was prepared, including the evaluation of the significance of concerned parties and taking into account the mutual influence of the Company and the concerned parties. The most significant (key) groups of affected parties have been identified during the review.
3	Sustainable Development	The analysis of the Company contribution into the sustainable development has been outlined in the Report, as follows: 1. The Report reviews various Company activities associated with its sustainable development, namely: economic (Chapter 4), environment protection (Chapter 5) and social (Chapters 6–9). 2. In addition, the Report illustrates economic, ecological and social indicators and covers the information about Company actions aimed at the enhancement of each indicator and management methods applied to the sustainable development. 3. Some chapters refer to analysis of the Company activities associated with the stable development of regions and industrial sectors where JSCo "RZD" plays a significant role along with the tribute of the Company to the sustainable development of the state and society as a whole.
4	Coverage	**1. The Scope of the Report.** The working group has collected data and all the necessary information at the administrative office of JSCo "RZD" and affiliates of the Company on all substantial issues to be covered by the Corporate Social Report. **2. The reporting limits.**

Table 1.1.
Scope of the GRI principles and their compliance at the stage of the preparation of the Russian Railways Social Report 2010.

No.	GRI principles	Principles description in the Corporate Social Report
5	Balance	The Corporate Social Report gives both positive and negative aspects along with the outcome. The negative aspects and outcome are described in the following parts of the Report: • in tables, showing the internal and external risks for each performance area and in comments to these tables; • in chapters, illustrating the values of such negative GRI indicators as an adverse effect on the environment, violation of traffic safety, personnel turnover, penalties and suits, etc.
6	Compatibility	1. The reported efficiency outputs for 2010, where and if possible, are given in comparison with the indicators of the previous years. 2. The reported data is comparable with the indicators, recommended by GRI and other regulations and systematic documents at the stage of preparation of non-financial reporting.
7	Adequacy	The quantative data has not been assessed for the purpose of the Report. The allegated qualitative data given in the Report is based on the respective quantitative data. In such case all cost parameters of the Report are given in current prices.
8	Timeliness	The Report has been prepared under strict time-constraints. The readiness of the materials of the Report in the second half of the year following the reporting period might be explained by the scale of the Company operations and available periods for the preparation of statistic and corporate records.
9	Clarity	To improve clarity of the Report and make it easy to use the following parameters were introduced: 1. The single structure for all Chapters, that contain the data about efficiency outputs of the Company regarding the social responsibilities. 2. The references are given to sources of the detailed information (including the Company web-site). 3. The list of terms, definitions and abbreviations is given for the purpose of the Report.
10	Reliability	The materials of the Report are given referring to the state statistics and corporate records and reporting documents of Russian Railways. In addition, the information posted on the official site and in the corporate information systems of Russian Railways have been used at the stage of preparation of the Corporate Social Report.

List of Abbreviations and Terms Used in the Report

GRI Guidance	Guidance for reporting on sustainable development (Global Reporting Initiative), version 3.0.
AA 1000 SES	AccountAbility Stakeholder Engagement Standard (interaction with stakeholders standard)
PricewaterhouseCoopers	Auditing and consulting company
Moody's, Standard&Poor's	International rating agency
Fitch	International rating agency
JSCo "RZD"	"Russian Railways" Joint Stock Company, short name
Company	the short name of the company "Russian Railways" Joint Stock Company
Interested parties	Physical and legal bodies which have an impact on the results of activity of the company or its impact
Sustainable Development	Development, ensuring the needs of current generations without compromising the ability of future generations to meet their own needs [Oxford: Oxford University Press, 1987, p. 43]
Social responsibility JSCo "RZD"	Responsibility for the transport development of the country's economy and Russian society in conjunction with responsibility for the sustainable development of the company. Social responsibility JSCo "RZD": • based on strict compliance with Russian legislation and legislative acts; • includes proactive activities exceeding regulatory requirements; • oriented on the most complete and well-balanced records of the demands of stakeholders in the economic, environmental and social fields
Non-financial risks	The result of the risk events, arising from the interaction with stakeholders, as well as stakeholders that may adversely affect the company's activities in the field of sustainable development and social responsibility, i.e. lead to damage (including financial), loss of profits. Non-financial risks describe the uncertainty associated with the attitudes, behavior, stakeholders, their expectations and the impact of the activities of the company's stakeholders
Charitable activities	Volunteering on a grant or concessional transfers of property, including money, execution of work, services, other support (iss. 1 Federat Law from 11.08.1995. Number 135-FL "On charity and charitable organizations") to physical and legal bodies.
JSCo	Joint-stock company
GNP	Gross domestic product
WHO	World Health Organization
HEC	Health Expert Commission
S&A	subsidiaries and affiliates

RTI	traffic accident
RTSC	Road Transport Service centers
SPA	Single personal account
STL	Single telephone line
UN EEC	UN European Economic Commission
RJSICo	Railway Joint Stock Insurance Company
RL	Railway
ZHELDORTRANS	All-Russian Union of Railway Transport Employers
ZAO	Closed Joint Stock Company
ZAO "ERL"	"EuroAsia Rail Logistics" Closed Joint Stock Company
CI QCS	Corporate Integrated Quality Control System
PRC	People's Republic of China
MGIMO	Moscow State Institute of International Relations (MGIMO-University)
MIIT	Moscow State University of Railway Engineering
UIC	International Union of Railways
NLMK	Novolipetsk Metallurgical Plant
NGPF "BLAGOSOSTOYANIE"	Non-Government Pension Foundation "WELFARE"
STW	Scientific and technical works
JSCo "SP Vitebskaya SPC"	"Saint Peterburg Vitebskaya Suburban Passenger Company" Joint Stock Company
JSCo "Central SPC"	"Central Suburban Passenger Company" Joint Stock Company
UN	United Nations Organization
LLC	Limited Liability Company
RCO	Railway Cooperation Organization
FFC	First Freight Company
MPE	Maximum permissible emissions
MPD	Maximum permissible discharge
PNOOLP	Draft Standards of waste and limits for its disposal
Rosprofzhel	Russian Trade Union of railway transport and civil workers
Rosstat	Russian Federal State Statistics Service
Rostechnadzor	Federal Service for Ecological, Technological and Nuclear Supervision
Rospotrebnadzor	Federal Service for consumer-protection and human well-being

RUI&E	Russian Union of Industrialists and Entrepreneurs
PPE	Personal protection equipment
QCS	Quality Control System
CIS	Commonwealth of Independent States
USSR	the Union of Soviet Socialist Republics
CS	Company's Standard
LPMS	Labor protection management system
BTSS	Brand transport service system
ACIS	Alarm, centralization and interlocking system
FPC	Federal Passenger Company
CD FAS	Central Department of Federal Anti-Monopoly Service
CDFCR	Central depot on freight car repair
CDRR	Central depot on rail roads' repairs
CK ROSPROFZHEL	Central Committee of Rosprofzhel
BTSC	Brand transport service center
ES	Emergency situations
EDS	Electronic digital signature
IPO	Initial Public Offering
ISO	International Organization for Standartization
ISO 14001	International Organization for Standardization, ISO 14001-2004 "Environmental management standard. – Requirements for use)
OHSAS 18001	Occupational health and safety information, guidance and resources to support this standard.

01

General Information about the Company

1.1. General characteristics of Russian Railways

The full name of the Company: Public Corporation "Russian Railways".
The abbreviated name: JSCo "RZD".
English name: Joint Stock Company «Russian Railways»
Address of Russian Railways: 2, Novaya Basmannaya Str., Moscow, Russia, 107174.
Internet address of Russian Railways: www.rzd.ru.
Russian Railways has been established by the relevant Decree No. 585 issued by RF Government on September 18, 2003 "The establishment of Public Corporation "Russian Railways".
The Company has started its economic activities on October 1, 2003.
In compliance with Decree No. 1009 of RF President of August 4, 2004 "Approval of the list of strategic enterprises and joint-stock companies" Russian Railways has been included in the list of Public Corporations, its shares belong to the Federal State, and the Russian Federation exercises control over shares and provides for the strategic interests, defense and security of the State, protection of morals, health and civil rights of RF citizens.
The principal activities of Russian Railways:

- Provision of services for railways infrastructure general use and other public services associated with such infrastructures (its components);
- Provision of services for general public and specific railways, owned by the Company;
- Operation, maintenance and repair of general public railway transport and specific railways;
- Transportation of passengers, cargoes and cargo luggage by general public railways;
- Provision of services associated with locomotives;
- Cargoes handling on general public and specific railways;
- Provision of services on cargoes storage, including cargoes under customs supervision, including cargo luggage, luggage and hand baggage of the passengers;
- Forwarding activities;
- Provision of services associated with scheduled and current repairs, including technical maintenance of rolling stock;
- Provision of communication, information, marketing and other services;
- Construction, technical maintenance and repair of communication facilities, including linear structures, systems and radio communication facilities;
- Maintenance and repair of computer engineering and other techniques, including associated peripheral equipment;
- Procurement (sale) of electrical and thermal energy, provision of services connected with power, heat and water supply, including water distribution;
- Metrological works, manufacture and repair of measuring devices;
- Prevention and elimination of fires and other emergency situations on the railways, including emergency and recovery operations;
- Scientific and research, development, design, survey, and repair and construction works;
- Information, advertising and publishing activities, including printing;
- Establishment and operation of logistics centers, including the integrated logistic documentation and its implementation in transport market;
- Organization of railway for children and professional orientation of young people;
- Medical services;
- Educational services;
- Foreign trade activities, including provision of services on general public international railways,

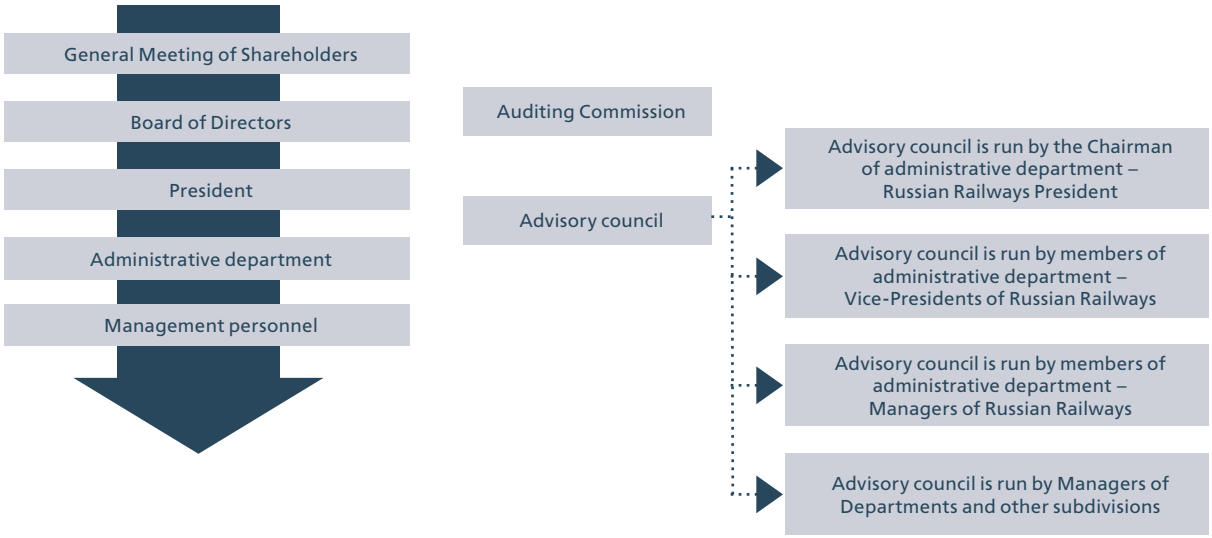
cooperation with foreign railway transport organizations; the construction of railway transport facilities for foreign organizations;
- Other activities.

The supreme governing body of Russian Railways is the general meeting of shareholders.

The only shareholder of the Company is the Russian Federation. The Government of the Russian Federation exercises the shareholders' powers on behalf of the Russian Federation.
The shareholder decisions are executed in a form of directives and regulations of RF Government. The decisions of the annual general meeting of the shareholders for 2010 have been approved by the decree No. 1129-p of RF Government on June 30, 2011.
RF Government dominates in taking decisions and forming the membership of Russian Railways Board of Directors both in number and human resources.
Russian Railways Board of Directors consisting of 13 persons has been approved by the decree No. 1129-p of RF Government on June 30, 2011.
A.D.Zhukov, Deputy Chairman of RF Government was selected the Chairman of Russian Railways Board of Directors. V.I.Yakunin, President is a member of the Board of Directors of Russian Railways.
The remunerations for performing the duties as the members of Board of Directors of Russian Railways have not been paid in 2010.

Organizational and functional managerial structure of Russian Railways

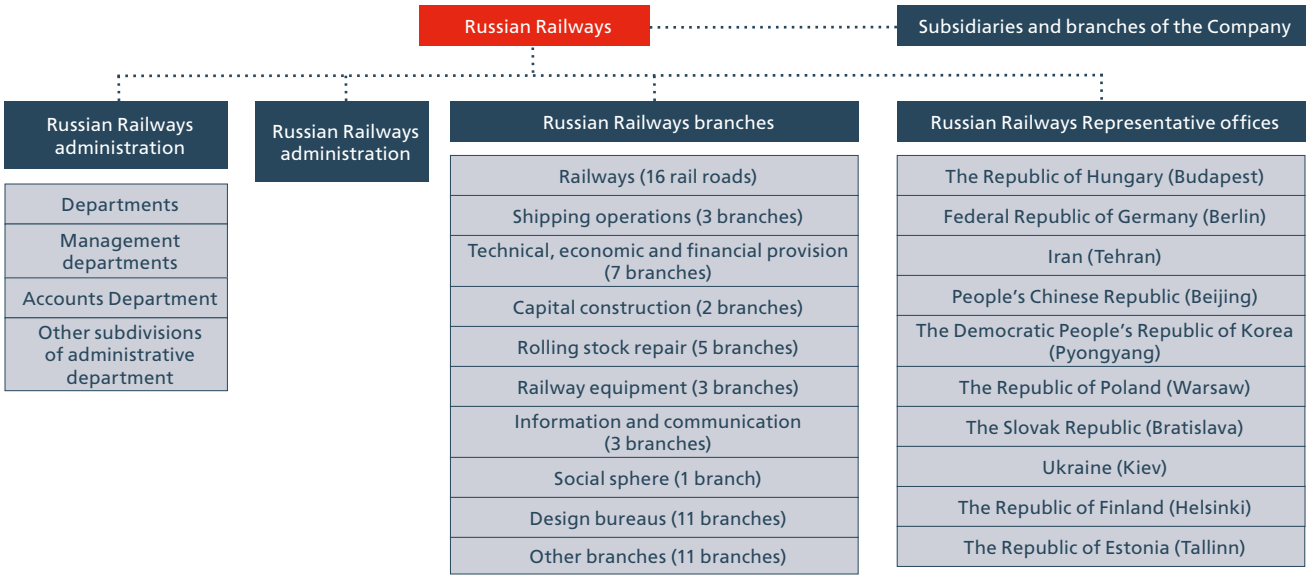
The structure of Russian Railways



Russian Railways President exercises the rights and bears the responsibilities for the achievement of principal targets of the Company, i.e. provision of the public needs, legal entities and individuals during the transportation by railways, operations and services rendered by the Company, as well as for any proceeds of the Company.
The Company President is the only Executive Body of the Company.
Russian Railways Board of Directors is the Collective Executive Body of the Company. The Board consists of President as the Chairman of the Company, the First Vice-President, Senior Vice-Presidents and Vice-Presidents of the Company, including Company Branch Managers, i.e. various Railways, heads of Divisions of Company Management and other employees in compliance with RF decree

No. 265-p issued on February 25, 2004. The members of the Company Management Body are selected by the Board of Directors, excluding Russian Railways President, who is appointed by RF Government.
The fees of Russian Railways senior executives are directly connected with the efficiency of the Company thus stimulating the development of the Company at the cost of its profitability, expenses optimization, and improvement of industrial processes, higher safety and quality of passenger and luggage transportation.
The Audit Commission is formed to review the financial and economic activities of the Company. The Commission consists of 7 individuals that are approved by RF Government in compliance with Decree No. 1129-p of June 30, 2011. The members of the Audit Commission have no right to hold any other positions, particularly for the Company Management.

JSCo «RZD»: Organization structure



The organizational structure of "RZD" Holding consists of Russian Railways parent company, its subsidiaries and dependent companies as of December 31, 2011, including as follows:

- 16 company affiliates — Railways: Oktyabrskaya, Kaliningradskaya, Moskovskaya, Gorkovskaya, Severnaya, Severo-Kavkazskaya, Jugo-Vostochnaya, Privolzhskaya, Kuibyshevskaya, Sverdlovskaya, Juzhno-Uralskaya, Zapadno-Sibirskaya, Krasnoyarskaya, Vostochno-Sibirskaya, Zabaikalskaya and Dalnevostochnaya;
- Functional branches:
  - 3 freight branches;
  - 7 branches responsible for technical, economic and financial procurement;
  - 2 branches dealing with capital development;
  - 5 branches responsible for repairs of rolling stock;
  - 3 branches responsible for railway equipment;
  - 3 branches dealing with information and communication links;
  - 1 branch responsible for social issues;
  - 11 branches – designing bureaus;
  - 10 other branches.

The Company has its Representative Offices in 10 countries all over the world:
The Republic of Hungary (Budapest), Federal Republic of Germany (Berlin), Iran (Tehran), People's Republic of China (Peking), the Democratic People's Republic of Korea (Pyongyang), the Republic of Poland (Warsaw), the Republic of Slovakia (Bratislava), Ukraine (Kiev), the Republic of Finland (Helsinki), the Republic of Estonia (Tallinn).
The branches and representative offices, established by the Company, shall not be considered the legal entities, and their assets belong to Russian Railways.

1.2. Russian Railways Ownership Structure

The authorized funds of the Company as of January 01, 2010 amounted to 1,594,516,219 thousand rubles.
In the first quarter of 2010, the company increased its authorized funds by 60 billion. rubles in order to build up infrastructure facilities in the course of preparation for the XXII Olympic and XI Paralympic Winter Games in Sochi in 2014, in accordance with Clause 11.1.6 of Federal Law #308-FZ "2010 Federal Budget and 2011-2012 Planning Period" dated December 02, 2009.
In the fourth quarter of 2010, the company increased its authorized funds by 43.6 billion rubles: 40 billion rubles in accordance with the Federal Law "2010 Federal Budget and 2011-2012 Planning Period" in order to implement the Company's investment program, including construction of the transportation infrastructure facilities in the course of preparation for the XXII Olympic and XI Paralympic Winter Games in Sochi in 2014 (20 bn. rubles) and reconstruction of the public rail transportation infrastructure (20 bn. rubles);

3.6 bn. rubles – in accordance with the Federal Law "2010 Federal Budget and 2011-2012 Planning Period" in order to build up a railway infrastructure within the Organization of Intermodal Passenger Transportation on the route Vladivostok – Knevichi Airport project. An entry under state registration number 6117746323326 was made in the Uniform State Registry of Legal Entities on March 03, 2011 confirming the state registration of amendments made to the constituent document of Russian Railways.

The authorized funds of the Company as of the end of the financial period amounted to 1,698,128,067 thousand rubles.

1.3. Russian Railways Corporate Style

Российские железные дороги

Russian Railways

The new corporate style of Russian Railways is the symbol of the changes that are taking place in the Company. Nowadays, the Russian Railways area of interest comprises not only the rail transportation, but also logistics, tourism, construction, telecommunication, medicine and many other spheres. Therefore the new logo bears a broad meaning and does not only focus on railways. Bright red color and advanced graphics of the new trademark of Russian Railways demonstrate that the Company is ready to take active measures in the current business environment. The brand of Russian Railways also suggests such values as commitment to traditions, responsiveness to customers, guaranteed quality of services, reliability, swiftness, innovativeness, technological effectiveness, broad area of interest, dynamic development, thus creating an attractive image for the international audience. In October 2007, the management board of Russian Railways approved the Company's corporate trade mark, logotype and corporate typefaces.

1.4. Mission and Business Scale

The mission of RZD Holding is to develop effectively the transportation business making it competitive on both Russian and international markets, subject to actualization of the responsibility of the national carrier and owner of the railway infrastructure.
The development priorities of RZD Holding are defined in the RZD Development Strategy for up to 2030, as prepared in Russian Railways and its basic medium-term development priorities for up to 2015. The key ones are the following:

- Scaling up the business on both the domestic and international markets by 2015;
- Increasing the efficiency of the core activities, first of all, due to improving the use of capacity and turnover of the infrastructure, as well as increasing its technical reliability;
- Achieving the high-level competitive ability due to creation of a new line of carrier products and additional services, development of logistics, service and quality enhancement for clients, implementation of innovative facilities and work techniques, improvement of ecological safety and transportation security;
- Increasing the employee welfare and social security based on the principles of social partnership subject to the growth of the employees' competencies and improvement of their work performance;
- Making the corporate executive management to comply with the world's best practice.

The Strategy will be implemented by taking the following measures:

- Elaborating an efficient business model of RZD Holding, proceeding with management by business types, improving Russian Railways and the Holding's organizational structure and management system in general;
- Formalizing goals and priorities in business development and personalizing responsibility for the operating results;
- Taking complex measures aimed at increasing cost effectiveness of target businesses with the respective state support;
- Implementing the uniform functional policies and developing balanced strategies with a breakdown by business type of RZD Holding and subsidiaries and affiliates of Russian Railways.

The RZD Holding's basic investment priorities by 2015 are reconstruction and development of infrastructure, reconstruction of locomotive fleet, enhancement of cargo and passenger transportation service.
The important objectives of RZD Holding development comprise improvement of performance of the staff as well as its involvement in the achievement of corporate tasks. As this takes place, the care of people is the foundation of the Holding's social support system and the Collective Agreement is the key element of ensuring that all the employees are provided with social support and the guarantee of their confidence in the future.
Achievement of the stated goals will contribute to formation of a sustainable transportation business system, making the Holding more competitive and client-focused, enhancement of efficiency and quality of the transportation process and expansion of the range of services rendered to consumers.
The RZD Holding in its target state will be:

- The largest transportation business system in Russia;
- A holding structured by business type with a consolidated strategy;
- An owner of the public rail transportation infrastructure that will provide transportation and associated services on a nondiscriminatory basis;
- An infrastructure-integrated network-wide cargo carrier;

- One of the largest players in the emerging markets of logistics, passenger service and other services;
- A socially responsible business system that will ensure the balance of corporate, state and public interests in its activities.

Actually, the Company started to implement the targeted strategic plans in 2010. It undertook gradually the measures aimed at increasing the client-orientedness and technological sustainability of the operation of RZD Holding. We enhanced the passenger service quality, introduced new products and services in the passenger complex. We actively took measures aimed at increasing the level of transportation security based on quality enhancement of the content and repair of infrastructure facilities and rolling stock, improvement of the risk and threat detection and elimination system to ensure their sustainable operation.

In 2010, in accordance with the determined target parameters, RZD Holding improved gradually its innovation, investment and personnel policies.

It continued to implement the Structural Reform Program for Railway Sector; the most important steps were made to complete the adoption of the vertically integrated matrix management system.

We completed the formation of traction rolling-stock movement control and repair directorates as branches of Russian Railways We actively formed administration chains in the infrastructure and traction directorates. Consecutive work was done to create environment for establishment of railway-based regional corporate centers, adoption of a no-department railway management structure.

Company's Business Scale

While developing the current business types, the Holding carries out a system-level adjustment of its activities by developing new business types, expanding its presence and improving its competitive ability in the growing markets of logistics, passenger service and other services.

Thus, for the purpose of improvement of competitive ability of the long distance passenger transportation complex, the Holding has launched a number of promising projects aimed at attracting new, and retaining "traditional", passengers who prefer the railway transport over other modes of transportation:

- Development of the practice of ticket sale via the Internet, including on-line registration;
- Expanding the range of train station services and enhancement of their quality, beginning reconstruction of the largest train stations;
- Increase in the flexibility of price regulation in the deregulated segment;
- Ensuring the increase in transportation speed;
- Outsourcing is actively used within organization of passenger service.
- Development of tourism.

One of the key directions is the development of the rapid transit and high-speed service.

In 2010, a regular movement of Sapsan trains was opened between Moscow and Saint-Petersburg, in July rapid transit trains began to move on the itinerary Moscow – Nizhniy Novgorod, and at the end of the year – on the itinerary Saint-Petersburg – Helsinki.

One of the promising trends of the Holding's development is the logistics activities.

As a business type, the logistics is highly synergistic with other basic target business types: "cargo transportation" and "operator performance" (especially with the segments of container shipping and special purpose cargo transportation). The integrated development of the new segment will

provide a basis for both attraction of extra clients to the railway transport and improvement of the competitive ability vs. the motor service.
The Holding will develop towards its target state not only as the largest transportation group of companies, but also as a leader of the logistics market in the "1520 Area".
The strategic development of the Holding in this area consists in taking leadership of the transport and logistics market based on enhancing the efficiency of the existing freight yards by way of their reconstruction and modernization on the basis of state-of-the-art technologies and business processes, as well as integrating the activities into a single network and creating a standard service uniform.
By 2015, as part of strategic development of the logistics business, the Holding will:

1. Create terminal and logistics complexes across the entire Russian railway system.

Nowadays, a number of high priority terminal and logistics infrastructure projects are already being implemented, i.e.:

- In the Moscow region – a Bely Rast terminal and logistics center;
- In the Leningrad region – a dry port in the Leningrad Region, near Shushary station;
- In the Nizhny Novgorod region – Doskino logistics centre.

2. Enhance the operational effect of the existing terminal-warehouse complex.
3. Ensure development of the contract logistics (3PL).
4. Continue the implementation of a group of actions aimed at extending the containerization of transportation and ensuring the door-to-door cargo delivery with the use of other modes of transportation.

Russian Railway is also taking active part in construction of railway approaches to Russian ports in all water basins. In order to achieve the planned volume of carriage at remote approaches to Baltic ports, Russian Railways has in recent years done groundbreaking work in the area of construction of side track, electrification, extension of receiving and departure tracks at speed-limiting areas. There is an intent to continue development of railway stations adjacent to the ports in Ust-Luga, Primorks, Vysotsk, Murmansk, and Kaliningrad.
A great work is being done in the area of reinforcement and development of railway infrastructure at the approaches to the Far East ports.
There are projects concerning formation of management companies in the largest ports that are being currently implemented. In particular, the Holding owns equity stakes in JSCo "Ust-Luga Company", JSCo "Murmansk Transportation Junction".
Participation of the Holding in such projects will be based on analysis of technical efficiency and payback potential. The volume of the stake in the port capital to be acquired by the Holding will be determined on a case-to-case basis; this being said, the prime project for the Holding is participation in extension of existing terminals and construction of the new ones.
Development of railway ferry transportation in order to extend the territory of railway service is also of interest for the Holding.
Establishment of joint ventures with sea carriers and forwarding agents is also an important tool by which the Holding can influence the formation of a competitive and cost effective "through" tariff rate.
Black Sea Ferries Ltd, a subsidiary of JSCo "RZD", is forwarding railway cars and cargo between Kavkaz (Russia) and Poti (Georgia) ports, thus providing transport communication with the Republic of Armenia.

In November 2010, a regular direct railway ferry line has been opened opened between the ports of Kavkaz and Samsun (Turkey), in construction of which Black Sea Ferries Ltd, a subsidiary of JSCo "RZD", took an active part.
In order to develop multimodal logistic chains for delivery of cargo to customers, Russian Railways developers mixed railway-ferry service. In 2007, a ferry line Ust-Luga – Baltiysk (Russia) – Sassnitz/ Mukran (Germany) was opened. To resolve promptly issues of ferry service in this direction, a special Russian-German Ust-Luga – Baltiysk – Sassnitz Combined Railway-Ferry Line Council was established. Black Sea Ferries Ltd works out projects of engaging additional vessels to increase the volume of transportation in this direction.
Development of freight transportation abroad and cooperation with strategic foreign suppliers is the most advanced alternative of diversification of the Holding's business portfolio. A challenging opportunity is an approach by RZD Holding of the transportation/ operation market in countries with considerable cargo traffic through lines connected with Russia (which include the key international routes).
The most important criteria for entering the new market will be investment payback and increase in the cargo base on the Russian railways.
In this area, the Holding is implementing projects of Armenian railways concession management and reconstruction of a railway line together with construction of a terminal in Rajin port in DPRK.
Development of freight traffic business abroad will take place in different directions:

- Complex logistics;
- Provision of carrier/rolling-stock operator services in foreign transportation systems;
- Management of railway infrastructure in other countries, enhancement of operational effect of existing railway systems abroad on the basis of trust management agreements and/or concessions;
- Introduction of new railway routes.

The priority is the railway infrastructure which is a component of international transportation corridors and which inclines to large regions of cargo traffic origins or has a large potential for development, including the transit potential.
The most promising project in this field is participation in the transportation and logistics business while implementing the project of construction of a broad-gauge line to Vienna and development of adjacent logistics infrastructure.
In addition, the Holding plans to develop considerably the international passenger traffic in the following directions:

- Increase in the volume of traffic to/ from European countries;
- Increase in the volume of passenger traffic between Russia and CIS countries, firstly, the Republic of Belarus, Ukraine, and Kazakhstan;
- Development of new train routes;
- The high-priority "synergetic" infrastructure projects for the period up to 2015 include:
- Reconstruction and development of the South Caucasus Railways;
- Reconstruction and development of the Ulan-Bator Railways;
- Reconstruction of the Rajin-Tumangan railway in DPRK with construction of a terminal in Rajin port;
- Construction of the Rasht-Astara railway in Iran;
- Reconstruction of Abkhazian railways.

1.5. Participation of the Company in International Organizations, and International Activities

In accordance with the Russian Federation Railway Development Strategy for up to 2030, reinforcement of the global competitive ability of RZD Holding and its market standing on the Euro-Asian transport market is one of the high priority areas of the Company's activities. The paramount objective is to ensure the most favorable organizational, legal and technological environment for achievement of high performance of international operations in terms of quality.

International Traffic and Key International Projects

In the current year, we have continued to create a strategic platform for consolidation of the Russian railways' position in the international markets of transportation services.

Russian Railways has entered into an active interaction with the new management of the transport block of the European Commission. As 2010 practice showed, the development of economic and cultural relations between Russia and Europe was accompanied with the growing attention towards RZD Holding.

Formation of a united transportation area, irrespective of railroad gauge and standards, is a powerful tool helping to overcome the crisis and eliminate threats of an economic recession.

Due to participation in work of international transportation organizations, such as UIC, OSJD, UNECE and UNESCAP, and international business forums, including Strategic Partnership 1520, Russian Railways was able to promote its interests in the course of developing transportation corridors, harmonizing regulatory framework and technology base.

The Holding representatives started to assume responsibility for solution of strategic problems of the entire international railway community, including the area of innovations.

In 2010, accession of JSCo "RZD" to the International Rail Transport Committee (CIT) was approved. It was a logical consequence of joining by the Russian Federation the Intergovernmental Organization for International Carriage by Rail (OTIF).

In 2010, with an active participation of Russian Railways, the Concept of Strategic Development of Railway Transport for CIS through 2020 was developed and approved and the Concept of Uniform System of Management and Use of Freight Car Fleet with Different Patterns of Ownership were confirmed.

Cooperation with the Spanish Railway Infrastructure Administration (ADIF) and Talgo Company was improved.

A car-building engineering center is now being constructed by the Holding in collaboration with Tatra-Vagonka plant in Slovakia.

Russian Railways subsidiaries in collaboration with their foreign partners are developing business in Kazakhstan, Ukraine, Belarus, Finland, Slovakia, Germany, China and other countries. TransContainer entered into a joint venture – "Rail-Container" – with a Chinese railway container carriage corporation. This project reflects a qualitative change in our Chinese colleagues' attitude towards TransSib transit possibilities and their will to build logistical cooperation in a three-sided format: Russia – China – Europe.

There is an efficient interaction with the management of German Railways. It is for the first time that Russian Railways took part in an extended meeting of the Deutsche Bahn Board. Due to consistent approaches to the 1520 Area development strategy, railway companies may optimize the use of resources at their disposal and achieve high results.

The 1520 Area market grows more and more attractive for large international manufacturers of railway techniques and technologies, this fact

opens wide field for international cooperation.
The Company's experts together with their Mongolian colleagues have implemented measures to ensure financial stabilization and development of the Ulan-Bator railways. The issues of funding the increase in the authorized funds of JSCo "UBJD" are now being solved with the governmental authorities. In October 2010, the first train with Tavan-Tolgoi coal departed from Ulan-Bator and moved through the Russian railway network to Vostochny port.
By the instructions of the Government of the Russian Federation, Russian Railways takes efforts to implement a project of Mongolian railway infrastructure development in connection with exploitation of mineral deposits. Implementation of this project is intended to safeguard Russian long-term geostrategic interests in this region.
Pursuant to the decision of the Mongolian Parliament, on December 8, 2010, prequalification of bidders was announced among companies/ consortia for implementation of Tavan-Tolgoi coal mining project, including construction of railway infrastructure in Mongolia.
For participation in the prequalification, Russian Railways organized an international consortium that comprised Japanese and Korean companies, as well as JSCo "SUEK".
Based on the necessity to make maximum use of 1520 Area's competitive advantages, in 2010, the Company continued to implement aggressive measures aimed at enhancing the efficiency of interaction with CIS and Baltic railways with a gauge of 1520mm – our main cargo traffic and passenger service partners.
In 2010, a considerable attention was attracted on the project of construction of a "broad gauge" up to Bratislava – Vienne.
A feasibility study of the investments was performed, a conclusion was drawn that the project is realizable in technical and legal terms and will provide material economical benefits not only to the four Members State.
Russian Railways interacts actively with its foreign partners both within the "work" CIS Member States Railway Council and in the format of the Strategic Partnership 1520 business forum.
In the course of meetings, amendments to regulatory documents were approved, first of all, to the Rules of Exploitation, Systematic Accounting and Settlements for the Use of Cargo Cars Owned by Other States, Rules of Complex Settlements between Railway Administration of Member Sates, etc.
Being formed by the Council, commissions for rolling stock, informatization, health care interaction, improvement of regulatory framework for organization of international traffic settlements, passenger facilities, railway reforming and structural transformation, operate on an ongoing basis.
In order to coordinate activities and organization of systematic elaboration of documents, the Council established an Intergovernmental Technical Committee for Safety, Repair and Exploitation of Railway Facilities and Services Standardization (MTK 519).
The Council brings into action a consistent railway pricing policy, as well as an implementation program for High Priority Lines of Cooperation between CIS Member States up to 2020.
As defined, the foreground line of transport cooperation up to 2020 is the elaboration of a rail transport strategic development concept for CIS member states.
In order to execute this decision, the CIS Member States Railway Council has elaborated a Rail Transport Strategic Development Concept for CIS Member States up to 2020 that was approved

on the 53rd meeting of the Council and submitted to the CIS Executive Committee to be considered in the prescribed order by the Council of Heads of Government.
Bilateral cooperation with CIS countries in 2010 played a particular role in the Company's international activity. Thus, within the Union State of Russia and Belarus, 2008-2010 Action Plan for Formation and Operation of United Transportation System of the Union State continued to be implemented. In accordance with the Plan, work was performed to develop high-speed passenger service Moscow-Minsk-Warszawa-Berlin, upgrade and develop MTK-2 and MTK-9 rail infrastructures that run through the Russian Federation and Belarus.
A Cooperation Agreement for Development of High-Speed Passenger Service was signed. The agreement defined the area for high speed passenger transportation in Moscow-Minsk-Brest international traffic with the maximum speed of 160-200 km/h. A Memorandum of Mutual Cooperation between Russian Railways and AO National Company "Kazakhstan Temir Zholy" when Carrying out Customs Operations on the Customs Territory of the Customs Union. The Memorandum provides for collective elaboration and implementation of programs and projects aimed at developing customs services in the filed of international railway cargo transportation.
Within the framework of the bilateral cooperation between Russian Railways and GP Railways of Moldova, a provisional agreement was signed between the State Administration of the Ukrainian Railway Sector, Russian Railways Joint Stock Company, Federal Passenger Company Open Joint Stock Company and the Railways of Moldova State Enterprise on organization of traffic of transit freight trains between Kuchurgan (UZ) and Căuşeni (ChFM) and passenger trains No. 65/66 Moscow – Kishinev, No. 595/596 Moscow – Kishinev, No. 51/52 Saratov – Varna, No. 642/641 Kishinev – Odessa between Kuchurgan (UZ) and Căuşeni (ChFM) with effective date October 01, 2010 providing for a temporary organization of freight transit and passenger train traffic through Transdniestria.
An agreement was signed between Russian Railways Joint Stock Company and the State Administration of the Ukrainian Railway Sector on joint actions aimed at organizing high-speed passenger traffic and developing the itinerary Moscow – Caucasus through Ukraine.
Issues of reconstruction of the full-featured railway service between Vesyoloe and Sukhumi are now being solved with the Republicc of Abkhazia. A decision was taken to elaborate consistent proposals concerning reconstruction and modernization of the railways of the Republic of Abkhazia between Vesyoloe and Sukhumi.
In 2010, the following contracts were signed:

- Between Russian Railways and RUP Abkhazian Railways No. 1510 dated November 03, 2010 for performance of overhaul of the railway infrastructure between the state border of the Russian Federation and Sukhumi (2104 km. pk8), Ocham-chira and Tkuarchal, of the Abkhazian railways (the Republic of Abkhazia);
- Between JSCo RZD Trade House and RUP Abkhazian Railways for supply of material and technical resources.

1.6. Structural Reform Program for Railway Sector

The Russian Railways play a key role in satisfying the transportation need of the community and economic requirements of the country. Taking into account the huge area of the Russian Federation, railways are ensure economic and social development of the country, conduct of economic restructuring, reinforcement of the administrative and political integrity, successful performance of the sophisticated economic body of Russia.

The necessity to reform the railway sector became evident against the background of the radical economic and political changes that took place at the end of the previous century and resulted in facing a number of some serious imbalances in the development of the Russian railways by the booming economy.

By Decree No. 384 as of May 18, 2001, the Government of the Russian Federation approved the Structural Reform Program aimed at:

- Improving stability of operation of the railway sector, its accessibility, safety and quality of the services it provides in order to create a common economic space of the country and ensure nationwide economic development.
- Forming a unified consistent transportation system of the country;
- Decreasing the aggregate national economic expenses of railway cargo traffic;
- Satisfying the growing demand for services provided by the railway sector.

In order to achieve the objectives of the reformation, the following basic principles were outlined and adopted:

- Stage-by-stage implementation of the reconstruction plan and risk minimization of irreversible effects;
- Necessity to separate the government regulation functions from economic activities and create a unified railway company.
- Separation of social and other facilities to decrease nonmanufacturing costs;
- Termination of provision of cross-subsidy assistance to passenger service on the basis of assignment of necessary governmental subsidies;
- Competition development and shift to market pricing in competitive sectors of the transportation market;
- Identification and conversion of enterprises that are not directly associated with provision of transportation services into joint-stock companies;
- Attracting investments, through engagement of private businesses and Government into the investment process.

Based on those principles, first (2001–2002) and second (2003–2005) stages of reformation were implemented, and implementation of the third stage was completed in 2010.

In 2008, an event that was very important for railway development took place: By Decree No. 877-r as of June 17, 2008, the Government of the Russian Federation approved the Russian Federation Railway Development Strategy for up to 2030 aimed at creating environment for sustainable social and economic development of Russia, improvement of public mobility and optimization of merchandise flow, reinforcement of the economic sovereignty, national security and defensive capacity of the country, decrease in the aggregate transportation expenses of the economy, improvement of the competitive ability of the national economy and provision of leadership of Russia on the grounds of faster and innovative growth of the railway closely harmonized with development of other industries, modes of transportation and regions of the country.

Key Events of the Third Stage of Reformation (2006–2010)

For the purpose of implementation of the measures provided for the

third stage by the Structured Reform Program, in accordance with Decree No. 1094 as of August 10, 2006 of the Government of the Russian Federation, a Structured Reform Program Action Plan for 2006-2010 was approved.
In 2007, in accordance with the plan, a Target Model of Railway Service Market was approved for the third stage of the structured reform, embracing:

- Establishment of Federal Passenger Company – a long distance passenger carrier;
- Transfer of the inventory car fleet of Russian Railways to the capital of Freight One and Freight Two;
- Maintenance of Russian Railways infrastructure and freight traffic at least until 2010;
- Extension of the range of activities of rolling stock operators;
- Continuation of competition development in supplemental and supporting activities.

The most important result of the third stage was reduction of cross-subsidy for long-distance passenger transportation. The Government of the Russian Federation made decision about a stage-by-stage (from 2007) shift to 100% compensation of losses in carriers' income resulting from conveyance of passengers in open-plan and sitting carriages in accordance with tariffs regulated by the Government. In 2010, this allowed to form Federal Passenger Company, a Russian Railways subsidiary in the field of long-distance passenger transportation.
The process of formation of joint suburban service companies together with Russian Federation constituent entities continued, being aimed at solving the issue of termination of provision of cross-subsidy assistance and creation of environment for formation of a suburban railway service market. In total, during the whole period of reformation, 26 suburban service companies have been established, conveying passengers across all 73 regions where suburban railway service is available.
There were serious changes taking place in the area of reforming railway station complex. On March 03, 2006, the Board of Directors of Russian Railways resolved to create a special-purpose branch ensuring operation of railway stations – Directory of Railway Stations (DZV). On April 01, 2007, DZV began its operations by uniting 16 regional directorates of railway stations. DZV took competence over 323 railway stations, i.e. 6% of the total number of railway stations included in the Russian rail network, that service 82% passengers in long-distance directions. On August 27, 2008, the Russian Railways Board approved the Concept of Effective Use and Development of Railway Stations up to 2015. The Concept is based on such principles of railway station development as client oriented policy complexity of development involving adjacent territory, balanced development, unique development, efficiency principle.
In accordance with the Structural Reform Program for Railway Sector, one of the key tasks is development of the competition sector in the area of freight car operation.
In 2007, following the Target Model of Railway Service Market, Freight One, a Russian Railways subsidiary, was established (with transfer of 200 thousand cars to its authorized capital), this fact became one of system elements of development of the competitive operator market. The formation of the company did not infringe upon the business of other operators, did not make any problems nor resulted in creation of restrictions for clients.
In this connection, Russian Railways initiated the necessity to continue the reforms in this segment. In May 2009, the Russian Railways Board approved the Concept of Reforming Railway Sector in the Area of Freight Car Operation and formation of Freight Two.

In order to enhance competitive ability in the area of rolling stock repair, during the period from 2006 to 2008, car-repair plants appeared in the market through formation of subsidiaries; in 2006, Central Directorate for Freight Car Repair was established as a branch of Russian Railways. From that moment, separate calculation of freight car repair expenses was adopted and the process of prime cost formation and pricing for freight car repair became more transparent.
Pursuant to Decree No. 348-r as of March 20, 2008 of the Government of the Russian Federation, Russian Railways undertook measures to sell assets of 22 car-repair depots. Following the results of competitive bidding, the assets of 17 car-repair depots were sold to the amount of over 3 bn. rubles.
On January 27, 2010, the Board of Russian Railways approved the Concept of Reforming Car-Repair Complex of Central Directorate for Freight Car Repair, a Branch of Russian Railways and Extraterritorial Formation on its Basis of Three Russian Railways Subsidiaries.
In order to attract investments to the industry on the third stage of reformation, shares of Russian Railways Subsidiaries began to be sold-off. In January 2008, sale of 15% block of shares of JSCo TransContainer took place, in 2009 – 50%-1 shares of JSCo Roszheldorproject were sold.
In the course of structural reforming, formation of Russian Railways, a strong transportation holding, continued. For this purpose, during the period from 2004 to 2010, Russian Railways established 84 subsidiaries and affiliates, including 58 of them on the third stage, where assets to the amount of over 400 bn. rubles were transferred to.
Due to formation of subsidiaries, Russian Railways have enriched the competitive sector with different lines of activities, created for each market segment its own clear strategy, enhanced financial and economic efficiency, created environment for attraction of private investments for infrastructure and rolling stock renewal through the sale of shares.
When analyzing the results of reformation, it is necessary to note that, firstly, due to implementation of the Structural Reform Program for Railway Sector the railway industry have fundamentally changed and developed in a dynamic way. Secondly, we managed to achieve the key objectives of the railway transport reformation at all stages of transformation, including objectives concerning growth of railway accessibility, safety, efficiency and reduction of lack of investment.
The Government of the Russian Federation examined annually the results of the reformation and admitted them to be satisfactory.
The positive progress of the railway transport structural reform in Russia is also confirmed by experts from Organization for Economic Co-operation and Development, (OECD) and European Conference of Ministers of Transport (ECMT).

Reformation of Russian Railways in 2010

In 2010, in accordance with the Structural Reform Program for Railway Sector as approved by the Government of the Russian Federation, the third stage of the reform was completed, in the course of which measures were undertaken to carry out corporate restructuring of Russian Railways reduce cross-subsidy between freight and passenger services, and develop competition on the market of transportation services.
The most important measure in the area of reformation of passenger service is the beginning of economic activities of JSCo Federal Passenger Company that has been providing long-distance passenger service since April 01, 2010. 94 thousand employees and assets to

the amount of 137.2 bn. rubles were transferred to the funds of the Federal Passenger Company.
In 2011, decisions were taken to establish 6 suburban passenger companies (PPK) operating within the areas of the West-Siberian, Kaliningradskaya, Severnaya, Privolzhskaya, Yuzhno-Uralskaya and Yugo-Vostochnaya railways.
Since 2011, PPK will provide all suburban railway passenger service across the Russian Railways infrastructure throughout the country.
In order to complete the process of formation of all-featured competitive market in the area of provision of cars for freight traffic in 2010, the Board of Russian Railways resolved to establish a subsidiary – JSCo Freight Two (JSCo "VGK"), to the control of which 180 thousand freight cars were transferred on a stage-by-stage basis. The Freight Two began its economic activities and the process of formation of its authorized capital is currently in progress. The decision on organization of JSCo "VGK" and liquidation of Russian Railways inventory fleet means liberalization of a part of transportation price policy (its "car component") and ensures market pricing in this transportation segment while retaining governmental control over infrastructure prices.
In order to increase the share of private rolling stock in the market and decrease lack of rolling stock, Russian Railways sold 23 thousand grain carriers and 50 thousand low-sided cars with expired service time subject to their follow up overhaul.
Environment is created for attraction of investments and development of competition in the area of repair of freight cars. The process of dividing the complex of 118 freight car repair depots into three extraterritorially allocated subsidiaries is coming to an end, the economic operations of which subsidiaries are planned for July 01, 2011.

In future, there are plans to sell shares of enterprises to be built up; however, Russian Railways will only retain controlling interest in one of the three car repair companies. The process of separation of non-core assets into special purpose vehicles continues.
Subsidiaries and affiliates are formed in the following fields: logistics (JSCo "RZD-Logistics", TLTs "Bely Rast"), manufacture of state-of-the-art lubricants ("INTESMO" Ltd.), scientific field (JSCo "Institute of Economy and Transportation Development"), and development of Moscow Little Ring Railway (JSCo "Moscow Ring Railway").
In total, 16 subsidiaries and affiliates were established in 2010.

