Open Joint Stock Company “Freight One”

IFRS Consolidated Financial Statements

As of 31 December 2010 and for the year then ended

OJSC “Freight One”

Consolidated financial statements

As of 31 December 2010 and for the year then ended

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Ernst & Young

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent auditors' report

To the shareholders and the Board of Directors of OJSC "Freight One"

We have audited the accompanying consolidated financial statements of Freight One and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Ernst & Young

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 29 to the consolidated financial statements which discloses a significant concentration of the Company's business transactions with related parties, including its principal shareholder, OJSC "Russian Railways".

Ernst & Young LLC

29 April 2011

OJSC "Freight One"

Consolidated statement of financial position

(All amounts are in thousands of Russian Roubles)

	Notes	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	9	96,863,800	86,181,413
Advances for acquisition of non-current assets	10	6,789,965	89,502
Intangible assets		192,647	171,227
Long-term bank deposits	11	500,000	3,116,127
Investment in a joint venture		15,764	22,014
Derivative financial asset	31	26,444	–
Total non-current assets		**104,388,620**	**89,580,283**
Current assets			
Inventories	12	1,342,742	1,573,137
Trade and other receivables	13	1,315,187	3,702,041
Prepayments and other current assets	14	14,054,795	9,252,532
Income tax receivable		20,326	229,243
Short-term bank deposits	15	–	3,609,210
Cash and cash equivalents	16	7,445,220	6,168,645
Total current assets		**24,178,270**	**24,534,808**
Assets classified as held for sale	17	10,746,625	–
Total assets		**139,313,515**	**114,115,091**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	18	85,652,434	85,652,434
Reserve fund	18	550,654	425,125
Other reserves	18	(16,076,739)	(16,033,287)
Retained earnings		31,506,996	12,613,806
		101,633,345	**82,658,078**
Non-controlling interests		4,012,178	3,368,703
Total equity		**105,645,523**	**86,026,781**
Non-current liabilities			
Long-term borrowings	19	5,500,505	6,342,925
Finance lease obligations, net of current portion	20	4,228,960	2,149,596
Employee benefit obligations	21	528,007	432,101
Deferred tax liabilities	28	8,316,097	9,086,649
Total non-current liabilities		**18,573,569**	**18,011,271**
Current liabilities			
Trade and other payables	22	8,565,273	7,607,855
Income tax payable		29,841	93,158
Taxes other than income tax payable	23	904,797	767,267
Provisions for tax liabilities		–	65,621
Finance lease obligations, current portion	20	1,242,245	694,684
Short-term borrowings	19	2,423,051	571,533
Accrued expenses and other current liabilities	24	838,397	276,921
Total current liabilities		**14,003,604**	**10,077,039**
Liabilities directly associated with the assets classified as held for sale	17	1,090,819	–
Total liabilities		**33,667,992**	**28,088,310**
Total equity and liabilities		**139,313,515**	**114,115,091**

Asaturov I. A. — Acting General Director

Panagushina G. A. — Chief Accountant

25 April 2011

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

OJSC "Freight One"

Consolidated income statement

(All amounts are in thousands of Russian Roubles)

	Notes	Year ended 31 December 2010	2009*
Continuing operations			
Revenues	25	**103,493,045**	**71,641,058**
Operating expenses			
Freight and transportation services		(37,715,334)	(32,860,679)
Materials, repair and maintenance		(15,701,089)	(10,345,405)
Operating lease		(10,252,870)	(3,186,462)
Depreciation and amortisation		(7,441,515)	(11,591,658)
Wages, salaries and related contributions		(4,529,514)	(2,869,443)
Rolling stock servicing		(2,394,279)	(2,856,114)
Taxes other than income tax	26	(1,911,810)	(1,873,730)
Operating costs of railcar washing stations		(465,262)	(217,562)
Advertising costs		(351,234)	(272,277)
Information technology services		(336,515)	(283,810)
Bad debt expense	13	(134,128)	53,642
Communication costs		(121,671)	(110,462)
Consulting services		(78,611)	(23,116)
Gain / (loss) on impairment of property, plant and equipment	9	2,070,761	(554,353)
Gain on disposal of property, plant and equipment		1,191,822	1,679,934
Other operating expenses, net		(726,775)	(727,508)
Total operating expenses		**(78,898,024)**	**(66,039,003)**
Finance costs	27	(911,977)	(821,559)
Finance income		159,162	126,328
Foreign exchange gain, net		67,376	113,958
Share of net loss of a joint venture		(4,522)	–
Profit before tax from continuing operations		**23,905,060**	**5,020,782**
Income tax expense	28	(5,238,685)	(1,283,976)
Profit for the year from continuing operations		**18,666,375**	**3,736,806**
Discontinued operations			
Profit after tax for the year from discontinued operations	17	1,228,900	701,356
Profit for the year		**19,895,275**	**4,438,162**
Attributable to:			
Equity holders of the parent		19,233,591	4,088,775
Non-controlling interests		661,684	349,387
		19,895,275	**4,438,162**

* *These amounts reflect adjustments made in connection with discontinued operations*

Asaturov I. A. — Acting General Director

Panagushina G. A. — Chief Accountant

25 April 2011

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

OJSC "Freight One"

Consolidated statement of comprehensive income

(All amounts are in thousands of Russian Roubles)

	Year ended 31 December	
	2010	**2009**
Profit for the year	**19,895,275**	**4,438,162**
Exchange differences on translation of foreign operations	645	–
Effect of translation to presentation currency of the Group's joint venture	(1,728)	–
Other comprehensive loss for the year, net of tax	**(1,083)**	–
Total comprehensive income for the year, net of tax	**19,894,192**	**4,438,162**
Attributable to:		
Equity holders of the parent	19,232,645	4,088,775
Non-controlling interests	661,547	349,387
	19,894,192	**4,438,162**

Asaturov I. A. — Acting General Director

Panagushina G. A. — Chief Accountant

25 April 2011

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

Consolidated statement of changes in equity

(All amounts are in thousands of Russian Roubles, except share amounts)

		Attributable to equity holders of the parent							
		Share capital							
	Notes	Common shares	Amount	Reserve fund	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
As at 31 December 2009		**85,652,434,154**	**85,652,434**	**425,125**	**(16,033,287)**	**12,613,806**	**82,658,078**	**3,368,703**	**86,026,781**
Net income for the year		–	–	–	–	19,233,591	19,233,591	661,684	19,895,275
Other comprehensive loss		–	–	–	–	(946)	(946)	(137)	(1,083)
Total comprehensive income		**–**	**–**	**–**	**–**	**19,232,645**	**19,232,645**	**661,547**	**19,894,192**
Dividends declared (Note 18)		–	–	–	–	(213,926)	(213,926)	–	(213,926)
Dividends declared by the Group's subsidiaries to non-controlling shareholders (Note 18)		–	–	–	–	–	–	(18,072)	(18,072)
Distribution to shareholder (Note 18)		–	–	–	(43,452)		(43,452)		(43,452)
Transfer to reserve fund		–	–	125,529	–	(125,529)	–	–	–
As at 31 December 2010		**85,652,434,154**	**85,652,434**	**550,654**	**(16,076,739)**	**31,506,996**	**101,633,345**	**4,012,178**	**105,645,523**

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

OJSC “Freight One”

Consolidated statement of changes in equity (continued)

(All amounts are in thousands of Russian Roubles, except share amounts)