Resolutions of the "Russian Railways Board as to setting up subsidiaries and affiliates in 2010

No.	Name of Subsidiary	Date of Resolution	Share of Russian Railways
1.	"INTESMO" Ltd.	January 27, 2010	25%
2.	JSCo "Baikal Suburban Company"	March 19, 2010	51%
3.	JSCo "Institute of Economy and Transportation Development"	April 27, 2010	99,9%
4.	JSCo "Kaliningradskaya Passenger Suburban Company"	July 30, 2010	99,9%
5.	JSCo "Severnaya Passenger Suburban Company"	July 30, 2010	99,9%
6.	JSCo "Saratovskaya Passenger Suburban Company"	July 30, 2010	51%
7.	JSCo Freight Two	August 26, 2010	99,9%
8.	JSCo "RZD-Logistics"	August 26, 2010	99,9%
9.	JSCo "Yuzhno-Uralskaya Passenger Suburban Company"	November 26, 2010	99,9%
10	JSCo "PPK Chernozemye"	November 26, 2010	50%+1 share
11.	"Bely Rast Terminal and Logistics Center" Ltd.	November 29, 2010	99,9%
12.	JSCo "Car-Repair Company – 1"	December 20, 2010	99,9%
13.	JSCo "Car-Repair Company – 2"	December 20, 2010	99,9%
14.	JSCo "Car-Repair Company – 3"	December 20, 2010	99,9%
15.	JSCo "Lublinskiy Casting and Mechanical Plant"	December 27, 2010	99,9%
16.	JSCo "Moscow Ring Railway"	December 27, 2010	50%

In order to attract investments to develop the railway sector in 2010, Russian Railways proceeded with implementation of the 2010-2012 Subsidiary Equity Sale Plan approved by the Board of Directors of Russian Railways in December 2009. The Company's Board of Directors made provisional decisions on sale of 54 subsidiaries.
In November 2010, a public offering of 35% block of shares of JSCo "TransContainer" was made, this fact played a significant role not only for Russian, but also for international capital markets.

In December 2010, a deal was closed to sell a 50% block of shares – 2 shares of JSCo "Elteza" (manufacture of telemechanics and automation equipment) to Bombardier, a Canadian engineering company. The total cost of the block of shares made 1.99 bn. rubles. Involvement of Bombardier as a strategic partner is in compliance with the strategic development objectives of JSCo "Elteza" and will enable Russian Railways to enhance efficiency and safety of railway transportation due to the use of state-of-the-art telemechanics and automation systems made in Russia.

In order to ensure environment for sustainable development of the railway sector and development of the road transport services market, the Company, together with federal authorities, has developed a Target Model of Freight Railway Traffic Market for up to 2015, providing for:

- Integration into Russian Railways of the functions of owner of public infrastructure and network-wide cargo carrier subject to conservation of freight locomotive fleet on the company's balance;
- Providing environment for development of competition in the transportation business and formation of carriers that will be independent of Russian Railways and will operate within limited dedicated itineraries of the public network;
- Formation of fully competitive market of freight car operations;
- Preparation of a new model of governmental regulation of tariffs;
- Development and application of a regulatory contract model for development and maintenance of infrastructure as a legally-backed system of contracts between an infrastructure owner and the Government.
- Implementation of the Target Model will enable meeting economic demands and needs of particular users of railway transport in the filed of freight traffic, and improving services provided, as well as eliminating infrastructural restrictions of economic development of the Russian Federation.

1.7. Public Evaluation of Russian Railways Performance

During the reporting year, the Company's activities were several times awarded recognition from governmental authorities, professional societies and public organizations:

- A number of Russian Railways employees were awarded a commendation from the Government of the Russian Federation for complete professionalism, courageous and decisive actions undertaken in the course of recovery of Nevsky Express 166 accident;
- Russian Railways won the national competition Russia's Best Enterprises: Dynamics, Efficiency, Responsibility 2009 held by the Russian Union of Industrialists and Entrepreneurs. Russian Railways was declared the winner of award for Accomplishments in Personnel Potential Development.
- Russian Railways won the energy efficiency award 'Save Energy!' in the Energy Efficient Enterprise category in October 2010. The 'Save Energy!' award is supported by the Ministry of Energy of the Russian Federation, Moscow Government, OPORA ROSSIA All-Russian Organization for Small and Medium Entrepreneurship, NP AVOK, MOO Moscow Association of Entrepreneurs, Russian Energy Agency of the Ministry of Energy

of Russia, Moscow International Business Association, Moscow Chamber of Industry and Commerce, and Consumer Market Participants Union.

- The Russian Railways' Annual Report 2009 won the 13th competition of corporate annual reports conducted by RTS Stock Exchange jointly with Standard & Poor's. The Annual Report of Russian Railways won the award for Best Annual Report Design and Printing. Among other strengths of Russian Railways Annual Report, the judges of the contest mentioned integrity of the concept of its design.
- The Press Service of Russian Railways won the Company's Press Service Award in the Business Journalism 2009 contest held by the Russian Union of Industrialists and Entrepreneurs.
- Readers of UK's Lonely Planet, one of the world's most popular travel guides, chose the Trans-Siberian Railway as the winner in Lonely Planet's Best in Travel 2010. The voting took place on the company's web-site among Lonely Planet's subscribers and purchasers of travel guides published by this publishing house.
- The Edge, a film produced with the support of Russian Railways, was nominated for an Oscar following the results of a secret ballot by Russian experts. Besides, The Edge was nominated for a Golden Globe Award among other foreign nominee films.

02

Strategic Goals of the Company in Sustainable Development. Key Risks and Opportunities in Social Responsibility

2.1. Role of Russian Railways in Sustainable Development

The scale and nature of the Company's activities have a considerable impact on the sustainable development of the country.

The railway sector is an infrastructural ground for social and economic progress in Russia. Not only prospects of further growth of the domestic economy depend on the condition and operative quality of the Russian railways, but also the State's ability to perform efficiently such topmost functions as protection of the national sovereignty and safety of the country, preservation of the integrated social and economic space, provision of equal opportunities for realization of constitutional rights and liberties of citizens (including the right of freedom of movement) all over Russia.

Operating activities of the Company affect socially, economically and ecologically the interests of regions and millions of people.

Effective performance of railway transport is one of essential elements of interaction between domestic exporters and importers of products and their foreign partners, which element has influence on the competitive ability of domestic manufacturers in global markets.

Besides, the railway transport is a topmost instrument of public policy in socially important freight traffic (coal, mineral fertilizers, and cargo deliveries to the Far East), long-distance and suburban passenger service, as well as performance of defense and mobilization functions.

Social functions performed by the railway transport:

- Realization of constitutional rights of population to free movement throughout the country;
- Provision of legal entities and individuals with equal transport opportunities;
- Rise in employment of the domestic population due to development of the railway sector and related industries;
- Creation of circumstances for social and economic development of regions;
- Provision of socially important passenger service based on the aggregate financial results.

The railway sector is one of the most environment-friendly modes of transportation; this, however, does not preclude the responsibility of the company for environmental protection and rational management of natural resources. For this purpose, state-of-the-art systems of ecological management and energy and resource saving technologies are being implemented in branches of the Company, environmental monitoring and control take place.

Due to the length of railway tracks, availability of a considerable locomotive and car fleet, production infrastructure facilities allocated throughout the country, the Company needs to take significant measures and bear respective expenses to maintain due operating condition of the railroad bed, ensure the security of passenger and freight transportation, occupational safety of the Company's staff, compliance with the rules of ecological and industrial safety. The significance and profundity of the impact on the domestic economy, Russian society and environment evoke considerable obligations in the area of social responsibility and sustainable development; well-being of a considerable part of the Russian community depends heavily on their fulfillment.

The Company understands that:

- Development of successful business requires mutually beneficial relations to be built with the regions where the Company carries out its activities, such regions are represented by regional administrations, population, public organizations, as well as industry's trade unions, for that

purpose their interests and requirements must be taken into account;
- In order to improve investment attractiveness, it is necessary to enhance the Company's reputation and image as a socially responsible company;
- Presence of unsettled social problems in the country and its regions (employment, manpower training, education and culture issues, underdeveloped state of the social infrastructure, etc.) requires involvement of large business (together with the Government) in solving vital social problems.

These commitments are being met both in the current and strategic activities of the Company.

2.2. Strategic Goals of the Company in Sustainable Development

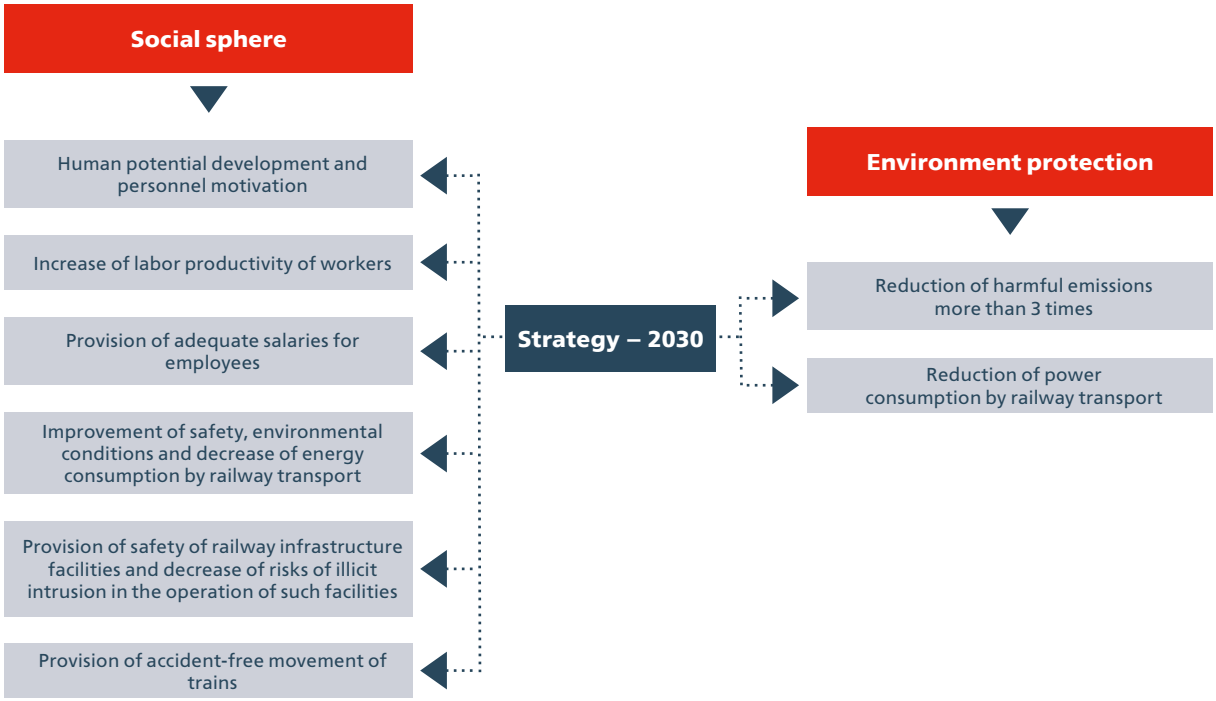
The Russian Federation Railway Development Strategy (approved by Decree No. 877-r dated June 17, 2008 of the Government of the Russian Federation) defines strategic objectives and tasks of its development for up to 2030.
The expected results of implementation of the Strategy 2030 in the area of sustainable development are described in Table 2-1. These tasks are being achieved by the Company based on the principles of sustainable development of territories, population, efficient and safe use of national resources (see Fig. 2-1).

Table 2-1
Anticipated results of the Strategy – 2030

Economic efficiency	The implementation of the Strategy would provide for transport links to 24 perspective mineral deposits and 11 industrial zones. For that purpose it is planned to construct about 21 thousand km of new rail roads and electrify about 7.5 thousand km of railways. Four RF Subjects (Altai Republic, the Tuva Republic, Magadan region and Nenets Autonomous Okrug) will be provided with the reliable transport links. The total length of the railways providing for the movement of high-speed passenger trains at speed up to 350 km/hr will reach 1.5 thousand km by 2030. The scope of investments in the development of railways in the Russian Federation will amount to 13 billion rubles by 2030 (in prices of 2007). Transport capacities of GDP (railway transport) will drop by 1.8 as compared to 2007. The turnover of cargoes will increase by 58%, and the passenger turnover – by 33% as compared to 2007. Over 23 thousand locomotives will be procured to cover the growing shipping operations, including almost million freight cars, 23 thousand passenger cars, 24 thousand local trains.

Environment efficiency	The reduction of harmful emissions and poorly cleaned sewerage water more than in 3 times. Untreated sewerage water will not be discharged. The power intensity will be reduced: power consumption by 14.4% and fuel consumption by 9.1%.
Social efficiency	The development of human potential along with the personnel motivation. The increase of labor productivity of railway transport workers of general use and, consequently, the adequate salaries of the Company employees. By 2030 the wages of railway workers shall reach 170% of Russian wages general level. The higher safety and efficiency of the railway transport. The safety of railway infrastructure facilities, reduction of illicit intrusion to the territory of such facilities (such risks will decrease by 16–17%; critical and potentially dangerous railway infrastructure facilities will be 100% monitored). The provision of accident-free movement of the railway transport at the cost of modern technologies, scientific and technical development and innovative solutions.

Fig. 2-1. The targets of Strategy – 2030 to be realized in the social life and for the environment protection



2.3. Key Focus Areas of Russian Railways in Social Responsibility

The Company makes every effort to comply in a strict and steadfast manner with the Russian and international (where applicable) laws and regulations in all areas of its activities. The Company endeavors to achieve an effective balance between the three components of sustainable development: economics, ecology and the social sphere.
The corporate social responsibility, being the fundamental principle of Russian Railways corporate governance, plays a crucial role at every stage of the decision-making process and is an important factor of dynamic development of the Company (see Tab. 2-2).

Table 2-2
Principal trends in corporate social activities of the Company

Sustainable development constituent	Effectiveness parameters	Current trends in RZD corporate social responsibility
Economics	Economic effectiveness	Business development in compliance with strategic trends oriented at the development of Railway transport.
		Interaction with international organizations in terms of international transport operations and technological equipment
		The implementation of investment projects of construction and renovation of railway mains, development of passenger and freight transport operations, modernization of locomotive and car depots
	Market Presence	Engagement of regional suppliers and contractors, including local managers in Company's activities
	Investments	Investments in the development of social infrastructures in regions and environment protection actions
Ecology	Environment protection measures' effectiveness	Development and implementation of environment protection measures
		Ecological management on Russian Railways facilities
		Training courses for personnel on the matters of environment protection and appropriate usage of natural resources
		Ecological monitoring
		Compliance with the requirements

Sustainable development constituent	Effectiveness parameters	Current trends in RZD corporate social responsibility
	Resource economy	Development of resource saving technologies
		Implementation of resource saving actions
		Waste use as raw materials
		Implementation of actions oriented at the reduction of power consumption and increase of power efficiency
		Development of power efficient technologies
		Development of actions oriented at the reduction of water consumption (circulating water system and prevention of emergency water losses)
	Biodiversity	Development of actions oriented at the mitigation of adverse effect upon the protected areas
		Reclamation works
		Development of measures oriented at the mitigation of adverse effect on flora and fauna
	Emissions, discharges and disposals	Measures oriented at the reduction of pollutant emission (gas cleaning units, new technologies reducing the emissions)
		Monitoring of pollutants
		Measures oriented at the reduction of sewerage water discharge
		Measures oriented at the reduction of contaminants in sewerage water (cleaning and treatment units)
		Monitoring of discharged sewerage water
		Wastes handling
		Construction of landfills (waste disposal grounds) Use of less hazardous materials to reduce the hazard class of wastes
	Products and services	-

Sustainable development constituent	Effectiveness parameters	Current trends in RZD corporate social responsibility
Social sphere (social effectiveness)	Relations with personnel	Fulfillment of Collective agreements
		Implementation of corporate system of labor payments, social support
		Development of human potential and motivation of personnel
		Non-governmental pensions and care of veterans
		Health protection of the employees and members of their families
		Labor protection
		Provision of housing
		Promotion of physical education and sports
		Youth Policy
		Equal opportunities in positions and wages of men and women
		Interaction with trade unions
	Human rights observation	Adherence to UN Global Agreement principles and Russian Business Charter
	Relations with society	Development of interaction programs (plans)
		Participation in the preparation of staff in the regions of the Company presence
		Stakeholder complaints and requests redress policy
		Charitable activities
		Socially significant passenger conveyance using the state regulated tariffs
		Interaction with NGOs
		Interaction with mass media and communication policy
		Publication of reporting documents
		Consideration of stakeholders' opinions
	Anti-corrupt practice	Anti-corrupt measures while purchasing

Составляющая устойчивого развития	Effectiveness parameters	Current trends in RZD corporate social responsibility
	Participation in the development of the State Policy	Participation in the development of the State Policy regarding the development of transport system of the country
		Participation in the work of NGOs and international organizations
	Adherence to requirements	Implementation of Russian legislation as well as adherence to international requirements and standards, adopted by the Company
	Responsibilities for products and services	Protection of health and safety of passengers at the railway stations and in trains
		Safety of cargoes and safety of shipments
		Awareness of consumers of products and services regarding the current rules in using railway transport
		Advertising activities to promote products and services
		Advance sales of railway tickets
		Observation of requirements regarding the responsibilities for the passengers conveyance and cargo transportation

The Company has developed an advanced corporate base in the area of social responsibility. Its elements include social support to personnel, development of staff potential and employee motivation, health care and occupational safety, non-governmental retirement insurance and care of veterans, housing policy, development of physical education and sport, charity and sponsorship activities, youth policy, interaction with trade union organizations.

The existing corporate regulatory framework and social responsibility practice comprise:

- Free medical service;
- System of continuous staff training and retraining;
- Non-governmental retirement insurance;
- Payments to retiring persons;
- Free railway travel;
- Special mortgage conditions.

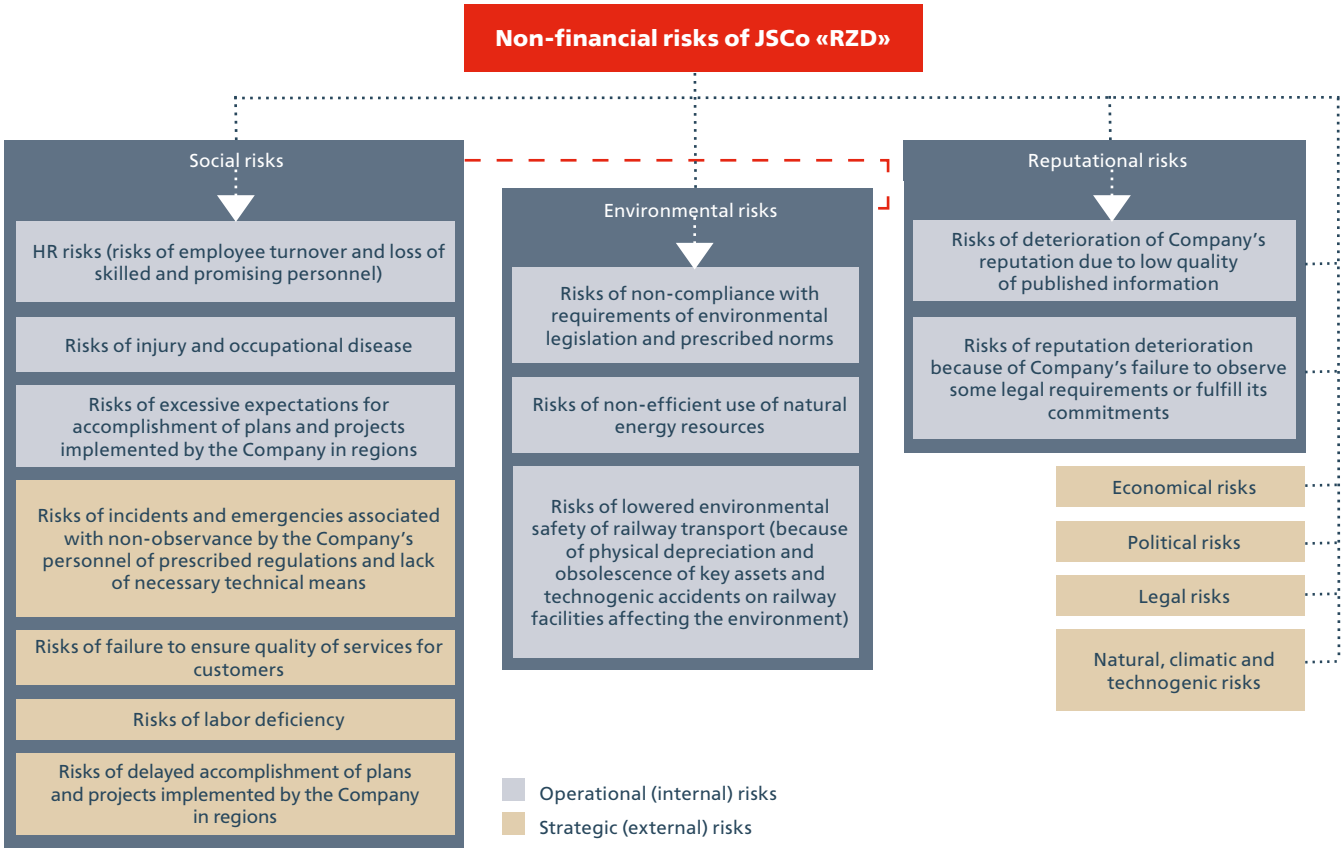
As of today, the Russian railways support over 1.4 thousand facilities of the social infrastructure all over the country.

Since the inception, the Company focuses on social responsibility to personnel, society, consumers and other stakeholders. Accession to the UN Global Compact, membership in the RUIE and joining the "Social Charter of Russian Business" adopted by the Russian Union of Industrialists and Entrepreneurs (RUIE) gave Russian Railways an additional impetus for the work in this field. The said documents serve the basis for planning and implementing the Company's social responsibility concept (for more details see Sections 6–9).

2.4. Key Risks and Opportunities in Social Responsibility

The sustainable development of the Company and the success of corporate social responsibility efforts depend on the capacity of the Company to manage non-financial risks.
Non-financial risks of the Company are the result of a risk event arising from Company's engagement with stakeholders and actions of stakeholders that might have a negative impact on the operation of the Company in the field of sustainable development and corporate social responsibility i.e. might result in damage (including financial damage) and loss of profits.
Non-financial risks characterize the uncertainty related to attitudes and conduct of the stakeholders, their expectations and influence of the Company's performance on the stakeholders.
Among non-financial risks, Russian Railways reckons political, legal, climatic and technogenic risks, economic, social and ecological risks, consumer-related and reputation risks (see Fig. 2-2).

Fig. 2-2. Non-financial risks of JSCo «RZD»



Risk management tasks of Russian Railways include timely identification, prevention, control and minimization of negative risk impacts in different spheres of the Company's activities, arising (or that may arise) during interaction with stakeholders. To manage risks, the Company addresses both possible unfavorable events (threats) and positive developments (prospects). With risk management, the Company opens new perspectives of development in the sphere of social responsibility.

In order to manage risks, the Company developed a range of regulating documents aimed at ensuring compliance with the law and its commitments (Russian Railways Collective Bargaining Agreement, Russian Railways Code of Business Ethics, the Functional Strategy of Risk Management in Russian Railways the Functional Strategy of Russian Railways Finance Management, the Basic Principles of Corporate Governance followed by Russian Railways in its Operations and Plans Aimed at Improving the Corporate Governance Practice, Standard Business Plan Structure of Russian Railways Subsidiary and Affiliate Investment Project, Russian Railways Ecological Policy, Russian Railways Ecological Strategy, etc.)

Capability and potential of the Company to ensure sustainable development and manage non-financial risks is characterized by the availability of:

- Skilled personnel and advanced management system in the Company (in economy, ecology and the social sphere);
- Active labor policy aimed at increasing attractiveness of railway careers by improving salary competitiveness compared to other branches of economy and imbedding motivational mechanisms to promote continued employability of qualifies personnel;
- Powerful physical infrastructure;
- State support of the Company's development;
- Efficient equipment and technologies, including in the environmental area;
- R&D support, aimed at alleviating impacts on the environment;
- Company and its employees' experience in sustainable development and corporate social responsibility;
- Company's engagement with governmental authorities in policy building activities related to railways and the development of legal and regulatory documents

The basic mechanism of risk management is allocation of risks among groups of stakeholders, analysis of their interests and development of measures aimed at reconciling their interests and the interests of the Company, and, first of all, establishment of mutually beneficial cooperation with stakeholders significantly influencing risk magnitude for the Company.

03

Stakeholder Interaction

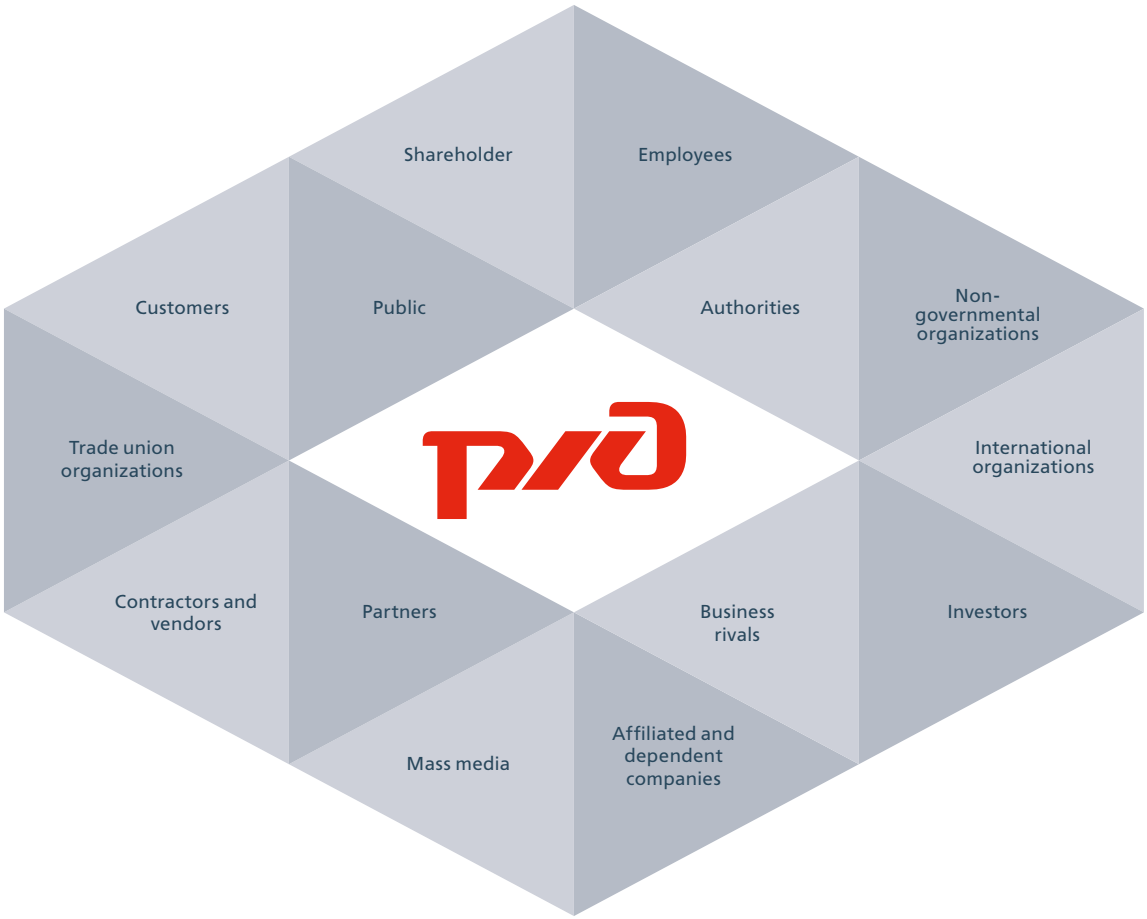
As dictates the business practice of the developed countries, the effective interaction with all concerned parties is considered the main grounds. The companies which activities affect considerably the society and environment play the leading roles in such process. As the activities performed by Russian Railways are highly valuable for the public, Russian Railways implements a number of measures oriented at the increase of effectiveness at the stage of the interaction with the main stakeholders thus minimizing the non-financial risks.
The interaction of the Company with the interested parties is realized in compliance with the corporate ethics, including transparency, reliability, submission of complete information about the Company activities, the due consideration of all interests of concerned parties and quick response to such interests.
The Company strives to balance all interests as it is very important under the State regulation of the tariffs. The latter restricts the possible expenditures of the Company.
In 2006 the Company adopted the Business Ethics Code, describing the Company Policy regarding the interaction with the stakeholders. The Code contains the principles that govern the corporate ethics of Russian Railways and corporate values of the Company.
In 2008 as a continuation of developed traditions in terms of stakeholder interaction, the Company has adopted the Social Responsibility Code.

3.1. Review of concerned parties

Russian Railways activities concern the interests of many parties. The list includes different categories of commercial and non-profit organizations, the government officials, individuals, that are affected by the Company activities or, on the contrary, whose activities affect the Company.
The most important groups of stakeholders in the sphere of corporate social responsibilities are the Shareholder, employees of the Company, consumers of the Company's services, population, contractors and suppliers, public authorities, NGOs and international associations, partners, competitors, etc.
The activities of the Company while interacting with stakeholders are oriented both at outsiders and the staff of the Company which is the incorporated interested party. The review of principal concerned parties is given below to illustrate the parties that are somehow related to Russian Railways and those parties that interact with the Company to ensure the sustainable development.

Management.
The Board of Directors of the Company implements a number of key functions that delegate the Board the highest powers in the system of corporate management and create the necessary conditions for its efficient work as the body, representing the interests of the Shareholder.
The various committees and commissions are formed at the Board of Directors of Russian Railways. Such committees and commissions can substantially assist the Board in the

Fig. 3-1. Map of Concerned Parties



decision making on the most vital issues associated with the activities of the Company.
In particular, the committees on the audit, risks, remunerations and strategic planning committees have already proceeded to business. The meetings of the Board of Directors are held according to the approved calendar plan.
The Executive Bodies of Russian Railways shall regularly, duly and timely submit the complete information concerning the activities of Russian Railways to the Board of Directors. A circle of persons responsible for such materials and the submission of the same are clearly stated in the Plan for the preparation of the information as above, including the deadlines of the document submission.
According to the internal documents of Russian Railways the members of the Board of Directors shall disclose the information about possession and deals with Russian Railways securities thus diminishing the risk of the interest conflicts.
The Company formed the Collective Executive Body, i.e. Management Board that helps to make proper decisions on a number of key issues related to the Company activities. Collegiality in making decisions enhances the chance of proper and effective approach to the problems.
The system of remuneration and fees is provided for members of Executive Boards of Russian Railways but the fees depend on the results of the Company. It helps to stimulate the executive members if the Company achieved the indicators planned and met the expectations of the Shareholder.

The grounds for stable development of Russian Railways are the personnel reserves to replace the heads of divisions and other structural subdivisions thus ensuring the continuity of the management. The activities of the Board of Directors and Management Board of the Company are governed by the respective provisions, approved by the Shareholder. The activities of the Board of Directors and Management Board of the Company are governed by the respective provisions, approved by the Shareholder.

Shareholder.
The only Shareholder of Russian Railways is the Russian Federation. The Government of the Russian Federation exercises all shareholder powers on behalf of the Russian Federation. The mechanism of interaction between the Company and the Shareholder has been stipulated in Russian Railways in the Articles of Association, the Federal Law "Joint-Stock Companies", Civil Code of the Russian Federation and other legislative and regulatory documents. The issues delegated to the powers of the Shareholder are discussed at the annual and special general meetings of shareholders. The information regarding the Company activities is delivered to the Shareholder via an established reporting procedure.
The whole management system of the Company is based on the efficient approach to the realization of opportunities and minimization of risks stated in Chapter 2 of this Report, that are common for the Company and the Russian Federation. The Company effects the regular payments of dividends to the Shareholder since the day of its foundation.
The Board of Directors of Russian Railways as a body protecting the Shareholder interests, is empowered to approve the deals, associated with the acquisition, disposition or potential disposition of Russian Railways properties (directly or indirectly), the price exceeds 3 bn rubles, but does not exceed 25% of the book balance value of Russian Railways assets, defined at the last reporting date. Such measure enhances the security against assets withdrawal and lets the Shareholder representatives in the Board of Directors to evaluate the economic reasonability of such deal with major assets. The Company practices the open competitive bids for the procurement of goods and services for Russian Railways that enhances the security of the Shareholder interests and assets. The internal document of Russian Railways provides for the involvement of the independent appraiser during the deals with properties that promotes fair assessment of the Shareholder assets.
The recognized audit firms are invited to carry out the audit of financial statements of the Company in compliance with IFRS and Russian Accounting Standards. Russian Railways selects the audit firm through open bidding, providing the public access to the bidding information that guarantees the objective and independent selection of the firm.
The internal documents of the Company contain the provisions stating the declaration procedure in case of the conflict of interests by the members of the Executive Boards. In such case the members of Russian Railways Executive Boards shall immediately inform the Board of Directors. This practice will secure the Shareholder interests.

Employees.
The Company undertakes a number of measures oriented at the enhancement of the social security and well-being of its employees, creating opportunities for professional development, reduction of staff turnover, life and health

safety of employees and members of the families.
Owing to these measures the Company provides opportunities for professional promotion and development of each employee, including the social support during the implementation of social programs like Housing and Youth programs. For its employees the Company uses the health public system and non-governmental pension funds. Among the risks connected with the activities of the Company are traumatism and occupational diseases. The Company actions are aimed at the minimization of such risks through labor protection and industrial safety measures. A great part of personnel risks of the Company (such risks are given in Chapter 6) is associated with low competitiveness of wages and rates of its growth. In order to increase the prestige of the work in the railway transport system, enhance the competitiveness in the labor market and reduce Russian Railways personnel turnover the Company developed new wage regulating instruments. Such instruments have been introduced to the directives of the compensation corporate system that was based on the differentiated wages taking into account the professionalism, output and labor input of the workers as well as the existing processes in the market. The development of collective and contractual system plays a significant role in the establishment of partnership relations between the Company and its employees. The collective agreement of Russian Railways for 2008-2010 defined the general principles of the interaction between the Company and its workers and considered the mutual interests and expectations.

Consumers.
In order to improve the quality of rendered services the Company optimizes the processing of freight and associated services, for instance, the single payer's account, legally significant electronic document turnover using the electronic digital signature when registering the shipping documents for the cargoes.
For the minimization of the consumer risks that directly depend on the freight quality and security, sanitary and epidemiological and ecological safety, the Company developed the Functional strategy of Quality Control and the Strategy of Safeguard and Reliability of the freight that are used along with other functional strategies in the system of strategic management of Russian Railways.
The awareness of the consumers of the services offered by the Company and the rules of railway transport use as well as the activities in the sphere of marketing communications is the principal approach of the Company to the interaction process. Russian Railways makes all decisions connected with the management on the grounds of interests of all parties: the state and the public, Russian Railways. Consumers and suppliers, including its employees (*Russian Railways Functional Strategy*).

Population.
Russian Railways helps to improve the social and economic status of the population living in the regions covered by the Company and its enterprises activities.
The creation of new jobs by the Company and involvement of local labor promotes the employment and enhances the living standards of the population. The higher social welfare of the population, in its turn, stimulates different social programs and charitable activities of Russian Railways.
The Company activities promote the development of interregional economic and cultural links.
Russian Railways activities might cause the following risks for the population:
• possible risks to the population health caused by certain activities of

the Company local enterprises due to adverse affect on the environment, the violation of sanitary and epidemiological norms, for instance, noise and vibration);
• Risks for the population health and properties that might arise due to potential accidents on the railways;
• In the connection with the above the Company undertakes the necessary measures to mitigate the adverse effect upon the environment in compliance with the Environment Protection Laws. The representatives of the local population may appeal against Russian Railways in an established order and complain that the Company infringes the public safety and health norms.

The State Authorities

The rank and position taken by Russian Railways in the industry assumes the mutual beneficial cooperation of the Company with the State Authorities. The main tribute of the Company to the solution of the state problems and implementation of the public policy in the railway transport development is the efficient transport service of the Russian economy, the increase of employment, social and economic development of the country and the realization of the investment programs. In order to expand the positive effects of the collaboration with the governments of the Russian Federation Subjects the Company conducts the active regional policy mainly based on the implementation of the programs implied in the General Agreement with regions and Agreements on the cooperation and interaction with regional governments. Russian Railways pays a special attention to the development of mechanisms stimulating the partnerships between the State and the Private sector. Firstly, it is the implementation of the projects aimed at the development of railways infrastructure. The participation of the State in the development of the railway transport presumes the establishment of tariffs, specific tax policy for investors, participating in the mentioned development, the creation of favorable grounds for the commercial use of Russian Railways assets owned by the Russian Federation.
Russian Railways representatives participate in the meetings held by the Government, ministries and departments, parliament hearings, plenary meetings of the Federal Assembly, scientific and practical conferences, symposiums and other events carried out by the State Authorities to guarantee the effective cooperation in the preparation of regulations and legal acts, including the information and methodological interaction in the implementation of the public policy in the development of the railway transport industry. The Company cooperates with the authorities supervising the operation of the railway transport, traffic safety, including the exchange of information and consultancy services.

NGOs.

Russian Railways cooperates with NGOs (non-governmental organizations) dealing with the social responsibilities, environment protection, human legal rights and public control in this sphere. Such cooperation with NGOs defines the basis for the development of business social responsibilities instruments, accounting for public opinion on the matters of the improvement of social and economic situation in the regions covered by the Company activities, including the local population status, environment protection and rational natural resources use.
The Company is the member of the Russian Union of Industrialists and Entrepreneurs RUI&E), and in the beginning of 2008 the Company joined the Social Charter of Russian Business.

The Company associates with RF Chamber of Commerce on many issues, including the realization of reforms, and participates in the work of the All-Russian Railway Employers Union and Transport Worker Union of Russia.

Trade Union Organizations.
The Company and trade union organizations cooperate on social and labor matters and mutual implementation of various social projects and social policy of Russian Railways. The Company strives to achieve the understanding and trust in relations with trade unions, maintaining the image of socially responsible company.

International organizations.
Russian Railways associates with a number of international organizations both functional and railway organizations, such as: Organization for Cooperation of Railways (OSJD), International Union of Railroads (IUR), Eurasian Transport Union, UN European Economic Commission (EEC UN), World Health Organization (WHO), International Congress of Industrialists and Entrepreneurs, the Council for Rail Transport of CIS States and others.
The participation of the Company in the international organizations promotes the mutually beneficial cooperation under the international agreements, conventions, codes, etc. The principal benefits of such cooperation are listed below:

- implementation of mutual projects;
- informative and methodological interaction;
- Consideration of the documents issued and adopted on the international level, including the recommendations on railway transport activities.

Russian Railways undertakes to fulfill obligations, approved on the international level and stated in the provisions specific for international agreements and referred to activities of the organizations participating in the international agreements and conventions like UN Global Agreement, including the voluntary international standards and Guidelines.

Contractors and suppliers.
Russian Railways and organizations providing for industrial and other services or supplies under the contracts concluded with the Company build their relations on mutually beneficial grounds. The Company is interested in high quality of procured goods and services thus promoting the best economic outputs due to the established cooperation with the contractors and suppliers.
In compliance with RF Legislation and order, established by Russian Railways the placement of orders for the procurement of goods, works and services is done on the open bidding basis. The notices about the bids are published on the Company web-site as well as in mass media, and the information is open and accessible to everybody.
In order to avoid the risks associated with non-compliance of regulations and legal norms, including the agreed provisions, Russian Railways is guided by the policy of transparency, equal rights, effectiveness and responsibility in its relations with the contractors and suppliers.

Freight partners
Nowadays when the broad perspectives open for international and multi-mode freight transportation (cargo carriage using multi transportation means) the partnership in this field has a great importance. The established partnership relations promotes the integration of the railway transport into the global traffic logistic system on the basis of achieved high qualitative standards of transportation services

and transformation of Russian Railways into an exporter of traffic products, technologies and technical solutions. The mutual cooperation of Russian Railways with other carriers creates the new opportunities for achieving the better economic results, expanding its presence in the market.
Among the carriers-partners of Russian Railways are transport organizations of Russia and other states, collaborating with the Company.

Competitors.
Among the competitors of the Company are the other traffic and private railways companies. The private railways companies coordinate the transportation modes and time tables. In compliance with the Rules of Non-discriminatory Access of carriers to the public railway infrastructures, approved by Decree No. 710 of November 25, 2003 of RF Government, the Company shall provide for the free non-discriminatory access to such railway infrastructures for all carriers. In such case Russian Railways is interested in the participation of the competitors in maintaining the said infrastructures in a proper state. Both the Company and its competitors transporting the passengers and cargoes by railways shall provide for the favorable environmental and epidemiological conditions, including the emergency safety.
The potential interaction risks when working together with competitors – railway carriers – might occur due to the infringement of regulations, legal norms and agreed provisions, defining the limits of the cooperation between the parties. In order to minimize the risks the Company organizes the access to the railway infrastructures, regulations and other legal norms which regulate such services, for the employees who are involved in servicing. The interaction of Russian Railways with competitors in the sphere of railway carriage is the essential aspect in the reform of the railway transport and considered one of the strategic lines of the Company activities.

Investors.
The Company considers the attraction of necessary investments that can guarantee the further build-up of the industrial capacities of the Company one of its principal targets. Russian Railways is interested in the strategic investors who might become reliable partners of the Company in future. The investors of the Company are banks, lending syndicated loans; commercial counterparty banks; leasing providers and bondholders. The risks of the Company might lead to the unpaid debts to investors becoming the general risks of the Company and investors. The Company strives to minimize the risks of the investors purchasing the securities of the Company or investing to the Company in either form, for instance, through the development of qualitative corporate management system. The Company has developed the Regulation regarding the information policy of the Company thus confirming the basic principles of the information policy. Such Regulation is essential for the gradual development and building up the relations with investors. Russian Railways keeps and discloses the financial statements in compliance with Russian and International Accounting standards. Strictly following the transparency norms the Company discloses additional information about its activities which might be of interest or substantial for investors. For such disclosure of the information the Company uses the most convenient means and ways. The optimal volume of the information about the Company can be seen on the corporate web-site. In addition, Russian Railways discloses the information via information agencies and other mass media sources. The

part of the important information is presented on the website in English.

Subsidiaries and affiliates of the Company.
Russian Railways governs the operation of its subsidiaries and affiliates using the corporate methods, but avoids the administrative influence on the business of such companies. The subsidiaries and affiliates business is controlled letting the representatives of Russian Railways to participate in general meetings of shareholders, Boards of Directors and audit commissions of subsidiaries and affiliates. The Politics of Corporate Governance is exercised in key functional directions such as:

- Planning and control over the realization of the development strategy carried out by subsidiaries and affiliates;
- Financial and economic activities;
- Deals with assets;
- Staffing policy of subsidiaries and affiliates.

Mass media
The relations of Russian Railways with mass media are based on the principles of transparency, efficiency and reliability of the submitted information. Such principles are presented in the "Regulation about the information politics of Russian Railways developed by the Department of Corporate Communication with participation of the Department of Corporate Construction and Modernization. Russian Railways actively cooperates with all main federal and regional mass media of Russia. The Company's media has a long life-story and earned the credibility and trust of the readers, for instance, the newspaper "Gudok" (Horn) that publishes the materials on the basic activities of the Company.

Subsidiaries and affiliates.
Russian Railways has subsidiaries and affiliates (S&A). The foundation and activities of S&A are governed by the laws and Articles of Associations of such companies. The activities of said companies are aimed at the fulfillment of targets and tasks stated in the Charters. The Company is interested in the efficient work of S&A and governs the activities in order to enhance the quality of produced goods, works and services. Accordingly, Russian Railways cooperates with concerned parties in every sphere of social responsibilities, indicated in Chapter 2 of the present Report. The cooperation trends of the Company with concerned parties in terms of main groups are given in Table 3-1. The Company has specialized structures to govern the methods of interaction. The main responsibilities are distributed between certain departments in compliance with the competence of such departments. The key departments responsible for the relations with internal concerned parties are Social Development Department and Personnel Management Department. The Department for cooperation with Federal and Regional authorities, Department for Corporate Communications, Justice Department, etc. bears the responsibilities for the relation with external concerned parties.

Table 3-1.
Interaction areas with breakdown by main groups of stakeholders

Interaction areas	including for the following groups of stakeholders													
	Employees	Customers	Public	Authorities	Non-governmental organizations	International organizations	Contractors and vendors	Business rivals	Mass media	Investors	Shareholder	Partners	Affiliated and dependent companies	Administration
Economical component														
Increase of economical effectiveness	■	■		■		■	■			■	■	■	■	■
Expansion of market representation		■	■			■					■	■	■	■
Investment activities			■	■						■	■		■	■
Environmental component														
Nature-conservative measures			■		■									■
Implementation of environmental management systems	■													■
Social component														
Social support for employees	■				■									■
Respect for human rights					■	■								
Interaction with society		■	■		■			■	■					
Compliance with regulatory requirements				■		■								■
Participation in build-up of governmental policy				■										
Responsibility for products and services		■	■	■		■								■
Prevention of corrupt practices	■						■							■

3.2. Forms of interaction with stakeholders

When interacting with stakeholders, the Company uses various interrelated forms of dialogue, starting from the basic form like the identification of stakeholders up to the developed form like the partnership. The Company strives to develop and enhance the effectiveness of dialogue for each group.

Identification of stakeholders or concerned parties
The Company identifies the stakeholders by the interests and expectations. The results are taken into consideration at the stage of the preparation of non-financial reports of the Company and planning of activities associated with the interaction. Besides, the identification of stakeholders is done during the preparation of non-financial documentation as well as at the stage of the implementation of the Company's activities that concern the stakeholders (competitive procurement, application and complaints redressing, public hearings and other procedures, performed by the Company and providing for the participation of concerned parties).

Information exchange.
The Company prepares press-releases, information programs; organizes press-conferences; organizes the interviews to spread the information in mass media. Russian Railways practices the reporting system in compliance with international and Russian standards. Both the open reports and reports covering the activities of individual groups of stakeholders are being prepared in this case. The Company places the information in Internet on its web-site (www.rzd.ru) that is accessible and free-of-charge. In addition the information and documents as requested by the concerned parties might be presented as well in the original. Displaying the information to all parties the Company follows the international norms and rules in the sphere of the business social responsibilities. Thereby the Company practices the regular social reporting and presentation of the results to the public. The reports of the Company (financial reports, prepared in compliance with international standards, annual reports, accounts and records prepared in compliance with Russian standards) are posted on the Company web-site. The open publication of the stature, internal regulations and clearly defined targets and mission of the Company contribute to the adherence to the high standards of transparency. The Articles of Association of the Company can be seen on the Company web-site (http://doc.rzd.ru/wps/portal/doc).
Russian Railways informs the consumer about offered services as well as results of the Company activities in mass media, Internet, and text notices. The Company provides the accessibility to the rules and regulations, governing the use of the railway transport, including the behavior of service consumers. The Company carries out

the work in the sphere of marketing communications, delivers the information to the potential consumers about the services, accounting for the requirements of the regulations and laws in the sphere of marketing communications. The information for the internal stakeholders of the Company is posted on the stands; the decisions of the Management are communicated to the employees within the internal document flow.
In order to meet the demands of the public and mass media in the information the Company posts on its web-site the thematic press-files, containing the information about the Company activities.
The Company holds meetings with focus-groups (representatives of local population), meets the people and organizes the operation of hot line, including the feedback via Internet (http://www.rzd.ru) for taking into account the interests of consumers and communities. Moreover, the Company conducts a public hearings on the environment protection matters. The Company participates in joint conferences, symposiums, and meetings, organized by the international organizations and other NGOs, including the meetings with trade union organizations on social and labor issues.

Partnership relations between the Company and stakeholders.
Russian Railways cooperates with a number of stakeholders (concerned parties) under concluded agreements and other documents. At present the Company implements the agreements with regions where the Company and regional executive authorities interact in different directions of economic, environmental and social spheres. Such agreements, inter alia, assume the budgetary financing of the Company and investment of the Company to the infrastructures.
The Company has the Collective Agreement, defining the rights and responsibilities of the Company and its employees in terms of social and labor relations. The implementation of the Collective Agreement is subject to constant supervision and control.
The mutually beneficial agreement under international agreements, conventions, codes, etc. as well as in the framework of interaction with NGOs plays an important role for the realization of the Company social responsibilities.
The Company makes suggestions on the improvement of the operation of the railway transport and on regulations in the sphere of such transport, participating in the work of government authorities. The Company conducts the public hearings with the participation of representatives of regional governments and local authorities. The Company organizes the consulting and methodological interaction with supervising bodies and assists in investigations.

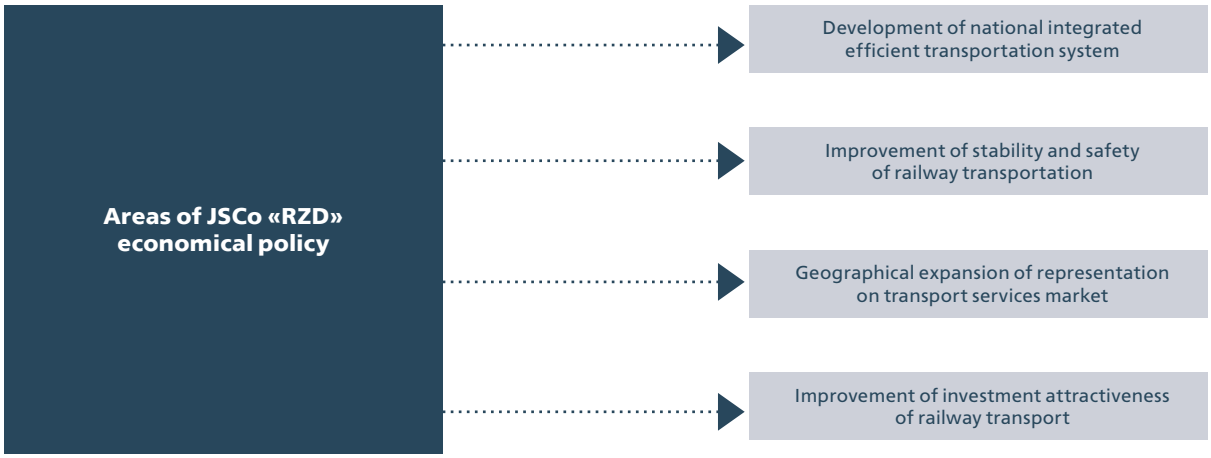
04

Economic Efficiency

4.1. Economical Policy of JSCo "RZD" and its implementation mechanisms

The most important issues of Russian Railways' economical policy were defined by Decree of the Russian Federation Government No. 384 "On the Program of Structural Reform at railway lines" of May 18, 2001, "The Russian Federation's Transport Policy for the period till 2020" (approved by Order of the Russian Federation Ministry of Transport No. 45 of May 12, 2005") and Strategy of development of railway transport in the Russian Federation" (approved by Order of the Russian Federation Government No. 877-p of June 17, 2008).
The Company's leadership in traffic volume does not automatically ensure high results of financial and economical activities of Russian Railways with view that overwhelming majority of services provided by Russian Railways are strictly regulated by the State; meanwhile the Company is required to conduct socially important traffic which is not commercially effective. Besides, Russian Railways operates already today in conditions of growing competition. The very circumstances require development and implementation of active strategy in the field of improvement of services provided and traffic efficiency for formation of non-price competitive advantages and risk mitigation (Fig. 4-1). Moreover, Russian Railways assumed a strategic line to conduct high-efficiency, client-oriented, and socially responsible business using best practices of Russian and foreign companies. In each of the said lines of economical policy of Russian Railways there are certain risks and chances. Speaking about them, one must note that risk and capabilities management is based on what goals the Company sets for itself.

Fig. 4-1. Lines of Economical Policy



4.2. Russian Railways Economic Efficiency Management System

The Company's Economic Efficiency Management System is focused on the following factors:

- Effective combination of government regulation and market self-regulation mechanisms on railway transport;
- Improvement investment climate and development of market relations in transport complex;
- priority development and modernization of railway system;
- Higher safety of railway transport operation.

4.2.1. Risks and Opportunities in Economical Context

Exterior risks and opportunities of the Company in economical context are determined by the level of social and economical development of the country as a whole, household income, and political factors which may be both positive and negative as related to the Company's activities. The table below (Fig. 4-2) provides risks of Russian Railways related to various issues of Russian Railways activities. Those are mainly heritage of the former years of the Company's business: it is enough to say that the most part of the Company's rolling stock was built before disintegration of the USSR. Minimization of these risks is related to reforming of the whole railway transport and structure of interactions within the Company and collaboration with the parties concerned.

Fig. 4-2. Main non-financial risks of JSCo «RZD» in terms of economics

Risks	Areas of Company's activity	Indicators of economical efficiency
Changing share of passenger and freight operations market due to increasing volume of transportation in Russia and abroad	Investments into facilities projects and re-equipment with new rolling stock, establishment of some affiliated companies	Profits of JSCo «RZD» and affiliated companies
Competition with other modes of transport	Improvement of conditions for passenger and freight operations	Share of railways in total amount of transportation
Technological difficulties in railway communications with foreign countries	Integrated reconstruction of access railways to the ports of Gulf of Finland	Passenger/freight turnover with foreign countries, length of railways
Increasing cost of new rolling stock (extended payback period for the cars)	Attraction of foreign investments from private companies to the sector. Acquisition of the rolling stock	Volume of rolling stock acquisitions, profitability of transport operations
Lack of required funds for the railway transport	Investments into passenger/freight system	Volume of repair works and acquisitions of the rolling stock
Stiff control of fares by government	Activity aimed to provide state support. Improvement of fare system	Volume of government subsidies for compensation of unprofitable passenger operations

The Company's opportunities are determined by growing transcontinental traffic, which may lead to freight turnover growth (mostly container traffic) of Russian Railways with foreign states. This opportunity may be implemented via expansion of the infrastructure along the international traffic corridors – East-West and North-South. No doubt that development factors include adaptation and use of high technologies on railway transport. For example, improvement of passenger transportation conditions is accompanied by differentiation of transportation rates on the basis of comfort level. The Company also gradually introduces self-service system with long-distance train ticket sales: ticket printing machines will be installed in all available places. It is supposed that these innovations will increase passenger traffic in Russian Railways and railway transport on the whole.

4.3. Implementation of Economical Policy. Presence in Key markets

Presence in the freight and passenger transportation markets
Historically, railways play a key role in Russian transport system, ensuring over 42% of turnover of the whole transport system of the country (*and, without pipeline transport, about 85%*) and almost 33% of passenger traffic.

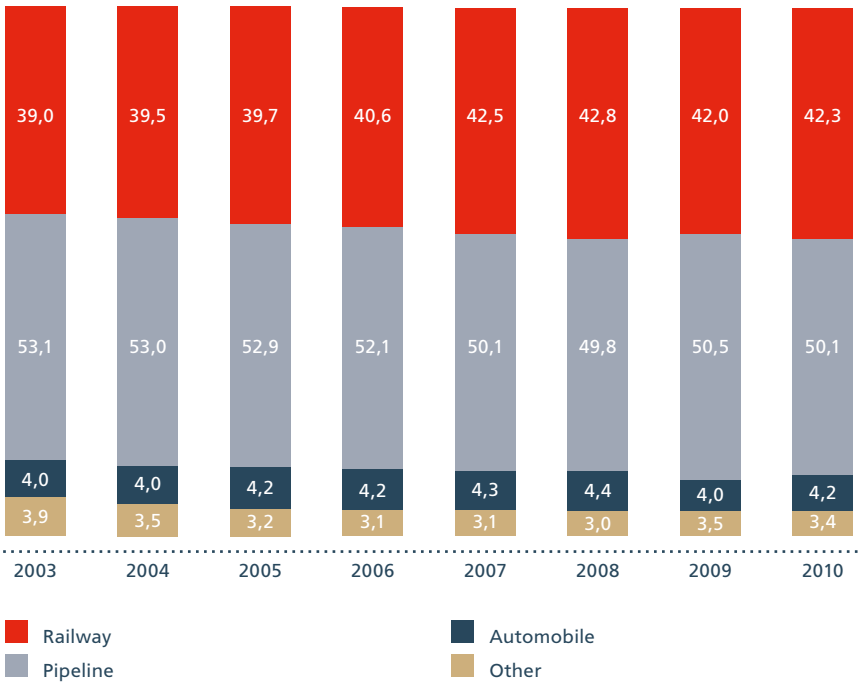
In 2010 turnover of railway transport (*without empty mileage of mileage private and leased rolling stock*) increased by +7.8% as compared to 2009. Here, specific weight of railway transport of the country increased by +0.3 % (*from 42% in 2009 to 42.3% in 2010*).

Freight turnover by modes of transport, billions of ton per km

Mode of transport	2009	2010	%	Share of transport mode in total freight turnover	
				2009, %	2010, %
Freight transportation turnover	4 444,8	4 752,5	+6,9	100,0	100,0
including:					
Railway[1]	1 865,3	2 011,3	+7,8	42,0	42,3
Motor road	180,1	199,2	+10,6	4,0	4,2
Sea	98,4	101,0	+2,6	2,2	2,1
Inland water	52,7	54,3	+3,1	1,2	1,2
Air (transport aviation)	3,6	4,7	+32,0	0,1	0,1
Pipelines	2 245,8	2 382,0	+6,0	50,5	50,1

[1] *Freight turnover figures without empty run of private and leased rolling stock, according to data reported by JSCo «RZD»*

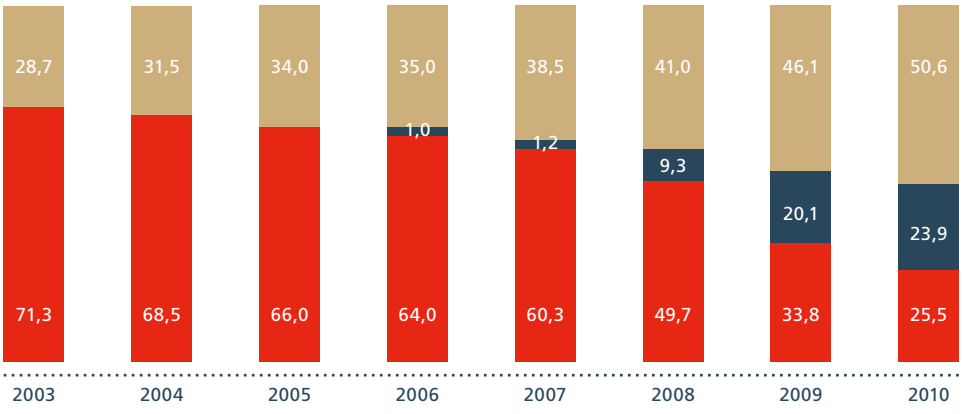
Freight Turnover Structure by Transport Type in 2003-2010, %



In 2010, in the process of implementation of the Program of Structural Reform on Railway Transport, competition in freight transportations still developed. In 2010 the Russian fleet of freight cars had grown by 3.4% making over 1,025 million freight cars (*against 0.991 million cars in 2009*)[2]. As of December 31, 2010, inventory fleet of Russian Railways was over 0.212 million cars or 20.7% of the total Russian car fleet, against 0.3379 million cars and 34.1 respectively as compared with the previous year. Here, the share of rolling stock fleet belonging to subsidiary companies and affiliates of Russian Railways was 29.7%, with independent private owners made for 49.5% in total rolling-stock fleet (as compared to 23.9% and 41.9% as of December 31, 2009). Increased was the number of open box cars (+22.3%), other (specialized) cars (+36%), box cars (+7.9%), and tank cars (+8.9%) all belonging to independent private companies. The share of Russian Railways Holding lowered in all types of railway cars, except others. The share of open box cars belonging to Russian Railways decreased extremely rapidly (*more than by 50%*) because of transfer of a part of open box car fleet to OJSC Vtoraya Gruzovaya Kompania and their sales to independent private owners.
In 2010 (*as compared to 2009*) the share of Russian Railways(*less subsidiary companies and affiliates*) in the market of freight car operations (*as by volume of freight railway transportations*) fell from 33.8% to 25.5%. The share of subsidiary companies and affiliates of Russian Railways in terms of traffic volume became 23.9%. The volume of traffic by cars belonging to Russian Railways Holding (*Russian Railways with its subsidiary companies and affiliates*) in 2010 lowered by 1.9% (*–11.9 million tons*). However, the total gain in transportation volumes reached +8.9%. At the same time the volume of transportation provided by cars of other owners increased by +18.5% (*+104.6 million tons*).

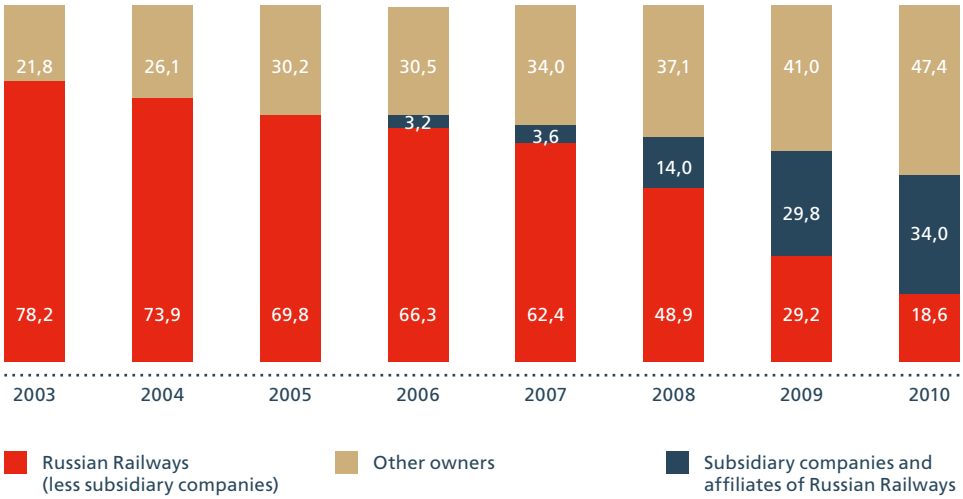
[2] *Without «transporter» type railway cars*

Structure of the Russian Market of Freight Car Operations by Volume in 2003-2010, %



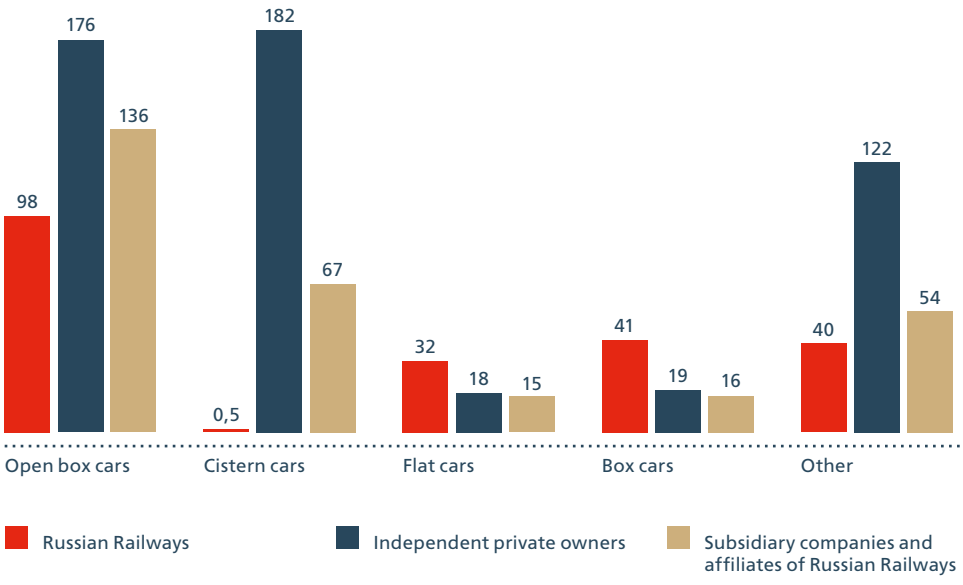
The share of Russian Railways in freight car operations by freight turnover changed from 78.2% in 2003 to 18.6% in 2010. In 2003, the share of freight turnover by cars of private owners was 21.8%, while in 2010, the same figure reached 81.4% (*+10.6 % gain against 2009*).

Structure of the Russian Market of Freight Car Operations by Turnover Volume in 2003-2010, %



During 2003-2008 the Holding significantly lost its competitive positions in freight car operations. The share of the Holding in 2010 was about 53% both in the number of cars and total proceeds (as compared to 75-78% in 2002-2003) which was due to market deregulation and tariff freedom of activities of private operators, and to active market penetration of private leasing companies.
The Holding's market share are the maximum in universal rolling stock (open box cars etc.) where the Holding controls over 75% of the market, while in the tank car segment the Holding's share is significantly less (about 25%). Thus, the structure of the Holding's rolling-stock fleet makes it less competitive in terms of transportation of high-yielding cargo.
The passenger segment operations in 2010 was focused on full demand satisfaction and increase of the quality of services provided to the population, steady and dynamic development

Amount of the Russian Fleet of Freight Cars, Thousand Pcs. (as of 31.12.2010)



of transportations, improvement of efficiency of passenger traffic. Railway passenger traffic was 139 billion passenger kilometers in 2010 (*-8.2% as compared to 2009*), including:
- long distance traffic – 111.0 billion passenger kilometers (-2%);
- suburban traffic – 28 billion passenger kilometers (-26.6%).

The reasons to the decrease in passenger traffic in 2010:
- increased competition in transportation service market from the side of bus operators, local, regional and inter-regional airlines, including low-budget carriers and personal car transport;

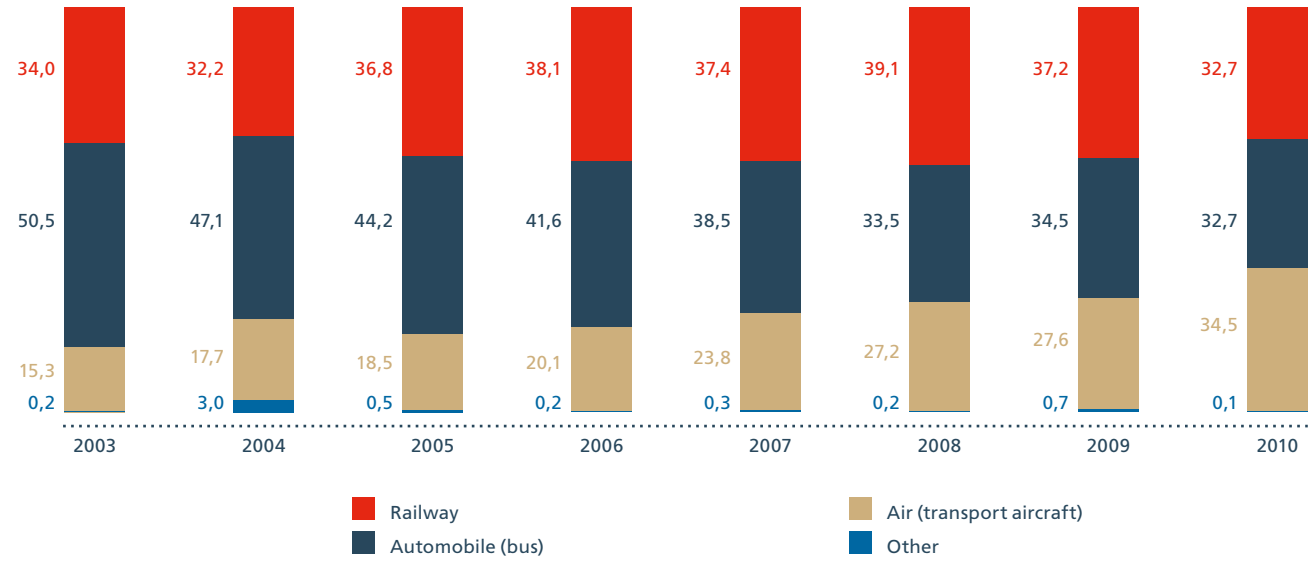
- low rates of recovery of demand for passenger transportation in the post-crisis period;
- reduced demand for passenger transportation because of demographic recession and population aging;
- changes in travel counting system in Russian Railways;
- increased number of ticketless travels by train.

In suburban traffic, the objective reason of passenger turnover decrease was the change in the procedure of registration of travel documents for recipients of federal benefits.

Notwithstanding the growth of households' income in 2010 (*104.1% against 2009*), railway passenger traffic (*both long-distance and suburban*) has a tendency to reduction.

According to data provided by Rosstat (*the RF Statistics Committee*) in 2009-2010 the share of railway transport in passenger traffic of main public use transport types fell from 37.2% to 32.7%. These changes in passenger traffic structure are related to significant reduction of the bus transport share and increase of air transport share.

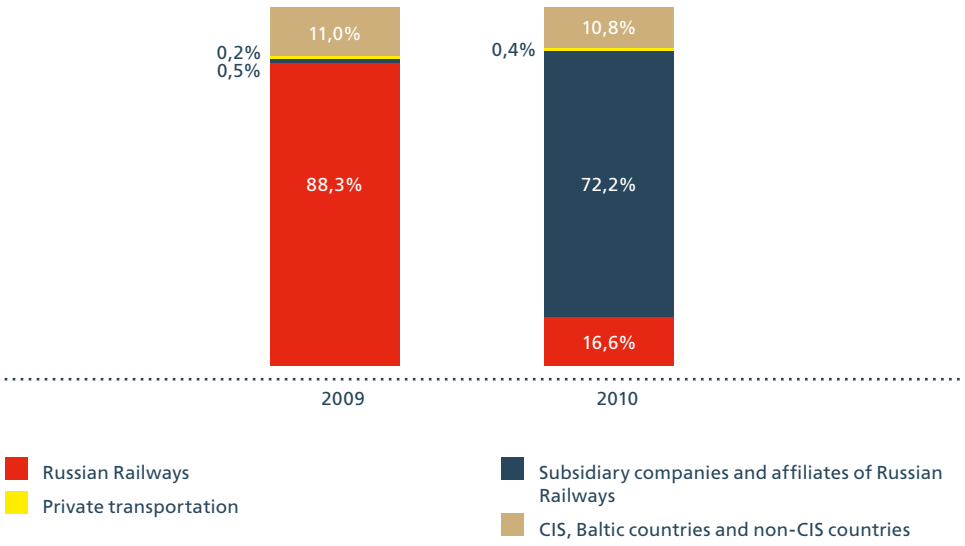
Passenger Turnover Structure by Transport Type in 2003-2010, %



In 2010 the share of Russian Railways in long-distance passenger traffic was 16.6%, while the share of its subsidiary companies and affiliates increased to 72.2% at the cost of the growth in passenger traffic by OJSC Federalnaya Passazhirskaya Kompania[3] which conducted the major part of transportations.

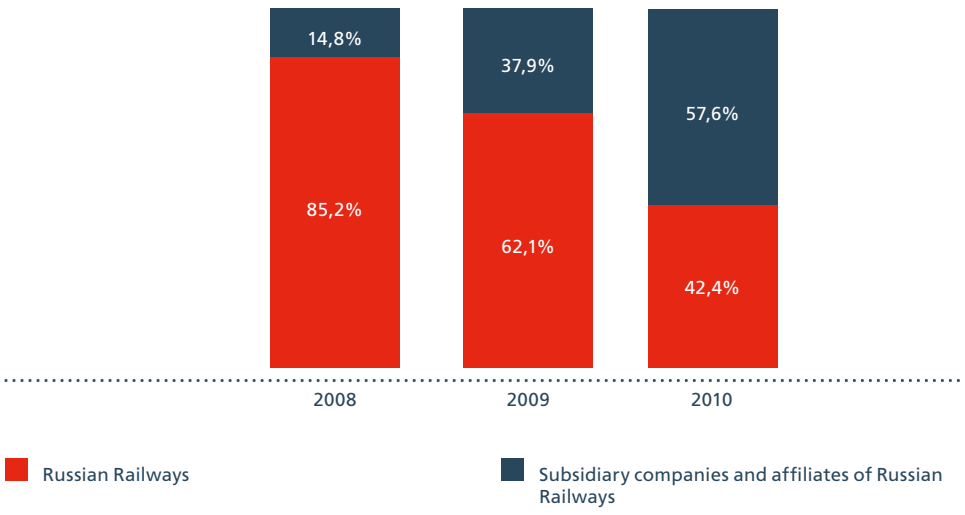
[3] *JSCo «FPK» is exercising an independent business activity from April 1, 2010.*

Passenger Turnover Structure by Transport Operator in Long-Distance Traffic, %



In suburban traffic, the share of subsidiary companies and affiliates of JSCo «RZD» in 2010 as compared to 2009 increased by 19.7 p.p. *(up to 57.6%).*

Passenger Turnover Structure by Transport Operator in Suburban Traffic, %



4.4. Investment Activities

The total funds as stipulated by the investment budget of Russian Railways for 2010 and approved at the Meeting of the Company's Board of Directors are 315.0 billion Rubles, while actual utilization of Russian Railways investment budget for 2010 was 317.4 billion Rubles or 100.8% against the plan, including 0.6 billion Rubles attracted from outside financing sources.
In 2010, in the whole federal railway system fixed assets amounting to 214.6 billion Rubles were commissioned. Within the said period the following was commissioned: 2.49 km of new lines; about 116 km of side tracks and about 96.5 km of station tracks; 1657.1 km of track superstructure were modernized. In 2010, 46.0 billion Rubles were committed to renewal of rolling stock, with 393 motive power units, 172 freight cars and 677 cars of electric multiple unit rolling stock purchased, while rebuilt were 88 freight cars, 812 motive power units and 9 cars of electric multiple unit rolling stock. Here one should note that, besides solving production issues, our Company pays special attention to social issues. In the said period, investment measures amounting to 0.6 billion Rubles were performed under investment budget of Russian Railways in section **"Social Development Projects"**, which is by 0.6 billion Rubles more than the same figure in 2009. These projects were aimed at renewal of health care and educational facilities, expansion of specialized housing stock of the Company and development of material and technical structure of juvenile railways.

Implementation **of health facilities renewal program** has been performed aiming to ensure integrity of the Company's health care institutions, related to medical support of railway operation safety and determination of professional aptitude, provision of high quality medical services to railway personnel, and local residents.
In 2010, under this Program high technology medical equipment was purchased and equipment for installation of fire alarm systems, together with renovation of a number of health care institutions.
One of the Company's lines of activities is a further development of existing system of training, conversion training and advanced training of Russian Railways personnel. Under the Company's investment budget, measures were implemented aiming **to renew and develop educational institutions**. In the current period, a number of Russian Railways technical schools, training centers and educational institutions (hostel schools and kindergartens) in the Federal railway system were built, upgraded and provided and installed with training equipment. In 2010, the following facilities were rebuilt and commissioned:

- Technical School Hostel at Kaluga Railroad Station (Moskovskaya Railroad);
- the building of Personnel Training Center (with Hostel annex) at Klubnaya Street in Khabarovsk (Dalnevostochnaya Railroad);
- Educational Building of Road Technical School at Elets Railroad Station (South-Eastern Railroad);

- Technical School at Astrakhan Railroad Station (Privolzhskaya Railroad);
- Hostel, administration and amenities building, workshop, welding station, parking garage and simulator equipment building of Technical School at Tikhoretskaya Railroad Station (North-Caucasian Railroad);
- Kindergarten No. 47 at Aleksandrov Railroad Station (Moskovskaya Railroad);
- Kindergarten No. 262 at Khabarovsk-1 (Dalnevostochnaya Railroad).

According to the Company's Hosing Policy Concept approved by Order 780p of Russian Railways of May 25, 2005, the Company develops Russian Railways specialized housing stock (technological houses). The top priority of the Concept was defined as necessary creation of the Company's housing stock to meet operational and process needs, maintain the existing and attract potential personnel. According to results of **Technological Housing Project**, in 2010 the Company's specialized housing stock was increased by 69,900 meters, or 941 residential premises. In order to improve quality of vocational oriented education of children and status value of railway professions, and to ensure safety of children and minors during their stay at juvenile railroad facilities, in 2010 measures were implemented aimed to develop physical infrastructure of juvenile railroads. Juvenile railroads are the facilities intended for additional comprehensive juvenile education, technical creativity, apperception of innovations, intellectual and cultural development, education in healthy life-style. In the current period, new TUYU series Diesel-powered locomotives were purchased, designed specifically for juvenile railroads and meeting current requirements. In 2010 the construction of a hotel to accommodate students of Irkutsk Children's Railroad was launched, with continued renovation and new construction of facilities of Novomoskovskaya Railroad and Malaya Oktyabrskaya Railroad. Implementation of this program allowed renovating and building existing infrastructure, and setting up an educational support basis with conversion of educational activities of children's railroads to a uniform educational program. Russian Railways pays special attention to population safety issues. Transport Safety Program stipulates equipping railway facilities with security hardware. Implementation of these measures helps to improve population safety at railway transport and transport infrastructure facilities, ensure life and health of population, prevent crimes and other law offences made to passengers and railway personnel, and lower level of threats at the Company's socially-significant facilities. One of the most important tasks of the Company is maximum satisfaction of needs of passengers and consigners in terms of transportation services. Presently, improvement of population mobility necessitates integration of various transport types into an integrated logistic system. The solution of this task is building of railway lines which would link city railway stations and the largest

transportation junctions, thus helping to significantly save travel times and (in some cases) to solve transport problem for mega cities (unload motor roads). In order to provide quality level of suburban passenger traffic on the most intensive areas, improve level of comfort and safety of transportation services and manage with ever growing passenger traffic, Russian Railways implements the following socially-significant projects:

- "Organization of intermodal passenger traffic along Vladivostok – Knevichi Airport route". After the Project's implementation, travel time of electric suburban trains along Vladivostok – Knevichi Airport route (with three stopovers) will be 48 minutes;
- "Organization of intermodal passenger traffic between Kazan Railroad Station and Kazan International Airport". After the Project's implementation, travel time will be 20-25 minutes;
- "Organization of intermodal passenger traffic along Sochi-Adler-Sochi Airport route". After the Project's implementation, travel time will be 44 minutes;

In the current period, in order to expand potential use of railway transport services by low mobility groups and handicapped persons, implementation of Project "Reconstruction of Sochi railway terminals and their adjustment for use by handicapped persons" continued. The said measures are planned to be implemented at the following railway stations: Dagomys, Sochi, Matsesta, and Khosta. Besides, during construction and renovation of buildings and facilities a set of measures is performed to ensure barrier-free access to railway facilities for low-mobility groups and handicapped persons. Works are under way to install elevators and lift platforms, parking places are stipulated at parking areas near railway terminals, curbstones are removed to ensure exit from parking areas, ramps with two-level handrails are being equipped, tactile lanes re implemented inside railroad passenger terminals. Under high-speed and ultra-high speed railway traffic development program, high-speed Allegro train service is launched at Moscow – Nizhniy Novgorod route:

- on July 30, 2010 Sapsan trains started to run between Moscow and Nizhniy

Novgorod (with travel time being 3 hr 55 min). Under the program of renovation of railway infrastructure facilities on Moscow – Nizhniy Novgorod route, 54 passenger platforms were build and upgraded, area fencing structures were installed on 331 km of track etc.

- On December 12, 2010 high-speed railway service was launched between Russia (St. Petersburg) and Finland (Helsinki). From this day railway transit time between St. Petersburg and Helsinki reduced from 6 hr 18 min to 3.5 hours. Every train in this service provides seats for handicapped passengers, and special playgrounds for children's leisure.

Results of implementation of Russian Railways investment budget verify high social focus of investment projects, and balanced approach to planning of funds allocated for development of industrial and non-industrial facilities.

05 Environmental Performance

5.1. Environmental Protection and Rational Nature Management Policy of Russian Railways

Russian Railways carries out environmental activity pursuant to the environmental protection legislation of the Russian Federation as well as to documents of Russian Railways:

- Ecological strategy of Russian Railways for the period till 2015 and in consideration of the perspective till 2030 as approved by Order No. 293 of Russian Railways dated February 13 of 2009;
- Railway transport development strategy of the Russian Federation as approved by Order No. 877-r of the RF Government dated June 17 of 2008;
- Innovation development strategy of Russian Railways for the period till 2015 (White Book of Russian Railways).

In its operation Russian Railways attaches great importance to the Company's nature conservation management system and its improvement. As a part of the structural reforms implemented by the Company, there were created Environmental Protection Centers comprising environmental laboratories on all railways in 2010. The Centers are entrusted to be ecological safety providers in the Company branches located within the boundaries of the railway.

The central nature conservation commission of Russian Railways is established to improve nature conservation management system of Russian Railways and to reduce negative impact on the environment. Regional nature conservation commissions of Russian Railways are created on all the railways.

5.2. Nature Conservation Management System

5.2.1. Nature Conservation Opportunities and Ecological Risks

Railway transport is recognized as the most environmentally friendly transport in the world first of all for its low power consumption.

Railway transport in Russia also offers environmental benefits through extensive use of electric traction which prevents emissions of harmful substances into the atmospheric air and decreases contamination of soil with heavy metals.

Nature conservation opportunities of the Company are provided with:

- ambitious investment programs aimed at ensuring environment protection and ecological safety of the Company facilities and infrastructure;
- innovative technologies aimed at preventing or reducing impact on the environment, minimizing consumable resources and power;
- the advanced nature conservation management system which incorporates long-range and short-range planning, development and updating of the corporate normative-methodological basis on nature conservation, Company staff training and education in nature conservation, rational nature management and ecological safety, ecological monitoring of Company facilities, ecological audit of Russian Railways divisions, introduction of progressive nature conservation management systems up to international standards.

Major ecological risks of the Company are associated with negative impact of

the Company facilities on the environment, utilization of natural resources including non-renewable ones. Sources of the Company's ecological risks are:

- fuel consumption for haulage of trains and in boiler houses;
- consumption of water resources for service and domestic needs;
- hazard class V waste generation;
- power production and consumption for haulage of trains;
- soil disturbance during construction of new facilities and extraction of industrial minerals such as sand and detritus;
- air pollutant emissions (carbon oxide, solids, sulfur dioxide, nitrogen oxide and hydrocarbons) from stationary emission sources;
- air pollutant emissions (carbon oxide, soot, sulfur dioxide, nitrogen oxide and hydrocarbons) from diesel locomotives;
- effluents discharge into water bodies.

Ecological risks of Russian Railways are managed at all stages of the nature conservation management system beginning with identification and planning and ending with monitoring and control.

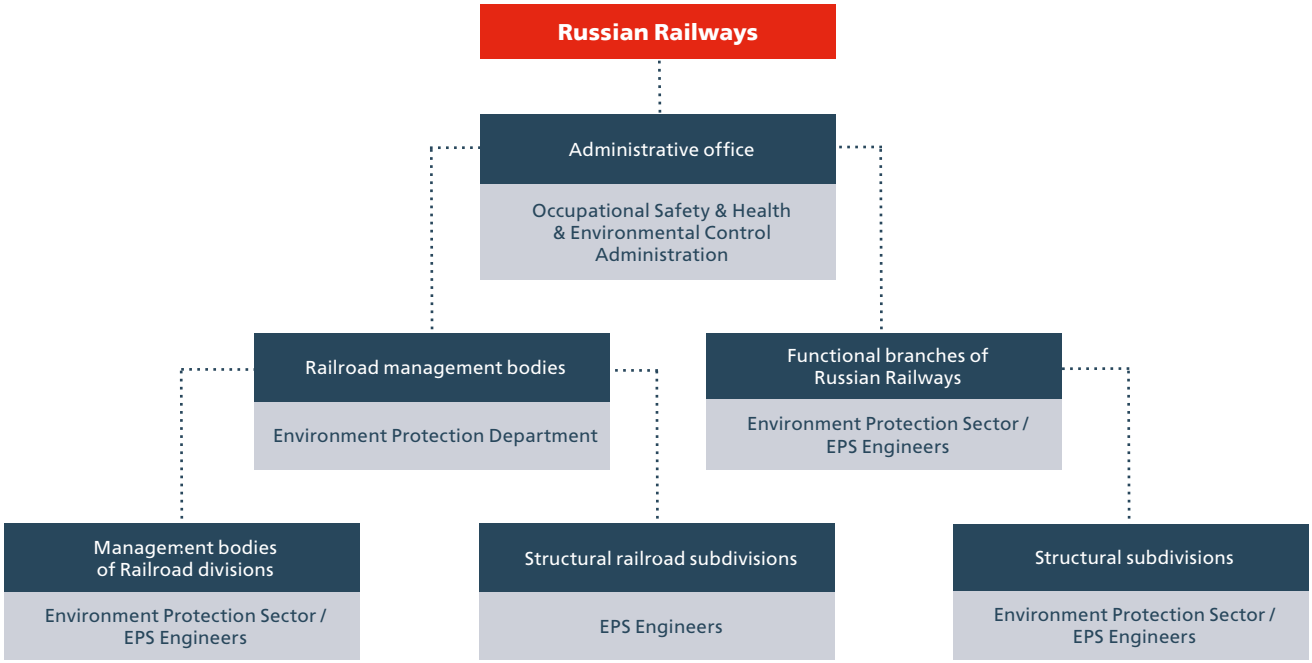
Table 5-1 lists main areas of ecological risk management activity of the Company and pertinent environmental performance indicators.

Table 5-1
Main Areas of Ecological Risk Management Activity of the Company and Pertinent Environmental Performance Indicators

Pos.	Risk sources	Activity lines	Measure of efficiency
1	Fuel consumption in hauling operations and boiler stations	• Development and implementation of measures aimed to reduce fuel consumption in stationary and mobile sources • Investments to development of new technologies aimed to lower fuel consumption • Introduce new technologies aimed to lower fuel consumption	• Diesel fuel consumption in hauling operations • Consumption of gas, oil fuel, coal and other fuel in boiler stations
2	Consumption of water resources for industrial and consumer needs	Introduction of water saving technologies, circulation water supply systems, water rationing and instrumental water consumption metering	• Consumption of water resources for industrial and consumer needs • Volume of circulating water

3	Generation of great volumes of industrial and consumer waste (wasted ties, boiler ash, refuse burnout, construction waste, domestic garbage, metal scrap, crushed stone)	• Utilization of waste in technical processes as sources of raw and recycled materials • Introduction of waste recycling technologies	• Waste generation by hazard class • Percentage waste utilization
4	Power generation and consumption for hauling operations	• Implementation of energy saving technologies • Training in energy saving technologies	Power consumption
5	Soil spoilage during new construction and production of nonmetallic mineral resources such as sand and crushed stone	Spoiled land recultivation operations	Land recultivation costs
6	Air emissions of pollutants (carbon oxide, solid substances, sulfur dioxide, nitrogen oxide, and hydrocarbons) from stationary pollution sources	• Switch boiler stations to more environmentally safe fuel • Improve fuel combustion efficiency • Introduce electric heating • Liquidate low production coal-fired boiler stations • Renovate and build effective and introduce new dust separating equipment	• Volume of air emissions of pollutants from stationary pollution sources • Air emissions of main pollutants from stationary pollution sources
7	Air emissions of pollutants (carbon oxide, soot, sulfur dioxide, nitrogen oxide, and hydrocarbons) from Diesel locomotives	• Replace engines with more fuel-efficient engines which have improved environmental safety properties • Develop new Diesel locomotives with gas diesel engines	• Volume of air emissions of pollutants from Diesel locomotives • Volume of air emissions of main pollutants from Diesel locomotives
8	Effluent discharge into water bodies	• Replace engines with more fuel-efficient engines which have improved environmental safety properties • Upgrade and build water treatment facilities	• Volumes of sewage water • Volume of pollutants discharged together with sewage water to water bodies
9	Delays in obtaining of required environmental permits	Development of project documents by qualified employees Russian Railways or by independent specialized contractors	• Penalties • Charges for above-standard exposure

Figure 5-2. Organization of environmental activity management in Russian Railways



Core environmental performance indicators of Russian Railways

Ecological factors play an increasingly prominent part in production operation of Russian Railways, promotion of its ecological safety and competitive strength.

As a part of the ecological strategy of Russian Railways over a period from 2008 to 2010 as compared to 2007 (reference year), hazardous air emissions from stationary sources declined by 31%, greenhouse gas emissions by 19%, water utilization for service needs by 34%, pollutant effluents discharge by 16%, waste generation by 29%.

In 2010 as compared to 2009, the Company:

- reduced hazardous air emissions from stationary sources by 10%;
- reduced pollutant effluents discharge into water bodies by 4%;
- increased waste neutralization and process waste utilization by 9%.

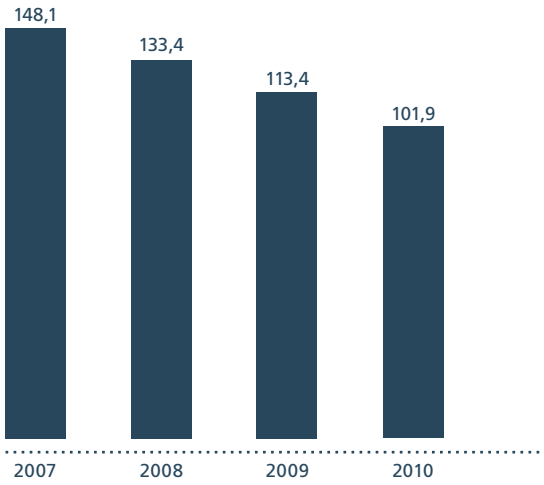
Such reduced impact on the environment is achieved with 4 chief guidelines of Russian Railways:

- the current nature conservation management system;
- technical retooling with an ecological component;
- implementation of investment projects;
- ecological monitoring the impact on the environment.

Figures 1-5 show dynamics of hazardous and greenhouse gas emissions into the atmosphere, water utilization, pollutant effluents discharge into surface-water bodies, waste generation over a period from 2007 to 2010.

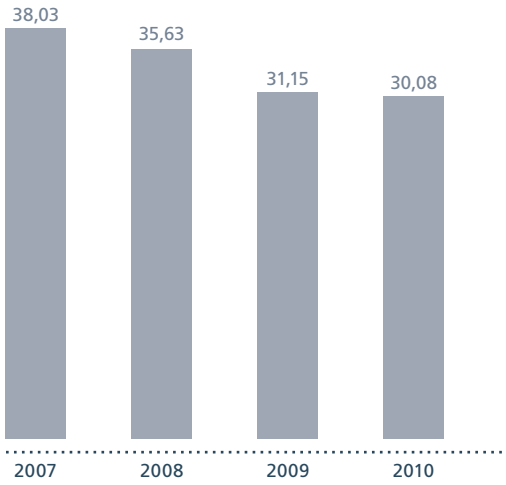
Dynamics of air emissions from stationary pollution sources of Russian Railways branches, thousands tons

Figure 1



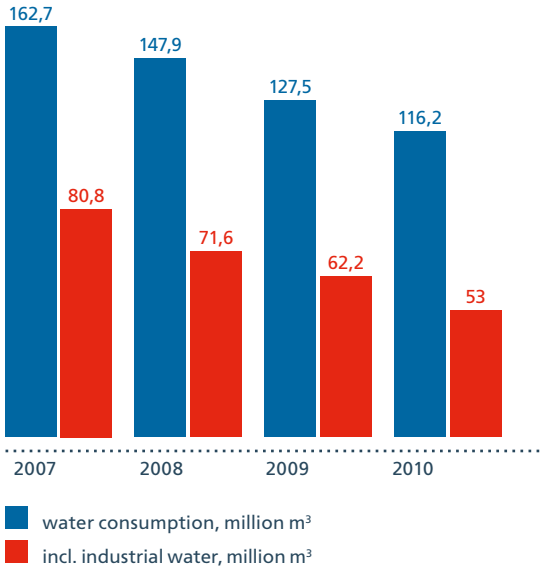
Greenhouse gas emissions by of Russian Railways branches, million thousands tons of CO_2 eq.

Figure 2



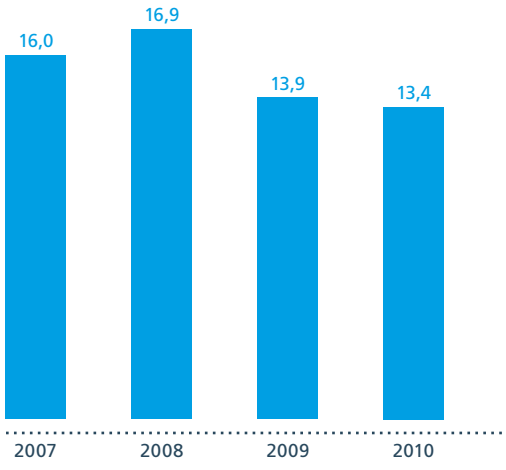
Dynamics of water consumption by Russian Railways branches, millions m³

Figure 3



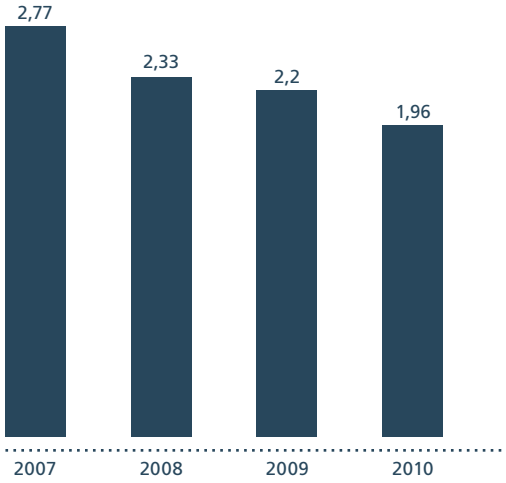
Dynamics of pollutant effluents into surface water bodies by Russian Railways branches, in million m³

Figure 4



Dynamics of waste generation by Russian Railways branches, millions tons

Figure 5



5.2.2. Atmospheric Air Protection

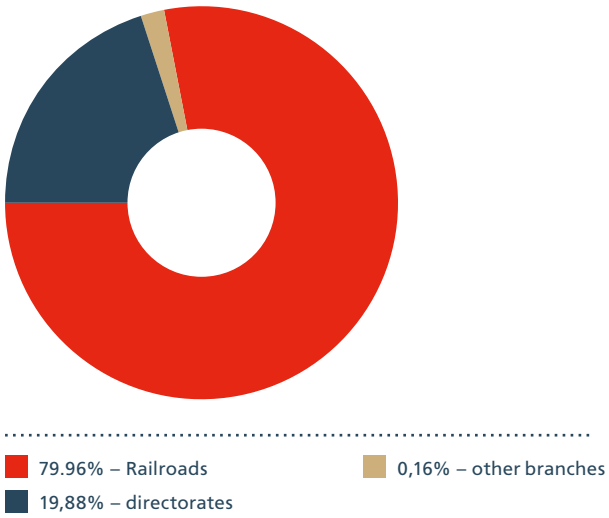
In 2010 hazardous air emissions amounted to 403.1 thousand tons including 101.9 thousand tons from stationary facilities and 301.2 thousand tons from mobile sources of which 200.2 thousand tons were released by mainline and shunting diesel locomotives, 89.96 thousand tons by motor vehicles, 11.0 thousand tons by special driverless rolling-stock. As compared to 2009, emissions from stationary facilities declined by 11.5 thousand tons in year 2010.