		Attributable to equity holders of the parent							
		Share capital							
	Notes	Common shares	Amount	Reserve fund	Other reserves	Retained earnings	Total	Non-controlling Interests	Total equity
As at 31 December 2008		**85,652,434,154**	**85,652,434**	**41,604**	**(15,901,644)**	**8,969,323**	**78,761,717**	**3,018,284**	**81,780,001**
Net income for the year		–	–	–	–	4,088,775	4,088,775	349,387	4,438,162
Other comprehensive income		–	–	–	–	–	–	–	–
Total comprehensive (loss)/ income		–	–	–	–	**4,088,775**	**4,088,775**	**349,387**	**4,438,162**
Dividends declared (Note 18)		–	–	–	–	(60,771)	(60,771)	–	(60,771)
Distribution to shareholder (Note 18)		–	–	–	(131,643)	–	(131,643)	–	(131,643)
Transfer to reserve fund		–	–	383,521	–	(383,521)	–	–	–
Non-controlling interest arising on a business combination		–	–	–	–	–	–	1,032	1,032
As at 31 December 2009		**85,652,434,154**	**85,652,434**	**425,125**	**(16,033,287)**	**12,613,806**	**82,658,078**	**3,368,703**	**86,026,781**

Asaturov I. A. Acting General Director

Panagushina G. A. Chief Accountant

25 April 2011

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

OJSC "Freight One"

Consolidated statement of cash flows

(All amounts are in thousands of Russian Roubles)

	Notes	Year ended 31 December 2010	2009*
Cash flows from operating activities			
Profit before tax from continuing operations	8	23,905,060	5,020,782
Profit before tax from discontinued operations	17,8	1,542,119	899,572
Profit before tax		**25,447,179**	**5,920,354**
Adjustments to reconcile income to cash generated from operations			
Depreciation and amortisation		7,720,938	11,888,445
(Gain) /loss on impairment of property, plant and equipment	9	(2,070,761)	554,353
Share of net loss of a joint venture		4,522	–
Bad debt expense	13	134,128	(53,642)
Gain on disposal of property, plant and equipment		(1,190,712)	(1,679,934)
Loss / (gain) on sale of scrap metals and re-usable spare parts		77,123	(183,756)
Accrual of provision for obsolete and damaged inventory		(2,467)	–
Finance costs	27	916,743	604,440
Finance income		(513,282)	–
Change in provision for tax risks, net		(34,323)	65,621
Foreign exchange gain, net		(67,225)	(113,975)
Change in employee benefit obligations		51,524	124,161
Operating income before working capital changes		**30,473,387**	**17,126,067**
Decrease in trade and other receivables		1,426,010	4,492,874
Increase in prepayments and other current assets		(5,219,017)	(5,571,973)
Decrease / (increase) in inventories		69,910	(77,415)
Increase in trade and other payables		2,171,817	2,013,959
Increase in taxes other than income tax payable		168,941	161,422
Increase in accrued and other current liabilities		590,049	71,228
Net cash from operating activities before income taxes		**29,681,097**	**18,216,162**
Interest paid		(915,031)	(782,076)
Income taxes paid		(5,761,694)	(2,279,077)
Net cash from operating activities		**23,004,372**	**15,155,009**

** These amounts reflect adjustments made in connection with discontinued operations*

Continued on next page

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

Consolidated statement of cash flows (continued)

(All amounts are in thousands of Russian Roubles)

	Notes	Year ended 31 December 2010	2009*
Cash flows from investing activities			
Capital expenditures		(30,206,849)	(12,276,257)
Proceeds from disposal of property, plant and equipment		2,180,148	248,632
Purchase of intangible assets		(90,438)	(149,718)
Deposits placed		(3,133,699)	(6,835,250)
Interest received		574,785	61,788
Withdrawal of bank deposits		6,697,480	243,230
Net cash used in investing activities		**(23,978,573)**	**(18,707,575)**
Cash flows from financing activities			
Repayment of long-term borrowings		(428,572)	–
Proceeds from short-term borrowings		1,500,534	2,840,000
Repayments of short-term borrowings		(94,858)	(2,840,000)
Dividends paid to non-controlling interests		(18,072)	–
Dividends paid to equity holders of the parent		(213,926)	(767,024)
Proceeds from sale-leaseback		2,204,571	–
Repayment of finance lease obligations		(392,164)	(377,238)
Contribution of non-controlling shareholders of Group's subsidiary		–	3,665,301
Proceeds from long-term borrowings		–	7,590,204
Net cash flows from financing activities		**2,557,513**	**10,111,243**
Net increase in cash and cash equivalents		**1,583,312**	**6,558,677**
Net foreign exchange differences		38,857	(604,613)
Cash and cash equivalents at the beginning of the period	16	**6,168,645**	**214,581**
Cash and cash equivalents at the end of the period	16	**7,790,814**	**6,168,645**

** These amounts reflect adjustments made in connection with discontinued operations*

Asaturov I. A. — Acting General Director

Panagushina G. A. — Chief Accountant

25 April 2011

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

1. Description of business

Organization and its operations

OJSC "Freight One" (hereinafter the "Company" or "Freight One") was incorporated as an open joint stock company in Moscow, Russian Federation on 26 July 2007.

The Company was formed as a result of a spin-off by OJSC "Russian Railroads" ("RZD"), which is 100% owned by the Russian Federation, of some of its activities and certain assets and liabilities related to rail cargo transportation into a separate legal entity. In connection with this spin-off RZD contributed to the share capital of the Company rolling stock in the amount of RUR 84,352,434 thousand, VAT receivable related to these assets of RUR 381,968 thousand, and cash of RUR 1,300,000 thousand. Further, employees previously employed by RZD were hired by the Company. The Company assumed related employee benefit liabilities from RZD. Pursuant to this spin-off, RZD maintained the functions of the carrier, whilst the Company assumed the functions of a cargo forwarding agent.

Freight One, together with its subsidiaries (jointly referred to "the Group"), is involved in freight transportation using own rolling stock, leasing of rolling stock and other freight forwarding and logistic services. In addition, in June 2009 the Company started providing railcar washing services.

As of 31 December 2010 Freight One operated 14 branches located in the Russian Federation (31 December 2009: 14 branches). The registered office of the Company is located at 12, Staraya Basmannaya Street, Bldg. 1, Moscow, 105064, Russian Federation.

Approval of the consolidated financial statements

The consolidated financial statements of the Group for the year ended 31 December 2010 were authorized for issue by the General Director of the Company on 25 April 2011.

Group structure

The principal subsidiaries and joint venture of the Group and respective ownership in the ordinary share capital as of 31 December 2010 and 2009 are set out below:

Name of company	Country of incorporation	Legal form	Principal activity	Effective % interest held
Subsidiaries				
LLC "Freight One-Leasing"	Russia	Limited liability company	Finance leasing	100%
CJSC "Rusagrotrans"	Russia	Closed Joint Stock Company	Railway transportation and storage of grain crops	51%
LLC "The First Freight Company in Ukraine" (FFC in Ukraine)	Ukraine	Limited liability company	Forwarding agent	61%
Joint venture				
Freight One Scandinavia Oy	Finland	Limited liability company	Logistics company	50%

2. Reclassification of comparatives

In the consolidated statement of cash flows for the year ended 31 December 2009 contribution of non-controlling shareholders of Group's subsidiary was included in cash flows from investing activities. In these consolidated statements the mentioned amount was reclassified into cash flows from financing activities in the consolidated statement of cash flows for the year ended 31 December 2009 based on the amendments to International Accounting Standard ("IAS") 7 *Statement of Cash Flows* effective for annual periods beginning on or after 1 July 2009. The summary of reclassification made in the consolidated statement of cash flows is presented below:

	For the year ended 31 December 2009 (as previously reported)	**For the year ended 31 December 2009 (reclassified)**
Cash flows from investing activities		
Contribution of non-controlling shareholders of Group's subsidiary	3,665,301	–
Net cash used in investing activities	**(15,042,274)**	**(18,707,575)**
Cash flows from financing activities		
Contribution of non-controlling shareholders of Group's subsidiary	–	3,665,301
Net cash flows from financing activities	**6,445,942**	**10,111,243**

The above mentioned reclassification did not have any impact on the consolidated statement of financial position and the consolidated statement of comprehensive income.

3. Basis of presentation

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared under historical convention, except for the effects of assets acquired and liabilities assumed upon formation of the Company.

Most of the Group entities prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The accompanying consolidated financial statements differ from the financial statements issued for statutory purposes in that they reflect certain adjustments, not recorded in the statutory books, which are appropriate to present the financial position, results of operations and cash flows of the Group in accordance with IFRS.

Functional and presentation currency

The consolidated financial statements are presented in Russian Roubles, the Group's reporting (presentation) currency and the functional currency for the majority of entities. As at the reporting date, assets and liabilities of the subsidiaries with the functional currency other than the Russian Rouble, are translated into the presentation currency at the rate of exchange ruling at the end of the reporting period, and their statements of operations are translated at the exchange rates that approximate the exchange rates at the dates of the transactions. All exchange differences resulting from the above translation are recognised in other comprehensive income. On disposal of a subsidiary with the functional currency other than the Russian Rouble, the component of other comprehensive income relating to that particular subsidiary is recognised in the income statement.

Currency exchange

The exchange rate of the Russian Rouble to 1 US dollar equated to 30.4769 and 30.2442 as of 31 December 2010 and 2009, accordingly. As of 25 April 2011 the exchange rate was RUR 27.9396 to 1 US dollar.

3. Basis of presentation (continued)

Going concern

These consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future, which implies the realisation of assets and settlement of liabilities in the normal course of business. The Group continues to monitor its existing liquidity needs on an on-going basis. Although the current economic environment (refer to Note 32) might affect the profitability of the Group’s operations in the near term, management believes that the Group will have sufficient operating cash flows and borrowing capacity to continue as a going concern in the foreseeable future.

4. Summary of significant accounting policies

Significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

The accounting policies have been applied consistently by all consolidated operating entities.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2010.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent’s share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2010 have not been restated.

4. Summary of significant accounting policies (continued)

Significant accounting policies (continued)

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree’s identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

4. Summary of significant accounting policies (continued)

Significant accounting policies (continued)

When the Group acquired a business, embedded derivatives separated from the host contract by the acquire were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract. Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Acquisition of non-controlling interests. The difference between the consideration given and the carrying amount of non-controlling interests acquired is recognised within equity to account for acquisitions of non-controlling interests.

Investment in a joint venture. The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognises its interest in the joint venture using the equity method of accounting and are initially recognised at cost. The difference between the cost of an acquisition and the share of the fair value of the joint venture’s identifiable net assets represents goodwill upon acquiring the joint venture. Dividends received from the joint venture reduce the carrying value of the investment in the joint venture. The carrying amount of joint ventures includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group’s share of the joint venture’ post-acquisition profits or losses is recorded in the consolidated statement of income, and its share of post-acquisition movements in reserves is recognised in the consolidated statement of changes in equity. When the Group’s share of losses in the joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealized gains on transactions between the Group and its joint venture are eliminated to the extent of the Group’s interest in the joint venture; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The financial statements of the joint venture are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Upon loss of joint control the Group measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

Non-current assets held for sale and discontinued operations. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

4. Summary of significant accounting policies (continued)

Significant accounting policies (continued)

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income. Property, plant and equipment are not depreciated once classified as held for sale.

Property, plant and equipment. Property, plant and equipment are recorded at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and/or accumulated impairment losses, if any.

Assets under construction
Capital expenditures comprise costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction as well as costs of purchase of other assets that require installation or preparation for their use. Advance payments made to acquire items of property, plant and equipment are shown separately in the consolidated statement of financial position and presented as non-current assets. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation. Capital expenditures are reviewed regularly to determine whether carrying value is fairly stated.

Leased property
Capitalized leased assets and operating leasehold improvements are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Subsequent costs
Expenditure for repairs and maintenance of property, plant and equipment is charged to the income statement of the year in which they are incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Depreciation
Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost, less residual value, over their estimated useful lives, as follows:

	Number of years
Cistern wagons and covered wagons	30-32
Cement wagons	24-26
Gondola wagons	22-24
Other wagons	15-32
Other equipment	2-30

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate at each financial year-end.

Owned land plots are not depreciated.

Gain or loss on disposal
The gain and loss arising on disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

4. Summary of significant accounting policies (continued)

Significant accounting policies (continued)

Intangible assets. Intangible assets that are acquired by the Group represent mainly purchased software and licenses and are stated at cost less accumulated amortisation and any accumulated impairment losses.

Armotisation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives for existing assets range from 3 to 5 years.

Useful lives and amortisation methods for intangible assets are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for as changes in accounting estimates.

Impairment of non-current assets. At each reporting date, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any of such indications exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated income statement.

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement.

Inventories. Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to the existing location and condition.

Inventories are reported net of reserves for slow moving or obsolete items.

Financial assets. The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Subsequent reclassification of financial assets is made only as a result of a change in intention or ability of management to hold the financial assets. Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The subsequent measurement of financial assets depends on their classification.

4. Summary of significant accounting policies (continued)

Significant accounting policies (continued)

(a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivative instruments are also categorized as held for trading unless they are designated as hedges. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated income statement. Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated income statement within other operating income (loss) in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statement of income as part of other operating income (loss) when the Group's right to receive payments is established.

Financial assets at fair value through profit or loss are classified as current assets. There were no financial assets designated at fair value through profit or loss held by the Group at the reporting dates.

(b) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and are classified as held-to-maturity when the Group has the positive intention and ability to hold these investments to maturity. After initial measurement, the held-to-maturity investments are measured at amortized cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. There were no such investments held by the Group at the reporting dates.

(c) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables are carried at amortized cost using the effective interest method. Gains and losses are recognised in the consolidated statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Interest income is recognised by applying effective interest rate except for short-term receviables when the recognition of interest would be immaterial.

Loans and receivables are included in current assets, except for maturities greater than 12 months after the reporting date which are classified as non-current assets.

(d) Available-for-sale financial assets
Financial assets classified as available-for-sale are non-derivatives financial assets that are either specially designated in this category or are not classified in any of the other categories. After initial recognition, financial assets classified as available-for-sale are measured at fair value, with gains and losses recognised directly in the consolidated statement of changes in equity until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is recognised in consolidated statement of income as profit or loss.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale financial assets are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in consolidated statement of income, while translation differences on nonmonetary securities are recognised in consolidated statement of changes in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in consolidated statement of changes in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of income as profit or loss on sales of available-for-sale investments.