Hazardous air emissions from stationary sources decreased due to construction of new and modernization of operating boiler houses, conversion of boiler houses to more ecologically clean types of fuel (gas, oil-fuel), enhanced fuel combustion efficiency, introduction of electric heating, closing-down of low-active coal boiler houses, retrofitting of operating and introduction of new dust and gas collecting equipment (cyclones).

Figure 6 shows share of air pollutant emissions from stationary sources of the railways and administrations of Russian Railways.

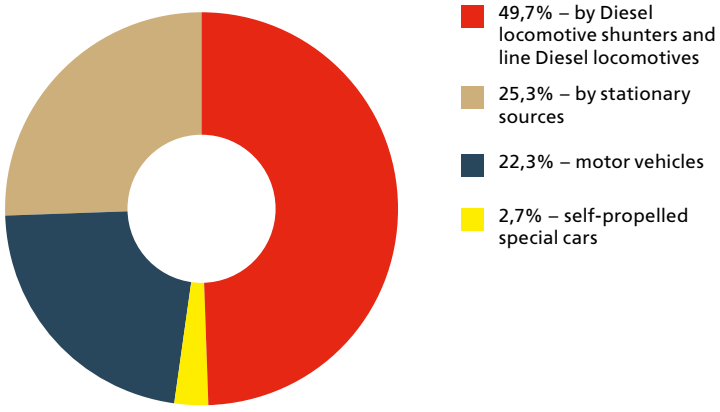
Percentage of air emissions from stationary pollution sources of Railroads and Directorates of Russian Railways in 2010, %

Figure 6



Structure of air emissions from mobile pollution sources of Russian Railways branches in 2010, %

Figure 7

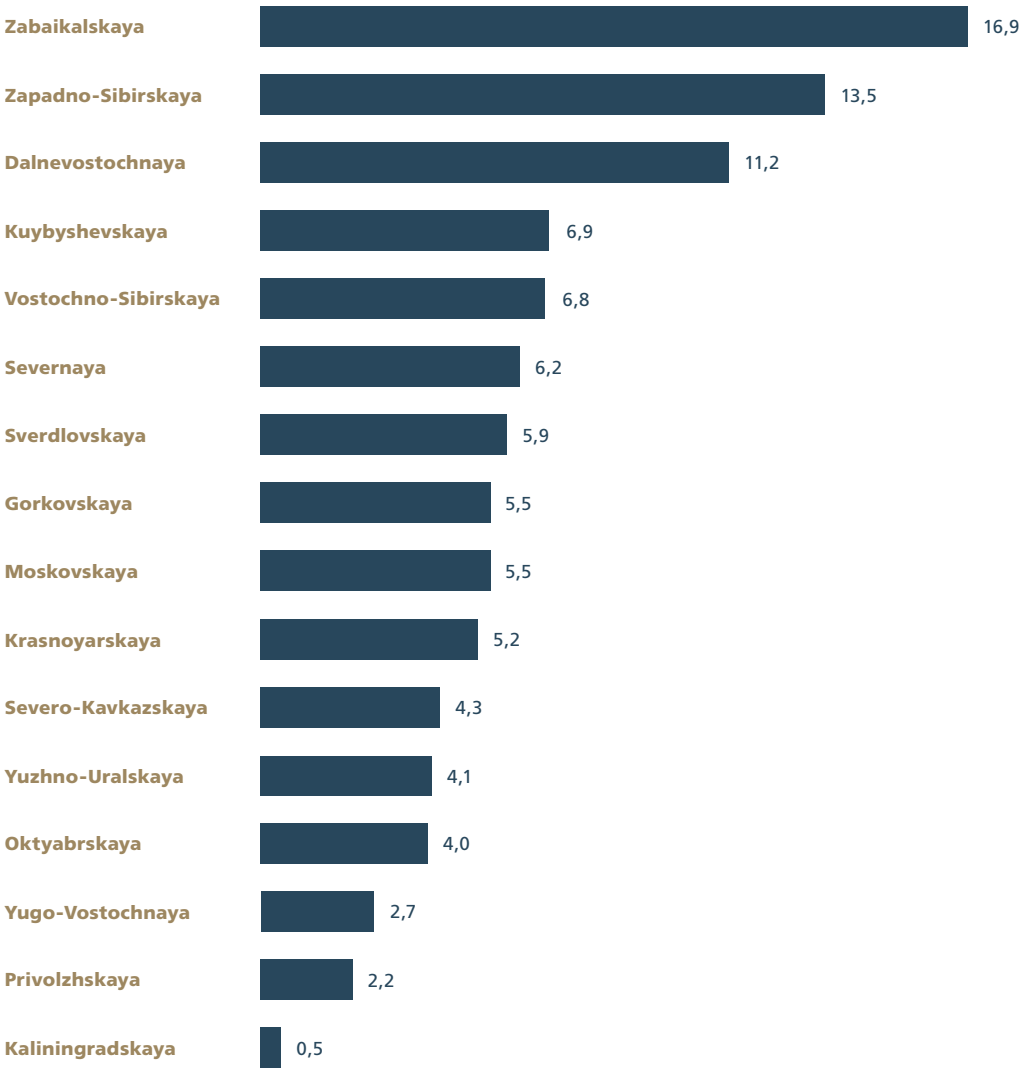


In 2010 Russian Railways numbered 49026 stationary sources of air pollutant emissions totally. Stationary sources accounted for 25.3% of hazardous air emissions and mobile sources (mainline and shunting diesel locomotives, motor vehicles, special driverless rolling-stock) accounted for 74.7%.

In 2010 the railways released 81.5 thousand tons, the administrations of Russian Railways released 20.26 thousand tons and other branches (plants) released 0.16 thousand tons of air pollutant emissions from stationary sources. The largest part of hazardous air emissions from stationary sources is produced by the railways: Transbaikal (Zabaikalskaya) (13.7 thousand tons), West Siberian (Zapadno Sibirskaya) (11.0 thousand tons), Far Eastern (Dalnevostochnaya) (9.1 thousand tons), East Siberian (Vostochno Sibirskaya) (5.6 thousand tons), Kuibyshev (5.6 thousand tons), Northern (Severnaya) (5.0 thousand tons), Sverdlovsk (4.8 thousand tons), Gorki (4.5 thousand tons), Krasnoyarsk (4.3 thousand tons), and on the administrations: TsTR (9.8 thousand tons), TsDRP (5.2 thousand tons), TsDRV (5.1 thousand tons). In 2010 all the railways and administrations of Russian Railways reduced air pollutant emissions from stationary sources except for TsDRV (+52.81 tons) and TsTR (+9784.35 tons). Hazardous air emissions decreased mostly on the railways: Moscow (2.2 thousand tons), South-East (Yugovostochnaya) (1.6 thousand tons), East Siberian (Vostochno Sibirskaya) (1.4 thousand tons), Krasnoyarsk (1.3 thousand tons), Sverdlovsk (0.9 thousand tons) and in the administrations of Russian Railways: FPD (7.1 thousand tons), TsDRP (0.4 thousand tons).

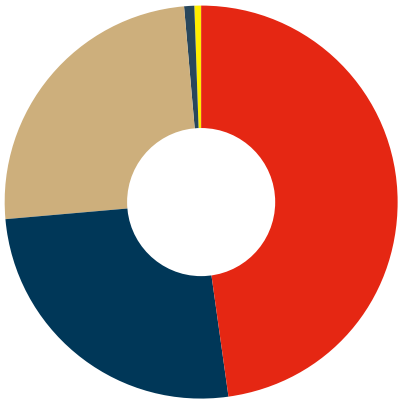
Share of air emissions from stationary sources by railroads in 2010, %

Figure 8



Percentage of air emissions from stationary pollution sources by Directorates in 2010, %

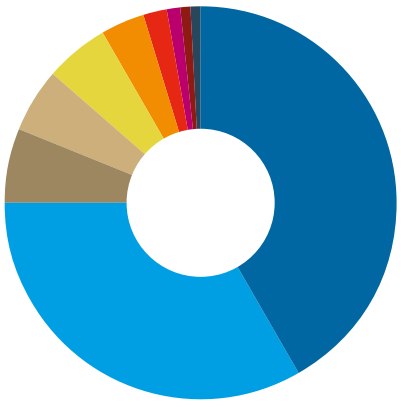
Figure 9



- 47,9% – Central Directorate of Locomotive Repairs
- 25,7% – Central Directorate of Track Repairs
- 25,0% – Central Directorate of Freight Car Repairs
- 0,8% – other branches
- 0,5% – Directorate of Railroad Stations

Percentage of air emissions from stationary pollution sources by Railroad functioning in 2010, %

Рис. 10

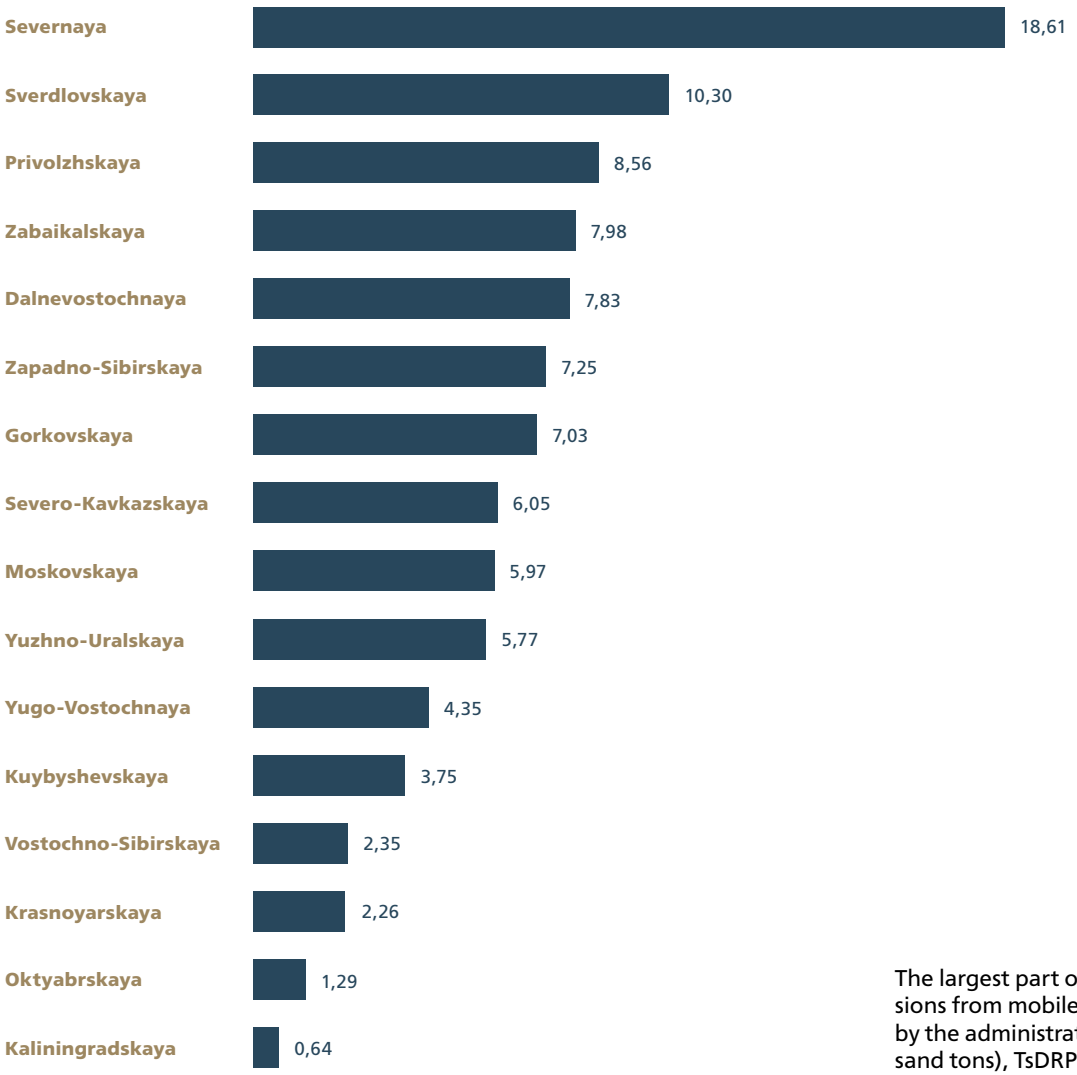


- 41,67% – Public works and waterworks
- 33,42% –Heat and Water Supply Directorate
- 6,18% –track enterprises
- 5,24% – others
- 5,08% – locomotive enterprises
- 3,69% – railway car enterprise
- 2,06% – passenger enterprises
- 1,02% – freight car enterprises
- 0,95% – Technical Development Directorate (DTR)
- 0,69% – electrization enterpises

As compared to 2009, emissions from mobile sources (diesel locomotives, motor vehicles, special driverless rolling-stock) increased by 45.6 thousand tons in 2010. In 2010 hazardous air emissions from diesel locomotives amounted to 200.2 thousand tons which is 5.8 thousand tons greater than in 2009. The largest part of hazardous air emissions from mobile sources is produced by the railways: Northern (45.9 thousand tons), Sverdlovsk (25.4 thousand tons), Volga (21.1 thousand tons), Transbaikal (19.7 thousand tons), Far Eastern (19.3 thousand tons), West Siberian (17.9 thousand tons), Gorki (17.9 thousand tons), North-Caucasian (14.9 thousand tons), Moscow (14.7 thousand tons).

Percentage of air emissions from mobile sources by Railroads of Russian Railways in 2010, %

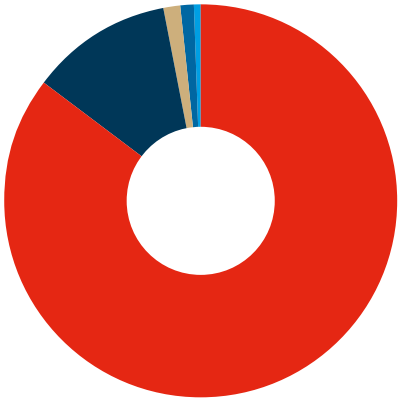
Figure 11



The largest part of hazardous air emissions from mobile sources is produced by the administrations: TsTR (46.4 thousand tons), TsDRP (6.3 thousand tons).

Percentage of air emissions from mobile sources by Directorates of Russian Railways in 2010, %

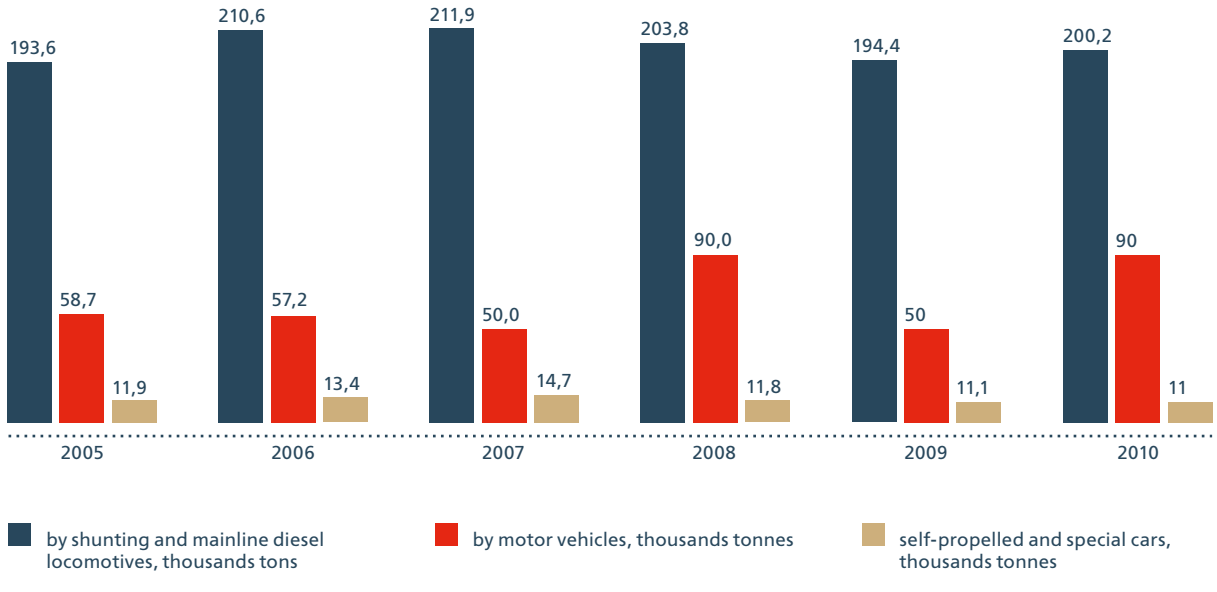
Figure 12



- 85,43% – Central Directorate of Locomotive Repairs
- 11,61% – Central Directorate of Track Repairs
- 1,44% – other branches
- 1,10% – Central Directorate of Freight Car Repairs
- 0,42% – Directorate of Railroad Stations

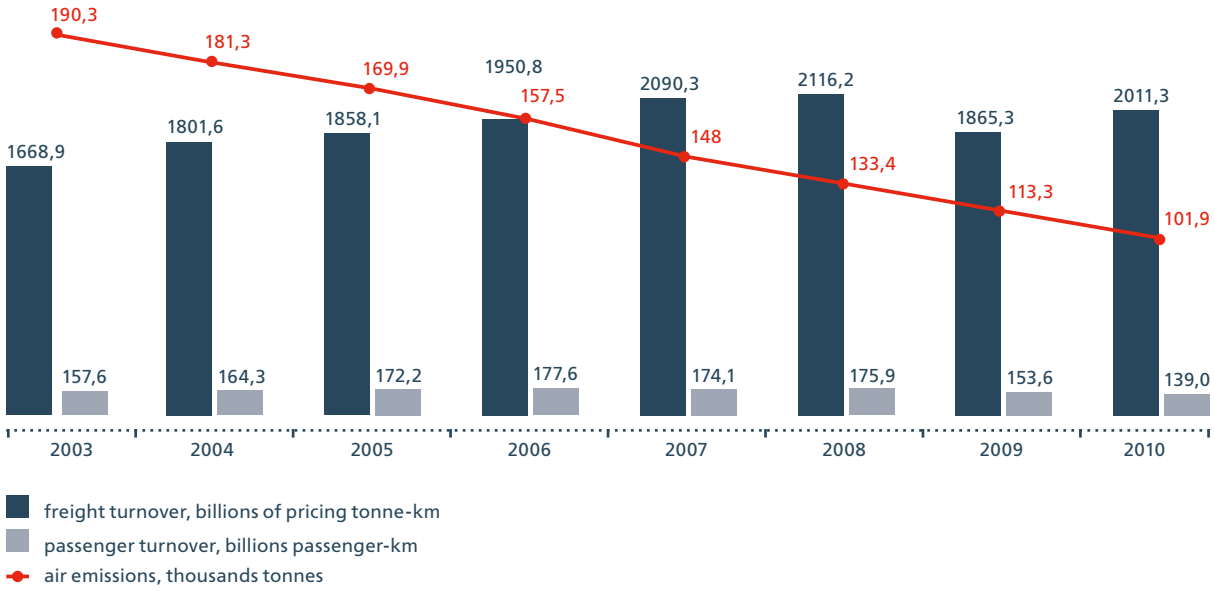
Percentage of air emissions from mobile sources of Russian Railways in 2010, %

Figure 13



Dynamics of decrease in air emissions as related to freight turnover to passenger turnover in Russian Railways

Figure 14

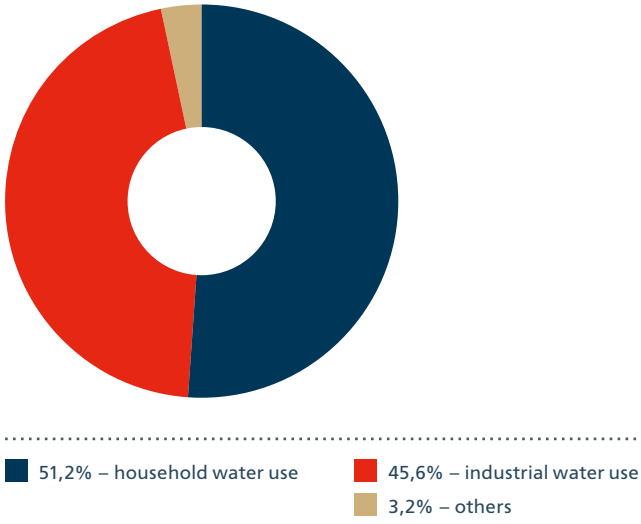


5.2.3. Utilization of Water Resources

In 2010 Russian Railways reduced water consumption by introducing water saving technologies, circulation water supply systems, water rationing and metering systems.
During the in question Russian Railways used 116.2 million cubic meters of water in total which is 11.4 million cubic meters or 8.9% less than in 2009. Utility and drinking water consumption decreased by 1.9 million cubic meters and made 59.52 million cubic meters. Industrial water consumption decreased by 9.2 million cubic meters and made 53.02 million cubic meters. The railways used 100.5 million cubic meters, the administrations used 15.7 million cubic meters of water. Figure 15 shows water utilization structure in percentage terms.

Structure of water consumption in Russian Railways in 2010 %

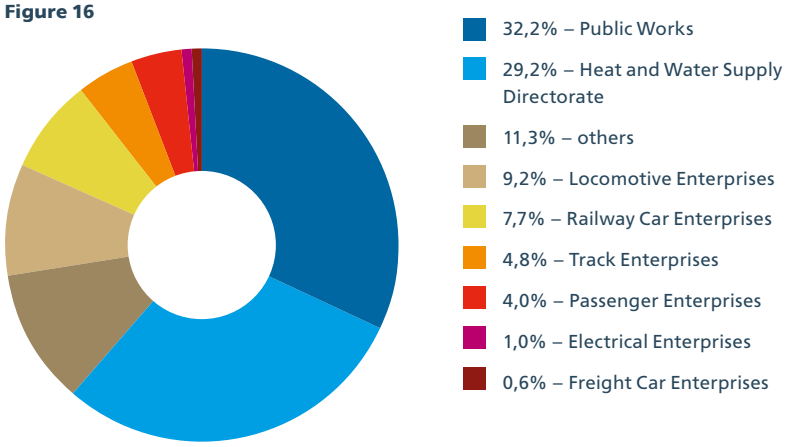
Figure 15



In 2010 railway undertakings used 100 477.17 thousand cubic meters of water: 44882.72 thousand cubic meters for industrial needs, 51917.29 thousand cubic meters for domestic needs, 3677.16 thousand cubic meters for other needs.
The highest industrial water consumption is noticed in the railway services: public works, heat and water supply, locomotive, carriage and track, which have 83.1% of the whole consumption. Figure 16 shows the percentage of industrial water consumption by the the railway services.

Percentage of water consumption for industrial needs in 2010 by railroad enterprises, %

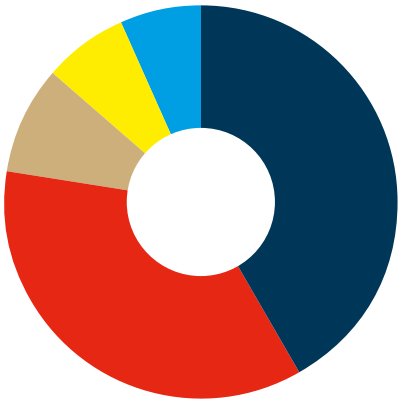
Figure 16



In 2010 the administrations of Russian Railways used 8.1 million cubic meters of industrial water. The highest water consumption is noticed in TsTR and TsDRV. Figure 17 shows the percentage of industrial water consumption by administrations.

Percentage of industrial water use by Directorates of Russian Railways in 2010, %

Figure 17



41,9% – Central Directorate of Locomotive Repairs

8,7% – Directorate of Railroad Stations

6,6% – other branches

35,8 – Central Directorate of Freight Car Repairs

7,0 – Central Directorate of Track Repairs

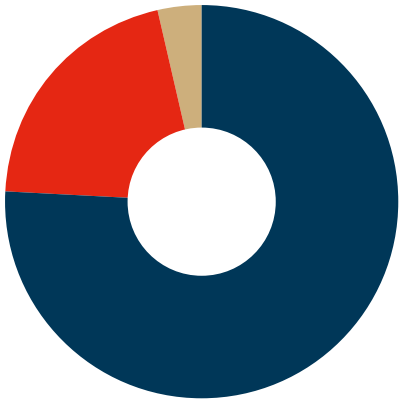
Altogether, overall water circulation of Russian Railways was 54.72% and water circulation of the railways was 44.0%.
Water circulation remains the lowest in Krasnoyarsk (1.9%), Kaliningrad (2.8%), Oktyabrsk (10.1%) and East Siberian (13.4%) railways. High rates of water circulation are found in West Siberian (77.4%), South-Eastern (61.8%), South Ural (43.3%) railways and in other branches of Russian Railways: Lyublino Mechanical Foundry (97,9%), Voitovich Plant (67.4%), TsDRV (62.4%), TsTR (56.2%).

5.2.4. Water Resources Conservation

In 2010 the railways and other braches of Russian Railways discharged 89.4 million cubic meters of wastewater into the environment including into public sewer collection systems (68.0 million cubic meters), to surface water (18.4 million cubic meters) and to land (3.0 million cubic meters). Figure 18 shows the structure of wastewater discharge by Russian Railways braches in percentage terms.

Structure of wastewater discharge into environment by branches of Russian Railways in 2010, %

Figure 18



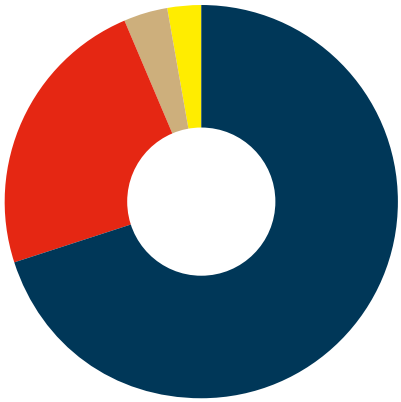
76,0% – into municipal sewerage systems

20,6% – to surface water

3,4% – to land

Structure of effluent discharges by Russian Railways into surface water bodies in 2010, millions m³

Figure 19



12,9 – insufficiently treated wastewater

4,31 – wastewater treated according to the quality regulations

0,7 – clean according to the quality regulations

0,47 – without treatment

Wastewater discharge to surface water

Overall, in 2010 Russian Railways discharged 18.38 million cubic meters of wastewater to surface water. Among them:

- 4.31 million cubic meters of wastewater is treated according quality regulations;
- 0.70 million cubic meters of wastewater is partially clean according to the quality regulations (untreated);
- 12.90 million cubic meters of wastewater is undertreated;
- 0.47 million cubic meters of wastewater is pollutant (untreated).

In 2010 the railways discharged 17.0 million cubic meters of of wastewater to surface water. Including:

- 4.12 million cubic meters of wastewater is treated according to the quality regulations;
- 0.70 million cubic meters of wastewater is clean according to the quality regulations (untreated);
- 11.77 million cubic meters of wastewater is undertreated;
- 0.41 million cubic meters of wastewater is undertreated.

Wastewater discharge by the administrations to surface water increased in comparison with 2009 and totaled 7.5% of all all wastewater discharged by Russian Railways. In 2010 1.38 million cubic meters of wastewater was discharged to surface water. Including:

- 192.4 thousand cubic meters of wastewater is treated according to the quality regulations;
- 1135.0 thousand cubic meters of wastewater is undertreated;
- 56.03 thousand cubic meters of wastewater is untreated.

Untreated wastewater is discharged to surface water by three railways: Oktyabrsk, Sverdlovsk, Far Eastern and by the administrations: TsTR, TsDRV and DZhV.

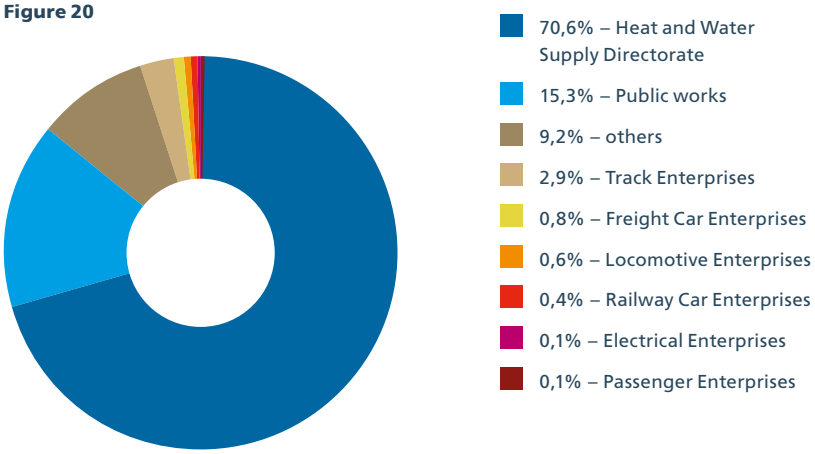
Untreated wastewater is not discharged to surface water by Kaliningrad, Moscow, Gorki, Northern, North-Caucasian, South-Eastern, Volga, Kuibyshev, South Ural, West Siberian, Krasnoyarsk, East Siberian, Transbaikal railways and TsDRP.

Two branches of Russian Railways increased wastewater discharge to surface water by 328.6 thousand cubic meters total. These are Sverdlovsk railway (317.5 thousand cubic meters) and DZhV (11.1 thousand cubic meters). The larger part of wastewater is accounted for by the following railways: falls on the railways: South Ural (24.99%), Sverdlovsk (10.68%), Far Eastern (9.75%), East Siberian (9.47%), Transbaikal (8.09%), Moscow (8.05%), Northern (6.63%) and the administrations: TsTR (7.49%), TsDRV (1.2%).

On the railway the majority of wastewater is discharges to surface water by 4 railway enterprises: Heat and Water Supply Directorate, Public Works, others and Track Enterprises, which discharges 98.0% of the total wastewater.

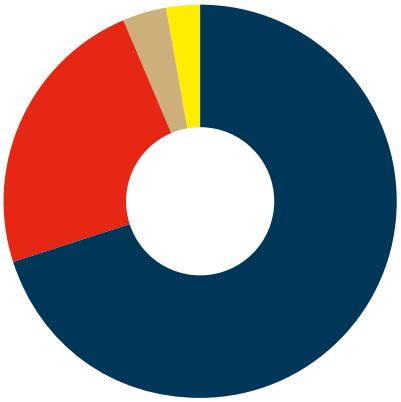
Percentage of wastewater discharged to surface water in 2010 by railroad enterprises, %

Figure 20



Structure of waste water discharge to surface water by branches of Russian Railways in 2010, thousands m³

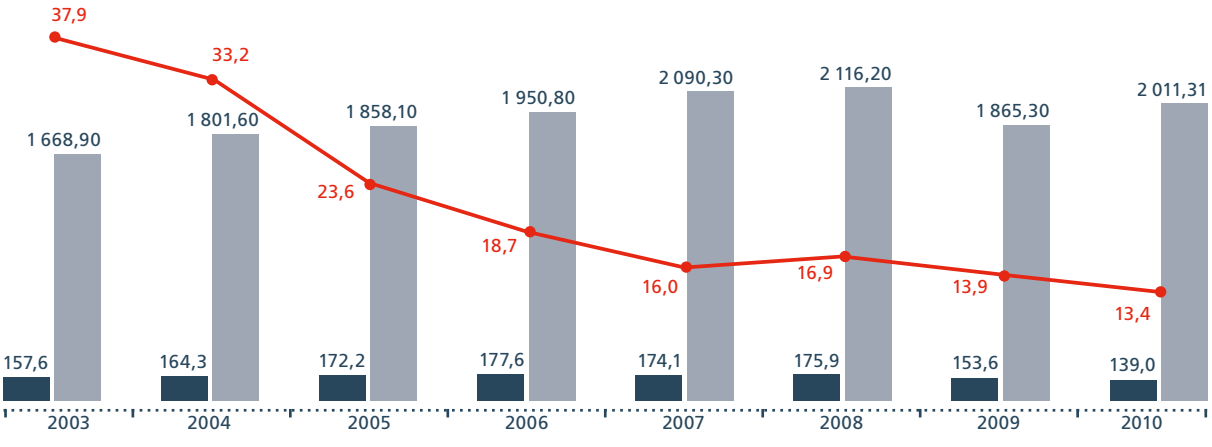
Figure 21



- 12 901,38 – insufficiently treated wastewater
- 701,18 – clean according to the quality regulations
- 4 309,23 – wastewater treated according to the quality regulations
- 467,13 – without treatment

Evolution of wastewater discharge in the ratio of freight turnover to passenger turnover in Russian Railways

Figure 22

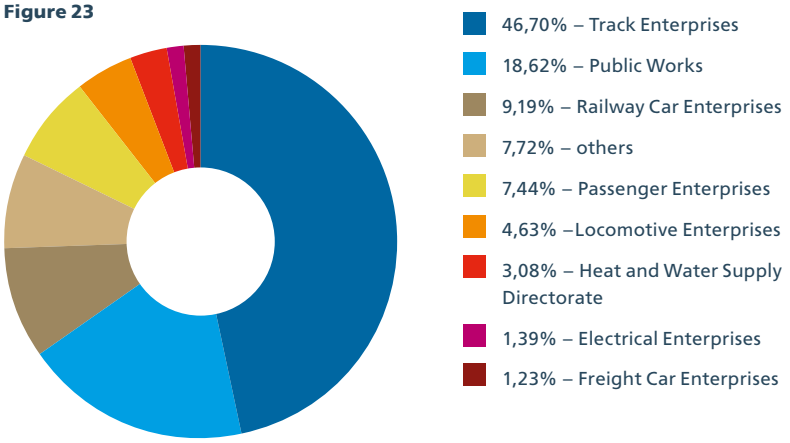


- freight turnover, billions of pricing ton-km
- passenger turnover, billions passenger-km
- air emissions, thousands m³

5.2.5. Production and Consumer Waste Management

Percentage of industrial and consumer waste generation by railroad enterprises, %

Figure 23



In 2010 Russian Railways braches generated 1.96 million tons of production and consumer waste, which is 237.0 thousand tons or 10.5% less in comparison with the same period in 2009. The railway divisions generated total 809,97 thousand tons of production and consumer waste in 2010.
In 2010 the largest volume of waste was generated by the following services: track, public works and carriage, which generated 74.5% of total waste volume. of the total volume. Figure 23 the share of production and consumer waste generated by Railway Services.

The largest volume of generated waste belongs to 5th class (virtually non-hazardous). Table 1 presents waste generation according to hazard classes.

Table 1

Parameters	Total	1st class	2nd class	3rd class	4th class	5th class
Volume of generated waste, thousand tons	1964,4	0,13	1,52	291,99	309,22	1361,53
Volume of generated waste, %	100	0,01	0,08	14,86	15,74	69,31

In 2010 Russian Railways salvaged 559.98 thousand tons of production and consumer waste according to the hazard classes:

Table 2

Parameters	Total	1st class	2nd class	3rd class	4th class	5th class
Volume of salvaged waste, thousand tons	559,98	0	0,175	107,42	65,25	387,14
Volume of salvaged waste, %	100	0	0,031	19,18	11,65	69,13

In 2010 Russian Railways neutralized 17.41 thousand tons of production and consumer waste according to the hazard classes:

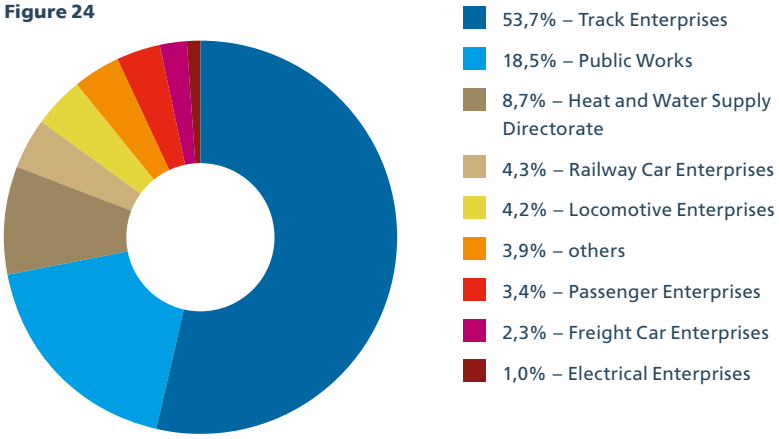
Table 3

Parameters	Total	1st class	2nd class	3rd class	4th class	5th class
Volume of neutralized waste, thousand tons	17,41	0	0,54	6,24	8,55	2,08
Volume of neutralized waste, %	100	0	3,1	35,9	49,1	11,9

In 2010 the railway divisions salvaged and neutralized 267.03 thousand tons of production and consumer waste. The largest waste volume was salvaged and neutralized by the following railway services: track, public works, carriage, locomotive and the heat and water supply administrations, which salvaged and neutralized 86.39% of waste. 89.39%.

Percentage of waste utilization and neutralization by railroad enterprises, %

Figure 24



The larger volume of waste (total 1361.55k tons) was salvaged and neutralized within 5th category of hazard. This waste includes 733.77 thousand tons (53.89%) of scrap metal, 310.288 thousand tons (22.79%) of building detritus that lost its useful qualities, 45.19 thousand tons (3.3%) of wood waste, 55.134 thousand tons (4.0%) of burnt coal ashes and 25.543 thousand tons (1.9%) of reinforced concrete waste.

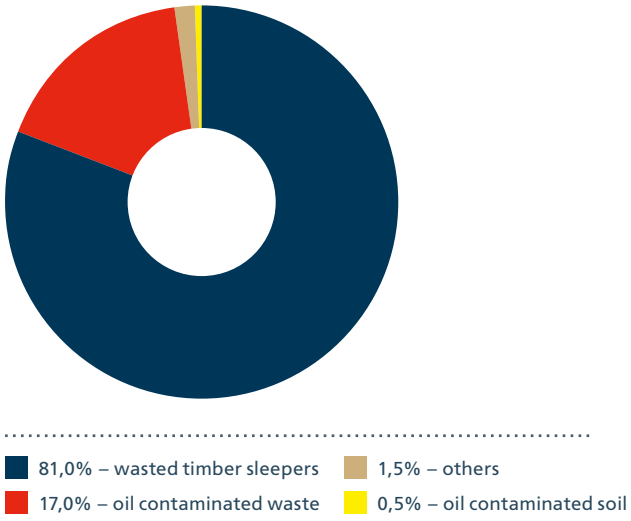
All waste within 1st and 2nd classes of hazard (acutely hazardous and highly hazardous) is disposed by appropriate off-site waste treatment plants.

The waste within 3rd and 5th classes of hazard (marginally hazardous and virtually non-hazardous) is not a subject to a special waste treatment. The waste within 3rd class of hazard is the main concern, and a subject to special waste disposal and treatment technologies.

Soils were neutralized with biological drugs, biosorbents and biodestructors. Wastes within class 3rd and 4th classes of hazard oil products are subjects to thermal treatment units, i.e. "Fakel", "Forsazh", "Ecochuto", oil and biological waste neutralization unit at Scientific-Production Environmental Center – Russian Railways branch, gas generator for disposal of used wooden sleepers on South-Eastern railway, unit for environmentally sound disposal of used wooden sleepers and oil wastes on East Siberian railway.

Percentage structure of Hazard Class 3 waste in 2010

Figure 25



In 2010, 1360.01 thousand tons of production and consumer waste were transferred to off-site plants for salvage, neutralization, storage and disposal including according to the classes of hazard:

Table 4

Parameters	Total	1st class	2nd class	3rd class	4th class	5th class
Volume of transferred waste, thousand tons	1360,01	0,14	0,83	184,06	234,22	940,77
Volume of transferred waste, %	100	0,01	0,06	13,53	17,23	69,17

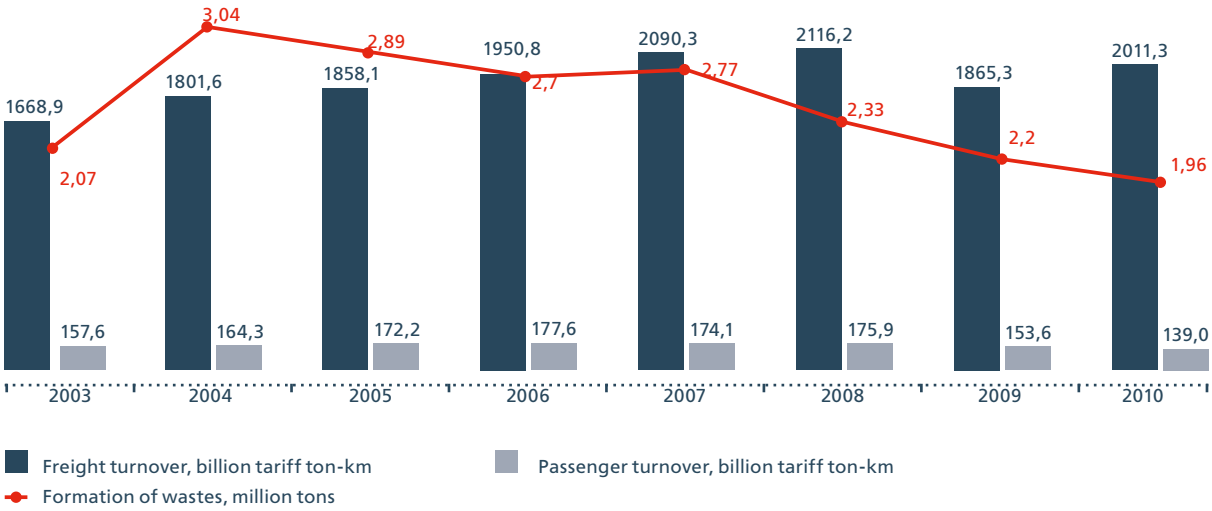
After neutralization, salvage and transfer of production waste to the off-site plants, there are still 94.84k tons of hazardous waste remaining at the facilities of Russian Railways as of the end of 2010:

Table 5

Parameters	Total	1st class	2nd class	3rd class	4th class	5th class
Remaining waste as of the end of year, thousand tons	94,84	0,032	0,039	59,88	4,75	30,14
Remaining waste as of the end of year, %	100	0,03	0,04	63,14	5,01	31,78

Evolution of waste generation in the ratio of freight turnover and passenger turnover in Russian Railways

Figure 26



Pollution abatement from previous years

In 2010 the most prominent pollution abatement from previous years were:

1. Land reclamation in Koptevski pit in Novospassky region, Ulyanovskaya Oblast (Kuibyshev railway). The former sand pit was polluted with oil waste from washing and steaming station in the 50's of previous century. By now the volume of reclamated oily soil totaled 44.7 thousand cubic, including 6.0 thousand tons in 2010. In 2011 it is planned to remediate 6.0 thousand cubic meters of contaminated soil. The reclamation works will be completed in

2012. The soil is being decontaminated is being biologically decontaminated on the temporary stations around the pit. The pit reclamation project was awarded a diploma for Best Ecological Project by Ministry of Natural Resources and Ecology in 2008, Russia.
2. Gorki railway reclamated and removed radioactive waste from the territory of the former experimental training facility of All-Russian Railway Research Institute located in Gorokhovetski region, Vladimirskaya Oblast.
Since 1986 to 1989 the land had been contaminating with radioactive waste. The land had been used as a platform for experimental research in deactivation technologies of the rolling-stock, which was polluted after Chernobyl nuclear accident. The project was completed under the government authorities.
The project's results included the following: 750 square meters of the territory and 35 cubic meters of radioactive waste were deactivated, 25 cubic meters of radioactive waste were recovered and 270 cubic meters of soil were reclamated. The project's cost was 25.4 million rubles. The project was approved by environmental authorities.

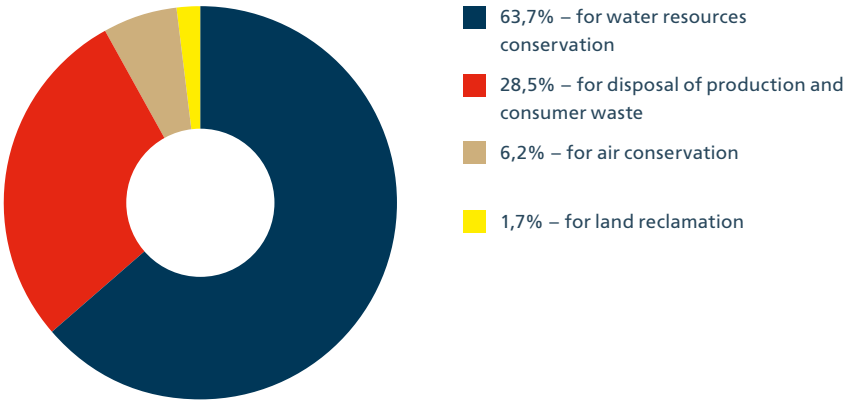
5.2.6. Environmental Control Costs

Environmental payments
Environmental payments charged from Russian Railways for environment contamination in 2010 made 228.9 million rubles which are 32.15 million rubles less than in 2009.
In 2010 share of excess payments of Russian Railways in whole was 50.06 million rubles or 21.9% of the sum of payments (228.9 million rubles). Excess payments declined by 3.91 million rubles in 2010 as compared to 2009.
Wastes incur the largest payment both for tolerable and excess environment contamination.
In 2010 environmental payments of the railways for environment contamination made 165.7 million rubles including 32.9 million rubles for excess environment contamination.
In 2010 environmental payments of the administrations (Russian Railways branches) for environment contamination made 63.26 million rubles including 46.14 million rubles for tolerable contamination and 17.12 million rubles for excess contamination.