There were no available-for-sale investments held by the Group at the reporting dates.

4. Summary of significant accounting policies (continued)

Significant accounting policies (continued)

Impairment of financial assets. The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

Financial assets carried at amortised cost
For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

Available-for-sale financial assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

4. Summary of significant accounting policies (continued)

Significant accounting policies (continued)

Derivative financial instruments. The Group uses derivative financial instruments such as forward currency contracts and swaps to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

Cash and cash equivalents. Cash and cash equivalents comprises cash on hand, cash deposits held with banks, investments which are readily convertible to known amounts of cash and which are not subject to significant risk of change in value and have an original maturity of three months or less. For purposes of the presentation of the statement of cash flows, bank overdrafts are deducted from cash and cash equivalents. Bank overdrafts are shown within short-term debt in current liabilities on the consolidated statement of financial position.

Value added tax (VAT). Output VAT related to revenues is payable to the tax authorities on the earlier of collection of prepayments from customers or delivery of the goods or services to customers. Input VAT related to purchases is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis (except for input VAT related to export services provided, which is reclaimable upon confirmation of export). VAT related to revenues and purchases which is not settled or recovered at the reporting date (VAT payable and VAT recoverable) is recognised on a gross basis and disclosed separately within current assets and current liabilities. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract. Trade payables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method.

Loans and borrowings. Interest bearing loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Employee benefits

Defined benefit plans
The Group operates defined benefit pension plans. The obligation and cost of benefits under the plans are determined separately for each plan using the projected unit credit method. This method considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The cost of providing pensions is charged to the consolidated income statement, so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula of the plan. This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit obligation. Actuarial gains and losses are recognised as income or expense in full as they arise.

In addition, the Group provides certain other retirement and post retirement benefits to its employees. These benefits are unfunded. Upon introduction of a new plan or improvement of an existing plan past service costs are recognised on a straight-line basis over the average period until the amended benefits become vested. To the extent that the benefits are already vested immediately, past service cost is immediately expensed.

4. Summary of significant accounting policies (continued)

Significant accounting policies (continued)

State plan
In addition, the Group is legally obligated to make contributions to the Russian Federation State social insurance fund and State pension plan on behalf of its employees based on gross salary payments. Mandatory contributions to the State social insurance fund and the State pension plan, Federal and Local Obligatory Medical Insurance Funds, which are defined contribution plans, are expensed when incurred and are included in payroll expenses in the consolidated statement of income. In 2009 contributions to the Russian Pension Fund together with other social contributions were included within a unified social tax ("UST"), which is calculated by the application of a regressive rate from 26% to 2% to the annual gross remuneration of each employee. Since 1 January 2010, UST has been replaced by a system of social contributions. In 2010, contributions remained at the same level as UST, but starting from January 2011 total contributions have increased to 34%.

Provisions. Provisions are recognised when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are reviewed at each reporting and adjusted to reflect the current best estimate. Where the effect of the time value of the money is significant, the amount of a provision is the present value of the cash flows required to settle the obligation.

Revenue recognition. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of sales related taxes. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue from sales of inventories is recognised when the significant risks and rewards of ownership of goods have passed to the buyer.

Rail-based cargo transportation services
Rail-based cargo transportation services provided by the Group primarily include arranging the transportation of its own and third-party rolling stock by rail by means of provision of wagons to third parties. There are two types of these services:

(i) The Group has a contractual relationship with the client and sets the terms of the transactions, excluding railway tariff and other third-party services, such as selling and payment terms, bears credit risk and controls the flow of receipt and payment. Railway tariff and other third-party services are paid by the Group and recharged to the customer as a reimbursement or paid directly by the customer to third-party. Revenues from these services are recognised by the Group net of charges for third-party services.

(ii) The Group has a contractual relationship with the client and sets the terms of the transactions, such as selling and payment terms, bears credit risk and controls the flow of receipt and payment. Railway tariffs charged by carriers and other third-party services are borne by the Group. Total proceeds from clients are included in the Group's revenue.

Revenues from these transactions are recognised in the accounting period in which the services are rendered.

Operating lease of rolling stock
The Group leases certain wagons to third parties for a period varying from one month to two years. Revenues from operating lease of rolling stock are reocgnised on a straight-line basis over the term of operating rent agreements.

Railcar washing services
Railcar washing services include cleaning of cistern wagons of residue from oil products and other products; and other related services. Revenue from railcar washing services is recognised in the accounting period in which the services are rendered.

Freight forwarding and logistics services
The Group provides freight forwarding and logistics services, such as:

(i) Organization of transportation within the Russian Federation, CIS and Baltic regions;

(ii) Cargo tracking services by providing clients within information about cargo location;

Control over timely provision of rolling stock.

4. Summary of significant accounting policies (continued)

Significant accounting policies (continued)

Revenue from freight forwarding and logistics services is recognised in the accounting period in which the services are rendered.

Dividend and interest income

(i) Dividends from investments are recognised in the consolidated income statement when shareholder's right to receive payment has been established;
(ii) Interest income is accrued with the passage of time, by reference to the principal outstanding and at the effective interest rate applicable.

Leases. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at its inception date and whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Group as a lessee
Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Payments made under operating leases are recognised in the consolidated income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the consolidated income statement as an integral part of the total lease expense.

Sale and leaseback
A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term.

When the overall economic effect of a sale and leaseback transaction cannot be understood without reference to the series of transactions as a whole (i.e. when the series of transactions are closely interrelated, negotiated as a single transaction, and take place concurrently or in a continuous sequence) the transaction is accounted for as one transaction, usually a collateralized borrowing.

If a sale and leaseback transaction results in an operating lease any profit or loss will be recognised immediately. If the sale price is below fair value any profit or loss will be recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

Borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest, foreign exchange losses on borrowings and other costs that an entity incurs in connection with the borrowing of funds.

The Group capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 January 2009.

4. Summary of significant accounting policies (continued)

Significant accounting policies (continued)

Income tax. The income tax charge or benefit comprises current tax and deferred tax and is recognised in the consolidated statement of income unless it relates to transactions that are recognised, in the same or a different period, either in other comprehensive income or directly in equity.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable). Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantially enacted by the reporting date in the countries, where the Group operates and generates taxable income. Provisions in respect of uncertain tax positions which relate to income tax are included in current income tax at an amount expected to be payable including penalties if any.

Deferred income taxes are provided using the liability method. This method gives consideration to the future tax consequences associated with the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases at the reporting date.

Deferred taxes are recognised for all temporary differences except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Share capital and other reserves. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares and share options are recognised as a deduction from equity, net of any tax effects. The difference between the fair value of consideration received and the par value of shares issued are recognised as other reserves. Similarly, any differences arising on transactions with shareholders, which are treated as equity transactions, are adjusted directly against other reserves.

Dividends. Dividends are recognised as a liability and deducted from shareholders' equity at the reporting date only if they are declared before or on the reporting date by the shareholders at a general meeting. Dividends are disclosed when they are proposed before the repotting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

Contingencies. Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the financial statements. Where an inflow of economic benefits is probable, they are disclosed.

Contractual commitments. Contractual commitments comprise legally binding trading or purchase agreements with stated amount, price and date or dates in the future. The Group discloses significant contractual commitments in the notes to the financial statements.

5. Critical accounting estimates and judgments

The preparation of the Group’s consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

In the process of applying the Group’s accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Accounting for leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Otherwise it is classified as an operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. In determining the accounting treatment of transactions that involve the legal form of a lease, all aspects and implications of an arrangements are evaluated to determine the substance of such transactions with weight given to those aspects and implications that have an economic effect.

If the lease term is for longer than 75% of the economic life of the asset, or at the inception of the lease the present value of the minimum lease payments amounts to at least 90% f the fair value of the leased asset, the lease is classified by the Group as a finance lease, unless it is clearly demonstrated otherwise. During the year ended 31 December 2010 the Group has leased six railcar wash stations from RZD for ten years and in accordance with the terms of such lease agreements hired all employees who previously worked at these stations.

The Group also bears certain investment obligations under these agreements, which are disclosed in Note 20, and has to return all leased assets, including leasehold improvements, at the date of termination in the following condition:

- Immovable property should have residual useful life more than 60%
- Movable property should residual useful life more than 70%.

Analyzing the requirements of IAS 17 *Leases* management concluded that the substance of the transaction does not transfer substantially all the risks and rewards incidental to ownership to the Group. The lease was classified as an operating lease.

Revenue recognition. Rail-based cargo transportation services provided by the Group primarily include arranging the transportation of its own and third-party rolling stock by rail by means of provision of wagons to third parties. There are two types of these services for which critical accounting judgment is involved in revenue recognition.

(i) The Group’s customers do not interact with RZD or other carriers. A full service price is charged by the Group to its customers with railway tariff and other third-party services being borne by the Group. There are certain characteristics that the Group is acting as an agent, particularly the fact that railway tariffs charged by RZD are available to the public, and therefore are known to the customers, and the risk of delivery is borne by RZD or other carriers. However, the Group bears the credit risk and controls the flow of receipts and payments. The Group is independent in its pricing policy and bears risks for any variations in railway tariff or additional not customer-caused third party charges. Management believes that the Group acts as a principal in these agreements and the Group accounts for the receipts from customers as sales revenue and the railway tariff and other third-party services are included in operating expenses.

(ii) The Group agrees with customers the transportation fee as above, excluding the railway tariff and other third party services, which are paid by the Group and re-invoiced to the customer as a reimbursement. Management believes that railway tariff and other third party services should not be included in revenue and operating expenses as any variations in the amount of these charges will be borne by customers.

5. Critical accounting estimates and judgments (continued)

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Depreciable lives of property, plant and equipment. The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period. There have been no significant changes in estimates of useful lives of property, plant and equipment during the periods included in these consolidated financial statements.

Impairment of property, plant and equipment. The Group reviews at each reporting date the carrying amounts of its property, plant and equipment to determine whether there is any indication that an asset may be impaired. This process involves judgment in evaluating the cause for any possible reduction in value, including a number of factors such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists.

Whenever such indications exist, management makes an estimate of the asset's recoverable amount to ensure that it is not less than its carrying value.

Provision for impairment of receivables. The impairment provision for receivables is based on management's assessment of the probability of collection of individual customer accounts receivable. Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is potentially impaired. Actual results could differ from these estimates if there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates. When there is no expectation of recovering additional cash for an amount receivable, the expected amount receivable is written off against the associated provision. As of 31 December 2010 and 2009 impairment provision for receivables was recognised in the amount of RUR 223,264 thousand and RUR 89,315 thousand, respectively.

Current taxes. Russian and Ukrainian tax, currency and customs legislation is subject to significant degree of interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. In Russia and Ukraine the periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. For details refer to Note 32.

Pension benefits. The Company uses actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, expected rate of return on plan assets, etc.). In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially (see Note 21).

6. New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010:

- IFRS 2, *Share-based Payment: Group Cash-settled Share-based Payment Transactions* effective 1 January 2010
- IFRS 3, *Business Combinations (Revised)* and IAS 27, *Consolidated and Separate Financial Statements* (Amended) effective for annual periods beginning on or after 1 July 2009, including consequential amendments to IFRS 2, IFRS 5 IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39, *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective 1 July 2009
- IFRIC 17, *Distributions of Non-cash Assets to Owners* effective 1 July 2009
- Improvements to IFRSs (April 2009)

The adoption of the standards or interpretations is described below:

IFRS 2 (revised), Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective from 1 January 2010)
The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IFRS 3 (revised), Business Combinations
The revised standard introduces significant changes in the accounting for business combinations occurring from 1 January 2010. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes did not have any impact on the financial position or performance of the Group in the reporting year.

IAS 27 (revised), Consolidated Financial Statements (effective for annual periods beginning on or after 1 July 2009)
The revised standard requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. These amendments had no effect on financial position and performance of the Group.

Amendments to IAS 39, Financial Instruments: Recognition and Measurement – Eligible Hedged Items
The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009)
This interpretation provides guidance on accounting for arrangements whereby an entity distributes noncash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position or performance of the Group.

6. New and amended standards and interpretations (continued)

Improvements to IFRSs
In April 2009 the IASB issued the omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position nor financial performance of the Group.
- IAS 7 *Statement of Cash Flows*: States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact amongst others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.
- IAS 36 *Impairment of Assets*: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from Improvements to IFRSs issued in April 2009 to IFRS 2 *Share-based Payment,* IAS 1 *Presentation of Financial Statements,* IAS 17 *Leases,* IAS 34 *Interim Financial Reporting,* IAS 38 *Intangible Assets,* IAS 39 *Financial Instruments: Recognition and Measurement,* IFRIC 9 *Reassessment of Embedded Derivatives,* IFRIC 16 *Hedge of a Net Investment in a Foreign Operation* did not have any impact on the accounting policies, financial position or performance of the Group.

7. Standards and interpretations issued but not yet effective

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

- Improvements to IFRSs issued in May 2010 and effective for annual periods on or after either 1 July 2010 or 1 January 2011:
  - IFRS 3 *Business Combinations*
  - IFRS 7 *Financial Instruments: Disclosures*
  - IAS 1 *Presentation of Financial Statements*
  - IAS 27 *Consolidated and Separate Financial Statements*
  - IFRIC 13 *Customer Loyalty Programmes*

  The Group, however, expects no impact from the adoption of the amendments on its financial position or performance;
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010)

The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

7. Standards and interpretations issued but not yet effective (continued)

- Amendment to IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interactions* (effective for annual periods beginning on or after 1 January 2011).

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

- IAS 24 *Related Party Disclosures* (Revised)

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted.

- IFRS 9 *Financial Instruments*, issued in November 2009

This addresses the classification and measurement of financial assets and is likely to affect the Group’s accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group will consider adoption of IFRS 9 in 2013.

The Group is currently assessing the impact of this new standard on its consolidated financial statements.

- IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity’s non-derivative equity instruments, or to acquire a fixed number of the entity’s own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

8. Segment reporting

Substantially all of the Group's operating assets are located and most of the services are provided in the Russian Federation.

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

- *Cargo segment* includes rail-based cargo transportation services provided by the Company.
- *Lease segment* comprises operating lease of rolling stock.

No operating segments have been aggregated to form the above reportable operating segments.

Other segments include railcar washing services and other services provided by the Group. None of these operations are of a sufficient size to be reported separately. None of these operations can be aggregated with reportable operating segments described above due to dissimilar economical characteristics.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated on a basis of segment result determined based on management accounts that differ from the IFRS consolidated financial statements. Management accounts are based on local GAAP figures. The operating segment results do not include effects of some adjustments that may be considered necessary to reconcile to the IFRS consolidated financial statements.