Current environmental control costs
In 2010 current environmental control costs of Russian Railways made 2 338.14 million rubles including 1488.7 million rubles for protection of water resources, 1041.3 million rubles of which were paid to other organizations for effluents collection and treatment; 145.1 million rubles for air protection; 665.5 million rubles for production waste protection, 551.3 million rubles of which were paid to other organizations for waste reception, storage and destruction; 38.8 million rubles for reclamation of lands.

Distribution of current expenses in 2010, %

Figure 27



5.2.7. Implementation of Investment Project "Ecological Safety"

In 2010 the Company executed Ecological Strategy Implementation Program of Russian Railways based on investment projects: "Ecological Safety", "Introduction of Resource Saving Technologies into Railway Transport" as well as investment projects of the departments, railways, administrations and subsidiaries of Russian Railways. Investments in construction and reconstruction of nature conservation facilities made 1.4 billion rubles, current expenses for ecological measures made over 500 million rubles. In 2010 within the framework of investment project "Ecological Safety":

- 11 nature conservation facilities were built, reconstructed and commissioned;
- 15 sets of environmental protection equipment were bought to purify hazardous air emissions, polish effluents and neutralize production waste.

According to the project data, commissioning of the specified facilities will allow to refine 3.6 million cubic meters of wastewater discharged to surface water and public sewerage systems and to decrease waste production volume by 0.8 million tons in 2010.

5.2.8. Technical Retooling of Russian Railways to Ensure Environment Protection

Technical retooling of Russian Railways related to infrastructure upgrade, traction and rolling stock replacement reduces technological environmental impact.
During overhaul outdated engines of diesel locomotives are replaced with modern, more eco-friendly engines of home manufacture which increase fuel efficiency of the overhauled locomotives by 15%, enhance ecological indices by 30%.
124 old diesel engines were replaced with new ones in 2010. During track overhaul wooden sleepers are replaced with eco-friendly reinforced concrete sleepers. In 2010 a 3.05 th. km long track having wooden sleepers was replaced with that having reinforced concrete sleepers.
In the Federal Passenger Administration passenger rolling-stock was equipped with eco-friendly enclosed-type toilets with holding tanks (EFT) which prevent bacterial pollution of the roadway and adjacent territories with faecal microflora. 516 carriages with EFT were commissioned in 2010.

5.2.9. Noise Control Measures

In 2010 noise control measures were carried out:
- rail grinding work was performed along 14586 km;
- anchoring rail fastenings were used along 954 km;
- a 3153 km long continuous welded rail track was made.

Measures were taken to install noise barriers probably would make more sense. If necessary, this installation is carried out during new construction or reconstruction of railway infrastructure facilities. A 4.22 m tall and 453 m long noise screen was installed during reconstruction of Solonchak-Verkhni Baskunchak section of Volga railway. At the present moment there are noise barriers on Oktyabrsk and Kuibyshev railways.
Issues of railway noise impact on housing estates came out in conjunction with intensive housing construction in the 60-80's. At that time many railway stations and other facilities found themselves in a dwellings zone being not enough spaced from them. Local authorities allocated such dwellings areas without securing approval of USSR Ministry of Railway Communication. As a result, acoustic climate within the settlements began worsening.
In 2010 there was elaborated and approved Russian Railways industry standard 1.07.007-2010 "Acoustic Barriers for Railway Transport. Acceptance, Commissioning and Life-Cycle Service Rules". Work was performed to elaborate 3 national standards of the Russian Federation:
- GOST R "Noise. Calculation Methods for Ambient, Railway Radiated Noise Levels";
- GOST R "Acoustic Barriers for Railway Transport. Specifications";
- GOST R "Acoustic Barriers for Railway Transport. Specifications Monitoring Procedures".

5.2.10. Measures within Environmentally Protected Natural Areas

In 2010 the following nature-conservative measures were taken nearby railway tracks:
1. Within 3 facilities of East Siberian railway along the coastline of Lake Baikal:
- bank protection overhaul within Pereemnaya-Mishikha span in the volume of 8.8 thousand cubic meters and to the amount of 11.1 million rubles;
- bank protection overhaul within Baikalsk-Murino span in the volume of 22.0 thousand cubic meters and to the amount of 24.8 million rubles;
- bank protection structures of mined rock in the volume of 7.6 thousand cubic meters and to the amount of 8.6 million rubles.

2. A high-side revetment wall 1477 running meters in length, enclosing grilles 1470 square meters in area, concrete flumes 305 running meters in length were erected along the coastline of Black Sea nearby the railway tracks of Tuapse-Adler section of North-Caucasian railway. The costs were equal to 170 million rubles.

5.2.11. Ecological Audit

In 2010 Russian Railways underwent an ecological audit to evaluate conformance of its environmental activity to requirements of the environmental protection legislation of the Russian Federation and environmental management system of international standard GOST R ISO 14001 and to be subsequently certified.
The ecological audit was conducted in 169 divisions (facilities) of Russian Railways braches including within 37 facilities of Moscow railway, 10 facilities of Gorki railway, 36 facilities of South-Eastern railway as well as within the facilities: TsDRP (15), TsDRV (24), TsTR (18), TsT (19), DZhV (10). The audit identified 3021 environmental protection violations in all including 2187 environmental management violations.
Air protection drew 103 rebukes. The most part of them related to obtaining permits for air pollutant emissions (34).
Protection and utilization of water resources drew 27 rebukes. Generally, these are issues of adherence to environmental requirements associated with discharge of surface effluents from a catchment basin and elaboration of regulatory documents.
Production and consumer waste management and land protection drew 312 rebukes. Most recommendations relate to the issues of: waste management staff training (73), elaboration and coordination of Draft Waste Generation Standards and Waste Disposal Limits (48), obtaining waste disposal limits (27), equipment of waste accumulation areas.
Industrial environmental monitoring drew 240 rebukes. Generally, these

are issues of industrial environmental monitoring organization, environmental monitoring staff appointment and training.
The rebukes of every facility were imputed to the divisions of the branches. Auditors gave recommendations as to all rebukes.

Automated control system (ACS) "Ecology"
In 2010 6 railways of Russian Railways (Gorki, North-Caucasian, Kuibyshev, Volga, South-Eastern) implemented a nature conservation control system ACS "Ecology". In 2011 the system is planned to be implemented within the whole railway network. All environmental activity is planned to be carried out using ACS "Ecology" starting from 2012.

Industrial environmental monitoring
An important driver of ecological safety and observation of the environmental protection legislation as to industrial environmental monitoring organization is availability of industrial environmental laboratories within the railway network. One of the main tasks of such laboratories is to inform the railway divisions about actual impact of their economic activity on the environment in order to take timely preventive measures to mitigate development pressure on the environment.
In 2010 there was held industrial environmental monitoring of air and water pollutant emissions and soil contamination:

- from stationary facilities – by 56 environmental laboratories as well as by 9 mobile laboratories with an onboard analytical equipment system and by 55 vehicle-mounted laboratories;
- from mobile sources (diesel locomotives) – by 89 ecological control stations. All diesel locomotives with repaired engines underwent mandatory testing of ecological indices at the specified stations. 6488 diesel locomotive units were tested during the year. Hazardous vehicle emissions were controlled at ecological control stations located at the central motor depots.

Russian Railways attends to developing material and technical basis of the environmental laboratories. In 2010 Transbaikal railway arranged a mobile environmental laboratory equipped with analytical instrumentation and labware within the framework of investment project "Ecological Safety". The mobile laboratory of Kuibyshev railway was renovated. Chelyabinsk station of South Ural railway commissioned modular laboratory facilities for water, air, soil monitoring; noise, vibration, electromagnetic radiation measurement; water and waste toxicity assessment.

5.2.12. Activity of Environmental Divisions of the Railways

During 2010 the environmental laboratories of the railways performed around 273.3 thousand air, waste water, soil analyses, 28.7 thousand vehicle emissions analyses and 45.9 thousand other analyses, made an inventory of 37.9 thousand sources of hazardous environmental emissions, elaborated 1273 volumes of regulatory ecological documents, prolonged 2423 environmental pollution and waste disposal permits of environmental authorities.
Elaboration of mandatory regulatory documents for the railway divisions, obtaining environmental pollution and waste disposal permits, industrial environmental monitoring allowed not to engage outside organizations to perform the specified work and to save up to 321.9 million rubles.

101.9 million rubles were saved due to protection of enterprises' interests when settling environmental protection controversies.
Measurement of environmental pollution emissions using instrumental methods and correction of environmental payments claimed by territorial authorities of Rostechnadzor allowed to reduce claimed payments by 21.0 million rubles.
Economic benefit from introduction of environmental protection technologies into industry enterprises was equal to 76.2 million rubles.
Road maintenance costs were cut down by 521.8 million rubles.

06

Staff Interaction

6.1 Russian Railways' Policy Concerning Staff Interaction

Following the guidelines of socially responsible business dealing, Russian Railways is carrying out a social policy aimed at effective interaction with personnel. The company regards employees as the main resource determining economic results of operation of Russian Railways as well as competitiveness and market value of the Company. Due to this, professional staffing in all the branches of activity of Russian Railways and motivation of employees towards productive and effective labor pose as first and foremost targets of the Company's social policy. Implementation of policy targets in terms of interaction with the Russian Railways' personnel is carried out following several key guidelines (see Figure 6.1):

- Advertising and professional staff selection;
- Industrial regulation;
- Personal labor remuneration and motivation;
- Social support of employees;
- Development (training, continuing education and skill upgrading) of Russian Railways employees;
- Labor protection and professional safety.

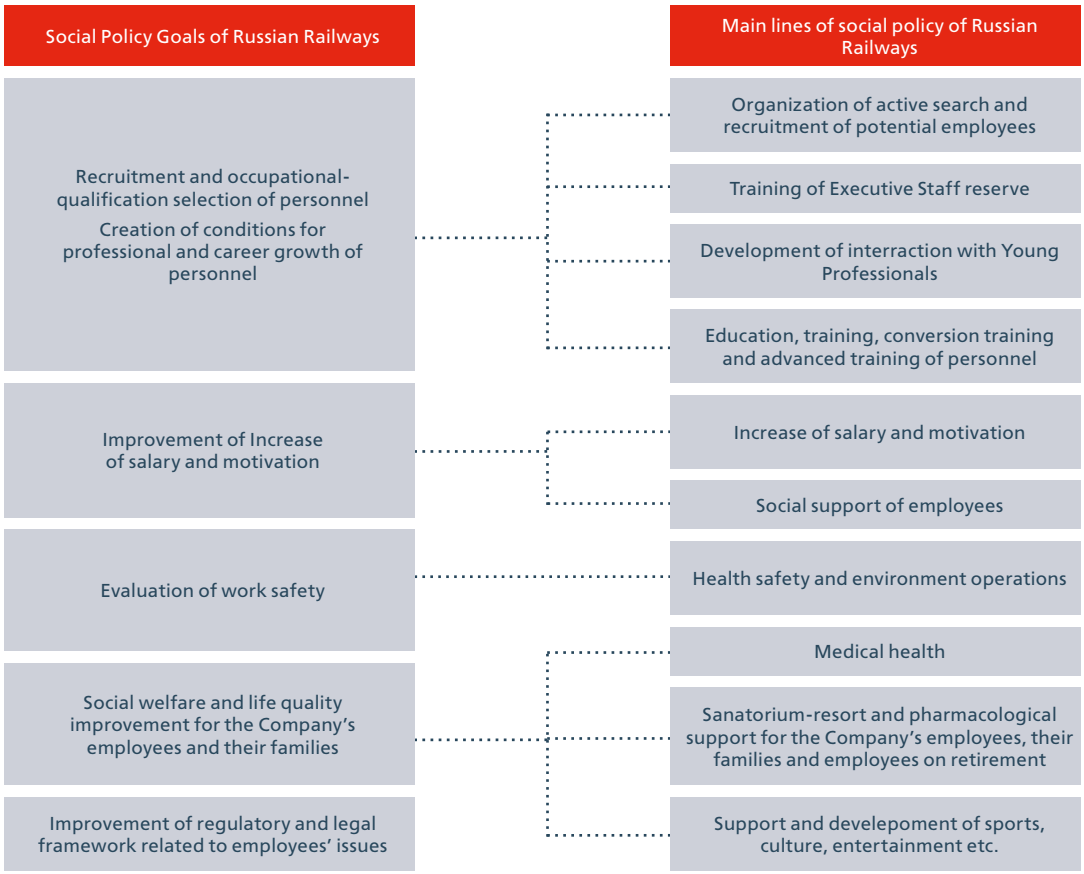
6.2 Management System in Terms of Staff Interaction

6.2.1 Key Risks and Capacities in Terms of Staff Interaction

Successful implementation of the Company's policy of interaction with personnel depends both on the Company's available potential and capacities and on acting and potential risks associated with impact of the external and internal business environment. Russian Railways capacities in terms of interaction with personnel are determined, on the one hand, by combination of long-terms experience of implementation of social programs, substantial material and technical facilities in the field, and, on the other hand, – by introduction of new methods and strategic approaches to social development.

Human resources' management and the Company's labor resources' quality increase as well as their corporate social support are carried out on the basis of the Functional strategy of human resources' development. Besides, the Company has designed and is carrying out a number of programs on individual fields of social development. Russian Railways is applying considerable effort to social partnership development as well as development of cooperation with trade union organizations representing the interests of the Company's employees.

Fig 6-1. Major policy for Staff Interaction in Russian Railways



The Company's planned and implemented social policy activities are aimed at not just implementation of available capacities but also at effective management of the Company's existing and potential risks in the field of interaction with personnel. Negative impact of such risks is associated with the following factors:

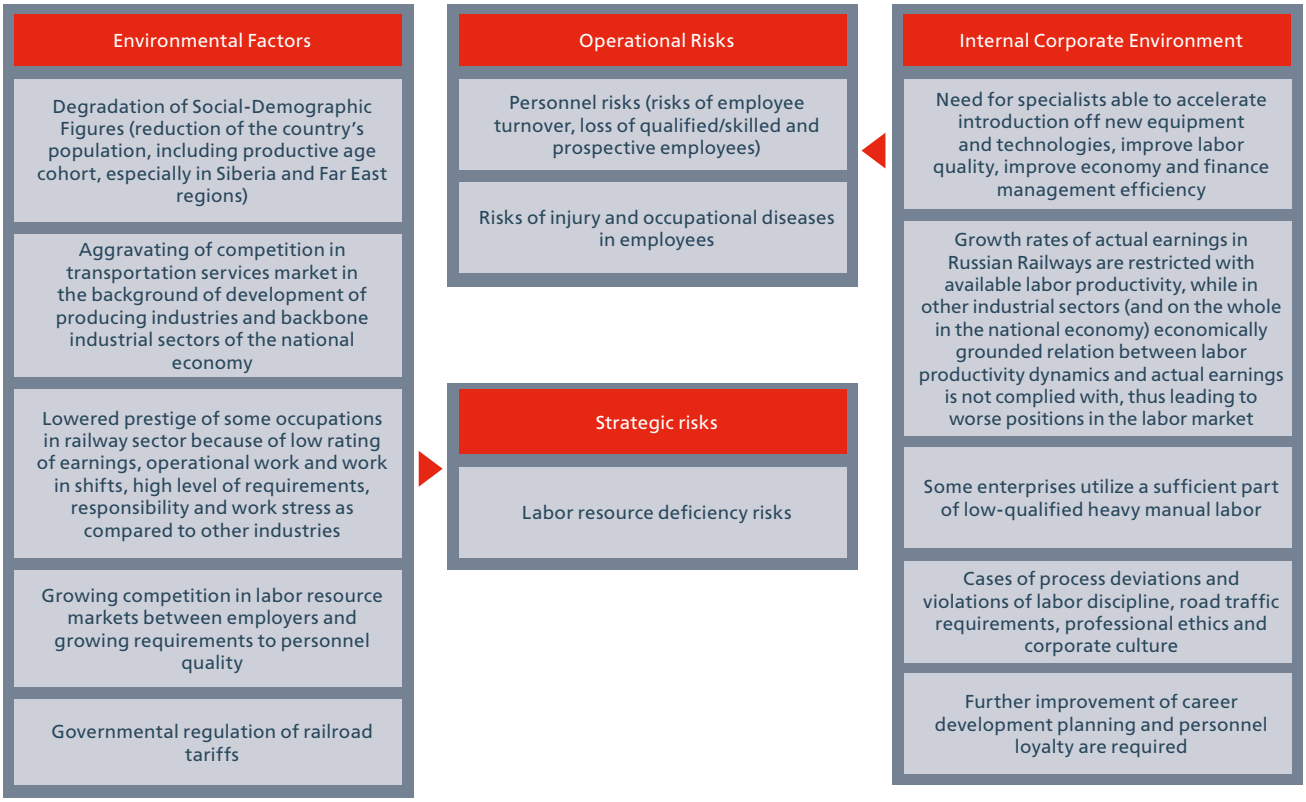
- possible decrease of effectiveness of the current activity due to increase of personnel turnover, temporary incapacitation, decrease of motivation for high-capacity labor;
- with threats to the Company's strategic development due to lack of skilled human resources for implementation of new projects and

branches of activity envisaged in the Strategy of development of railway transport up until year 2030.

The Company points out the following types of risk in the field of interaction with personnel (see Figure 6-2):

- operational risks; HR risks (personnel turnover risks, losses of skilled and prospective personnel), determined by insufficiently effective personnel management and irrational employee motivation system as well as nonconformity of labor remuneration level with labor costs and conditions;
- risks of injury, employees' professional diseases determined by poorly organized and protected workplace labor; strategic risks (risks of HR shortage) determined by unfavorable demographic situation in the country, shortage of high-quality human resources and enhanced disproportion in the population structure, by widening of the gap between the sizes of labor remuneration in the railway transport sector and other branches of economy.

Figure 6-2. Types of risks related to personnel relations



Measures taken by the Company to mitigate risks are mainly associated with management of internal business environment factors (see Table 6-1).

Table 6-1
Key risks and opportunities in personnel relations

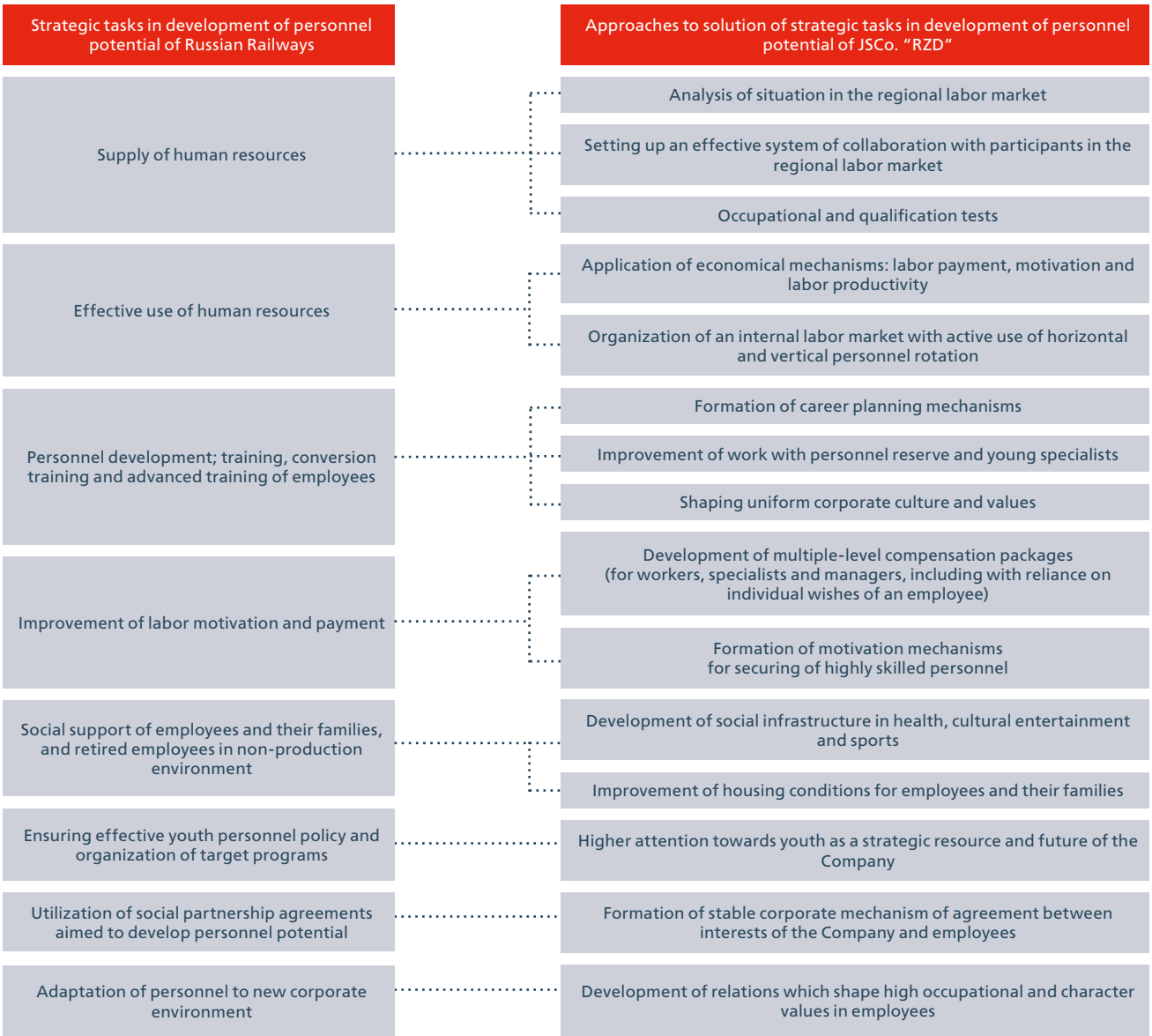
Description of risk	Activity lines	Evaluation of activity lines
Personnel risks	• Implementation of Functional Development Strategy • Improvement of labor payment and motivation system • Improvement of welfare and life quality in the Company's employees and their families	Development, training, conversion training, advanced training of employees Labor motivation and payment Social support of employees, their families and veterans Housing program Organization of Employees' recreation Employees' health care Youth policy Collective agreement and relations with trade unions
Risks of Employees' injury and occupational diseases	Provision of work safety and accident prevention	Industrial injuries Implementation of Work condition and safety improvement program Certification of working places Ensuring employees' awareness and competency in work safety

The risks and opportunities connected with the factors of external environment are less susceptible to corporate management, but nevertheless they are taken into consideration in the framework of development and implementation of the strategy of staff potential development.

6.2.2 A Strategy and Programs ifor Staff Interaction

The tasks and main branches of the Company's activities in the field of interaction with personnel are defined in "The Functional Strategy of Russian Railways' HR Potential Development" (approved on 10 May, 2006, No 933p) the aim of which is to provide for the need of Russian Railways for skilled personnel and effective mid-term HR potential development (see Figure 6-3 of the original).

Figure 6-3. Strategic tasks in development of personnel potential of Russian Railways



Within the framework of implementation of HR potential development strategy, the Company has developed and I carrying out a number of programs aimed at fulfillment of the basic tasks of the Strategy.

6.3 Pursuit of a Single Corporate Policy Concerning Staff Interaction and Management in Russian Railways in Year 2010

The Company's single HR policy is pursued in compliance with Russian Railways' HR potential development strategy for a period of up until year 2015 (hereinafter referred to as Strategy) and is aimed at enhancing the efficiency of activity and involvement of personnel in implementation of corporate tasks.
The Strategy allows for mid-term and long-term prospects of reforming the Russian Railways into a holding, determines target parameters in the sphere of the Company's human resources' management and also includes an outline plan of activities in terms of implementation thereof up until year 2015.
The Strategy implementation envisages achievement of Russian Railways' target status in the sphere of human resources' management with the following qualitative features:

- High competitive performance of the Russian Railways holding as employee at the labor market;
- Compliance of competences of medium-level and top-level managers with the corporate requirements, their mastering the organization management technologies aimed at the Holding's development strategy implementation;
- Developed system of continuous training of the Holding's employees based on planning of individual development and knowledge monitoring;
- Enhancement of the personnel activity effectiveness due to improvement of the motivation and labor results estimation system;
- Achievement of the scheduled labor productivity growth rating as compatible with financial and economic performance indicators;
- A unified corporate personnel rotation and use system based on HR reserve and vacancies' base;
- Use of state-of-the-art information and management technologies in the HR management sphere.

Target status achievement will contribute to establishment of the JSCo "RZD"'s role as one of the major Russian employers as well as to the employees' social welfare growth and their life quality improvement. Thus, provision will be made for the Holding's contribution to solution of long-term tasks of social and economic development of Russia.
With a view to achieve the main target of the Strategy, 7 functional tasks have been pointed out in each of which several ways of implementation thereof have been defined.
The human resources' management unit has organized purposeful work aimed at implementation of these tasks, and the 2010 work results' analysis confirms that the Strategy implementation activities' schedule has been fulfilled.

6.3.1 Russian Railways' Personnel Characteristic

The Russian Railways' staff list headcount as of year 2010 amounts to 976 116 employees. Work is continuing in the Company on transfer of employees due to re-organization and reformation. The Company has complied with its obligations in terms of admission of students who graduated from higher education institutions and colleges by limit-purpose recruitment and people just out of their military service – 12.9 thousand people. Proportion

of personnel categories in the total headcount is distributed as follows: workers amount to 68.6% (670 088 people), managers – 6.9% (67 417 people), specialists – 20.8% (202964 people), office workers – 3.7% (35 647 people). In year 2010, the Russian Railways' personnel's educational level has increased:

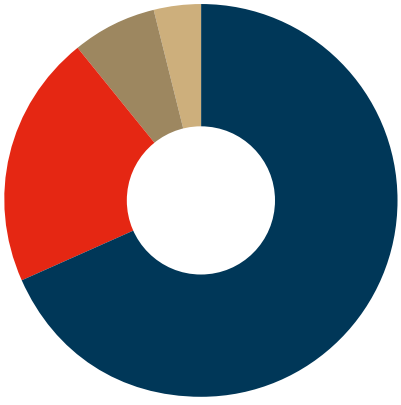
- Number employees with higher education amounts to 20.9% of the total headcount (1.9% increment to the beginning of the year);
- Number of employees with a technical secondary education amounts to 25.5% (0.6% increment to the beginning of the year);

On the whole, in year 2010, in the Company no personnel shortage in terms of basic blue-collar occupations has been detected. The staffing level has amounted to 98.25 (as compared to 97.9% in year 2009). The Company's young employees' percentage in an age under 30 in a year has increased by 4% to amount to 26.9%. The average age of the Company's employees is 39.7%. The share of women employees in the total employees' headcount amounts to 301 097 people (30.8%). Women hold 51.6% of the total number of positions of the Company's chief executives and specialists; their total head count occupying the positions of these categories amounts to 139 809.

For purposes of reinforcement of management of subsidiaries and structural subdivisions by the Russian Railways' nomenclature 424 managers have been appointed. 3.5 thousand people have been appointed by orders of heads of functional subsidiaries and structural subdivisions of Russian Railways. On the whole, in year 2010, personnel turnover in the Company has decreased by 0.6% as compared with the similar period of the last year to amount to 9.0%.

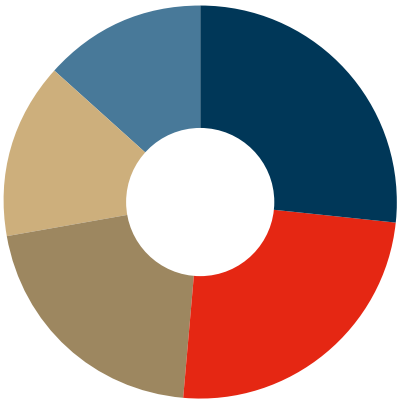
Decrease of turnover percentage in comparison with the similar period of the last year is being observed in all the main facilities and leading professions: car inspectors – by 1.3%, cargo and baggage acceptance/delivery agents – by 1.1%, railway diesel engine operators – by 1.1%, railway electric engine operators – by 0.7%, overhead system electricians – by 0.7%, signals and interlocking electricians – by 0.5%.

Percentage of various staff categories in overall headcount



68,6% – workers
6,9% – managers
20,8% – specialists
3,7% – clerks

Age of the Company's employees



26,92% – under 30
20,81% – over 50
24,60% – 36-35
14,35% – 46-50
13,32% – 31-35

6.3.2 HR Potential Development

In the modern context, work on HR development becomes increasingly important. The major way to implement this task is to increase training effectiveness by focusing on corporate priorities of skills improvement, individualization of needs for training.
For purposes of provision with skilled personnel, in year 2010, over 54 thousand workers have taken professional training and 132.7 thousand of workers as well as over 72 thousand senior managers and specialists have taken skills improvement.
A great focus has been made on training specialists in higher education institutions and colleges. Subsidiaries and affiliates of Russian Railways have sent, for a full-time course of study, 3741 people to higher education institutions of railway transport, 3695 people to colleges – which meets the Company's needs for specialists. All-in-all, full-time study in terms of target training in higher education institutions is provided for 17.2 thousand people, in colleges – 13.1 thousand people.
In year 2010, in subsidiaries and other structural subdivisions of Russian Railways, 12.1 thousand students of higher education institutions have taken practice, including those at paid working positions – 5.1 thousand people, and 8.8 thousand college students, including those at paid working positions – 2.8 thousand people.
Students and post-graduates of institutions of railway transport have been granted 200 personal scholarships of Russian Railways amounting to 15 – 4.5 thousand rubles per month; 500 grants of Russian Railways for development of diploma projects amounting to 35 thousand rubles students of higher education institutions and 25 thousand rubles for college students; fringe benefits have been set in an amount of 1 – 2 thousand rubles per month to state scholarship of target-oriented students receiving "good" and "excellent" academic excellence grades as well low-income and socially vulnerable students.
Beginning from year 2005, the Company annually allocates money to higher education institutions and colleges of railway transport for student Spartakiada. 30.4 million rubles have been allocated for these purposes in year 2010.
Work is continuing to train new formation managers to make them acquire new forms of management of structural subdivisions in compliance with global experience, to send prospective managers for career development to foreign and domestic business schools using MBA programs. In year 2010, on the basis of this program, domestic business schools (Russian Academy of National Economy and Public Service, The Financial University, the Russian Plekhanov's Economic Academy, Moscow State University of Railway Engineering) has provided career development for 124 people and is still providing it for 286 people. Prestigious business schools (England, Spain, Hong Cong and others) by 5 senior managers, 8 senior managers are still being trained and still 17 of them are preparing for admission. Besides, with a view to study the advanced experience of leading global companies, in 2010, 235 senior managers have passed practical training abroad (Germany, Spain, Japan, the USA, Great Britain and China).
Over 500 senior managers have been trained in project management, investment management quality management and lean production. Since year 2007, the Company is implementing a program of foreign language skills enhancement for employees engaged in international activities. For the time being, over 200 of the Company's employees are taking training courses in the English, German and French languages – both full-time and remote.

Two groups of young prospective managers have completed training courses in Germany: 29 of them – following the "International Links Management" program; 19 of them – following the program of "Organization of Work with Foreign Partners According to International Standards". The practical training was held in English by leading specialists in International Law. On the 1st of July, 2010, the Russian Railways' corporate university has started its work; its major task is implementation of the Concept of establishing a system of extra corporate education for the Russian Railways' senior management. The number of participants of the training programs, by the results of year 2010, has amounted to 1573 people, 1390 of them are employees of the Russian Railways and 183 of them are employees of subsidiaries and affiliates of Russian Railways. 1507 of the Company's senior managers have been assessed in terms of the assessment center technology based on the corporate competencies model. 61 senior managers of the vice-presidents' groups and relevant reserve groups have been assessed in terms of personal and business capacities using a technology of profound interview with a coach. According to the assessment results, the SHro group (high-potential employees) has been entered by 389 people (26% of the total number of assessed managers) for whom individual development plans for year 2011 have been made up.

6.3.3 Russian Railways Holding's Competency Models

In year 2010, corporate competencies have been developed and approved the purpose of which is to translate to employees the Company's requirements to behavior and actions of personnel striving to be successful, that is, to set development guideposts.

The basis of corporate competencies is the model that includes competency, client focus, corporativity and responsibility, quality and safety, creativity and innovation + leadership. They are differentiated for each category of personnel.

Brand values	4C+Q+L Competence Model
Skill	Competency
	Client focus
Integrity	Corporate Spirit and Responsibility
	Quality and safety
Renewal	Creativity and Innovation
	Leadership

The purposes of introduction of corporate competencies in the Company:
- to focus the activity of all the Company's employees on implementation of the Russian Railways Holding development strategy;
- To lay the foundation for system work on personnel assessment and development;
- To contribute to introduction of the Company's brand values to work of the employees;
- To contribute to formation of purpose-oriented management culture of the Company.

Regional Centers of Assessment, Personnel Monitoring and Youth Policy

For purposes of assessment of candidates to personnel reserve by unified technologies of preparation of plans of individual development of succession candidates, performance of monitoring of social tension in groups in the region, as well as implementation of youth personnel policy, regional centers for assessment and monitoring of personnel and youth policy have been set up. Need for establishment of regional centers of assessment and monitoring of personnel and youth policy is determined by tasks outlined in the Russian Railways HR potential development strategy for a period of up until year 2015. In year 2010, key purposes by each branch of activity of the centers have been laid down.

6.3.4 Industrial Competition

On a quarterly basis, the Company's management board sums up the results of network competition among staffs of railways, other subsidiaries and structural subdivisions and employees of Russian Railways. According to the competition results, in year 2010, 699 staffs have been awarded. Among 27 staffs who have achieved the best results, as summarized over the year, the following staffs have been acknowledged as winners: the North and the North-West railways as well as staffs of Solvychegodsk department of the North Railway, Petropavlovsk department of the South Urals railway and Kuzbass department of the West Siberian railway. In the first quarter of year 2010, the staffs of the North and Kuybyshevskaya railways, in the second quarter – the staffs of East Siberian, Oktyabrskaya and Gorkovskaya railways , in the third quarter – the staffs of the South Urals, East Siberian and West Siberian railways won the competition. 446 have been awarded the following honorable titles:
- "The best medium-level manager at the railway" – 110 people awarded;
- "The best foreman of the railway transportation" – 86 people awarded;
- "The best one in profession at the railways" – 250 people awarded;
- "The best group of a brigade" – (column, sector, shift) – 195 groups awarded.

Bonuses

In year 2010, all types of rewards have been granted to over 7745 employees of the Company and people who, not being employee of the JSCo "RZD", have contributed to development of the Company, including those awarded state awards: 97 employees; employees

of the Russian Transport Ministry – 729 people; those awarded corporate awards of the Company – 6919 employees including 355 people who have been awarded the supreme award – a badge of "Honorable Railwayman of the JSCo "RZD" ".

Work of State Educational Institutions

JSCo "RZD" is the founder of 310 non-state educational institutions including 28 comprehensive schools, 30 boarding schools and 252 preschool educational institutions. The number of students and pupils of these institutions is over 42.2 thousand people including 37.2 thousand (88.1%) of the Company's employees' children. 6 thousand educators are employed in the JSCo "RZD"'s non-state educational institutions. The number of the 11th grade school leavers of the JSCo "RZD"'s general education institutions was 871 people including 65 school leavers (7.5%) that obtained gold and silver medals "For Special Academic Excellence". 10 students (1.1% of the total headcount) failed in two mandatory exams and failed to obtain intermediate (full) general education certificates (the number of students who have failed in the two mandatory exams in Russia is 1.1%). In 2009 – 201 academic years 243 students of general education institutions of JSCo "RZD" became winners and prize holders of international and all-Russian subject Olympiads and competitions; about 900 children won prizes in similar municipal and regional events. In year 2010, in non-state educational institutions of JSCo "RZD" work was carried out following the guidelines of activities: youth occupational guidance to railway professions, organization of field-specific studies for pupils in terms of pre-professional education and professional training if school students. For purposes of familiarizing the younger generation with traditions and history of railway transport, raising the prestige of non-state educational institutions of JSCo "RZD", the following subject competitions were held in 2010:

1. For the best composition on railway transport. 18 students of educational institutions of Privolzhskaya, South Urals, South East, Kransoyarskaya and Kuybyshevskaya railways became prize winners of the competition.
2. "The School of the Year of JSCo "RZD"" and "Kinder Garten of the Year" were competitions where work of the institution of the whole was estimated, and one of the most important criteria of estimation of participants was effectiveness of the vocational guidance performed. Boarding school No 20 at the station of Omsk of the West Siberian railway and kinder garten No 198 at the station of Krasnoyarsk of the Krasnoyarskaya railway became the prize winners of the 1st degree competitions. Close interaction has been established of the general education institutions with institutes and colleges of railway transport. Jointly with higher education institutions, vocational guidance and pre-institute preparation centers have been established on the basis of 18 institutions. A continuous education system has been set up following the scheme of "kinder garten – school – higher education institution – railway subdivision".

A polygon of introduction of pre-profile and profile training is broadening. Currently profile training is being implemented at boarding schools of Oktyabrskaya, South East, Privolzhskaya, Sverdlovskaya, South Urals, West Siberian, East Siberian railways. As a result of this activity, annually up to 50% of graduates of general education institutions of JSCo "RZD"" become students of institutes, universities and colleges of railway transport. The strategic purpose of JSCo "RZD""'s policy in the sphere of education

is bringing up competent, socially responsible, competitive and enterprising young people who will make up a potential HR reserve of JSCo "RZD"" including that of filling the topmost positions in the Company's management. In order to implement this purpose, an JSCo "RZD"" pre-school and general education system development concept has been developed and approved; its main tasks are education quality increase, extension of work with talented children, improvement of occupational guidance activities among students and pupils, development of infrastructure of educational institutions.
To solve these problems, a program of actions aimed at implementation of the pre-school and general education system development concept for a period of 2010 – 2015 years with extra financial support of about 1 billion rubles has been adopted.

6.4 Corporate Social Policy

6.4.1 Collective Contract Relations and Interaction with Trade Unions

The most important achievement of the year 2010 is signing a Corporate Contract of Russian Railways for a period of 2011–2013 years. The draft is elaborated on the basis of the Industrial Agreement as well as the structure and principles of the Personnel Social Support System Optimization Concept was considered and approved at the meeting of the board of the Russian Railways" board on the 24th of November, 2010. The contract was signed on the 29th of November, 2010 in a solemn ceremony. It was registered on the 30th of November, 2010, and on the 1st of January, 2011, it was accepted for execution.
The new collective contract focuses mainly on attraction, development retaining and motivation of employees. A principle of responsibility of employees for production results has been introduced.
Especially noteworthy are two key innovations – an opportunity to use a reimbursable social package as a motivation tool in the hands of an employer and adding a section dedicated to the Company's social responsibility to the test of the contract which has a high social resonance. Benefits, indemnities and guarantees for employees have been preserved almost in full, and some allowances for non-working pensioners gave also been envisaged.
An important novelty in the section of "Employer's Responsibility above Legislation" is its structuring into 4 logic groups determined in compliance with the personnel social support system:

- Guarantees, indemnities and benefits associated with the production and technological process;
- A corporate social package which is aimed at creation of loyalty towards the Company;
- Various kinds of material assistance which are allocated to social protection in case certain life situations ensue;
- Individual social package whose main role is to attract, develop, motivate and retain employees in the Company;

The new version excludes paragraphs directly repeating the RF Labor

Code and the Company's regulatory documents. In 2010, the Company has complied with all its obligations stated in the collective contract despite the continuing financial crisis.
About 84 billion rubles, are expected to have been allocated to this.

Considering health improvement in rest resorts, medical care and other social guarantees, expenses per one employee totaled over 53 thousand rubles and expenses per a non-working pensioner amounted to 8 thousand rubles.

6.4.2 Corporate Social Responsibility

The Corporate Social Report for year 2009 has been prepared. A commission has been carried out (p. 922 of the MOM of the final meeting of the board of Russian Railways for year 2009, as of the 23rd – 24th of December, 2009, No 50) of distribution of corporate social responsibility practice.
To organize work on fulfillment of the set task, a system-based network seminar was held with representatives of railways and other subsidiaries of Russian Railways on principles and approaches in the field of preparation of corporate social accountability according to international standards (SC-1) and improvement of collective contract relations. The seminar was held in a health complex called "Staraya Ruza" on the 17th and 18th of February, 2010. To improve skills of employees of railways, functional subsidiaries and affiliates, a short-term training course was organized from the 22nd until the 26th of March, 2010, in the Russian Railway Academy. Besides, on the 16th of March, 2010, a round table meeting was held with participation of concerned administrative management departments of Russian Railways, Union of railway transport employers (Zheldortrans), representatives of railways, other subsidiaries and Rosprofzhel.
In year 2010, a new approach has been applied meaning that the corporate social report for year 2009 was prepared not only at the formal level but also at the level of subsidiaries. In compliance with the decision of the final meeting of the management board on distribution of practice of preparation of corporate social accountability to subsidiaries in year 2010, 15 subsidiaries of Russian Railways have prepared reports on corporate social responsibility – Kaliningradskaya, Oktyabrskaya, Moskovskaya, Gorkovskaya, Severnaya, Severo-Kavkazskaya, South East, Privolzhskaya, Kuybyshevskaya, Sverdlovskaya, Krasnoyarskaya, East Siberian, Zabaikalskaya and Far East railways as well as the railway stations' Directorate.
A great breakthrough is including a new section entitled as "Corporate Social Responsibility" in the Russian Railways' Collective Contract for a period of years 2011 to 2013. This section declares voluntary adherence of the Company to international principles of corporate social responsibility and stable development where socially significant provisions are concentrated that have a high social resonance. Since year 2008, the Russian Railways has been a member of the national (Russian) network of the Global contract of the United Nations Organization participating in all the network meetings.

6.4.3 On Implementation of the Russian Railways' Residential Program

On the Russian Railways' Mortgage Residential Program

A record has been organized for those who need corporate support in the structural subdivisions and subsidiaries of Russian Railways: the total record list includes 24555 employees of Russian Railways. There are statistics and record lists for each subsidiary and structural subdivisions thereof.

A mechanism of providing the Russian Railways' employees with corporate support is being implemented.

The number of granted credits is 2717 – for a total amount of 4 180.7 million rubles (the initial forecast estimate is 2701 credits for an amount of 4 503.3 million rubles) (100.1%). The number of granted non-repayable subsidies 44 (total amount is 49.8 million rubles) (the initial forecast is 50 million rubles), i.e., 100%. The number of non-repayable subsidies granted on the occasion of child birth is 1305 (total amount is 403.1 million rubles) (initial forecast is 50 million rubles), that I 160%.

There is a demand for the funds to provide Russian Raiways' employees with copporate financial support in terms real estate acquisitions..

In compliance with the JSC ZDI's sales schedule and the succession established in the subsidiaries, the Central Residential Committee of Russian Railways, on the 10th of March, 2010, distributed means of corporate support to subsidiaries. The total amount distributed:

- Mortgage subsidies – 362.7 million rubles;
- Non-repayable subsidies – 50 million rubles;
- Non-repayable subsidies on the occasion of child birth – 250 million rubles (not distributed).

In view of the actual birth rate figures, the Central Residential Committee of the Russian Railways has increased the non-repayable subsidy limit for child birth occasion up to 403.1 million rubles at the cost of the mortgage subsidy limit.

Proposals have been set up to improve the system and mechanisms of residential mortgage crediting as well as other forms of effective attraction of the Company's employees' and third party investors' money to residential construction.

Amendments of and addenda to the regulatory documents have been developed and approved allowing for prolongation of validity period thereof and the validity period of the Residential Policy Concept until year 2015 (order of Russian Railways as of the 3rd of December, 2010, No 2495).

On Establishment of a Specialized Housing Fund

Jointly with the subsidiaries of Russian Railways, a schedule of construction, design and purchase of technological residential space was established and signed on the 8th of December, 2009 for a total amount of 3284.4 million rubles (without VAT). Provision has been made for fulfillment of plans of construction of the Company's housing Fund facilities, systematic monitoring and analysis of fulfillment of the above-mentioned plans and schedules, preparation and implementation of trouble shooting activities, fulfillment of tasks of commissioning of the Company's housing fund facilities and application of the allocated funds within the set limits. The investment project plan for year 2010 has been fulfilled.

As regards the investment project plan for year 2010 for 3284.4 million rubles, the fulfillment percentage is 3 276.3 million rubles (100%). 69.9 thousand square meters has been commissioned (the scheduled amount was 69.79 thousand square meters or 100% – 941 apartments). Construction and purchasing of residential properties of the Company's housing fund in 2010 have been carried out in compliance with the targeted program of formation of the Company's housing fund for years 2009 – 2010 approve by the order of Russian Railways as of the 24th of July, 2008, No 1564. A register of residential premises of the specialized housing fund was set up in 2010; according to this register, as of 1st of January, 2010:

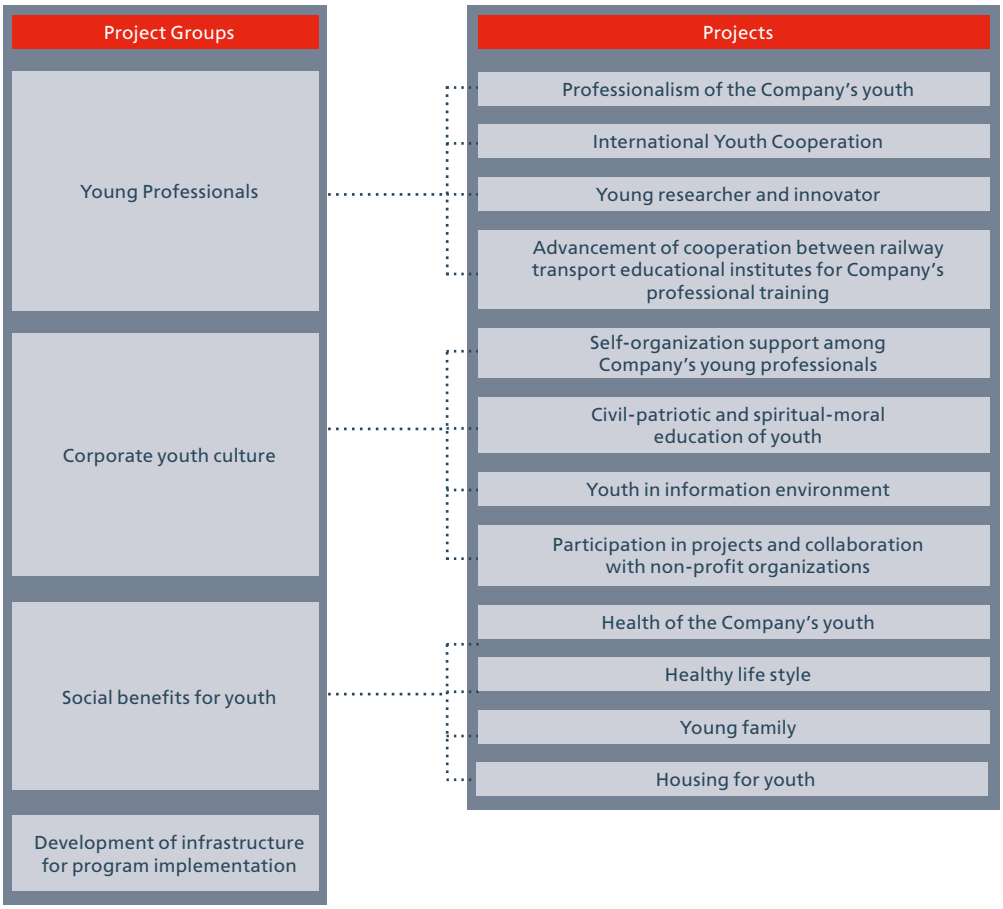
- Total area of the residential premises is 635.5 square meters;
- Their balance value is 15 539.9 million rubles;
- The amount is 10626;

In 2010 will be accomplished:

- The Company's housing fund area – 69.9 thousand square km;
- Balance value – 2.5 billion rubles;
- Amount – 241.