Transfer prices between operating segments are generally set on an arm's length basis in a manner similar to transactions with third parties. As the Group’s management does not review segment assets and liabilities, the Group has not disclosed such information.

8. Segment reporting (continued)

Segment revenue is revenue that is directly attributable to a segment, whether from sales to external customers or from transactions with other segments. Segment revenue does not include:

- finance income;
- foreign exchange gains;
- gain on disposal of property, plant and equipment;
- penalties charged to customers;
- reversal of provision for impairment of receivables
- income tax benefit.

Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments. Segment expense does not include:

- finance expense;
- foreign exchange losses;
- loss on disposal of property, plant and equipment;
- loss on impairment of property, plant and equipment;
- bad debt expense
- income tax expense;

Segment result is measured as segment revenue less segment expense.

The following table presents measures of segment profit or loss regarding the Group’s reportable operating segments:

Year ended 31 December 2010	**Cargo**	**Lease**	**Other segments**	**Eliminations (A)**	**Adjustments (B)**	**Total**	**Less discontinued operations**	**Total continued operations**
Sales to third parties	92,096,649	11,325,271	7,805,836	–	129,394	111,357,150	(7,864,105)	103,493,045
Inter-segment sales	2,477,161	639	4,355,094	(6,832,894)	–	–	–	–
Total revenues	**94,573,810**	**11,325,910**	**12,160,930**	**(6,832,894)**	**129,394**	**111,357,150**	**(7,864,105)**	**103,493,045**
Freight and transportation services	(41,536,137)	(741,397)	(156,903)	97,795	(19,504)	(42,356,146)	4,640,812	(37,715,334)
Materials, repair and maintenance	(8,019,119)	(1,716,013)	(9,762,924)	3,719,975	(52,807)	(15,830,888)	129,799	(15,701,089)
Operating lease	(11,467,674)	(523,867)	(1,936,433)	2,379,986	722,359	(10,825,629)	572,759	(10,252,870)
Depreciation and amortisation	(8,964,105)	(1,276,466)	(23,059)	–	2,542,692	(7,720,938)	279,423	(7,441,515)
Wages, salaries and related contributions	(3,836,671)	(367,288)	(377,231)	–	(525,854)	(5,107,044)	577,530	(4,529,514)
Rolling stock servicing	(2,446,212)	(3,875)	–	–	–	(2,450,087)	55,808	(2,394,279)
Segment result	**14,699,827**	**4,269,529**	**1,448,285**	**(634,808)**	**2,877,759**	**22,660,592**	**(1,194,026)**	**21,466,566**
Gain on disposal of property, plant and equipment						1,190,712	1,110	1,191,822
Gain on impairment of property, plant and equipment (Note 9)						2,070,761	–	2,070,761
Bad debt expense						(134,128)	–	(134,128)
Share of net loss of a joint venture						(4,522)	–	(4,522)
Finance costs						(916,743)	4,766	(911,977)
Finance income						513,282	(354,120)	159,162
Foreign exchange gain, net						67,225	151	67,376
Profit before tax						**25,447,179**	**(1,542,119)**	**23,905,060**

8. Segment reporting (continued)

Year ended 31 December 2009	**Cargo**	**Lease**	**Other segments**	**Eliminations (A)**	**Adjustments (B)**	**Total**	**Less discontinued operations**	**Total continued operations**
Sales to third parties	67,530,370	6,814,040	647,154	–	602,636	75,594,200	(3,953,142)	71,641,058
Inter-segment sales	20,672	16,139	184,321	(221,132)	–	–	–	–
Total revenues	**67,551,042**	**6,830,179**	**831,475**	**(221,132)**	**602,636**	**75,594,200**	**(3,953,142)**	**71,641,058**
Freight and transportation services	(33,357,801)	(143,300)	–	–	(11,274)	(33,512,375)	651,696	(32,860,679)
Depreciation and amortisation	(9,512,193)	(2,009,957)	(932)	–	(365,363)	(11,888,445)	296,787	(11,591,658)
Materials, repair and maintenance	(9,477,601)	(1,470,453)	(150)	–	15,111	(10,933,093)	587,688	(10,345,405)
Operating lease	(5,023,464)	(49,666)	(190,209)	–	1,228,972	(4,034,367)	847,905	(3,186,462)
Wages, salaries and related contributions	(2,652,021)	(303,796)	(21,603)	–	(241,237)	(3,218,657)	349,214	(2,869,443)
Rolling stock servicing	(2,910,388)	–	–	–	32,943	(2,877,445)	21,331	(2,856,114)
Segment result	**1,604,817**	**2,331,286**	**136,457**	**2,383**	**1,125,005**	**5,199,948**	**(808,764)**	**4,391,184**
Gain on disposal of property, plant and equipment						1,679,934	–	1,679,934
Loss on impairment of property, plant and equipment (Note 9)						(554,353)	–	(554,353)
Bad debt expense						53,642	–	53,642
Penalties charged to customers						31,648	–	31,648
Finance income						217,119	(90,791)	126,328
Finance costs						(821,559)	–	(821,559)
Foreign exchange gain, net						113,975	(17)	113,958
Income before taxation						**5,920,354**	**(899,572)**	**5,020,782**

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

(B) The operating profit of each operating segment does not include the following adjustments representing differences between management accounts and financial statements prepared in accordance with IFRS as for the years ended 31 December 2010 and 2009:

	2010	**2009**
Recognition of additional revenues from rail-based cargo transportation services provided in the reporting period	129,394	602,636
PP&E adjustments (C)	2,542,692	(365,363)
Wages, salaries and related contributions accrued in the reporting period but not recognised in management accounts	(478,182)	(117,076)
Expenses associated with long-term employee benefits obligations	(47,672)	(124,161)
Adjustments to finance charges payable under finance leases recognised as operating lease expenses in management accounts	934,627	1,228,972
Write off of operating lease expenses incurred with respect to railcar washing stations and capitalized in management accounts	(212,268)	–
Other adjustments	9,168	(100,003)
Total adjustments to income before taxation	**2,877,759**	**1,125,005**

(C) PP&E adjustments represent the effect of different carrying values and useful lives of property, plant and equipment for the purposes of management accounts and financial statements prepared in accordance with IFRS.

Major customers. For the year ended 31 December 2010 and 2009, the Group has one major customer TransGroup AS to whom individual revenues represent 12% and 11% of total Group's revenues, respectively. Sales to the major customer are included in the results of the Cargo segment.

9. Property, plant and equipment

Property, plant and equipment and related accumulated depreciation comprised the following:

	Gondola wagons	Cistern wagons	Covered wagons	Cement wagons	Buildings, other wagons and equipment	Construction in progress and equipment for installation	Total
Cost							
Balance at 31 December 2008	**37,959,038**	**31,081,986**	**10,328,269**	**9,109,171**	**14,782,560**	**1,750,771**	**105,011,795**
Additions	5,396,921	4,937,711	8,075	131,671	1,171,326	28,749	11,674,453
Transfers	–	–	–	–	1,754,296	(1,754,296)	–
Disposals	(2,256)	(651,615)	–	(638,866)	(562,104)	–	(1,854,841)
Balance at 31 December 2009	**43,353,703**	**35,368,082**	**10,336,344**	**8,601,976**	**17,146,078**	**25,224**	**114,831,407**
Additions	16,445,031	1,146,151	1,283,757	2,023,129	2,204,195	76,752	23,179,015
Transfers	–	–	–	–	25,224	(25,224)	–
Disposals	(2,936)	(1,054,696)	(2,070)	(1,333,876)	(3,094,823)	–	(5,488,401)
Reclassified as assets held for sale (Note 17)	–	–	–	–	(7,856,665)	(32,290)	(7,888,955)
Translation difference	1,857	465	–	–	182	–	2,504
Balance at 31 December 2010	**59,797,655**	**35,460,002**	**11,618,031**	**9,291,229**	**8,424,191**	**44,462**	**124,635,570**
Accumulated depreciation and impairment							
Balance at 31 December 2008	**(4,426,936)**	**(4,955,679)**	**(605,907)**	**(4,477,594)**	**(3,532,590)**	–	**(17,998,706)**
Reversal of impairment / (impairment)	442	320,426	–	1,559,677	(2,434,898)	–	(554,353)
Depreciation charge	(4,252,956)	(4,057,246)	(580,215)	(845,253)	(2,119,476)	–	(11,855,146)
Disposals	153	610,113	–	609,321	538,624	–	1,758,211
Balance at 31 December 2009	**(8,679,297)**	**(8,082,386)**	**(1,186,122)**	**(3,153,849)**	**(7,548,340)**	–	**(28,649,994)**
Reversal of impairment/(impairment)	(1,924)	47,139	(702)	805,155	1,221,093	–	2,070,761
Reclassified as assets held for sale (Note 17)	–	–	–	–	1,976,589	–	1,976,589
Depreciation charge	(3,818,413)	(1,969,809)	(512,257)	(418,533)	(949,017)	–	(7,668,029)
Disposals	74	891,880	1,504	841,730	2,763,777	–	4,498,965
Translation difference	(35)	(8)	–	–	(19)	–	(62)
Balance at 31 December 2010	**(12,499,595)**	**(9,113,184)**	**(1,697,577)**	**(1,925,497)**	**(2,535,917)**	–	**(27,771,770)**
Net book value							
31 December 2009	**34,674,406**	**27,285,696**	**9,150,222**	**5,448,127**	**9,597,738**	**25,224**	**86,181,413**
31 December 2010	**47,298,060**	**26,346,818**	**9,920,454**	**7,365,732**	**5,888,274**	**44,462**	**96,863,800**

9. Property, plant and equipment (continued)

Impairment provision for property, plant and equipment

The Group carried out a review of recoverable amount of its property, plant and equipment as a part of impairment review of non-current assets at the reporting date. For this purpose, the recoverable amount of the Group’s cash-generating units was determined based on value in-use calculations. Value-in-use calculation uses cash flow projections based on actual operating results and business plan approved by the management and a corresponding discount rate, which reflects time value of money and risks associated with the Group’s operations. Key assumptions the management used in their value in-use calculation are as follows:

- The Group estimated its future cash flows for the period of the average remaining useful life of each cash generating unit representing the following wagon types:

Cash generating unit	Average Remaining useful life	Forecast period
Cistern wagons	10	2011-2021
Gondola wagons	9	2011-2020
Cement wagons	13	2011-2023
Covered wagons	17	2011-2027
Mineral wagons	4	2011-2014
Other wagons	6	2011-2016

- Cash flow projections during the forecast period are based on long-term price trends for both the prices for the Group’s services and operating costs specific for each cash-generating unit. Cash inflow projections are based on the average daily operating revenue, which is calculated by management as average daily leasing rate for lease wagons and as average daily revenue from rail-based cargo transportation services for other wagons. Expectations of operating revenue changes during the forecast period are as follows:

	Average revenue growth rate assumptions, %		
Cash generating unit	2011	2012-2015	Further years
Cistern wagons	13.4%	6.6%	4.2%
Gondola wagons	10.4%	6.6%	4.6%
Cement wagons	20.1%	6.6%	3.7%
Covered wagons	11.7%	6.6%	3.3%
Mineral wagons	5.7%	6.7%	n/a
Other wagons	24.2%	6.6%	5.4%

- Assumed revenue growth rates stated above are after adjustment for inflation. General inflation expectations during the forecast period are 8.6% in 2011 and gradually declining to expected long-term average of 3.1% in further years.

- Operating costs per wagon are expected to grow in line with the production price index, with the exception of 2011 for which the operating costs are projected based on management’s best estimate of suppliers’ prices and the most recent market trends.

- The pre-tax discount rate used in the calculations was equal to 16.7%. It has been determined with reference to the estimated weighted average cost of capital of the Group.

9. Property, plant and equipment (continued)

Impairment provision for property, plant and equipment (continued)

Values assigned to key assumptions and estimates used to measure the unit’s recoverable amount are consistent with external sources of information and historic data for each cash-generating unit. Management believes that the values assigned to the key assumptions and estimates represent the most realistic assessment of future trends.

The carrying amount of property, plant and equipment as of 31 December 2010 and 2009 is stated net of impairment loss of RUR 456,073 thousand and RUR 4,873,603 thousand, respectively.

During the year ended 31 December 2009 impairment loss was identified for the timber-carrying platforms and mineral wagons amounted to RUR 42,951 thousand and RUR 2,391,087 thousand, respectively.

Reversal of impairment losses recognised in prior periods in respect of cement wagons during the year ended 31 December 2010 amounted to RUR 929,056 thousand. This reversal is attributable to change in management estimates in relation to consequences of economic crisis in construction sector. In 2011 management expects a 20.1% increase in cement transportation rates, compared to a previous expectation of only 16.9%.

Reversal of impairment losses recognised in prior years in respect to mineral wagons during the year ended 31 December 2010 amounted to RUR 1,126,826 thousand. Positive trends in the rail-transportation sector and relative increase in demand resulted in a change of management’s plans in respect of mineral wagons. At present, management plans to fully utilize them in provision of cargo transportation services.

The Group reviewed the carrying amounts of cistern and cement wagons which are planned to be disposed by the management within 12 months after the reporting date. As a result of this review additional impairment losses recognised in respect of 256 cistern wagons and 1,328 cement wagons during the year ended 31 December 2010 amounted to RUR 28,922 thousand and RUR 123,901 thousand, respectively. These losses are attributable to greater than anticipated wear and tear.

Finance leases

Leased assets as of 31 December 2010 and 2009, included above, where the Company is a lessee under a finance lease, comprised the following:

	31 December 2010	31 December 2009
Cost - capitalized finance leases	7,064,638	4,058,504
Accumulated depreciation	(441,605)	(249,706)
Net book value	**6,223,033**	**3,808,798**

Refer to Note 20 for further details regarding finance leases.

Security

The total net book value of pledged property, plant and equipment which are held as collateral for the borrowings and loans are as follows (Note 19):

	31 December 2010	31 December 2009
Rolling stock	11,430,193	11,573,207
Net book value	**11,430,193**	**11,573,207**

Capital commitments are disclosed in Note 32.

10. Advances for acquisition of non-current assets

Advances for acquisition of non-current assets as of 31 December 2010 comprised primarily advance payments of RUR 4,619,746 thousand for rolling stock and advance payments of RUR 2,170,219 thousand for construction of offices premises (31 December 2009: advance payments of RUR 89,502 thousand for rolling stock).