6.4.4 Russian Railways' Youth Policy

Figure 6-10. Russian Railways' Youth Policy



For purposes of implementation of priority strands of the Russian Railways' youth policy in the field of organization of recreation, health improvement, extra education for adolescents, children and young employees of the Russian Railways, the Company has developed and is implementing social corporate projects. These projects cover all the age categories of the targeted program entitled as "The Youth of the Russian Railways" (2006–2010):

- For children of the Russian Railways' employees (age of 7 to 14 years old), a summer corporate recreation camp called "The Roads of the Future" has been successfully set up at the Black Sea coast in Krasnodar Territory; during winter school brake are arranged New Year's excursion programmes;
- For teenagers (14 to 17 years old) facing the choice of the future profession, a program is set up called "The Company's Open Doors";

- Network 3D:Road, Home, Friends" project has been launched for students and youth (from 17 to 30 years old).

The programs are intended for each age group to understand fundamentals of the corporate ideology, versatile development of not only personal but also professional skills. All the projects are united by a block of main objectives: career guidance, creation of personnel reserve, anchoring of young employees, fostering patriotism and loyalty to the Company, healthy life style propaganda and development of corporate culture. All-in-all, throughout the years 2007–2010, the number of participants of the projects totaled 22.7 thousand people (including about 4 thousand people in 2010). In December 2010, JSCo "Russian Railways" was awarded an honorable diploma of a participant of the program called "All the Best to Children" of the national program of promotion of the best Russian goods and services for children and also recieved three quality mark certificates of "All the Best to Children" for organization of a vocational guidance program for youth entitled as "Road, House, Friends", setting up a children's corporate recreation camp called "The Roads of the Future" and a occupational guidance program for teenagers called "The Company's Open Doors".

Organization of Children Vacations

During the 2010 summer season, 70 health-improving facilities for children provided children's recreation and health improvement. On the whole, about 56 000 children of the employees managed to rest in health resorts – 14000 of this number – on the Black Sea coast (including 8 000 bought vouchers). At the children's health-improving camp "Zeleny Ogoniok" of the North Caucasus railway the fourth corporate camp called "The Roads of the Future" was successfully held for 2.5 thousand children of the Russian Railways employees; that was a specially developed vocational guidance program of additional education. In all the suburban children's health-improving camps, sports and health-improving programs were held – "Presidential Competitions" and "Locobol – DOL" – in which over 53 thousand children participated.

Organization of Adult Recreation and Health-Improving Activities

Arrangement is made for recreation and heakth improvement of the Russian Railways' employees and members of their families as well as non-working pensioners in health-improving and recrestional resorts governed by local railway authorities as well as central headquarters. In 2010, about 150 thousand people took part in a recreational and health-improving courses. Special focus in terms of distribution of vouchers was made on employees immediately associated with management of train traffic safety.

Juvenile Railways

For the time being, there are 25 juvenile railways functioning in the Russian Railways system. In 2010, over 15 thousand juvenile railwaymen took training courses at juvenile railways – 1031 of them have entered railway educational institutions. During the summer practice of 2010, juvenile railways transported over 330 thousand passengers. Throughout the years 2008–2010, a stage-by-stage upgrading of rolling stock of juvenile railways was carried out. In 2010, juvenile railways acquired 5 diesel locomotives and 15 carriages (Oktyabrskaya, Novomoskovskaya, Gorkovskaya, Volgogradskaya, Yuzhno-Sakhalinskaya). Since 2007, the Company, on parity conditions with the Government of Saint-Petersburg, is building the Malaya Oktyabrskaya Railway which will go along the old tsar roadway and connect Saint-Petersburg with Pushkin. From the

2nd until the 6th of August, 2010, the Malaya Oktyabrskaya Railway housed the Rally of pupils of juvenile railways of Russian Railways in which the best pupils of juvenile railways from all over Russia participated. The rally included a contest called "The Best One by Railway Professions" in 7 nominations: "The Best Railway Station Master on Duty", "The Best TU-2 Diesel Locomotive Operator", "The Best TU-7 Diesel Locomotive Operator", "The Best Car Inspector", "The Best Passenger Car Attendant", "The Best Electrician for Signals, Interlocking and Communication", "The Best Track Serviceman".

6.4.5 Culture and Sport

Russian Railways has 192 sports facilities which accommodate 39 thousand people of whom 24 thousand people are railway employees and members of their families. In 2010, internal corporate sports events like the Spartakiada of Russian Railways employees, the Spartakiada for the children of the Russian Railways employees, the Russian Railways President's volleyball cup, championships and competitions in popular sports took place. Russian Railways attaches special importance to healthy lifestyle, popularization of physical culture and sports among its employees. Special focus is made on this topic in the Company's youth policy. In 2010, in all the railways, All-Russian Games were held – "Sports of the Generations" – among the Russian Railways Holding's employees and students of railway educational institutions. With financial support of Russian Railways, jointly with the "Locomotive" football club, "Locomotive – Kuban" basketball club and "Locomotive – Novosibirsk" volleyball club, all-Russian children's competitions were held: football competitions called "Locobol", basketball competitions called "the School League", street basketball competitions called ""Locomotive" Cup" and volleyball competitions called "Locovolley" where not only children of railway employees participate but also all those people willing to. In between the 22nd and 27th of April 2010, in the city of Nizhny Novgorod (the Nizhegorodskaya Region), the 18th Table Tennis Championship of the International Sports Union of railway employees (ISURE) was held with participation of railway employees from 18 countries. The team victory went to the RFSS team "Locomotive" composed of Russian Railways employees. 185 sports culture facilities feature around 1.5 thousand club formations with a total headcount of over 46 thousand people of whom almost 25 thousand people are railway employees and members of their families. In 2010, over 26 thousand cultural and mass-scale activities were arranged. Solemn ceremonies were held dedicated to the Fatherland Defender's Day, the International Woman's Day and the Great Patriotic War Victory Day, the Railway Worker's Day and the Company's day. Employees of all the railways participated in an Avocational Art Festival ("Russian Railways Lights Up the Stars"). Over 4 thousand people participated in the Festival; the participants represented 513 amateur troupes of the railways. In contest games of "Russian Railways' KVN League", 13 teams participated (340 participants).

6.4.6 Corporate Pension Program

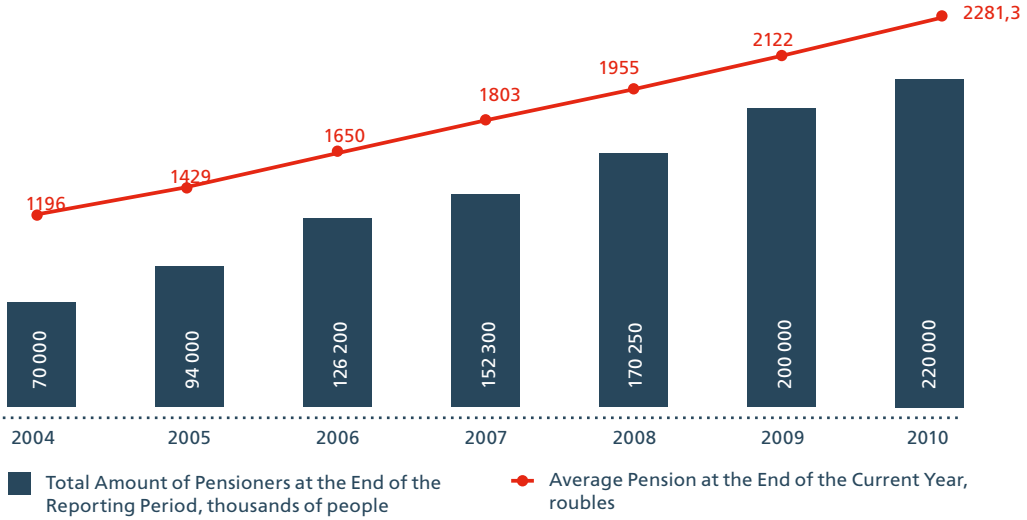
Under conditions of implementation of a structural reform of railway transport, attracting and retaining skilled personnel is one of the Company's most important tasks. Non-governmental pension provision is not the least on the list of important matters. Development and improvement of the NPP system enables the Holding to obtain an economic effect in the Form of the competitive advantages as compared with other actors in the labor market. Implementation of the Russian Railways corporate pension program is carried out by the non-state pension fund called "WELFARE".
In 2010, the number of participating investors increased over the reporting year by over 66 thousand people. The non-state pension provision contract was joined by 127.8 thousand Russian Railways employees over the year. The total headcount of the participating investors in the Company reached 650.6 thousand people which is over 68% of the total number of Russian Railways employees. Corporate pension is provided for over 220 thousand former railway employees. In 2010, 20 687 Russian Railways employees were assigned with pensions; the average amount of the non-state pension assigned in 2010 was 4030 rubles. Given this, the average amount of the non-governmental pension by progressive total is 2 281.30 rubles which exceeds the 2009 level by 159 rubles. In 2010, organizational and regulatory provision of activity of the non-governmental pension provision system was carried out. 4 meetings of the Central Committee of non-governmental pension provision of Russian Railways employees, three meetings of the work group on improvement of Russian Railways employees' non-governmental pension provision system and 1 correspondence meeting of Russian Railways on the issue of modification and amendment of the Provision on Non-governmental Pension Provision of Russian Railways employees. In the course of the year, regulatory documents were prepared aimed at the non-state pension provision system improvement: Regulation on Electronic Document Exchange between Russian Railways and "WELFARE" NPF within the framework of servicing of the non-governmental pension provision contract dated 14th of June 2004, No. 1002004001 – 233 dated 24th of November 2010, No. 92, order of Russian Railways dated 21st of December 2010, No. 2641hp "On Amending Paragraph 6.8 on Provision of Commencement of Economic Activity of Affiliate and Dependent companies of Russian Railways and Termination of Activity of Subsidiaries on whose property base they were established", order of Russian Railways dated 29th of December 2010, No. 2775p "On amending the Clause of non-governmental pension provision of Russian Railways employees. Throughout of 2010, explanatory letters by the Central Committee for Non-governmental Pension Provision of Russian Railways employees, replies to appeals of legal and physical entities on issues connected to non-governmental pension provision, 27 conclusions to boards of directors of affiliates of Russian Railways on issues of coordination of Clauses on non-governmental pension provision of Russian Railways subsidiaries and affiliates were prepared.

Social Guarantees to Non-Working Pensioners

Russian Railways' orders were prepared over the year to determine the procedure of provision of social guarantees to non-working pensioners of Russian Railways – dated 12th of April 2010, No. 780p; dated 16th of June 2010, No. 1283p; No.1282p dated 16th of June 2010, and No. 1440p dated 2nd of July 2010.
In compliance with the above-mentioned orders, material status of non-working pensioners of Russian Railways was improved – in 2010 they additionally recieved material support in the amount of 2 636 million rubles, including:

- Victory Day payments – 184 million rubles;
- Monthly material support – 1 896 million rubles;
- Payments to conservators of subdivision and production museums – 8 million rubles;
- Material support for purchasing of domestic fuel – 370.6 million rubles;
- Monthly allowances to chairmen and deputy chairmen of the board of veterans – 49.1 million rubles;
- Holiday payments – 111.9 million rubles, etc.

Russian Railways' Private Pension Insurance (Basic Indicators)



6.5. Remuneration of Labor and Staff Motivation

In compliance with the decisions taken at the final session of the Management of Russian Railways in 2010 all Company employees were systematically transfered to the full-time schedule with the recovery of the incentives. In order to fulfill this task and go away from the part-time schedule and recover the incentives in 2010 many branches have received additional financing in the amount of 20 Billion Rubles that substantially replenished the funds, withhold in 2009 due to the crisis.
As a result, number of workers who worked part-time has dropped to prior crisis values. Russian Railways being socially oriented Company fulfill all undertaken obligations in terms of labor remuneration.
In compliance with the Collective Agreement of 2010 the wages of the Company workers have been indexed to the consumer's goods and services level, namely: in May – by 3.9%; in August — by 1.2%, in November — by 1.8%. In 2010 the average monthly wage of the Company employees involved in the shipping operations amounted to RUB 29432 with an increase by 17.4% in comparison with 2009. In real terms (accounting for an inflation) the wages increased by 9.8%. As to the Russian Federation the average monthly wage was RUB 21193, and the real wage-push was 4.6% in comparison with 2009. Comparing the wage level of Russian Railways with other industrial sectors in the Russian Federation the Company ranked 6th after oil and gas producing companies, coke production, power supply and distribution, and metal ores mining industries.
In 2010 the wages of railway workers in 5 regions: Lipetsk and Belgorod, the Republic of Tatarstan, Khanty-Mansiysk and Yamal-Nenets autonomous areas remained lower than the

wages of railway workers in other regions.
For the development of the general corporate strategy of the motivation of the workers to achieve fixed targets both individual and collective, Russian Railways issued a Decree No.1573p on June 20, 2010 about corporate system of awarding bonuses for the Company employees on three-level grounds. This system started to function in the IV quarter of 2010 in Russian Railways affiliates.
In order to fulfil specific tasks associated with the traffic safety, the reduction of operation and maintenance costs, the best control over labor conditions and protection, the improvement of services and more competitive salaries for Russian Railways workers in the labor market, the Company issued the Regulations regarding the additional awarding bonuses as listed below:

- For discovery of defects in freight and passenger cars that are difficult to detect (Order No. 1815p dated August 30, 2010);
- For efficient use of fuel and energy (Order No. 162p dated January 28, 2010);
- To workers of Russian Railways affiliates and non-governmental or private or health care facilities , included in the engineer and medical teams – for the achievement of positive results in labor protection and improvement of the health conditions of Russian Railways employees (Order No. 2423p dated November 24, 2010);
- For the lean production resulted in savings (Order No. 2179p dated October 21, 2010).

In 2010 the bonuses for the traffic safety in 2009 have been paid to railway workers who personally transported cargoes and passengers and guaranteed safety. Over 119 employees who took the leading positions and professions and showed the best results in their work have received bonuses. The average sum of bonus amounted to 16.8 thousand Rubles.
Within 2010 the single-time bonuses have been paid for the devotion to the Company. The total sum of such bonuses reached 9.7 Billion Rubles.

6.6. Public health protection

The medical protection of the traffic. The important aspect is the medical protection during the transportation. In 2010 two hundred and ten medical and expert commissions functioned in order to ensure the medical protection of the railway workers (in 2009 — 216). The teams carried out 1.27 Million compulsory and regular medical inspections (в 2009 —1.29 Millions). The level of professional impropriety of workers servicing the trains was 1.0 for 100 checked (in 2009 — 1.1), including the locomotive crews in the number of 0.9 (in 2009 — 1.2).
The reasons for such professional impropriety of movement and shunting crews like previous years were such diseases as disorders of internal organs (62%), including the blood circulation organs of 78%.

In the railway system 1503 medical examination rooms operate to check the personnel before the trip (in 2009 – 1550). During the year around 24 Million medical examinations were done before the trips (in 2009 – 23.3 Million). Over 24.6 thousand workers or 0.11% have been removed from the trip as compared with 23.4 thousand people in 2009. The main reasons for such removal were acute respiratory viral infections (44.5%) and high blood pressure (34%).
The psycho-physiological state of the locomotive crews is especially important for the traffic safety.
11 offices and 4 divisions function in the regional administrations that carry out the psycho-physiological selection of the personnel; in addition to that private health care facilities of Russian Railways have 205 laboratories examining the psycho-physiological health of the workers, including the psychologist's offices. There are 136 offices of professional psycho-physiologists and 115 rooms for relaxation and mobilization in locomotive (motorcar) depots. About 543 specialists examine psycho-physiological health of locomotive crews.
In 2010 the number of psycho-physiological examinations of locomotive crews carried out, include:

- Primary psycho-physiological selection (PPS) — 36 thousand people;
- Regular psycho-physiological selection — 43 thousand people,
- Extensive psycho-physiological survey — 56 thousand people;
- Dynamic control of functional state — 225 thousand people.

Over 127 thousand workers of locomotive crews went through rehabilitation. Around 471 thousand medical procedures were administered to the staff.

Emergency medical assistance to passengers.
The emergency medical assistance to the sick and those passengers and railway workers who suffered from accidents, working or present in the territory of the railway station (or station) is provided by the employees of aid stations – structural sub-divisions of Russian Railways private health care facilities.
In 2010 the number of passenger visits to first-aid stations located at the railway stations (stations) was 202.8 thousand people (in 2009 — 215.0 thousand); the number of independent visits to paramedics (nurses) was 902.0 thousand people in comparison with 958.7 thousand people in 2009. The number of medical procedures during visits to doctors and paramedics working at the railway stations (stations) was 673.9 thousand people in comparison with 622.7 thousand people in 2009. The number of calls of medical personnel to render medical assistance outside the aid stations amounted to 102.2 thousand calls. The number of sick people in the trains throughout 2010 was 78.1 thousand people. 5.3 thousand people out of this number has been taken off the train in comparison with 5.03 thousand people in 2009; 4.9 thousand people has been hospitalized (in 2009 — 4.6 thousand patients). 12.9 people stayed in parenting rooms as compared with 25.5 thousand people in 2009.

Medical assistance to and stay in health care centers of Russian Railways by employees, members of their families and non-working pensioners.
There are 255 private health care facilities (PMF) functioning to render all kinds of medical assistance to the employees of Russian Railways, members of their families and non-working pensioners (in 2009 – 256), out of this number – 123 hospitals (in 2009 – 131) and 123 out-patients' clinics (in 2009 – 125).

As of December 31, 2010 the number of Russian Railways employees attached to private health care facilities was 3.2 Million people (in 2009 —3.3 Million). Among the people attached to Russian Railways private health care facilities the number of the Company employees amounts to 32.2% (in 2009 — 35.7%), railway transport pensioners — 19.3% (in 2009 — 20.7%), members of families of Russian Railways employees — 14.6% (in 2009 — 15.5%), employees of subsidiaries — 5% (in 2009 — 4.1%), municipal population — 28.9% (in 2009 — 23.9%). The level of primary diseases is 460.8 cases per 1 thousand attached adults (in 2009 — 474 cases).

The disease resulted in a temporary disability (TD) amounted to 62.7 cases per 100 Russian Railways employees (in 2009 — 62.4), in days it was —865.5 (in 2009 — 866.6 days). The tendency to decrease remains. The firstly defined level of occupational disease per 1 000 people among all Russian Railways employees is 1.47 in comparison with 1.16 in 2009.

The promotion of engineers and medical teams in the industrial activities of Russian Railways is very essential. The whole complex of associated measures is undertaken in order to protect and improve health of Russian Railways workers: mandatory preliminary, regular and targeted medical examinations, vaccination, therapy in outpatient clinics and in hospitals.

Moreover, a great attention is paid to the improvement of specialized, including high tech medical aid (HTMA). For instance, in 2010 about 28 thousand patients received HTMA in comparison with 27.5 thousand patients in 2009, including 6.6 thousand (23.6%) employees of Russian Railways, 7.5 thousand (26,8%) of non-working pensioners of railway transport. The new rail road (inter-road) centers are established such as neurological, eye microsurgery, traumatology, orthopedic and urology centers, etc.

During the season of epidemics in 2010-2011 372 thousand of Russian Railways employees providing the traffic safety have been vaccinated against flu and acute respiratory infections which makes 98% of the total plan. 111.2 thousand workers of Russian Railways, including medical personnel of non-governmental health care facilities have been vaccinated against highly pathogenic flu A(H1N1)/2009 which makes 66% of the whole number of people. In order to prevent the risk of contamination during the operation activities 98 thousand workers of 42 professions and positions of the Company have been vaccinated and revaccinated against viral vernal encephalitis in enzootic areas. The plan of vaccination has been 100% fulfilled, including 96% revaccination plan.

937.4 thousand employees underwent the clinical examination. All in all around 97% of workers has been examined in clinics in comparison with 95.7% in 2009. Around 88 thousand diseases were detected. As a result 36.7 thousand employees of the Company were hospitalized in comparison with 38.5 thousand patients in 2009. The number included 1526 patients who needed high tech medical care or 4.1% in comparison with 1351 patients or 4.1% in 2009. For the first time out of the number of people who underwent clinical examinations 58.3 thousand people have been put on the record in the medical institutions in comparison with 60 thousand workers in 2009.

5 (five) mobile advisory and diagnostic centers (hereinafter MADC) functioned on 5 rail roads in 2010 to render the medical, advisory and diagnostic assistance to railway workers, members of their families, pensioners and local populace, living in remote regions of Russia in comparison with 4 such centers in 2009. MADC routes crossed 18 RF Federal Subjects territories and

serviced the population within the boundaries of 5 rail roads: Severnaya, Dalnevostochnaya, Krasnoyarskaya, Zapadno-Sibirskaya and Vostochno-Sibirskaya railways (around 1 Million attached people and over 2 Million local people).
In August 2010 MADC "Surgeon Nikolai Pirogov" of the Severnaya Raiways worked in the regions that suffered of forest fires.
In 2010 the experts of private health care facilities who worked in MADC made 74 trips and visited 335 stations in comparison with 62 trips and 335 stations in 2009.
Medical assistance has been provided to over 64 thousand patients in 2010 in comparison with 43.7 thousand patients in 2009. The number of visits to various doctors amounted to 197 thousand.
In 2010 95412 people have stayed in health and health-improving centers or 32.7% of those who needed such treatment in comparison with 31.1% or 99168 people), including current workers on the railways — 66966 people, or 34.1% (in 2009 — 69563 people or 33.4%), members of families — 8735 people or 42% in comparison with 31.9% or 8187 people, non-working pensioners of the industry — 19711 people or 26.4% (in 2009 — 21418 people or 27.6%), including 1962 veterans of the Great Patriotic War or 48.2% in comparison with 2090 veterans or 43.8% in 2009.

6.7. Labor protection and operating safety.

Labor protection, environment protection and industrial safety policy of Russian Railways is oriented at the balanced solution of the social and economic tasks in the process of implementation of all Company activities.
In accordance with this policy the requirements to the labor protection include the following:

- Permanent improvement of labor protection and conditions due to the promotion of advanced technologies, technical equipment and higher skills of the personnel;
- Effective planning and implementation of programs oriented at the labor protection;
- Efficiency of preventive actions aimed at the observation of labor protection standards;
- Reduction of potential risks in terms of labor protection;
- Promotion of labor safety and responsible attitude to employees' health.

In Russian Railways the management of labor protection functions since the establishment of the Company. Such system being the part of the whole management system of the Company provides the comprehensive approach and single labor protection order on all levels. The labor protection and industrial safety on the Company facilities has been provided in compliance with the federal legislation, being the integral part of the dynamic development and one of the priorities in the Company's operation. Labor protection measures in Russian Railways are realized together with trade unions involving the scientific and research institutes, design bureaus, training and other organizations, including individual experts dealing with the labor protection.
The labor protection system is the part of the Management system of the Company being one of the principal

activities of the Company. The system is based on the distribution of management functions, establishment of relations between the various governing bodies and officials of the Management Board of Russian Railways, railways, other affiliates and structural divisions of Russian Railways. For the promotion of management systems and for better implementation of labor protection policy, industrial and fire safety, non-occupational injuries on the railways regional commissions mentioned below have been established:

- Labor and health protection of the workers;
- Industrial processes safety;
- Fire and technical safety;
- Prevention of injuries of the people.

Commissions both in transient and target state shall provide the coordination and general approach to the solutions of the tasks implied by the single technical policy of the Company, including the operation of such commissions in the designated fields.

Corporate legal framework for labor protection.

In compliance with the requirements stated in Article 212 of the Labor Code of the Russian Federation and to follow the requirements to labor protection and performance of duties by Russian Railways employees single legal framework and methodological documents regarding labor protection have been elaborated.

In 2010 legal framework documents have been prepared, namely:

- Labor protection instructions for handling the cargoes and commercial operations associated with freight;
- Labor protection instructions for maintaining speed and high speed on Russian Railways railway lines;
- Safety rules for operation and maintenance of contact system and power supply devices used for automatic block system of "RZhD" OJSC railways;
- Labor protection instructions for the operator of flaw inspection carriage and operator of measurements on railway lines;
- Labor protection instructions for a man-on-duty on the railway crossings;
- Labor protection instructions for workers, greasing the cars and rails;
- Safety instructions for contact system electricians;
- Instructions on the fencing of isolating removable towers during the works in the contact system of "RZhD" OJSC railways;
- Instructions on labor protection during the maintenance of electric units and equipment in Russian Railways.

The standards of Russian Railways have been approved, namely:

- Labor protection management system in Russian Railways. The attestation of work place as per working conditions;
- Labor protection management system in Russian Railways. The organization of the training process.

The methodological documents have been prepared, namely:

- Provision about the Central Commission on Labor and Health protection of Russian Railways employees. The standard regulation about the regional commission on Labor and Health protection of Russian Railways workers. Regulation on engineers and medical teams;
- Provision on the works associated with the information system of Russian Railways "A man on the rail road";
- Standard provision on labor protection service (division) and industrial safety of the railway management body.

In compliance with the above Regulation the Management of the Company

interacts with federal executive authorities, RF subjects, federal supervising authorities and other public authorities as per procedures established by Russian Railways for the achievement of targets imposed on the Management. The representatives of the Management Board participate in the work of the following advisory bodies:

- RUIE Committee on the environment, industrial and technological safety;
- Working group of the Commission on the Law of master and servant, labor protection, industrial and environment safety of RTK;
- Working group on the implementation of RF decree No. 870 dated November 20, 2008 (the group has been established by the Ministry of Public Health and Social Development of the Russian Federation).

The Management Board submits regularly suggestions to RUIE, Mintrans of Russia, Ministry of Public Health and Social Development of the Russian Federation and other departments on the improvement of legal framework.

Figure 6-12. Main activities in industrial safety policy of Russian Railways

6.7.1. Assessment of risks

Under the labor protection policy framework Russian Railways implements the regular actions oriented at the detection of hazards and assessment of risks.
The assessment of the occupational risks is made for the earlier detected most dangerous industrial facilities, technological processes and occupations of the workers in order to develop the measures aimed at prevention of potential hazards and reduction of risks, including the planning of activities for improvement of working conditions. The detection of hazards and assessment of risks is conducted in compliance with the Methodology of the evaluation and assessment of occupational risks elaborated by Russian Railways.

6.7.2. Occupational injuries

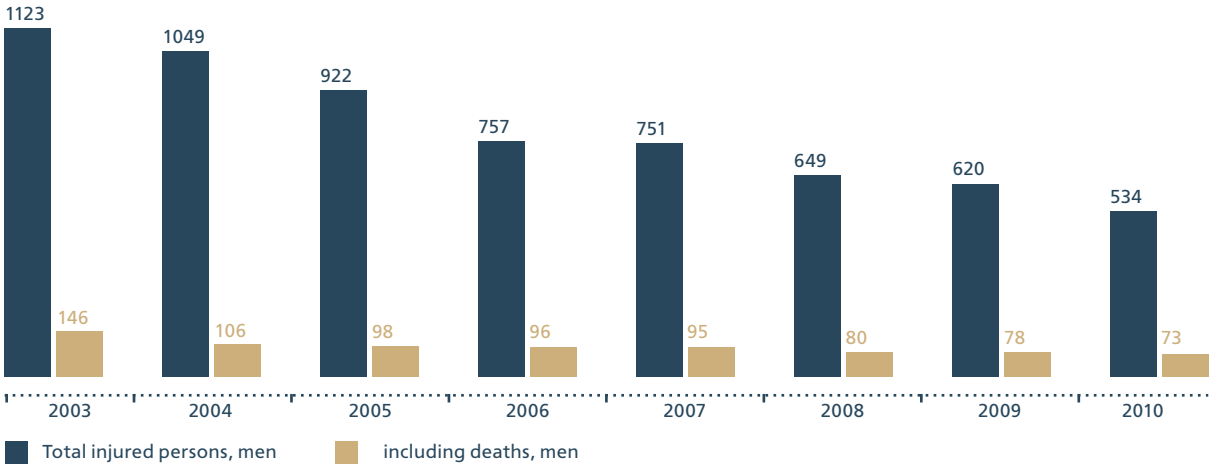
One of the most important targets of Russian Railways under any kind of performed activities is the provision of safe working conditions, preservation of health and life of the Company's employees.
The procedures of the Company oriented at the creation of safe and favorable working conditions, prevention and reduction of accidents at work allowed to keep the decline of occupational injuries in 2010 among the workers of Russian Railways.
In 2010 the number of occupational injuries in Russian Railways dropped as follows:

- The number of total injuries dropped by 14%; 534 people have been injured in comparison with 620 people in 2009;
- The number of deaths dropped by 6%; 73 deaths in comparison with 78 in 2009.

The incidence of total injuries (the number of injured per 1 thousand workers as compared with 2009 in the Company on the whole dropped by 7% and Ktotal amount of injuries in Russian Railways is 0.55 in comparison with 0.59 in 2009.
The incidence of deaths (the number of deaths per 1 thousand workers) remained on the level of 2008–2009 and equaled to 0.07 Kdeaths in Russian Railways.
The coefficient of the disease severity (number of missed days per year due to severe diseases per 1 thousand workers) has dropped by 3% and amounts to Kseverity Russian Railways = 44.2 in comparison with 45.6 in 2009.
The occupational injuries in Russian Railways are given in diagrams 1 and 2 below.
The main share of injuries (68%) happens on the railway. Considering this in 2010 the situation with occupational injuries on the railways has considerably worsened in comparison with 2009.
Despite the drop of the total number of occupational injuries by 11%, the number of injuries with fatal outcome increased by 13%.

Dynamics of industrial traumatism in Russian Railways in 2003-2010

Diagram 1

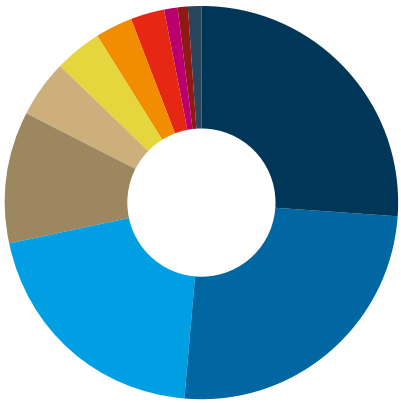


The principal accidents that cause injuries of the workers and might lead to death are as follows: collision with train, impact, rolling stock grip; rail road accidents; electrical shock. Such accidents caused the death of 54 workers that amounts to 73% of all injured of the Company with fatal outcome in 2010:

- Rail road accidents — 67 injured, including 20 deaths;
- Collision, impact, rolling stock grip – 41 injured, including 19 deaths;
- Electrical shock —36 injured, including 16 deaths.

Percentage death casualties during accidents in Russian Railways by accident types in 2010, %

Diagram № 2



- 27% – road accidents (20 men)
- 26% –collision, hit, gripping by rolling stock (19 men)
- 21% – electric shock (16 men)
- 11% – falling from a height and from rolling stock (8 men)
- 5% – exposure to moving cargo, moving or flying parts, goods, materials (4 men)
- 4% – falling or collapsing of materials, cargo, facilities (3 men)
- 3% – injury during natural disasters (2 men)
- 3% – murders (2 men)
- 1% – collision with, hinting or nipping with hoisting mechanisms (1 man)
- 1% – nipping, impact onto neighboring structures (1 man)
- 1% – exposure to moved cargo, moving or flying parts (1 man)

The main causes that result in injuries as shown in diagram 2 accentuate the deficiencies in the organization of safe working conditions and absence of due supervision on the side of managers of affiliates and structural divisions of Russian Railways in terms of the observation of requirements to the execution of works and labor discipline.
The Company pays special attention to the labor protection, and, first of all, to prevention of occupational injuries. In 2010 the Department of Labor Protection, Industrial safety and environment protection has conducted the inspections aimed at the implementation of labor protection measures in the affiliates and structural divisions of Russian Railways in compliance with the established schedule. Such inspections are listed below:

- 2 comprehensive inspections on Zabaikalskaya and Dalnevostochnaya Railways;
- 7 targeted inspections on Gorkovskaya, Jugo-Vostochnaya and Juzhno-Uralskaya Railways, in the Department of Social Development, Central Administrations of communications and rail road repairs, and administrative – economic department;
- 1 unscheduled trip to Ufa locomotive service depot of Kuibyshevskaya Railways caused by the complaint received by the Central Administration of Russian Railways from one of the depot workers as the depot has concealed the injury case of this worker.

Along with the traditional supervision used for labor protection the Company introduced the new standard on February 1, 2010 "The internal audit over the labor protection and industrial safety" that defines the approach to monitoring of labor protection and industrial safety in Russian Railways.
In 2010 the standard has been tried on Kaliningradskaya and Kuibyshevskaya Railways. The principal purpose of the internal audits is the identification both strong sides and components of labor protection and industrial safety needed in order to improve and develop correctional measures.

In order to improve safety measures oriented at the personnel safety and prevention of accidents at work as well as at the enhancement of the role and responsibilities of managers on every level, specialists and all Company employees to guarantee safe and healthy conditions at every workplace, Russian Railways has prepared the recommendations on the preparation and implementation of behavioral safety audits (BSA) on the labor protection in 2010.
The purpose of recommendations is the behavioral change of the worker due to the detection and elimination of dangerous deeds and conditions which might cause the injuries to such worker.
It is planned to enforce the recommendations in Russian Railways since 2011.
The Department of Labor Protection, Industrial Safety and Environment protection has reviewed the documents referring to the circumstances and cause of injuries with the fatal outcome to inform the managers of the Russian Railways and its affiliates and subsidiaries about the revealed major deficiencies and violations.
The situation with injuries and problems associated with right implementation of the preventive measures oriented at the labor protection were discussed many times at the conference call meetings, i.e. every quarter with the participation of the Senior Vice-President of Russian Railways, every month with the participation of representatives from the Department of Labor Protection, Industrial Safety and Environment protection.
The questions connected with the organization and implementation of preventive measures, including the advanced labor practice exchange have been discussed in 2010 in the Railways Grid School dealing with the labor protection considering Krasnoyarskaya Railways as an example, with participation of top-managers of the Departments, affiliates of Russian Railways, federal executive authorities, scientific and research institutes and higher education institutions.

6.7.3. Planning of labor protection measures

The plan of actions oriented at the improvement of working conditions for the labor protection is based on the perspective, current and operative implementation of the measures taking into account the detected factors which affect the working conditions and labor protection of the workers.
In 2010 the Program aimed at the improvement of working conditions and labor protection in Russian Railways for 2010–2012 was adopted.
In compliance with approved Program it was assumed to spend 5.0 Billion Rubles for its implementation in 2010. Actually, for the purpose 6.1 Billion Rubles has been spent. At the cost of budgetary funds of Russian Railways affiliates the finances have been used for the implementation of the measures as follows:

- Prevention of the hits of workers by rolling stock – 407.8 Million Rubles;
- Prevention of electrical shocks — 263.7 Million Rubles;
- Prevention of other occupational injuries – 3030.4 Million Rubles;
- Reduction of the exposure to hazardous chemical agents and aerosols, predominantly, fibrogenic agents (dust) — 46.9 Million Rubles;
- Creation of microclimatic conditions in compliance with the standards and standards — 152.1 Million Rubles;
- Bringing the noise and vibration levels to the standards — 65.9 Million Rubles;
- Bringing the illumination levels to the standards — 130.3 Million Rubles;
- Reduction of the severity and intensity of the working process – 107.5 Million Rubles;
- Improvement of sanitary and dwelling conditions of workers — 783.6 Million Rubles;
- Training and promotion of labor protection issues — 291.2 Million Rubles;
- Other — 510.1 Million Rubles.

317.1 Million Rubles has been allocated for the implementation of measures aimed at the improvement of working conditions and labor protection at the cost of centralized investments. The following equipment has been procured, i.e. portable radio stations; module heating stations; heat screens; devices protecting the personnel from induced voltage at work with the contact system; isolating removable towers; educational examination materials on the labor protection; training complexes for acquiring the skills to render the first medical aid to injured; apparatuses for air cleaning off pollutants; machines for chemical cleaning of overalls; sets of technical means "Labor safety" for electricians working with communication devices and with LAZ and ATE, etc.

6.7.4. Financing of Labor protection measures

In 2010 Russian Railways developed the measures aimed at the improvement of working conditions and labor protection and allocated 9.6 Billion Rubles for the purpose, including 5.7 Billion Rubles and excluding the expenses for overalls, special boots and other personal protection equipment, i.e. 0.8% of the operating costs. The total financing of the measures for the improvement of working conditions and labor protection amounted to 7.8 Billion Rubles, including 4.5 Billion Rubles, but excluding expenses for personal protection equipment, or 0.8% of the operating costs.
The evaluation of the submitted reviews demonstrates that all affiliates and economic divisions have fulfilled the requirements of the Collective Agreement in terms of allocation of funds for the improvement of working

conditions and labor protection in the sum of 0.7% of the operating costs, at least, excluding the expenses for the personal protection equipment and medical examinations.
The expenses for the above purposes per one worker of Russian Railways amounted to 11.5.
In December of 2010 the Department of Labor Protection, Industrial Safety and Environment protection has held the training courses on the basis of the Russian Academy of Railway Transport (RART) for 60 railway employees of railways, administrations, departments and management divisions dealing with labor protection problems on subjects "Managerial accounting of expenses for the labor protection, assessment of respective expenses, the reporting skills for the assessment of the executed works, planning of expenses for the labor protection in Russian Railways.
One of the additional sources of the financing associated with the labor protection are the repayable funds of the Social Insurance Fund of Russia.
On the whole, Russian Railways allocated over 192 Million Rubles for the accident preventive measures, 142 Million Rubles being spent by the Railways and about 50 Million Rubles – by administrations.
The principal part of these funds has been spent for the procurement of personal protection equipment (124 Million Rubles), 25 Million Rubles – for the attestation of workplaces as per working conditions and 21 Million Rubles for bringing the dust/gas pollution to the standards, etc.

6.7.5. Attestation of workplaces

One of the primary tasks is the creation of safe conditions for health and life for employees at workplace.
The attestation of workplaces as per working conditions is the effective instrument that allows to evaluate real working conditions and becomes the ground for further evaluation of the potential occupational risks and injuries of the workers. In 2010 Russian Railways has performed the attestation of 107466 workplaces in compliance with the centralized agreement.
The total number of attested workplaces was 130.3 thousand workplaces, including the attestation at the cost of repayable funds of the Social Insurance Fund of Russia.
The most popular hazardous industrial aspects in the Company are the labor intensity (about 70 thousand workplaces), noise (61 thousand workplaces), labor severity (61 thousand workplaces), microclimate (51 thousand workplaces) and vibration (32 thousand workplaces). As a whole, 16 thousand workplaces have been brought to the standards and working conditions have been approved at 48.5 thousand workplaces in Russian Railways.

6.7.6. Personal protection equipment

One of the most important issues today is the provision of modern personal protection equipment for the workers. It substantially affects the occupational diseases and occupational injuries, and quite often personal protection equipment is the only way to reduce many hazardous aspects.

The employees of Russian Railways are provided with special working clothes and other personal protection equipment in compliance with the Regulation and plans of Russian Railways and other branches. In 2010 the Company has spent 3.9 Billion Rubles for procurement of special working clothes, boots and other personal protection equipment. In order to provide the special overalls for Russian Railways employees in compliance with standards for the provision of special working clothes, boots and other personal protection equipment free-of-charge, approved by the Ministry of Public Health and Social Development of September 23, 2010, the Company approved the relevant "The allocation of additional funds for financing of special working overalls' procurement".

In IV quarter of 2010 additional 600 Million Rubles has been allocated and in II quarter – 335 Million Rubles. Mainly, the procurement in general for the protection of workers servicing the electrification and power supply facilities against the thermal component of electric arc and induced voltage. Such measures already allowed to avoid the irreversible consequences for Russian Railways workers.

Russian Railways has prepared and approved Decree No. 2744p dated December 28, 2010 "The order of provision of Russian Railways employees with personal protection equipment" in order to provide special working clothes, boots and other personal protection equipment, taking into account the structural reorganization of the Company.

Russian Railways has introduced amendments in its Decree No. 1880p dated September 7, 2010 "Relations between Russian Railways and contractors in labor protection sphere", in compliance with earlier approved Decree No. 1722p dated August 17, 2009 "The need of wearing yellow vests by workers of contractors".

While signing the contracts with potential contractors for the execution of works in the territories and at facilities of Russian Railways, the Company includes special item in the chapters that commit the contractor to follow the requirements of the labor protection established by Russian Railways, stating that all workers of contractors shall wear high visibility vests.

6.7.7. Awareness and competence of employees regarding the Labor Protection

One of the basic organizational measures associated with the prevention of occupational injuries and occupational diseases is the effective training of the workers, raising their awareness about labor protection.

In 2010 16.8 thousand people have been trained on labor protection, including 11.8 thousand managers and specialists of the Company and its affiliates and 5.0 thousand experts. 8.8 thousand employees passed training on rail roads, including 5.8 thousand managers and 3.0 thousand experts. 100 top managers and experts from Management Department have been trained as well, including the examination of their knowledge.

139 employees of Russian Railways received remote education in the Russian Academy of Railway and passed exams to the commission of the training organization. Such kind of education has been firstly tried as the pilot project and received positive response from the trainees.

For the improvement of the training process Russian Railways approved the document 1.15.011-2010 "The Monitoring of Labor Protection in Russian Railways and the organization of the training process". The document shall come into force on March 1, 2011. This document defines the requirements of the training process for the managers, specialists and workers of Russian Railways.

Last year the Tentative Educational Program for the occupational training of workers "Labor Protection" has been reviewed and updated, thus allowing formulating the principles of occupational activities unity and safety. 291.2 Million Rubles were spent for the training process and promotion of labor protection ideas.

18 labor protection rail cars operate in Russian Railways. Such rail cars function as a single system of the training process for the employees of railway structural divisions. The rail car presents the mobile training complex, and one of the main functions of such rail car is the methodological and organizational assistance during labor protection training courses using audio, video and computer techniques, including the preventive measures directly on the railway facilities.

07

Observance of Human Rights

In its observance of human rights the Company is governed by Russian legislation, follows provisions of Human Rights Declaration, ILO Declaration on Fundamental Principles and Rights at Work and meets other international requirements in this field. The Company is being a party to the UN Universal Declaration which imposes human rights requirements onto business circles. The Universal Declaration demands that its parties support and respect the approach stipulating protection of international human rights. According to the Universal Declaration, business circles must not be privy to violation of human rights. As per the Code of Business Conduct of Russian Railways, one of business values of the Company is human respect and care. All officials and other employees of the Company are obliged to be decent and honest in their work activity, adhere business ethics standards generally accepted and set by internal documents of the Company. Principles, rules and regulations prescribed by the Code were developed and given in other internal documents of the Company.

Labor relations of the Company are subject to requirements of the Labor Code of the Russian Federation. Article 253 defines jobs with restricted female employment; Article 265 defines jobs with prohibited under-age employment; Article 4 forbids forced labor, and Section XIII considers matters of protection of labor rights and freedoms, establishes grievance procedure and amenability for violation of the

labor code and other acts containing standards of labor law.
For the purpose of effective observance of employees' rights, the Company regularly reviews appeals concerning various issues as well as appeals of law enforcement and judicial bodies, trade union organizations, Federal Labor and Employment Service.
With staff development and social assistance programs, the Company secures a number of socio-economic rights of its employees such as right to social insurance, education, family welfare, housing, artistic freedom, participation in cultural life.
All regulatory documents prevailing in Russian Railways and social and labor relations programs (Collective Agreement, Functional Human Resource Development Strategy of Russian Railways, Rules for Internal Labor Order of Administrative Machinery of Russian Railways, Job Descriptions and Salary Grades of Managers, Specialists and Workforce of Russian Railways, Regulations on Corporate Employee Compensation System in the Branches and Divisions of Russian Railways, Regulations on Graduates, Regulations on Mentoring, programs "Youth of the Company of 2006–2010", "Housing for Youth", projects "Healthy Life-Style", "Young Family", "Health of the Company's Youth", "Qualification of the Company's Youth") have been elaborated in strict compliance with the Constitution of the Russian Federation, the Legislation of the

Russian Federation including the Labor Code of the Russian Federation and do not contain any provisions relating to gender, age or other inequality and unstipulated by the applicable legislation (there are restrictions on female and under-age employment in hard and hazardous jobs). As stated in Decree of Russian Railways No. 268 dated December 5 of 2006 "On strengthening of labor law compliance control in Russian Railways branches", the legal divisions of the braches must preliminary approve draft documents about social and labor relations (local enactments such as collective agreement, rules for internal labor order, regulations on compensation and bonuses as well as labor contracts, orders for recovery of penalties, orders for dismissal, answers to social and labor relations appeals).

The Company's obligations on observance of rights of the population affected by the Company's activity are mainly associated with observance of the environmental protection legislation and apply to the right of citizens for enabling environment. Environmental activity of the Company is aimed at ensuring observance of this right.

Prospective lines of activity in the field of security of human rights are organization of staff training in human rights, evaluation of investment agreements and contracts concluded with contractors and suppliers in terms of observance of human rights as well as strengthening of labor law compliance control over the Company's officials in their activities.

08

Public relations

8.1. Policy of Cooperation of Russian Railways with Society

An important component of Russian Railways' policy is its cooperation with society including population, federal and regional authorities, local governments, public associations and movements, and non-commercial organizations.

A primary goal of Russian Railways' policy in public relations consists in formation of positive attitude towards the Company as a socially responsible industrial and economical agent. The Company actively participates in resolving of issues of economical and social development of regions, especially those where division units of Russian Railways are principal employers in their residential communities. To achieve this goal, the Company solves closely interrelated tasks of setting up mutually profitable collaboration with governmental authorities and local governments in the issues of social development of regions, welfare gain and setting up an effective system of cooperation with parties concerned.

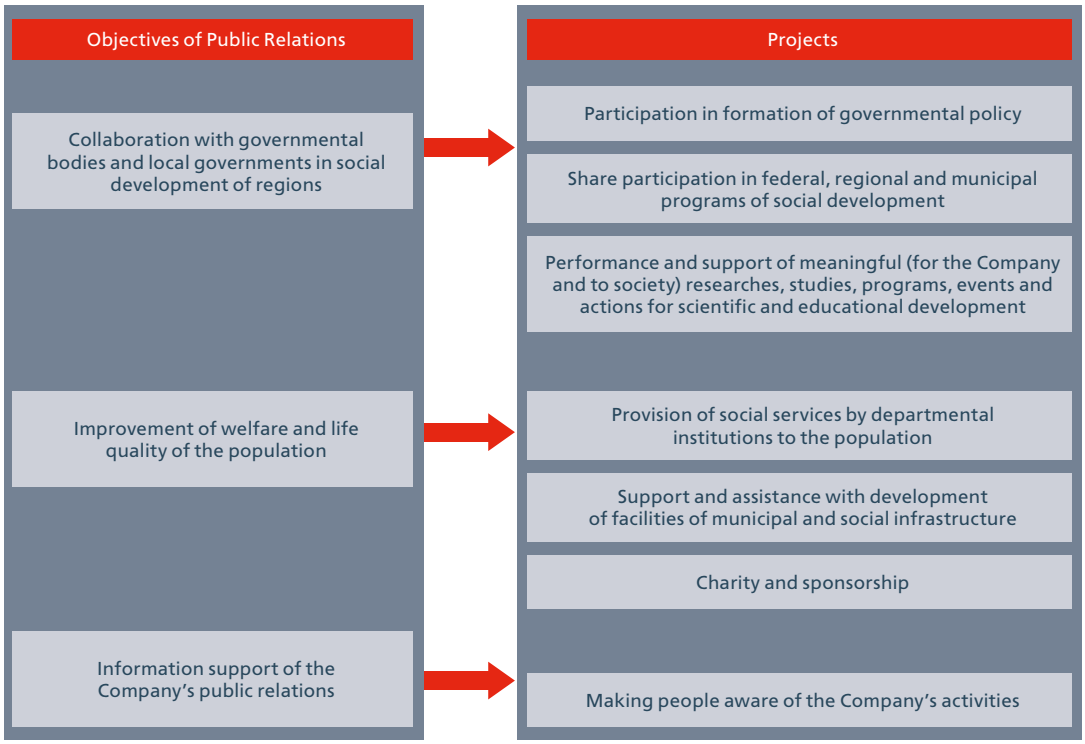
As to cooperation with governmental authorities and local governments, Russian Railways actively participates in development and implementation of governmental policy for development of railway transport, programs of social development of the country and regions where the Company and its subdivisions have their seat. With its significant industrial, investment and intellectual potential, Russian Railways is able to participate in studies and projects for development of science, technology, advancement and introduction of new technologies. In each specific case, form and extent of participation of Russian Railways is determined in implementation of respective programs or solving of specific problems according to priority (both for the society and Company) areas and lines of economic and social development of the regions where the Company might choose to participate.

The task of welfare gain and improvement of living standards of the population consists of the fact that, besides participation in implementation of federal, regional and local programs, Russian Railways, with its nationwide network of social infrastructure facilities is in a position to provide local residents with educational, medical, and utility services. Highly significant is the fact that departmental institutions of Russian Railways (unlike municipal ones) often have more developed facilities, are better equipped in technical terms, can dispose of highly skilled specialists, thus ensuring high quality and diversity of services provided.

Welfare gain and improvement of living standards of the population contributes to improvements in operations of municipal facilities of social infrastructure, to which the Company provides support and assistance in repairs, technical outfitting, purchases of necessary equipment and implements. In the regions where Russian Railways is present, its important activity lines for the population include assistance and pecuniary aid provided to socially unprotected population groups, public non-commercial organizations, provision of opportunities for development of creative talents, going in for exercises and sports, occupational guidance for youth, which the company provides under charity and sponsor assistance programs.

Public relation goals and objectives are being implemented along the lines in which specific events and measures are developed and organized (see Fig. 8-1):

Figure 8-1. Objectives and main lines of Russian Railways' public relations



8.2. Russian Railways management system in public relation field

8.2.1. Risks and opportunities

In view of problems in the number of regions related with population employment and local budgets not sufficient to ensure required social development level, Russian Railways assumes voluntary obligations as to socially responsible participation in the life of local communities in the regions where the Company is present. In this regard the following risks and opportunities occur in the Company's public relations with society (see Table 8-1):

Table 8-1
Main risks and opportunities in collaboration between Russian Railways and society

Pos.	Risk definitions	Activity lines	Measure of efficiency
1.	Excessive expectations and increased social load on the Company	Agreements with regional authorities and local governments on economical and social development. Transition to the system of government social welfare contracts for suburban passenger transportation	The scope of suburban passenger transportation services. Amount of funds allocated to charity and sponsor assistance
2.	Negative perception of the Company in the regions and local residents	Making the society aware of the Company's activities	Number of publications about the Company, including positive, negative and neutral publications
3.	Slower performance of action plans and programs implemented by the Company in the regions	Agreements between the Company and regional authorities and local governments on economical and social development	Implementation of the Company's investment program (see Section 4.4 "Investment Activities")

8.3. Participation of Russian Railways in building of governmental policy in 2010

8.3.1. The Company's fulfillment of governmental objectives

Conditions and quality of Russian Railways' operations determine both the prospects of growth of the Russian economy and ability of the State to effectively perform such crucial functions as protection of national sovereignty and security of the country, integrity of the united social and economical environment, provision of equal conditions for implementation of constitutional rights and freedoms of citizens (including the right for freedom of travel) all over the country. Today Russian Railways forms the basis of trunk line railway transport of the Russian Federation.

During the period of its operations (Russian Railways launched its operations in October 1, 2003) Russian Railways has ensured systematic growth of efficiency and quality of railway transport service for the country's economy in strict compliance with the goals of the structural reform.
The growing demand for railway transport services is fully satisfied. Throughout the years of dynamic growth of the national economy (2003-2008) we saw gains in passenger traffic by 11.6%, shipments by 12.3%, net freight turnover by 26.8%. Notwithstanding the crisis, in 2009

Russian Railways preserved stability of transport service of the country's economy and population with quality of transportation process improved. According to 2009 results shipments fell by –15% (with –19% decrease initially forecasted), freight turnover – by 6.3% (with allowance for empty mileage of private and leased rail cars), while passenger traffic fell by 12.7%. Against 2008' results, schedule speed increased by 2.5%, hauling capacity of a freight locomotive unit rose by 2.9%, weight of a freight train increased by 1%, while freight rail car turnover rose by 1.9%.
Improved efficiency of Russian Railways operations became the basis for solution of the task (formulated by the Reform Program) of increasing the total national economy costs for freight railway transportations. The share of income from railway transportation in GNP (Gross National Product) during the Company's operation years fell by more than one third, i.e. from 4% in 2003 to 2.6% in 2009.

8.3.2. Cooperation with federal executive authorities

Governmental-Private Partnership
In 2010 implementation of the following projects continued – "Organization of high-speed passenger service at section "St. Petersburg – Buslovskaya Station" (Oktyabrskaya Railroad)" and "Renovation of section "Oune-Vysokogornaya" with construction of the new Kuznetsovskiy tunnel at section Komsomolsk-on-Amur-Sovetskaya Gavan" – at the cost of the Russian Federation Investment Fund. For the said purposes, 11,964.05 million Rubles were allocated from the RF Investment Fund in 2010.

Governmental Support of Construction of Olympic Game Facilities
According to Decrees of the RF Government No. 2144-p dated December 31, 2009 and No. 2150-p dated December 2, 2010 "On increase of authorized capital of Open Joint Stock Company "Russian Railways", the authorized capital of Russian Railways was increased by 60 billion Rubles and by 20 billion Rubles, respectively. These funds were directed to construction of transport infrastructure facilities under preparation for the XXII Winter Olympic Games and the XI Winter Paralympic Games in 2014 (Sochi).

Custom preferences
As a result of work performed in federal executive bodies, the Committee of the Customs Union issued a resolution No. 534 from January 2011 "On changes in the common customs tariff of the Customs Union relative to individual types of motor and non-self-propelled rail cars". This Resolution came into force on February 16, 2011, setting a 2-year long zero rates for import customs tariff on motor and non-self-propelled rail cars intended for operations within electric railway trains with maximum running speed not less than 140 km/hr and less than 250 km/hr which complies with specifications claimed by Russian Railways for Desiro Rus suburban electric train.

As a result of the resolution made, customs tariff for imported electric trains to serve passengers during 2014' Winter Olympic and Paralympic Games will be reduced by 1.1082 billion Rubles.

Financing individual Russian Railways' activity lines out of federal budget

In 2010 the Federal Budget allocated to Russian Railways the following amounts:

- subsidies for compensation of losses in incomes arising from governmental regulation of tariffs, duties and payments for freight railway transportations, totaling to 23 billion Rubles;
- subsidies for performance of capital repairs of public facilities of railway transport infrastructure, totaling to 19 billion Rubles;
- subsidies for transportation of new passenger rail cars manufactured in Russian Federation to railroad stations located in Dalnevostochny Federal District and in the opposite direction, totaling to 1.3492 billion Rubles;
- subsidies for compensation of losses in incomes related to setting of exclusive tariffs for transportation of nephelinic concentrate to Apatity Station of Oktyabrskaya Railroad – Pikaleveo-2 Station, totaling to 0.26 billion Rubles;
- subsidies of Russian Railways for compensation of losses in incomes related to setting of exclusive tariffs for grain transportation, totaling to 2 billion Rubles;
- allocations to authorized capital of Russian Railways in the amount of 103.6 billion Rubles, including:
  - capital repairs at public facilities of railway transport infrastructure in the amount of 20 billion Rubles;
  - organization of intermodal passenger transportations along route "Vladivostok – Knevichi Airport" in the amount of 3.6 billion Rubles

Passenger traffic

One of the main social responsibility indices of Russian Railways in collaboration with governmental authorities is implementation of Federal Law No. 122-FZ (On Monetization of Benefits) which came into force on January 1, 2005. By 2010 Russian Railways made a contract with the RF Ministry of Health and Social Development on transportation of citizens — recipients of social (suburban traffic) service in the amount of 4.05 billion Rubles.

Besides, Federal Budget funded implementation of social support measures aimed at individual categories of population and related with benefits for trips to medical treatment places and back in long-distance trains in the amount of 792.4 million Rubles, handicapped persons and individual categories of the population belonging to veterans for travels to location of organizations which provide veterans with technical rehabilitation aids and orthopedic products, in the amount of 8.74 million Rubles.

Besides, that in accordance with the RF Law "On governmental guarantees and compensations for persons working and residing in Far Northern territories and areas equaled to the said territories", payment of railway charges for pensioners to places of resort and back amounted to 8.25 million Rubles.

According to Decree of the RF Government No. 207 dated April 7, 2007, funds were allocated in 2010 from federal budget for compensation of losses in income resulting from governmental regulation of long-distance passenger transportation tariffs (for travels in third-class sleepers and in general service cars), in the amount of 35.795 billion Rubles.

According to Decree of the RF

Government No. 916 dated December 21, 2007, in 2010 307 million Rubles were allocated from the federal budget in form of subsidies to compensate losses of income resulting from leveling of tariffs on passenger transportations along route Russia – Kaliningrad.
A significant stage in development of suburban passenger transportation and suspension of their cross subsidizing became a government-level decision to support suburban passenger traffic in the amount of 25 billion Rubles. Respective budget financing is planned for that in accordance with 2011, as stipulated in Federal Law dated December 13, 2010 No. 357-FZ "On federal budget for 2011 and planning period for 2012 and 2013". Another important result of active cooperation with federal authorities was setting up a regulatory structure for compensation of shortfalls in income for travel privilege of students and school pupils:

- Resolution of the RF Government No. 163 dated December 27, 2010 "On approval of Rules for subsidies out of federal budget to Federal subjects of the Russian Federation for partial compensation of losses in income of railway transport organizations in connection with decisions made by the RF Federal subjects aimed at adoption of travel privileges for students and foster children of general education institutions, full-time attending pupils of educational institutions of basic level professional education, middle level professional education and high level professional education during their travel by public railway transport in suburban transportation service.
- The following funds were allocated from federal budget in 2010:
- subsidies for transportation of pupils and students by long-distance railway transport in the amount of 0.8788 billion Rubles;
- subsidies granted to the RF Federal subjects for compensation of loss of income of carriers because of use of travel benefits for school and pupils suburban transportation service, in the amount of 1.16 billion Rubles

Security and Anti-terrorist Protection of Railway Transport Facilities

In view of exigent transition to a radically new transport security level as a result of joint activities of Russian Railways and federal authorities, on July 27, 2010 Federal Law No. 195-FZ "On making changes in individual legislative acts of the Russian Federation in connection with enforcement of transport security" was adopted intended to prevent the threat of terrorist attacks and unauthorized intervention in transport operations by increasing liability for violation of security requirements at transport, and introducing more severe punishments for unlawful intervention in its activities.
In 2010, Integrated Program of Enforcement of Transport Security of Population (Decree of the RF Government No. 1285-p dated July 30, 2010 with regard to changes made by Decree of the RF Government No. 2341-p dated December 20, 2010), under which 2.5703 billion Rubles was allocated for implementation of measures for enforcement of population security at railway transport. Work as under way to prepare regulatory acts on technical regulation at railway transport, with the following three technical regulations approved in 2010 by resolutions of the Russian Federation Government, namely:

- No. 524 dated July 15, 2010 "On approval of technical regulations on rolling stock security";
- No. 525 dated July 15, 2010 "On approval of technical regulations on security of railway transport infrastructure";
- No. 533 of July 15, 2010 "On approval of technical regulations on security of high-speed railway transport".

Development of high-speed railway traffic
In order to expand the range of transportation services provided, introduce new front-line transport technologies, which, when developed, will ensure improvement of transport linkage, create more attractive conditions for passengers, improve comfort level and security of passenger traffic, Decree No. 321 dated March 16, 2010 "On measures intended to organize high-speed railway traffic in the Russian Federation" was signed.

Agreements
Russian Railways and the RF Ministry of Regional Development signed an agreement on cooperation in development of railroad stations, the said agreement stipulating development of agreed positions on the draft program "Railroad stations — a point of economical growth of the Russian Federation Federal subjects" in terms of integrated territorial development of regions and focused on implementation of investment projects in construction and renovation of railroad station facilities.

8.3.3. Cooperation with chambers of Federal Assembly

The important line of cooperation is legislative and regulative enforcement of the Company's interests. In 2010 the Company continued its long-standing efforts to prevent adoption by the Federal Assembly of a number of draft federal laws "Charter of Railway transport of the Russian Federation" introduced by deputies of the RF State Duma, as to cancellation of charges for excess utilization of rail cars and freight storage, making public of locomotive traction service contracts, and lowering penal liability. If the said draft laws are adopted, the loss of Russian Railways income will amount to about 7 billion Rubles. As an important outcome of the Company's cooperation with governmental authorities, Federal Law No. 309-FZ "On making changes in Part 2 of the Russian Federation Tax Code in connection with improvement of zero percent VAT rate application procedure" was signed by the Russian Federation President. This Law stipulates application of a zero tax rate to transportation and forwarding services, locomotive traction services and preserves significant working assets of the following subsidiary companies of Russian Railways, namely, PGK, VGK, "TransKonteiner", etc. According to a decision by the Board of Directors of Russian Railways, the procedure of review of the draft law "On customs regulation in the Russian Federation" in chambers of the RF Federal Assembly was monitored, too. The law in edition that did not impair the Company's standing was adopted by the RF State Duma, approved by the Federation Council, signed by the Russian Federation President on November 27, 2010 under No. 311-FZ and published on November 29, 2010.

8.3.4. Cooperation with Regional Authorities

Transportation of citizens with regional benefits

Pursuant to Federal Law No. 122-FZ, all Federal subjects of the Russian Federation, where passenger suburban transportation service is conducted by railway transport, made regulatory acts to provide benefits to citizens, social support of whom was assigned to powers of the Federal subjects of the Russian Federation. Every year, Russian Railways signs contracts (agreements) with executive authorities of the RF Federal subjects on payment of travel charges for citizens belonging to regional benefit category. As of 2010, contracts were signed with all 55 regions where centralized payment is stipulated for payment of transportation services covering recipients of regional benefits (18 regions decided to monetize benefits).

In 2010 the Company received 3.8 billion Rubles for transportation of regional benefit recipients.

Regulation of tariffs in passenger suburban transportation service

According to the Resolution of the RF Government No. 239 dated March 7, 1995 "On measures intended to normalize governmental regulation of prices (tariffs)", the right to introduce governmental regulation of tariffs for transportation of suburban passengers is granted to executive authorities of the Federal subjects of the Russian Federation providing disbursement of losses caused tariff regulation out of relevant budgets of the RF Federal sublects.

Meanwhile, no legislative act of the Russian Federation has regulated the issue whether losses of income suffered by infrastructure owners and carriers as a result of governmental tariff regulation were to be disbursed.

In order to fully compensate shortfall of incomes, contractual conditions of suburban transportation service organization and a standard transport service contract were developed. The contract stipulated the scope (as agreed by the customer) of transport services at the tariffs established. Such contracts were signed with 66 regions; besides, in 3 regions passenger suburban transportation services are provided on the basis of interaction and cooperation agreements. The total amount of budget support for passenger suburban transportation amounted in 2010 to 3.9 billion Rubles (1.1 billion Ruble gain against 2009), including 1.9 billion Rubles received by passenger suburban transportation service companies with participation of regions.

Suburban transportation service providers

The railway transport reformation program stipulates setting up of suburban transportation service companies in order to increase budget support of suburban transportation services from the side of the Federal sublects of the Russian Federation, thus lowering loss ration of such operations. During 2010, 7 suburban transportation service companies were incorporated with participation of a number of Federal subjects of the Russian Federation. As of January 1, 2011, 22 suburban transportation service companies covered all 73 Federal subjects of the Russian Federation with suburban traffic.

Regional investments

The crossing point of interests of Russian Railways regional and local authorities are issues of construction and renovation of railroad stations passenger terminals, development of near-station areas, enforcement of safety and security on rail-highway crossing points and at road junctions. In order to expand cooperation with regional business, the Company developed and approved a clean-cut procedure of joint financing of construction and renovation of railway transport facilities. In 2010, the scope of regional budget investments allocated to railway infrastructure facilities, were:

- 271.9 million Rubles, including:
- repairs of access motor roads to railway crossings amounting in total to 10.9 million Rubles, including:
  - 2.0 million Rubles (Omsk Oblast);
  - 4.0 million Rubles (Novosibirsk Oblast);
  - 2.9 million Rubles (Kemerovo Oblast);
  - 1.0 million Rubles (Tomsk Oblast);
  - 1.0 million Rubles (Altay Territory);
- capital repairs and renovation of passenger platforms (Leningrad Oblast) – 80 million Rubles;
- construction of a railroad station at Priobie Station (Khanty-Mansi Autonomous Area) – 97.36 million Rubles;
- construction of a railroad station terminal at Nyagan Station — 52.04 million Rubles (Khanty-Mansi Autonomous Area);
- renovation and restoration of railway transport facilities located in memorial zone of Lev Tolstoy Station (Lipetsk Oblast) dated to the anniversary of the writer's death, in November 2010 (13 million Rubles in 2009; 20.4 million Rubles in 2010);
- capital repairs of a railroad station terminal, Almetievskaya Station and passenger landing platform, Almetievskaya Station (Republic of Tatarstan) – 11.64 million Rubles

On additional funding sources during implementation of investment projects

Since end of 2008 active measures were taken to receive enterprise profit and property tax rebates granted by the RF constituents to major investors. In 2010, 28 regions enabled the Company to receive tax rebates. According to results of the year, tax exemptions amounted to 1.1 billion Rubles, which exceeded by 298.9 million Rubles (or by 37%) the 2009's figures. Top benefit recipients were Oktyabrskaya (420 million Rubles). Sverdlovskaya (209 million Rubles), Privolzhskaya (64.3 million Rubles) Railroads. Expansion of the existing tax exemption practice will help to create additional favorable conditions provided implementation of 'Strategy of Railway Transport Development until 2030'.

8.3.5. Interaction with Business Communities

Cooperation of Russian Railways with business communities and public organizations in 2010 resulted in support of the Company's initiatives, thus ensuring realization of symbolical events on the following topics:

With Russian Union of Industrialists and Entrepreneurs (RSPP)

In RSPP's Transport and Transport Infrastructure Committee the following was examined and approved:

- draft federal laws on making amendments to Federal Laws "On railway transport in the Russian Federation", "Charter of railway transport of the Russian Federation", "On specifics of management and administration of railway transport property";
- Target model of the railway transportation market for the period until 2015 (approved by the RF Government);

- main directions and mechanisms of regulation of the Russian market of international motor road transportations;
- issues of innovative approach to organization of container traffic with participation of enterprises of various transport type;
- port complex development issues;
- issues concerning organization of the company "Vtoraya Gruzovaya Kompania" (already organized);
- issues of interaction between consigners, carriers and the state:
  - in the field of development of public railway transport infrastructure;
  - in improvement of regulatory control;
  - in improvement of tariff regulation;
- issues of organization of container transportation service;
- issues of main concepts of improvement of efficiency of car fleet control on the basis of infrastructure of Russian Railways.
- issues of legislative enforcement of governmental support of modernization of transport system in the Russian Federation and improvement of its security.
- The Management Board of RSPP examined and supported the issue of "Integration of Russia into world economical community, achievement of top priority goals of the state via effective utilization of its transit potential.

The following proposals of Russian Railways were supported:

- on the procedure of VAT collection from consignors of petroleum products during export operations (the Law was adopted);
- on making changes in Article 164 of the RF Tax Code as to modification of the list of services subject to zero VAT collection, and a list of persons authorized to apply such tax rate (the Law was adopted);
- on making changes in Part 22 of the RF Tax Code in connection with the zero VAT rate collection procedure (the Law was adopted);
- on optimization of tax administration procedures as to application of a zero VAT rate with regard to transportation and forwarding services related to international transportations (the Law was adopted);
- on development of the energy power market: measures to attract investments into power engineering market;
- on efficiency of taxation measures intended to stimulate innovations;
- on the draft Development Concept, cumulative component of pension system being developed by the RF Ministry of Health and Social Development;
- proposals on governmental support of modernization and development of railway system until 2015, in the amount of 447 billion Rubles;
- draft Federal Law "On Police", as to par. 6, Article 48 of the draft law where responsibility of transport organizations is fixed to provide rooms, communication equipment, hardware and services to territorial units and subdivisions of the Police on a grant basis (no support provided);
- proposals for improvement of security at railway transport.

RSPP provided its support for the following draft laws, important for the Company, namely:

- "On cargo transit over the territory of the Russian Federation and introducing changes in individual legislative acts related to organization of transit traffic";
- "On direct combined traffic";
- on making changes to Law "On customs regulation in the Russian Federation" as to the provision stipulating obligatory advance notification of customs authorities;
- on making changes to Law "On customs regulation in the Russian

Federation" as to the provision stipulating limiting the number of customs operations and the list of information to be submitted to customs authorities about cargo in transit over the territory of the Russian Federation, and application of customs inspection as the main method of transit cargo control;
- on making changes to Law "On sea ports in the Russian Federation and on making changes in individual legislative acts of the Russian Federation" of provisions regulating interaction of various types of transport, cargo export from a port, necessity of clarification of parties and conditions of node agreements, liability of operators, carriers and ports;
- on making changes to Law "On transport security".

More than 20 representatives of the Company and specialists are included in Committees of RSPP.

With Public Chamber of the Russian Federation

On the initiative of the Company, public hearing was held on the following issues:
- "Children's summer recreational campaign – 2010: problems and solutions" (March 25, 2010);
- "Role of commuter railway transport in social and economical development of the RF constituents and acute operational issues" (August 25, 2010);
- "Role of youth in modernization development of the Russian industry" (December 15, 2010);
- "Big Moscow: review of transport problems and solutions" (December 17, 2010).

Based on the results of those hearings, recommendations were prepared which fully accounted for the Company's position.

With the RF Chamber of Commerce and Industry

On the initiative of the Company, public hearings were held on the following issues:
- "Target model of railway traffic market until 2015" fully supported by the Chamber;
- "Problem issues of transportation of timber freight and other cargo by railway transport".

Russian Railways are made a member of the RF Chamber of Commerce and Industry (February 2011). The CEO of Russian Railways is admitted to the Board of Directors of the RF Chamber of Commerce and Industry (February 2011).

With Union of Russian Carriers

On the Company's initiative, a panel discussion on the issue "Target model of railway traffic market until 2015" fully supported by the Chamber; as a result, the Company's opinion was fully supported. On the Company's initiative, Union supported proposals on the draft Federal Law "On Police" as to par. 6, Article 48, where the requires transport organizations to provide office rooms, communication equipment, hardware and services to territorial bodies and subdivisions of the Police on a grant basis.

With Guild of Forwarders of Russia

Over 20 events were hold with the Guild which covered the Company's interests.

On the permanent basis, the Company and the Guild jointly plan activities aimed to implementation of projects, most significant for the Company. A joint Work Force was set up to follow up legislative initiatives.

On the Company's initiative, the Guild supported the following proposals:
- "On cargo transit over the territory of the Russian Federation and making changes to individual legislative acts related to organization of combined (mixed) transportations";
- "On direct combined (mixed) transportations";
- On making changes to the Law "On customs regulation in the Russian

Federation" concerning provisions on obligatory prior notification of customs authorities;

- On making changes to the Law "On customs regulation in the Russian Federation" concerning provisions which stipulate limiting of a number of customs operations and to the provision stipulating limiting the number of customs operations and the list of information to be submitted to customs authorities about cargo in transit over the territory of the Russian Federation, and application of customs inspection as the main method of transit cargo control;
- On draft Federal Law "On Police", as to par. 6, Article 48 of the draft law where responsibility of transport organizations is established to provide rooms, communication equipment, hardware and services to territorial units and subdivisions of the Police on a grant basis.
- The Chamber of Commerce has signed the Agreement about the cooperation with Russian Railways. The Chamber of Commerce expressed its wish to render assistance to the Company in the promotion of the reorganization of the suburban traffic on the federal and regional levels as the new system assumes the state order.
- The Agreements have been signed about cooperation as below:
  - Between Russian Railways and "OPORA RUSSIA";
  - Between Russian Railways and All-Russian non-governmental organization "Business Russia".
- The certain work has been done to include the top-managers of Russian Railways in Commission on the matters of industrial and entrepreneurship development that was formed as the consulting and advising body at the Presidium of the General Council of All-Russian Political Party "United Russia". The representatives of the Company were included in the working groups to complete the draft of federal laws, approved by the Commission of RF Government on Legislative activities. .
- The work oriented at the interaction with Russian Union of Industrialists and Entrepreneurs (RSPP) was very successful. On February 16 the expanded meeting of RSPP Commission on transport was held to discuss the issues of transport. The meeting was run by the Top officials of the Company. The participants of the meeting discussed the federal law drafts and the amendments to be introduced in the following laws: "The Railway transport in the Russian Federation"; "The Charter of the Railway Transport of the Russian Federation"; "The particularities of the management and disposition of railway transport assets". RSPP and freight owners supported the platform of Russian Railways. On November 30, RSPP Commission on transport has unanimously approved the project of the Target Model of Rail Freight for the period up to 2015 and recommended to the Federal executive bodies to speed up the approval of the Target Model and the preparation of relevant regulations and legal norms.
- In addition to the above, the Commission on the economic development and support of entrepreneurship at RF Public Chamber has considered the Target Model Draft for the period up to 2015 and unanimously approved the project.
- The top officials of the Company took an active part in the discussions of the government program of anti-crisis measures. The meetings of the Public Chamber with participation of T.A. Golikova, RSPP Management Bureau with participation of I.I. Shuvalov, and Russian Union of Transport were held for the above mentioned purpose.

As a result, the suggestions have been forwarded to I.I. Shuvalov, the First Vice-Prime Minister. V.I. Yakunin accompanied D.A. Medvedev, RF President, in his foreign trips many times, as a representative of the national business (Russian and American Summit on July 7, etc.) and V.V. Putin in his foreign trips (Finland, June 3, and Chinese People's Republic, October 13-14, etc.)

- The key agreements, protocols and contracts have been concluded as a result of such trips. The national business-communities have supported the arguments of Russian Railways against the reduction of financing or suspension of the implementation of the Russian' projects with the use of the resources of the Investment Fund of the Russian Federation. The relevant recommendations have been forwarded to V.V. Putin, the Chairman of the Government. The arguments of the Company on the improvement of the tax control over the usage of transfer prices and the main aspects of custom and tariff policy for 2010 and further for 2011-2012 have received the support. The close cooperation has been established between Russian and American Presidential Commissions due to the appropriate mechanism for continuing the dialogue between Russian and American business communities.

8.4. Charitable activities

Figure 8-4. Lines of charity work of Russian Railways

The charity of the Russian Railways is a traditional trend of the Company, focused at the fulfillment of the free-will and disinterested social responsibility. Every year the Management of the Company defines and approves the Plan of charitable actions for the reporting period and in the end of the year the Company reviews the results of performed work. The total sum spent by Russian Railways for such charitable activities upon the applications from various organizations and individuals amounts to about 0.5 billion Rubles. The traditional lines of charitable activities of the Russian Railways are as follows:

- Wide range social support of different kind (from monetary support to medical care) to disadvantaged people;
- The charitable donations to various NGOs, religious and non-profit organizations whose activities are aimed at the achievement of targets useful for the communities for the development of the spiritual, moral and cultural values along with the health of the communities;
- The support of the socially oriented initiatives and projects aimed at the education and development of the young people;
- The care of the children and railway veterans, including the care of their health, lifestyle and living standards.

Last year Charitable Foundation "Transsojuz" was established to promote the development of railway transport in order to implement the tasks and consolidate financial resources and charitable efforts of Russian Railways, its subsidiaries and enterprises, associated with railway industry, for the further realization of charitable projects which are significant for the nation or recognized as major railway projects. Despite the difficult economic situation we managed to maintain the stable charitable support and respond to a number of questions and requests of the people, NGOs, religious and other organizations. The Company pays a considerable attention to the issues associated with the improvement of moral and psychological state, living conditions, welfare and social protection of the employees and veterans of the railway transport industry. For instance, a wide-range targeted charitable project was realized by the Russian Railways Company to commemorate 65th anniversary of Victory in the Great Patriotic War. The project was dedicated to the improvement of living conditions of veterans who fought in the Great Patriotic War. Twenty one branches of Russian Railways (including all rail roads in the country) took part in this project granting more than 110 Million Rubles. The program covered over 800 railway veterans. In the apartments and the houses where these people lived necessary minor and capital repairs were done. Russian Railways Company is well known for its active life position and readiness to respond and render any assistance to compatriots in difficult situations. This summer our country has faced a difficult situation, when vast forested lands were burning, and the fires left hundreds of families homeless and without property. We have provided the finances in an amount of 30 million Rubles to 7 regions that suffered of the fires most. The spiritual revival of the nation is impossible without revival of the faith of our ancestors – the Russian Orthodox Church – the culture-forming religion of our country. Under the auspices of the Russian Orthodoxy Church, the Russian community has overcome the economic, political and moral crises many times. Therefore it is very important for us to support the projects related to the religion. Besides the construction and restoration of cathedrals such actions might be considered the due attention to the social activities of the Russian Orthodox Church, covering all sides of the life of our society and each human, believing in God. A lot of examples of active participation of the charitable foundation "Transojuz" of the Russian Railways might be given in this connection. Only some of these examples are given below:

- Financial support in the restoration of The New Jerusalem Monastery (or the Novoiyerusalimsky Monastery), also known as the Voskresensky Stavropighial Monastery (Resurrection) Monastery (at present moment the sum of allocated funds amounts to 75 million Rubles);
- The support in the reconstruction

of the Church of the Fyodor's Icon of the Mother of God in Saint Petersburg, located in close vicinity of Moscow Railway Station (including the financing of foundry and installation of bells);
- The financial support in building of Strannopriimny House (Pilgrim House) of the Russian Orthodox Church at the site where Jesus Christ was baptized in Jordan River (at present the sum of allocated funds amounts to 75 million Rubles);
- The construction of the Church of All Saints Resplendent in the Russian Land – the only place where the unhappy people with a crippled soul can enjoy the normal human attitude and, may be, for the first time in their life feel good, love and spiritual joy – in the general regime colony of FSI 55/5 in Sukhinichi.

And a lot of similar examples can be cited in addition to the above said. "Transsoiuz" and the Russian Railways are taking major and fundamental efforts in the area of preservation of our country's cultural heritage.
The examples of such activities are the restoration of State Museums – Preserves in Pavlovsk and Tsarskoye Selo in the suburbs of Saint Petersburg; the restoration work in Cathedral of Basil the Blessed in Red Square in Moscow; the construction of the new Concert Hall in Mariinsky Theatre, etc.
The effective charity work is based on voluntary and disinterested help of the people who inherited the best traditions of Russian entrepreneurs of the past, patrons who became famous owing to their mercy. The charity becomes possible owing to ordinary people who are not alien to such concepts as "compassion", "mercy" and such a long forgotten, but essential word as "prizrenie" ("care"). "Prizrenie" means to see, feel and share, and, if possible, to help those who need your help.

8.5. Information Transparency of the Company's Activities

Joint Stock Company "Russian Railways" adheres to the principles of maximum availability and transparency for all customers and stakeholders.
The Company strives to submit complete and reliable information to shareholders, state authorities, investors, personnel, NGOs, and mass media representatives. Russian Railways are committed to provide full and reliable information about all Company's activities, however, the Company tries to prevent disclosure of its commercial secrets and leaks of insider information. In addition to the information that is subject to compulsory disclosure as required by respective Russian laws on information disclosure, Russian Railways voluntarily submits information on its current operational, social and other activities in order to provide a better and fuller presentation of the Company's operations.
Russian Railways promptly and adequately react to events and changes of circumstances related to corporate actions. The information that is made publicly available is given below:
- Biographic and personal data of members of Board of Directors and Management Board of the Company;
- Information about the corporate social and personnel policy;
- Information about the Company's

participation in national and international projects;
- Charity and sponsorship activities;
- Cases of environment pollution and factors adversely affecting ecological security of the population;
- Financial and economic activities;
- Strategic issues and the development projects;
- The progress of structural reforms associated with the railway transport;
- Information on ratings awarded to the Company;
- Information about procurement and evaluation activities;
- Information about new services and other opportunities for stakeholders;
- Information about everything that might affect the adoption of investment and other decisions, related to Russian Railways.

The principal information instrument of Russian Railways is the corporate Web portal (www.rzd.ru) which includes English site version. The website posts all main news of the Holding. In addition, the latest news is broadcasted in independent and industry specific mass media channels.

The Company's Department of Corporate Communications is responsible for effective information exchange with all stakeholders. The activities of the Department are governed by the Regulation "Information Policy of Russian Railways".

To make the information available for all stakeholders while observing the principles of transparency, accessibility and objectivity, the Company uses the methods as below:
- Information is posted in Internet free-of-charge and is available to everybody interested;
- Information and documents of the Company may be delivered on requests of stakeholders;
- Information is published in the Company's official periodical, "Gudok" ("Horn") newspaper;
- Regular meetings of the Company Management with stakeholders for clarification of the platforms and opinions on principal issues associated with the development and activities of the Company.

During 2010 the systematic work was conducted by the Company with leading Russian and foreign mass media. The purpose of such work was to present the platform of the Company on urgent debate problems to the public, including the innovations, introduced by Russian Railways, the higher loyalty of mass media and community to the Company. The comprehensive programs connected with the communication support of each functional direction of the Company business have been implemented including as follows:
- Freight/Passenger transportation;
- Finances and economy;
- Modernization;
- Investment projects and innovations;
- Social Policy;
- Security.

The following events of the Company have been widely covered by mass media in 2010:
- Presentation of Allegro train;
- Construction of railway infrastructures for Sochi Olympiad;
- Meeting "The Investment Program of Russian Railways for 2010" with participation of V.V. Putin, Prime-Minister of RF Government, held in Sochi;
- Launch of regular services of high-speed Sapsan trains en route Moscow – Nizhny Novgorod;
- Launch of regular services of a passenger train en route Moscow – Nice;

During the year over 900 official press-releases of the Company were issued together with 4700 news from the Company's branches, subsidiaries and affiliates.

Every day mass media received over 25 new messages containing the new information about the activities of the Company in the regions. Over 25 presentations were held by Russian Railways during the year. The Company presented the innovations in the railway industry. The journalists and reporters participated in such presentations, thus providing broad information support in mass media. Over 25 press-conferences run by the Company managers and over 65 press-events in regions and abroad were held by Russian Railways Company. Top managers and CEO of the Company were interviewed directly and indirectly during the last year.

Besides, in 2010 20 press-tours to various railway facilities and major transport forums were held to demonstrate the changes in the Company so that the journalists and mass media representatives could get a deeper insight of such processes.

As a result of the work done, over 25 thousand materials containing the information about the Company's activities appeared in mass media, including TV, radio, newspapers, journals, Internet publications. At that, the majority of mass media reactions were positive.

8.6. Evaluation of Compliance of the Company's Activities with Regulations and Laws with Respect to Public Relations

The principal conditions to prevent corruption in Russian Railways are the transparency of all operations and activities of the Company, including strict regulation of decision-making order and procedures and control over officials' work. As to all said, the Company is guided by national and corporate regulations and norms, in particular, by "Rules of Non-discriminatory Access of Carriers to the Public Railway Infrastructure' approved by Decree No. 710 of November 25, 2003 of the RF Government in accordance with the principles stated in Article 14 of Federal Law "Railway Transport in the Russian Federation". The internal documents of the Company contain the provisions stating the declaration procedure, in case of any conflict of interests by the members of the executive bodies of Russian Railways. In case of any such conflict, Russian Railways' executive bodies shall immediately inform the Board of Directors. This practice will secure the Shareholders' interests. Russian Railways have issued the Instructions regarding the handling the information that contains commercial secrets. The said Instructions were approved by the relevant Russian Railways' order. The Company pays close attention to the improvement of the financial and economic activities control. The special division "Zheldorcontrol" (hereinafter "the Center") was formed for this purpose. Such Center conducts audits and controls financial and economic activities of the Company. The Regulations about the Center, its tasks, powers and functions provide the grounds for the Center's effective operation as the internal controlling and auditing body. "Zheldorcontrol" and Security Department undertake measures to prevent and accordingly identify the damages caused to the economic interests of the Company, in compliance with the regulation in force regarding the cooperation during the audits of the financial and economic activities of affiliates, structural subdivisions and other enterprises of Russian Railways. In the case of such violations and misuses, the internal investigations shall be conducted. Depending on the results of internal investigations and circumstances, the decision is made whether the civil law shall be applied to compensate the damage or the case shall be referred to the law enforcement agencies as stated by the Laws. Russian Railways is a natural monopolist so the Company shall strictly adhere to the antimonopoly laws.

09

Product and Service Liability

9.1. Policy of Russian Railways with Regard to Liability to Customers

The liability policy of Russian Railways is based on the requirements of the Federal Law dated January 10, 2003, No. 18-FZ "Regulations on the Railway Transport of the Russian Federation" and comprises obligations providing:

- security of passenger transportation;
- security and safety of transported cargo, luggage, and cargo-luggage;
- quality passenger service at railway stations, railway terminals, on passenger platforms and in trains;
- train traffic in accordance with timetable;
- timely and quality delivery of cargo, luggage, and cargo-luggage;
- railway transport customers with up-to-date and reliable information about train departure and arrival time, passenger, luggage, and cargo-luggage transportation cost, opening hours of railway ticket offices, left-luggage offices, location of the railway station facilities, about customer services, and benefits provided to citizens.

9.2. Liability to Customer Management System

9.2.1. Liability to Customer Opportunities and Risks

The Company's activity with regard to liability to customer bears a number of risks (please refer to table 9-1).

Table 9-1
Risks and opportunities of Russian Railways as to liability to customer

No.	Risk	Line of activity	Performance Indicator
1.	Derailing, accidents, emergencies, other incidents and unlawful acts	• Performance of work for prevention and liquidation of fires, other accidents and emergency situations, incidents and performance of accident-recovery work; • Continuous monitoring of conditions of infrastructure and rolling stock; • Organization of repairs and maintenance of rolling stock and other equipment; • development and use of engineering solutions to prevent negative influence of human factor during operation of railway transport; • compliance with legislative and regulatory requirements concerning safety of products and services; • Training and advanced training of personnel; • Raise the level of safety culture, personnel motivation and initiative	• Reduction of the number of derailing, accidents, emergencies, other incidents and unlawful acts; • Introduction of functional quality management strategy; • Introduction of functional strategy of guaranteed safety and reliability of transportation processes

Table 9-1
Risks and opportunities of Russian Railways as to liability to customer

No.	Risk	Line of activity	Performance Indicator
2.	Default on obligations to customers	• Insurance of freight and passengers; • Insurance of fright transportations, especially in case of transportation of hazardous cargo and perishable goods by the cargo owner or consignees; • Training and advanced training of personnel; • Monitoring of customers' satisfaction; • Introduction of quality management systems in the Company's subdivisions	Less number of complaints and claims from customers

9.2.2. Liability to Customer Strategies and Programmes

The Company has adopted a functional strategy for promotion of guaranteed safety and reliability of transportation process, which determines the main principles, areas and mechanisms for achieving the targeted state with regard to promotion of transportation safety. Russian Railways will be implementing the corporate safety management system in accordance with the following major principles:

- integrity (system approach) in carrying out safety management procedures;
- strategic orientation of safety management activities;
- introduction of technical facilities monitoring and control systems in order to eliminate the impact of human factor when analyzing malfunctions of technical facilities;
- continuity of safety management process based on monitoring and regular update of information used in the corporate management system;
- unity of safety management;
- integration of risk management procedures into the functional activities of Russian Railways in the field of safety promotion.

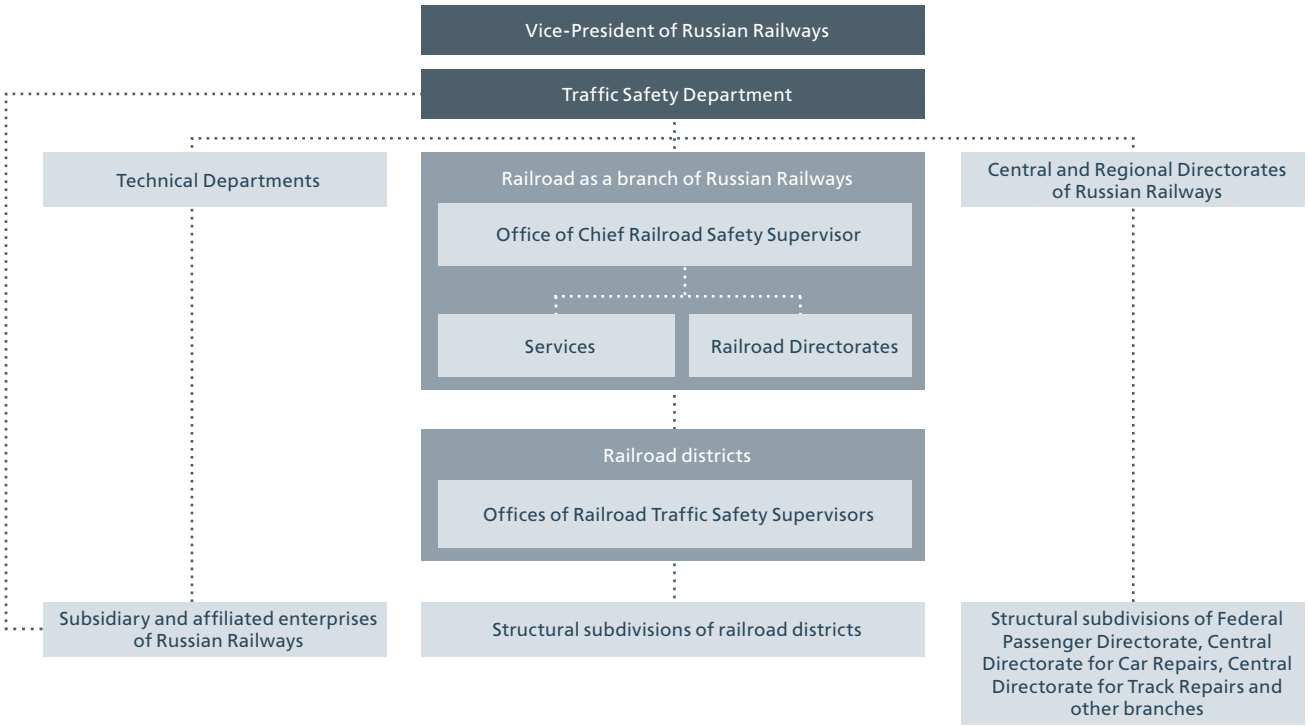
The Company has adopted the Quality Management Functional Strategy developed in order to:

- enhance promotion of transportation safety based on the quality control of all technological operations in the course of transportation, as well as in the course of repairs and preparation of rolling stock;
- substantially improve the quality of services provided to develop new markets inaccessible before, and to increase competitiveness and strengthen presence in the existing markets. For more details on the Quality Management Functional Strategy, please refer to Russian Railways web-site at: http://www.rzd.ru/wps/portal/rzd?STRUCTURE_ID=1448.

9.2.3. Liability to Customer Management Structure

In 2010, the train transportation safety control system was implemented through a three-level organizational structure, the operation of which was headed by Russian Railways Vice-President in charge of the transportation safety issues. The structure of interaction between the auditing administration for transportation safety with branches and their structural departments is shown in Fig. 9-1.

Fig. 9-1. Security supervision staff: structure of interaction



Organizational and control functions with regard to promotion of safety are distributed in the following manner:

- at the network level — Transportation Safety Department that works in accordance with the regulations approved by the President of Russian Railways;
- at the railroad level — chief auditors for transportation safety of trains of the railways reporting to the heads of the railways;
- at the railroad division level — chief auditors for transportation safety of trains of the railroad divisions reporting to the heads of the railroad divisions.

The auditing administration for transportation safety exercise control over adherence to the regulatory legal acts of the Russian Federation and regulations of Russian Railways regarding transportation safety issues, emergency prevention and recovery,

transportation of hazardous cargo.
The auditing administration submits reports to the federal bodies of executive power and to the central office of Russian Railways.
Auditors carry out audits and inspections of organization of work for promotion of train transportation safety within offices, branches, and structural subdivisions of the railways divisions, control remedial actions. Their functions also comprise analysis of condition of transportation safety on the railways and development of preventive measures, regulatory documents on the matters of transportation safety, emergency prevention and recovery, transportation of hazardous cargo, elaboration of proposals on their modification and addition.
Main work for control of organization of train transportation safety in Russian Railways departments, directorates, at the railways and railroad divisions is carried out by means of technical inspections (audits). These inspections are not just a tool to reveal and acknowledge the existing problems in work for prevention of transportation safety violations. The most important result of these inspections and audits is detection of "bottle necks" and development of concrete proposals and recommendations aimed at elaboration of remedial measures as well as evaluation of the level of preventive work for promotion of train transportation safety by command personnel of railways, railroad divisions and structural subdivisions. The results of technical inspections (audits) carried out by the committees of Transportation Safety Department of Russian Railways are reviewed by the Russian Railways Vice-President in charge of the transportation safety issues, or by the Head of the Transportation Safety Department. At the same time, heads of the structural subdivisions, railroad divisions and independent branches are developing a complex of organizational and technical measures aimed at correction of violations detected during inspections (audits).
The results of technical inspections (audits) carried out by the auditing administration for transportation safety of the railways and railroad divisions are reviewed by the heads involved within the established deadlines (including development of measures aimed at correction of the detected violations as well). Increase of safety of the railroad transport operation is one of the most important goals of reform stated in the Structural Reform Programme approved by the Government of the Russian Federation. In order to reach this goal, principles of graduality and minimization of the irreversible action risk have been provided for.
Over a period of the last 3.5 years, the main direction with regard to promotion of transportation safety in the Company is the "Functional Strategy of Guaranteed Safety and Reliability of Transportation Process".
The Strategy determined transition towards a new transportation safety management system — building and development of the Safety Management System on the basis of new principles, methods and tools. The basic methodology of this system is risk management allowing to set out the system's priority. During the period that passed the following work was accomplished:

- structural subdivisions, railways, directorates together with the departments were involved in solving major functional tasks of the Strategy;
- analysis and improvement standards were developed;
- railroad inspections were carried out using the elements of technical audit, results of the inspections are used to determine the "bottle necks" for implementation of preventive measures;

- based on the "Methodological recommendations on traffic accident damage calculation", multiple factor analysis was carried out with regard to transportation safety state taking into account not only the instances of transportation events and accidents, but their economic impact as well;
- work on forecasting the risks of emergence of hazardous states at the infrastructure and rolling stock facilities was launched.

In order to develop the Strategy, the Company decided to establish a situation room for emergency monitoring and management at Russian Railways. For this purpose a concept of the Situation room was developed and approved, as well as measures for its establishment and operation. Modern economic situation requires the Company to have an efficient mechanism to response the transportation safety situation to use a complex of economic, legal, and technical measures. To implement such a mechanism the Company systematically works on the issues of labour motivation of the railway employees ensuring transportation safety. In 2010, over 2 billion Rubles were paid as bonuses for promotion of train transportation safety to 119,000 employees. 184 persons received a badge of honour "For Transportation Safety" together with a bonus of 12,000 Rubles totaling 2,208,000 Rubles.

During the years of its activity, Russian Railways invested over 33 billion Rubles only in implementation of transportation safety enhancement programmes without taking into consideration the comprehensive projects. On February 25, 2010, at a special meeting of the Board of Russian Railways a complex of measures for improvement of technical facilities reliability and promotion of transportation safety was adopted. Implementation of this complex of measures will allow to improve the quality of goods supplied for the Company's requirements, reliability of operation of the infrastructure facilities and rolling stock, and the level of transportation safety.

Continuous monitoring and analysis of safety violations and their economic impact is an integral part of the comprehensive system of transportation safety management at the Russian Railways. A research-to-practice conference "Train Transportation Safety" is held on an annual basis, heads and specialists from departments, directorates, branches and their structural subdivisions of Russian Railways, as well as the representatives of sectoral science, higher education institutions, design bureaus, factories and the CIS countries take part in it. The Company's management participates in the conference. After the conference, recommendations on work aimed primarily at solving accumulated problems in the field of transportation safety are developed. In April 2010, measures for optimization of structure of chief auditors' administrations for railway train transportation safety were adopted. Auditors for transportation safety from the railways divisions were transferred to the administration of the chief auditor for railway train transportation safety of the railways executive body — Russian Railways branches.

This reorganization allowed for more efficient use of the auditors administration, harmonization of work of regional auditors. In 2010, technical inspections of organization of the transportation safety were carried out at Gorkovskaya, Zapadno-Sibirskaya, Dalnevostochnaya, Oktyabrskaya, Severnaya, Sverdlovskaya, Moskovskaya, Kuibyshevskaya, Severno-Kavkazskaya railways, also inspections at Kaliningradskaya, Privolzhskaya, Yugo-Vostochnaya,

Yuzhno-Uralskaya, Vostochno-Sibirskaya, Sakhalinskaya, Zabaikalskaya, Krasnoyarskaya railroads, including inspections at structural subdivisions of the central directorates and other branches of Russian Railways located within the boundaries of the corresponding railways.
As a result of these inspections, 8,318 locomotives were removed from operation, work at 1,623 shops and units was suspended, 1,230 passenger and goods trains were declared not ready for operation; 399 station-to-station blocks, 22,209 turnout switches, and 6,252 station tracks were closed for transportation.

Safety in figures

In 2010, 38,000 highly defective rails were detected in the railway network, at the same time 56 rails were broken (58 in 2009), in five instances rail breakages caused four train derailments and one railway disaster met by a goods train. Permanent increase of the portion of continuous welded rails and string lengths (in block section and station-to-station block) results in an increase of welding joints, however, welding machines and joints welded by them do not meet the up-to-date requirements. During the period of the Company's operation, 194 instances of rail breakage at welded joints took place, or 30 per cent of total breakage. Main causes of rail breakage are as follows:

- defect detection equipment fallibility in non-selective rails inspection;
- inefficient management engineering of the defect detection equipment utilization quality control;
- insufficient quality of welded joints.

Handling the problem of detection of all kinds of rail defects at early stages will make it possible to minimize the risk level of rail breakages. Within the locomotive park, the amount of damage caused to passenger train locomotives has increased by 62%.
In 2010, 65 instances of fire outbreak took place in locomotives, that exceeds the level of 2009 by 81%. The main causes of fire outbreaks in locomotives were defects and failures of:

- electric wiring and electric equipment (19 instances);
- traction motors and cables (20 instances);
- Diesel motors and equipment (8 instances).

Within the car park, the main problem is breakage of solebars of freight car trucks due to the fault of manufacturing plants:

- 10 instances of breakage happened within the responsibility of "NPK "Uralvagonzavod" JSC;
- 5 instances in case of closed-up JSC "Azovelektrostal";
- 4 instances in case of "Promtraktor-Promlit";
- 1 instance each in case of the Bezhitsky and Kremenchugsky steel works.
- 86 per cent broken car frames were manufactured during 2006-2008.

On repeated occasions, Russian Railways JSC informed the manufacturers of the low quality of the cars supplied, and, primarily, of the moulded pieces of trucks, however, the problem of the quality of products still remains.
In order to reduce the train derailment risk, in 2010, Russian Railways had to carry out unscheduled technical inspections of the crucial parts of open box cars. From the beginning of 2010, technical maintenance of cars within the scope of TO-3 requirements 6962 has been serviced, by way of which 3,453 solebars and 396 bolsters were rejected as defective. In the last 3 years, 52,621 cars were serviced in accordance with TO-3, by way of which 9,174 solebars and 1,552 bolsters were rejected as defective. As matters stand, such measures should be taken on the railways in the future as well. In order

to prevent road traffic accidents, each year the Company takes measures to equip the crossings with up-to-date warning devices and fenders, allocates about 500 million Rubles to maintain the railway crossings. Each year, over 200 road traffic accidents happen at railway crossings in Russia, causing a big number of road users to die or get injured, which is accompanied by serious damage to property. Almost all road traffic accidents at the railroad crossings happen because motor car drivers do not observe the requirements of the traffic regulations. In 2010, the number of road traffic accidents at crossings amounted to 260 instances, which is 29 per cent higher than in 2009. There were 79 collisions of motor cars with passenger trains. 225 persons were injured, 72 of whom died. 107 locomotives and 26 rail cars were damaged. Direct losses amounted to over 27 million Rubles. In order to prevent road traffic accidents and to expound the rules of passing the railway crossings to motor car drivers preventive social work carried out on the railways, at the motor transport enterprises and right at the crossings. 93 agreements have been concluded with the agencies of the State Traffic Safety Inspectorate (GIBDD) with regard to operation of extra control posts, 1,210 GIBDD groups were established and operate, together with Russian Railways employees they carry our inspections at the railway crossings. In 2010, over 11,000 inspections of compliance with the rules of passing the railway crossings were carried out. A programme for enhancement of transportation safety at the railway crossings developed for the period from 2006 to 2010 was implemented by Russian Railways. A camera system of visual recording is being installed, the information from cameras being transmitted to displays at the GIBDD Departments. In 2010, 19 such systems were installed. The problem of safety at the railway crossings can be solved only through the construction of viaducts (tunnels). At the moment, the speed of construction is very low. As for now, only 23 viaducts out of 118 planned ones have been built. According to the data provided by the railways and functional branches, financial losses incurred by Russian Railways in 2010 due to transportation safety violations amounted to 280.384 million Rubles. The Company's loss through the fault of its structural subdivisions makes up 171.1 million Rubles, while 109.3 million Rubles are losses caused by the third parties of traffic. The total sum of losses decreased in comparison to previous years.

9.3. Implementation of the Customer-Oriented Social Responsibility Policy in 2010

9.3.1. Quality Management

Implementation of measures aimed at improvement of the quality of service provided to passengers at the railway stations and when moving continues. In recent years, a number of new, more up-to-date and readily constructible, railway stations have been opened; passenger car depots have been renovated and completely repaired. Every year, the Company purchases modern comfortable passenger cars and widens the range of services provided. Among them: arrangement of children's rooms, libraries, taxi call service, hotel booking services, railway ticket booking and purchase services, broadcasting of video shows, etc. In order to enforce safety of passengers, cars are equipped with video surveillance systems, allowing the passenger car attendant to maintain order in the car while observing from the service compartment. In summer, a new service is offered to the passenger — an option to choose a compartment for men, women, or a compartment of a mixed type. More and more routes are being equipped with comfortable luxury night coaches, the up-to-date design and equipment of them providing the highest level of service and comfort available today en route. The programme for equipment of cars with "Safety control and passenger train communication system" with GLONASS/GPS for Russian Railways in 2008-2011 will allow to obtain a comprehensive solution for the improvement of passenger train transportation safety, operative response to emergencies, improvement of the rolling stock amortization analysis and planning of repairs and recovery of the property assets.

9.3.2. Provision of Information to Customers and Marketing Communications

Russian Railways informs the customer about the services provided, as well as of the outcomes of its work via mass media, the Internet, text advertising. The Company provides for accessibility of the rules and regulations governing the use of railway transport and behavior of the railway transport customers. The Company is also working in the field of marketing communications, informing target customers the type of its services while taking into account the requirements set forth in the regulatory and legal documents with regard to marketing communication. The information about the services rendered by Russian Railways is provided free of charge at the railway stations, railway terminals, in trains and in other places where passengers are provided with services. At the railway stations almost all crowded places – platforms, ticket offices, waiting rooms, metro entrances and exits, as well as the buildings of the railway stations – are furnished with ads. Train schedules for passenger trains including suburban trains, as well as postal and baggage trains are made available to the passengers by the carrier using wall-mounted information media, specialized information boards and reference guides. Loudspeakers at the railway stations and in the railway terminals are used to inform about the changes in passenger train schedules. On the Web site of Russian Railways, in the "Passenger Transportation"

section, (http://pass.rzd.ru/wps/portal/pass) one can look through the schedules of long-distance trains, select a suitable itinerary, find a detailed itinerary description (duration of travel, arrival and departure time), ticket availability and prices, as well as book and buy a ticket. The "Aeroexpresses" section contains information on the speed aeroexpresses going from the centre of Moscow to the capital's airports, as well as about the schedule and ticket prices. In the "International Routes" section, there is a list of international routes and other useful information (rules of transportation, discounts). A long-distance train ticket of Russian Railways can be bought on the Internet from any place in the world. This service is provided for both Russian, and foreign citizens. In order to obtain hard information about the passenger's satisfaction with the level of service provided and service standards supported, a system for monitoring the quality of rendered services was implemented.

As a part of this system, a list of criteria used to evaluate the satisfaction of passengers' requirements was developed. Questionnaires for registration of passenger satisfaction level and evaluation of the grade of meeting the service quality standards based on the "Mysterious passenger" method were created and introduced.

Passenger complaints, proposals and wishes coming through the hot line real-time routine represent an actual source of emotional information about the problems of service.

Passengers' perception of Russian Railways activities is being constantly monitored and studied.

The Web site of Russian Railways and "Goudok" newspaper always publish answers of the directorate officers to passengers' questions, coming to the "hot line" of Russian Railways. These measures make it possible to support the feedback with passengers as for the matters of service in a relatively short time and to take measures promptly both of organizational nature, and those aimed at improvement of technological process and service.

Provision of information to senders and receivers of cargoes

In the course of 2010, work on implementation of a payer's joint personal account (hereinafter the "ELS") technology was carried out at the railways — Russian Railways branches. Thanks to introduction of the ELS technology, a payer for cargo transportation (a sender, a receiver of cargo or a shipping agent) gets an opportunity to pay for the cargo transportation with delivery (receipt) all over the railway system in Russia provided that one payment management agreement is concluded based on the following principle: one legal entity — one payment management agreement. Thus, there is a uniform process solution with regard to financial settlements of the Russian Railways transportation service users for cargo transportation.

A Decree of Russian Railways dated by December 8, 2008, No. 2615r sets forth a procedure for organization of work with regard to using bank guarantees as securities of transportation payment obligations, that allowed to increase quality of services provided to the customers of Russian Railways.

In order to speed up document turnover in the course of collaboration with senders, receivers of cargo, payers for cargo transportation and owners of the rolling stock, the Premium Transportation Service Centre worked on implementing electronic document turnover when preparing documents for transportation of cargo and empty rolling stock, including the application of an electronic digital signature (hereinafter the "e-signature").

The use of e-signature considerably

increases the quality of services provided by Russian Railways to customers. At the moment, all Regional Agencies for Premium Transportation Service (RAFTO) and Agencies for Premium Transportation Service (AFTO) are equipped with e-signature certificates allowing them to speed up work with customers, for instance, the senders of cargo can submit and modify their applications for transportation of cargo right from their workplace, obtain approval of Russian Railways on their applications, sign transportation documents, record cards, final statements and car spotting/picking statements. Rolling stock owners got an opportunity to do all the paperwork for transportation of their own empty rolling stock using the e-signature. In 2010, comprehensive approaches to cargo transportation services and supply of rolling stock were implemented. In order to improve the quality of transportation management and provide for efficient interaction between Russian Railways and senders of cargoes and owners of the railway rolling stock during the cargo transportation, the Centre for Premium Transportation Service (CFTO) of Russian Railways together with the departments involved worked out the patterns of interaction between the participants of the transportation process, providing the market with a comprehensive service for organization of the cargo transportation ("on a turnkey basis") and timely supply of the required quantities of rolling stock by the shipper irrespective of its ownership.

This service is rendered based on:

- agreements concluded between the shipper and cargo senders for provision of a comprehensive cargo transportation service on condition that the cargo owner supplies the approved amount of cargo for transportation and the shipper provides the required amount of rolling stock irrespective of its ownership;
- agreements concluded between the shipper and rolling stock owners, governing the use of the private rolling park.

Work on implementation of a comprehensive service for the cargo transportation in accordance with a specially designed schedule was carried out as well. In order to provide people interested in development of a custom-designed schedule for goods trains with a comprehensive service for the cargo transportation in accordance with a specially designed schedule, Russian Railways adopted the Regulations for consideration and approval by Russian Railways applications for development of a custom-designed timetable for goods trains by Decree dated December 5, 2008, No. 2597r.

Publicity activity

Publicity activity of Russian Railways is an important factor supporting the Company's growth; it informs the society of its policy aimed at implementation of Strategy-2030 and changes taking place within the Company.

Fig. 9-2. Objectives of publicity and information activities

9.4. Innovative policy of Russian Railways in 2010

Innovative development of Russian Railways

The objectives of the innovative development of the economy set by the leaders of the country that were developed in the list of messages of the President of the Russian Federation dated January 4, 2010, No. Pr-22, determined the necessity to make the fundamental documents of the Company more up-to-date and to bring them in line with the new level of its scientific and technological development and the capacity of the machine-building complex of the country. This was stated in resolutions of the board of directors of Russian Railways dated April 27, 2010. Within the process of implementing the corresponding decisions of the board of directors, the White Book of Russian Railways was made up-to-date the Strategy of innovative development of Russian Railways for the period up to 2015 was developed on its basis. The Company's innovative development figures were made more precise, the present level of its technological development was evaluated. 12 directions

for the innovative development of the Company were formulated, covering the following issues:

- creation of modern transportation and logistics systems, including high-speed and speed transportation;
- development of intellectual transportation management systems;
- introduction of innovative materials, technical facilities and technologies in the realm of infrastructure and rolling stock operation and maintenance, that enable the decrease of the lifecycle cost and the increase of reliability;
- learning to use new rolling stock production technologies, comprising the basic characteristics (efficiency, speed, reliability) of the best samples in the world;
- provision of efficient resource management based on formation of a system infrastructure and rolling stock reliability and safety parameters, and application of methods taking into consideration evaluation of risks at every stage of the lifecycle.

If compared with the previous edition of the White Book, the following directions for development were added as the key ones:

- increase of energy efficiency of the Company's main activity;
- environmental protection;
- improvement of the technical regulation system;
- introduction of innovative satellite and geoinformation technologies.

In accordance with the Company's course for innovative development, in 2010, the level of aggregate financing allocated for the research and advanced development (NIOKR) amounted to 4.7 billion Rubles. At the same time, it is proposed to make the NIOKR expenses equal to 1% of the income by 2015. By this time, the Company's innovative development programme should have been implemented, its outcomes encouraging the restoration of schools of scientists, enhancing the potential of the research institutes, developing and supporting of a network of engineering centres, promoting the invention and implementation of breakthrough technologies in the field of railway transportation. The Strategy determines the main targets, indicators and performance figures, which are made more precise when working on the innovative development programme of Russian Railways. The Company consistently implements the policy aimed at the effective development of partnership relations with the leading scientific, financial organizations and industrial companies of the world.

In October 2010, a new cooperation agreement with the Russian Academy of Sciences was signed. In order to unite financial and scientific resources to develop drastically important railway transportation technologies, cooperation agreements between Russian Railways and Russian Fundamental Research Fund (RFFI) with the state corporations "Rosnanotech" and "Rostechnologii" were concluded, as well as with a number of foreign and domestic companies. Implementation of the Innovative Development Strategy and work on the Programme should be carried out with a view of formation of technological platforms.

In 2010, the Company initiated the creation of a technological platform called "High-speed intellectual railway transport", which was included in the list of technological platforms approved on April 1, 2011, by the resolution of the Government committee for high technologies and innovations.

In 2010, the Company arranged for working-out of the Innovative Development Programme. This Programme provides for implementation of 12 main directions for innovative development determined in the Strategy and contains a number of measures aimed at the development

and introduction of new technologies, innovative products and services meeting the global standards, as well as stimulating innovative development of the key industries in the Russian Federation.
These measures are aimed at expansion of the scientific and production cooperation, including international cooperation, the development of business processes of the Company. An important role in the Programme is assigned to such directions as personnel training, education of young people, provision of continuous education, aimed at forming an "innovative man", using the term from the draft Strategy for the Innovative Development of the Russian Federation for the Period up to 2020. Innovative Development Programme of Russian Railways was approved by the board of directors after obtaining approvals of the Ministry of Transportation of Russia and the working group for promotion of public-private partnership in the field of innovation.

Speed and high-speed transportation

The summary as for the speed and high-speed transportation development, includes the following points:

- full coverage of high-speed transportation on the road section Moscow — St. Petersburg by "Sapsan" electric trains, 8 electric trains in operation;
- On July 30, 2010, speed transportation opened on the road Moscow — Nizhny Novgorod;
- On 12 December, 2010, speed transportation opened on the road St. Petersburg — Helsinki.

In 2010, over 1.5 million passengers were transported on the road St. Petersburg — Moscow, and over 2.0 million people taking into account Moscow — Nizhny Novgorod section of the road. For comparison: before the introduction of "Sapsan" electric trains, the annual volume of traffic provided for by such speed trains as "Nevsky Express", "ER-200" and "Aurora" on the St. Petersburg — Moscow road amounted only to 600,000-700,000 passengers per year. This project is in incredible demand with the passengers.
The occupancy rate of speed trains on the road section Moscow — St. Petersburg from the beginning of operation amounted to 86.0%. For daytime trains, taking into account the passengers getting on and off the train on intermediate passenger stations is over 100%. The occupancy rate of speed trains on the road section Moscow — Nizhny Novgorod from the beginning of operation amounted to 64.1%. Technical maintenance of 8 electric trains is carried out in "citation" mode in a motor train depot St. Petersburg — Moskovskoye of the Oktyabrskaya railway ("Metallostroy"). Siemens AG performs all works to support continuous operation of "Sapsan" electric trains, including technical maintenance and repairs of trains throughout the entire period of their operation (30 years). At the same time, Siemens AG provides the trains with spare parts, components and modules, required for maintenance of the rolling stock throughout the entire period of their operation. In subsequent years, increase of the potential demand for high-speed transportation on the road St. Petersburg— Moscow — Nizhny Novgorod is expected. In order to satisfy this demand and to provide for stable transportation in periods of major repairs of "Sapsan" electric trains, purchases of additional high-speed trains are required. The Company's management is currently considering the very possibility of purchase of an additional lot of trains and their quantity.
Development of speed transportation on St. Petersburg — Helsinki road is

an equally important project. Russian Railways together with the Finnish Railways established a joint venture, Oy Karelian Trains Ltd., that purchased basing on the results of the international tender 4 "Allegro" doubly-fed seven-car electric trains from Alstom (Pendolino Sm6)), with the design speed reaching 220 km/h and occupancy capacity of 344 seats. The certificate for "Allegro" electric trains was obtained on December 9, 2010. And on December 12, 2010, speed transportation St. Petersburg — Helsinki was opened, which made it possible to reduce the time of travel between those two cities (415 km) to 3 hours 36 minutes. Passengers go through the customs and passport control when the train moves. In 2011, the fourth train will be put into commercial operation. In 2010, the involved subdivisions of Russian Railways were working on determining the top-priority projects for the speed and high-speed transportation development. The following items were included into those top priority projects:

- beginning of design, construction and installation works on the high-speed railway project Moscow — St. Petersburg planned to be completed in 2017;
- organization of speed passenger transportation with maximum movement speed reaching 160 km/h on the roads:
  - Moscow — Kursk (with possible prolongation to Sochi and Crimea);
  - Moscow — Smolensk—Krasnoye — Minsk (with prolongation to Warsaw and Berlin using rolling stock of the Talgo type);
  - Moscow — Suzemka — Kiev (using the rolling stock with body tilt technology of the Pendolino and Talgo type);
  - Moscow — Yaroslavl;
  - Omsk—Novosibirsk.

In accordance with the tasks of the long-term program for the "Development of speed and high-speed transportation in the railway network of Russian Railways up to 2020", in 2010, work on improvement and modernization of infrastructure on the road section St. Petersburg — Buslovskaya in order to organize the speed transportation was accomplished. The total distance of the road section is 158 km, the train reaches speed up to 200 km/h on a distance of 110 km long, amounting to 70% of the total distance. In the course of reconstruction of infrastructure to fit for speed transportation, works were carried out at the total amount of 27.3 billion Rubles, comprising repairs and modernization of tracks, reconstruction of artificial structures, substitution of turnout switches, reconstruction of overhead wiring, modernization of electric interlocking stations and equipment of the station-to-station blocks with tonal rail circuits devices.
In order to implement the agreements achieved at the joint Russian-Ukrainian working group meeting on July 9, 2010, dedicated to the problem of organization of speed transportation on the road Moscow — Kiev according to the plan NTR-2011 Russian Railways since December 15, 2010, performed a comprehensive examination of infrastructure facilities of the road Moscow — Kiev using a universal diagnostic complex ADK-I "ERA" to conduct further analysis, determine barrier spots and make calculations on increase in train speeds on the road section Moscow — Suzemka.
In order to perform work on the preparation of infrastructure on the road Moscow — Alexandrov — Yaroslavl for the launch of passenger trains reaching speeds of 140-160 km/h and travel time of about 2 hours 55 minutes, OAO "Roszheldorproject" developed projects amounting to 947 million Rubles, 450 million Rubles of

which were spent in 2010 under the head of infrastructure modernization. A decision is made with regard to organization of transportation on the road section Alexandrov — Yaroslavl Glavny with the speed of 140 km/h, at the first stage traction rolling stock EP-2K, EP-20 with "Nevsky Express" cars will be used, providing for "Lastochka" trains to be used on the road section Alexandrov — Yaroslavl Glavny beginning from 2013.

Organization of development and production of innovative rolling stock

In 2010, with direct involvement of Russian Railways in preparations for serial production of a number of locomotive: EP2K, 2ES6, 2TE25A, were accomplished. Development of turbine locomotives GT-001 was completed. During the 5th International Business Forum "Strategic Partnership 1520", Russian Railways concluded supply contracts for 200 new generation two-system speed passenger electric trains EP20 and 221 electric freight locomotives with asynchronous traction drives of the 2ES10 type. For production of electric locomotives 2ES10, in association with Russian Railways a joint venture OOO "Uralskie locomotivy" was established at the plant OAO "Uralsky zavod zheleznodorozhnogo machinostroyeniya" (Urals Plant of Railway Machine Building)(Verkhnya Pyshma, Sverdlovsk Region). As a result, for the first time in the Russian Federation a commercial direct-current electric locomotive with asynchronous traction drive was developed.

In November 2010, acceptance tests of a specialized gondola car, model 12-9828, for transportation of coal with axial load of 27 ton-force were conducted. Within the framework of implementation of Memorandum for cooperation between Russian Railways and AO "Tatravagonka", work on launching into manufacture of a flat wagon of a multiple-unit type, model 13-9851, was completed. Continuing the cooperation Russian Railways and AO "Tatravagonka" with the participation of OAO "PGK" the development of a universal covered car with axial load of 25 ton-force is carried out, the car is designed for transportation of packaged, palletized and piece freight required to be covered from atmospheric precipitation.

With the participation of Russian Railways under the project of implementation of TVSZ (Tikhvin Freight Car Building Plant) Project, trucks Barber S-2-R with wheel set axles load on the rails of 23.5 tons (model 18-9810) were launched into manufacture. With the participation of Russian Railways Amsted Rail adapted for operation on the Russian Railways having tracks of 1,520 mm a goods truck, model 18-9836 Motion Control with axial load of 25 tons.

Innovative technical solutions in the infrastructure

In order to create track structures providing for long-time stability, comprehensive solutions were developed for transition to efficient railway track structures and its components meeting the international standards and ensuring quality of domestic materials for track superstructure.

Use of tracks of international standard, spring rail fastening, application of foreign innovative technologies for making the track superstructure, as well as introduction of efficient track repair techniques together with the use of modern track machines will make it possible to increase the period between repairs up to 1.1 billion ton gross, that is by 1.6 times more than the ones in current operation.

In order to implement in the railroad network programmes for organization of speed and high-speed train transportation, Russian Railways since 2008 has been purchasing lots of

certified rails made by the Japanese company Nippon Steel Corporation, which proved their high performance features during operation on the road St. Petersburg— Moscow. Cooperation with the Austrian company FestAlpine GmbH continues, after obtaining the certificate it got an opportunity to participate in the competition to supply Russian Railways with rails 100 m long for high-speed tracks and high working capacity tracks. Russian Railways encourages efforts of Evraz Holding and initiative of Mechel to fit out for production and supply in 2011-2012 Russian Railways with high quality rails. Systematic works on the expansion of the area of tracks with continuous welded rail on reinforced concrete cross-sleepers with spring rail fastening made in Russia of ZhBR and ARS types allowed the mileage of such track to make up 21 per cent of the main track mileage on reinforced concrete cross-sleepers. Cooperation with the German company Vossloh-Werke GmbH continues to be aimed at creation on the territory of the Russian Federation of a joint venture for production of spring rail fastening of the W30 type. The global leader in development of structures and construction of ballastless rail tracks is a German company Rail One GmbH. In order to introduce ballastless rail tracks on the Russian railroads, a test field was arranged on the road St. Petersburg— Moscow. It was for the first time in Russia in 2010, that station-to-station block Sablino — Tosno was railed with ballastless track being a prototype of structure of already existing high-speed transportation. At present, continuous welded rail structures and technologies are widely used on bridges using expansion joints. Bearings with spherical segments for bridge superstructures are introduced. Design of pedestrian bridges made of composite materials was worked out. Water-proofing structures and technologies for reinforced concrete bridges and tunnels are being improved. Advanced bridge superstructures with orthotropic steel plate deck, bridge superstructures made of weathering steels are being developed and introduced. Within the framework of strategic directions for the scientific and technological development of Russian Railways for the period up to 2015 (the White Book of Russian Railways) the following tasks for the innovative development of the railroad automation and telemechanics (RAT) were determined:

- creation and introduction of integrated multifunctional control systems for train movement, shunting service, distributing station operation based on satellite navigation and control command transmission over the radio, adapted for different categories of railway lines;
- introduction of multilevel automated system of technical diagnostics and monitoring of signals and interlocking with simultaneous control over statutory and maintenance works accompanied by relevant archiving (STDM), including mobile diagnostics complexes;
- creation of low-maintenance track-side signal and interlocking equipment, facilities for mechanized yard humps of the new generation with elements of reservation, diagnostics, protected against unauthorized access, made of composite materials using nanotechnologies. At present, the following technical RAT facilities are being introduced on the railways, they allow to ensure the required standards of safety, reliability, provide for expansion of functional capabilities if compared with the relay analogues:
- centralized traffic control systems "Trakt", "Setun", YUG", "Dialog";
- microprocessor and relay-processor controls EC-EM, Ebilock 950,

MPC-MZ-F, MPC-I, MPC-2, EC-MPK, "Dialog-C", "RPC-Don";
- microprocessor automatic block signal systems ABTC-M, ABTC-E, ABTC-EM;
- microprocessor automation systems for distributing stations KSAU SP;
- equipment for diagnostics of technical condition of RAT facilities — hardware-software complexes for systems of technical diagnostics and monitoring (STDM) RAT facilities and mobile diagnostics equipment;
- shunting automatic cab signaling MALS.

With regard to trackside assets the following technical facilities are being introduced:
- turnout switches for high-speed project 2956, providing for train movement at the speeds of up to 250 km/h with four electric drives of VSP-220 type and a new 9-wire control and management system;
- railway traffic lights with new hardware components with LED light-optical systems for decentralized automatic block systems;
- trackside RAT equipment (hermetic line boxes, cable sleeves, concentrators) and bus clamps;
- air collector with control equipment of retarding mechanisms of the VUPZ-05M type;
- retarding mechanism, universal, with pneumonic cells of the ZVU-5pk type;
- retarding mechanism, lever-type, of RZ-5pk type;
- device to control filling of the yard hump tracks having an extended section length under control KZP-IZD;
- excess atmospheric and switching voltage prevention devices in control and actuating circuits of turnout switches, circuit lines of microprocessor electric interlocking lights.
- excess voltage suppressor UZP1-500, excess voltage suppressor UZP1-RU-1000, coal excess voltage suppressor RU-I, R-600, R-900, RKN-900;
- modern electric power supply devices with efficient protection along electrical feed circuits against excess atmospheric and switching voltage SPU ABTC / ABTC-EM/EC-EM, UEP-MPK, UEP "Ebilock 950", PVV-EC, PVV-AB.

Technical regulation

Work on technical regulation in 2010 comprised approval of technical rules "Regarding safety of the railway rolling stock", "Regarding safety of the railway transport infrastructure", "Regarding safety of high-speed railway transport" (decrees of the Government of the Russian Federation dated July 15, 2010, No.No. 524, 525, 533 coming into effect in July-August 2013). 25 international and national standards were worked out and submitted for approval to Rosstandart. 21 standards of Russian Railways were approved. Expert evaluations of 18 standards and 3 rule books of other industries were arranged. A list of standardization documents was prepared and submitted to the Ministry of Transport of Russia, compliance with these documents will provide for fulfillment of technical rules with regard to railway transport and for carrying out conformity assessment. Proposals on establishment of an international technical standardization committee "Railway Transport" based on the Russian technical committee "Railway Transport" were prepared and submitted to the Federal Technical Regulation and Metrology Agency. These proposals were discussed during the 40th meeting of the Scientific and technical standardization committee of the International council for standardization, metrology and certification of the CIS (NTKS MGS, October 26-28, 2010, Kolomna), it was decided to establish

an International technical standardization committee "Railway Transport" No. 524 based on the Russian technical committee of the same name headed by Russian Railways.

Efficient use of resources

In 2010, 2.4 billion Rubles were allocated for implementation of the investment project "Introduction of resource saving technologies on the railway transport" (hereinafter the "investment project"), that allowed to provide for the introduction of over 8,000 new resource saving technical means. The investment project priority is implementation of measures aimed at saving fuel and power resources. Within the framework of the investment project, full-scale implementation of automatic train operation system was continued, allowing not only to reduce the manpower, but to save 3 to 8% of electric power. Over 2,000 electric locomotives and almost 1,400 electric trains are currently equipped with this system, its capabilities allowed to start targeted work on switching passenger trains to energy-optimal timetables, and this year it is planned to save not less than 30 million kW/h of electric power. Implementation of cost-effective innovative LED technologies is continued. Evaluation of results of introduction of LED technologies proved the important role of LED in power saving as power consumption at the facilities equipped with LED lowered by over 55%. In 2010, colour light signal heads on masts with LED systems (for colour light signals with digital coded circuit blocking) were introduced, their quantity made up 886 pcs. amounting to 92.5 million Rubles. Pilot projects for LED lighting of railway bridges and Severomuisky tunnel were implemented. New approaches to heating the working space at locomotive and car depots using infrared radiators for workplaces were efficiently applied. Placing the radiators in a certain order on the surface of ceiling and upper part of the walls of the working space provided for energy-efficient heating of big spaces. At the same time, the cost of 1 Gkal of consumable heat is lower by 3-5 times in comparison to water heating systems. In order to reduce operation expenses for lubrication, release of locomotives and locomotive crews, the management of Russian Railways decided to create a park of locomotives oiling the rails based on new passenger cars travelling as part of mail-luggage and passenger trains. This will allow to:

- free train paths occupied by locomotives oiling the rails;
- reduce the wear of wheel flanges and rails by 3 times;
- reduce movement resistance on the curves by 5-10%;
- reduce energy resources consumption by 6% due to reduction of movement resistance on horseshoe curves.

During the period from 2008 to 2010, the economic benefit of implementation of the investment project amounted to over 1.8 billion Rubles, particularly due to reduction of specific consumption of fuel and power resources used for train traction, reduction of energy and materials consumption of technological processes, as well as due to increase in the labour efficiency.

Appendices

Appendix 1.
The Table illustrating the correspondence of Chapters and Sub-Chapters of the Report to GRI indicators
Note: The additional indicators that may be omitted in the Report are typed in italics.

GRI Indicator	Chapter
1. Strategy and assessment	
	Chapter 2
2. Characteristics of the organization	
2.1. Name of the organization	Chapter 1
2.2. Main brands, products and/or services	Chapter 1
2.3. Functional structure of the organization, including main departments, operational companies, subsidiaries and joint stock companies.	*Chapter 1*
2.4. Location place of Headquarters (Main Office) of the Company	Chapter 1
2.5. The countries where the Company operates and countries where the Company performs its main activities or which are particularly significant in terms of sustainable development and covered by the Report	Chapter 1
2.6. The ownership title, organizational and legal framework	Chapter 1
2.7. Markets where the Company operates (including the geographical position, serviced sectors, categories of consumers and beneficiaries)	Chapter 1, Chapter 4
2.8. The caliber of the organization, including: – number of employees; – net sales (for private organizations) or net proceeds (for state organizations); – total capitalization, including loan and own capital break-up (for private companies); – quantitative parameters of products or services.	Chapter 1, Chapter 4, Chapter 6
2.9. Substantial changes in scale, structure or ownership for the reporting period, including: – regulation or other characteristics caused the change of the activities, including establishment, closure and expansion of business; – the structural changes in share capital and other actions associated with the formation, maintenance or alteration of capital	*Chapter 1*
2.10. Awards for the reporting period	Chapter 1
3. Report parameters	
General information about the Report	
3.1. The reporting period (for instance, fiscal/calendar year) the information refers	Introduction
3.2. The publication date of the last and previous reports	*Introduction*
3.3. Reporting cycle (annual, two years, etc.)	Introduction
3.4.Contacts to obtain the information regarding the Report or its content	Background information
Scope and limits of the Report	
3.5. The definition of the Project content, including the definition of the substance; definition of matter of priority and subjects under the Report, identification of stakeholders, as the potential users of the Report	Introduction
3.6. The limits of the Report (for instance, countries, departments, subsidiaries, affiliates, leased capacities, joint stock companies, suppliers)	Introduction
3.7. Refer to any limits in the scope of the Report	Introduction

GRI Indicator	Chapter
3.8. Grounds for inclusion of information regarding the joint stock companies, subsidiaries, lease of production facilities, partial transfer of functions to external contractors and other organizations which may substantially affect the compatibility with previous reports and/or other organizations	No reasons
3.9. The methods used for evaluation of data and calculations, including proposals and methodologies, used in the preparation of indicators and other information, included in the Report	Introduction
3.10. The meaning of any rewording of the information given in previous reports as well as reasons for such rewording (for example, pooling/merger, the changes of the reporting periods, business activities and evaluation methods)	No reasons
3.11. Substantial changes in the content of previous reports, the limits or methods, used for the preparation of the reports	No reasons
GRI indicator of the content	
3.12. Table, referring to the position of standard elements in the Report	*Appendix 1*
Approval	
3.13. Policy and used practical approaches regarding the external approval of the Report	Introduction
4. Management, responsibilities and interaction with stakeholders	
Management	
4.1 The structure of the Company Management, including main committees in the Management Board, responsible for specific tasks, for instance, the development of the strategy or general supervision of the company	Chapter 1
4.2. Indicate if the Chairman of the Management Board Is the Company Executive Manager at the same time (if it is so, what's the role of such manager in the company and what's the reason of such situation)	Chapter 1
4.3. For organizations with the unitary Board of Directors, please, indicate the number of independent members of the Management Board and/or members, not related to the Company Management	N/A
4.4. Instruments used by shareholders or employees to regulate the actions of the Management Board or give recommendations	Chapter 1
4.5. The relations between the payments to members of Management Board, representatives of higher executive management and top-manager (including dismissal pay) and activities results of the company (including social and environment results)	Chapter 1.2
4.6. The valid processes in Management Board, oriented at the prevention of the conflict of interests	Chapter 8
4.7. The processes of the definition of qualification and competence of Management Board members to define the strategy of the organization on economic, environment and social issues (sustainable development)	Chapter 1
4.8. The statements about mission or value, corporate behavior charter and principles significant in terms of economic, environment and social effectiveness, elaborated by the company, and the practical realization of such documents	Chapter 3, Chapter 7

GRI Indicator		Chapter
4.9. The procedures used by Management Board to supervise and monitor the process of the evaluation of the company of its economic, environment and social effectiveness and management, including the risks and opportunities, as well as the adherence to international standards, corporate behavior charter and principles.		Chapter 1
4.10. The evaluation of the its own performance by Management Board, particularly, the economic, environment and social effectiveness		Chapter 1
Participation in the external imitative		
4.11. The explanation whether the organization applies the principle of precaution and how		Chapter 2
4.12. Economic, environment and social charters, principles or other initiatives proposed by outside parties, which the organization supports or joined.		Chapter 3, Chapter 7
4.13. The membership in associations (for instance, related to the sector) and/or national and international organizations protecting the interests and where the organization is one of the management party, participates in projects or committees, grants substantial funds, excluding general membership fees, or considers its membership as strategically significant		Chapter 1, Chapter 3
Aspect: Nondiscriminatory measures		
HR4.	General number of discriminatory cases and taken measures	Chapter 7
Aspect: Freedom of associations and collective negotiations		
HR5.	The activities associated with the substantial risks of the violation of the rights of the associations for freedom and collective negotiations and the actions directed for the support of such rights	Chapter 6
Aspect: Child labor		
HR6.	The activities involving the child labor risks and actions directed at the eradication of the child labor	Chapter 7
Aspect: Involuntary and mandatory labor		
HR7.	The activities associated with the substantial risks of the use of the involuntary or mandatory labor and the actions directed at the eradication of the involuntary and mandatory labor	Chapter 7
Aspect: Security measures		
HR8.	The share of security services employees trained in procedures and policies regarding the human rights associated with the ongoing activities	Chapter 7
Aspect: Rights of indigenous and ethnic groups of population		
HR9.	*The general number of cases when the rights of indigenous and ethnic groups of the population were violated and taken actions*	*An indicator that may be omitted in the Report*
The effectiveness of the interaction with community		
Aspect: Community		
S01.	The character, promotion and effectiveness of any programs and practical strategy that might help to evaluate the influence of the company's activities on the communities, including the actions monitoring such influence from the beginning till the end of the company life	Chapter 8

GRI Indicator		Chapter
Aspect: Corruption		
S02.	The share and total number of business-units, evaluated for the potential risks of corruption	Chapter 8
S03.	The share of employees trained in anti-corruption policies and procedures	-
S04.	The anti-corruption measures	Chapter 8
Aspect: State Policy		
S05.	The attitude to the State Policy, participation in the formation of the state policy and lobbying	Chapter 8
S06.	*The financial and natural assistance to political parties, politicians and associated organizations by countries expressed in monetary terms*	*An indicator that may be omitted in the Report*
Aspect: Prevention of the fair competitiveness		
S07.	*Total number of legal actions against the organization due to the prevention of the fair competitiveness and the practical measures directed at the prevention of creating monopoly and the results of such activities*	*An indicator that may be omitted in the Report*
Aspect: Adherence to requirements		
S08.	The substantial penalties and total number of financial punitive sanctions for the violation of relevant laws in monetary terms	Chapter 8

Appendix 2.
The Table illustrating the correspondence of Chapters and Sub-Chapters of the Report to Indicators of RUIE
Note: The additional indicators that may be omitted in the Report are typed in italics.

Indicators	Chapter in Report
Economic indicators	
1.1 Principles of business operations	Chapter 4
1.2 Scopes of products (works, services) sold	Chapter 4
1.3 Payable taxes and other deductions	Chapter 4
1.4 Personnel expenses	Chapter 4, Chapter 6
1.5 Investments in fixed assets	Chapter 4
1.6 Payments to capital suppliers	Chapter 4
1.7 Investments in communities	Chapter 4
1.8 Voluntary pension funds	Chapter 4, Chapter 6
Environment indicators	
Aspect: Materials	
2.1 The portion of consumed secondary raw materials	Chapter 5
Aspect: Energy	
2.2 Energy consumption	Chapter 5
2.2.1 The specific energy consumption	*Additional indicator that may be omitted in the Report*
Aspect: Water	
2.3 The consumption of auxiliary fresh water	Chapter 5
2.3.1 The specific water consumption	Chapter 5
2.4 The share of reused water vs. general auxiliary water consumption	*Additional indicator that may be omitted in the Report*
Aspect: Emissions, discharge, disposals	
2.5 Green gas pollution	
2.6 The pollutants emitted to atmosphere	Chapter 5
2.6.1 The specific pollutant emissions	Chapter 5
2.7 Sewerage water discharge	Chapter 5
2.7.1 The specific sewerage water discharge	Chapter 5
2.7.2 Contaminated sewerage water discharge	*Additional indicator that may be omitted in the Report*

Indicators	Chapter in Report
2.8 Disposals	Chapter 5
2.8.1 The specific volume of disposals	Chapter 5
2.9 Number of accidents that affected the environment adversely	Chapter 5
2.10 Recovered environment damages	Chapter 5
Aspect: Procedures and services	
2.11 Actions directed at the mitigation of adverse affects upon the environment, parameters and the effectiveness of such actions	Chapter 5
Aspect: General	
2.12 Investments in environment protection projects	Chapter 5
Social indicators	
1. Sub-Chapter: The effectiveness indicators related to the labor organization and worthy labor indicators	
Aspect: Employment	
3.1.1 Number of workers with territorial break-up	Chapter 6
3.1.2 The staff turnover rates	Chapter 6
3.1.3 The staff turnover ratio, illustrating the working quitting the jobs in this organizations due to any reasons	Chapter 6
Aspect: Relations between employees and employers	
3.1.4 The collective contract coverage	Chapter 6
3.1.5 The industrial injuries rates	Chapter 6
3.1.6 number of accidents with fatal outcome	Chapter 6
3.1.7 number of workers with revealed occupational diseases	-
3.1.8 Working time losses due to any disease	Chapter 6
3.1.9 Labor protection expenditures	Chapter 6
3.1.10 Training hours per one worker	-
3.1.11 Training expenses	Chapter 6
3.1.12 The participation of women in the management	*Additional indicator that may be omitted in the Report*
2. Sub-Chapter: Effectiveness of actions directed at the protection of Human rights	
Aspect: Actions against discrimination	

Indicators	Chapter in Report
3.2.1 Labor disputes	Chapter 6, Chapter 7
3.2.2 Discrimination cases	Chapter 7, p. 127-128
3.2.3 Cases of aboriginal and small peoples' rights	*Additional indicator that may be omitted in the Report*
3. Sub-Chapter: Effectiveness of the interaction with communities	
Aspect: Community	
3.3.1 The relations with the Governing Authorities regarding the socially significant problems (social and economic development of the area showing the signs of the organization presence	Chapter 3, Chapter 8
3.3.2 The relations with NGOs and non-profit organizations regarding the solution of problems significant for public	Chapter 3
3.3.3 The evaluation of the organization activities influence upon the social and economic development of local communities	Chapter 8
Aspect: State Policy	
3.3.4 The participation in the external initiatives, including the formation of the state policy	Chapter 8
3.3.5 The participation in non-profit organizations (for example, industrial) and/or national and international organizations which activities are interlinked with the Company interests	Chapter 3
4. Sub-Chapter: Effectiveness in the sphere of responsibilities for the products	
Aspect: Product and services trade marks	
3.4.1 Information and trade marks	Chapter 9
3.4.2 Product QC	Chapter 9

Appendix 3.
Table illustrating the adherence of Chapters and Sub-Chapters of the Report to UN Global Agreement Principles

UN Global Agreement Principles		Chapter in the Report
Human Rights		
1	The enterprises shall support and observe the human rights, declared by the international community	Chapter 7
2	The respective actions shall be taken to avoid the violation of the human rights	Chapter 7
Labor conditions		
3	The enterprises shall support the freedom of the associations and unions, including the real recognition of the rights to sign the collective agreements	Chapter 6
4	Support the principle of the eradication of all kinds of involuntary labor	Chapter 7
5	Support the principle of the complete eradication of child labor	Chapter 7
6	Support the liquidation of the discrimination in the sphere of labor and employment	Chapter 7
Environment protection		
7	Business circles shall support the preventive actions against the adverse affect on the environment	Chapter 5
8	Support the initiatives regarding the increase of the scope of liabilities for the protection of the environment	Chapter 5
9	Support and promote the bio-technologies	Chapter 5
Anti-corruptive actions		
10	The enterprises shall take respective actions against all kinds of corruption, including fraud and briberies	Chapter 8