11. Long-term bank deposits

Long-term bank deposits as of 31 December 2010 comprised Russian rouble denominated long-term bank deposit of RUR 500,000 thousand, placed with OJSC "Transcreditbank" (31 December 2009: nil). The deposit placed with OJSC "Transcreditbank" attracts 4.5% per annum and matures in January 2012.

Long-term bank deposits as of 31 December 2009 comprised Russian rouble denominated long-term bank deposit of RUR 3,116,127 thousand, placed with OJSC "Alfa-Bank", which attracts interest rate 11% per annum.

12. Inventories

	31 December 2010	31 December 2009
Spare parts	111,756	1,473,755
Scrap metals	15,490	65,023
Goods for resale	1,185,692	–
Other	41,115	48,137
Total	**1,354,053**	**1,586,915**
Less: provision for obsolete and damaged inventory	(11,311)	(13,778)
Total inventories, net	**1,342,742**	**1,573,137**

As of 31 December 2010, goods for resale were pledged as collateral according to the loan agreements (refer to Note 19).

13. Trade and other receivables

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

	31 December 2010	31 December 2009
Receivables for transportation services (A)	1,080,895	3,228,366
Other accounts receivable	234,292	473,675
Total receivables	**1,315,187**	**3,702,041**

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

	31 December 2010	31 December 2009
Receivables for transportation services	1,105,515	2,309,002
Receivables for services of sub-contractors re-invoiced to customers	198,644	1,008,679
Less: provision for impairment	(223,264)	(89,315)
Total receivables for transportation services	**1,080,895**	**3,228,366**

13. Trade and other receivables (continued)

The movement in the provision for impairment in respect of trade and other receivables is as follows:

	2010	2009
Balance at 1 January	**(89,315)**	**(142,957)**
Charge for the year	(152,168)	(44,481)
Unused amounts reversed	18,219	98,123
Balance at 31 December	**(223,264)**	**(89,315)**

The Group does not hold any collateral as security.

Bad debt expense recognised in the consolidated income statement comprised effect of allowance for impairment relating to receivables charged or reversed for the year 2010 of RUR 133,949 thousand (2009: RUR 53,642 thousand), direct write-off of accounts receivable and of 179 thousand (2009: RUR nil).

14. Prepayments and other current assets

	31 December 2010	31 December 2009
Input VAT	8,452,888	7,484,760
Advances paid to suppliers	5,534,453	1,641,741
Other current assets	67,454	126,031
Total prepayments and other current assets	**14,054,795**	**9,252,532**

15. Short-term bank deposits

	31 December 2010	31 December 2009
Russian rouble denominated bank deposits	–	513,198
Foreign currency denominated bank deposits	–	3,096,012
Total short-term bank deposits	**–**	**3,609,210**

Foreign currency denominated bank deposits as of 31 December 2009 included US Dollar denominated short-term bank deposits, placed with OJSC “KIT Finance Investment bank”, a related party (refer to Note 29), with an original maturity of more than three months but remaining period to maturity of less than one year. These bank deposits attract interest at a rate varying from 3.95% to 4.65% per annum.

16. Cash and cash equivalents

	31 December 2010	31 December 2009
Current bank accounts and cash on hand	2,475,220	674,645
Bank deposits and other cash equivalents	4,970,000	5,494,000
Total cash and cash equivalents	**7,445,220**	**6,168,645**

All short-term bank deposits are denominated in Russian roubles. As at 31 December 2010 and 2009 significant portion of cash and cash equivalents were placed with related party financial institutions OJSC "TransCreditBank", OJSC “Sberbank of Russia”, OJSC “VTB Bank” (Ukraine) (approximately 94% and 51% of total cash and cash equivalents correspondingly) (see Note 29).

16. Cash and cash equivalents (continued)

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprised the following at 31 December:

	31 December 2010	31 December 2009
Current bank accounts and cash on hand	2,475,220	674,645
Bank deposits and other cash equivalents	4,970,000	5,494,000
	7,445,220	**6,168,645**
Cash at banks and short-term deposits attributable to a discontinued operation:	345,594	–
Total cash and cash equivalents:	**7,790,814**	**6,168,645**

17. Discontinued operations and assets classified as held for sale

In December 2010 the Group made a decision to sell 8,218 timber-carrying platforms. As at 31 December 2010, final negotiations for the sale were in progress. As a result, 8,218 timber-carrying platforms with net book value of RUR 1,578,287 thousand were classified as a disposal group held for sale as at 31 December 2010. Following the classification, the re-measurement of these platforms to the lower of their carrying amount and fair value less costs to sell was performed and no impairment loss was identified. The sale of these timber-carrying platforms was completed in February 2011.

On 1 December 2010, a general shareholders' meeting of CJSC "Rusagrotrans" (Rusagrotrans), the Company's subsidiary, approved a private placement for the additional shares issued in favour of a non-controlling shareholder. As a result, the Group's interest in Rusagrotrans decreased from 51% to 46%. The private placement was completed on 16 March 2011 (refer to Note 33).

As a result of the decision, Rusagrotrans was classified as a disposal group held for sale and as a discontinued operation. The results of Rusagrotrans for the years ended 31 December 2010 and 2009 are presented below:

	2010	2009
Revenues	7,864,105	3,953,142
Freight and transportation services	(4,640,812)	(651,696)
Depreciation and amortisation	(279,423)	(296,787)
Materials, repair and maintenance	(129,799)	(587,688)
Rolling stock servicing	(55,808)	(21,331)
Wages, salaries and related contributions	(577,530)	(349,214)
Operating lease	(572,759)	(847,905)
Taxes other than income tax	(90,780)	(78,627)
Advertising costs	(82,804)	(42,224)
Information technology services	(73,216)	(56,584)
Communication costs	(27,157)	(14,542)
Consulting services	(82,704)	(68,938)
Gain on disposal of property, plant and equipment	(1,110)	–
Other operating expenses, net	(57,287)	(128,842)
	(6,671,189)	**(3,144,378)**
Finance costs	(4,766)	–
Finance income	354,120	90,791
Foreign exchange gain, net	(151)	17
Profit before tax from a discontinued operation	**1,542,119**	**899,572**
Income tax expense	(313,219)	(198,216)
Profit for the year from a discontinued operation	**1,228,900**	**701,356**

17. Discontinued operations and assets classified as held for sale (continued)

The major classes of assets and liabilities of Rusagrotrans classified as held for sale as at 31 December are as follows:

	31 December 2010	31 December 2009
Non-current assets		
Property, plant and equipment (Note 9)	4,334,079	–
Advances for acquisition of non-current assets	523,254	–
Intangible assets	16,110	–
Long-term bank deposits	1,932,130	–
Total non-current assets	**6,805,573**	–
Current assets		
Inventories	85,829	–
Trade and other receivables	830,920	–
Prepayments and other current assets	432,500	–
Income tax receivable	–	–
Short-term bank deposits	667,922	–
Cash and cash equivalents (Note 16)	345,594	–
Total current assets	**2,362,765**	–
Assets classified as held for sale	**9,168,338**	–
Non-current liabilities		
Long-term borrowings	–	–
Deferred tax liabilities (Note 28)	412,350	–
Total non-current liabilities	**412,350**	–
Current liabilities		
Trade and other payables	586,868	–
Income tax payable	–	–
Taxes other than income tax payable	31,411	–
Provisions for tax liabilities	31,298	–
Finance lease obligations, current portion	319	–
Accrued expenses and other current liabilities	28,573	–
Total current liabilities	**678,469**	–
Liabilities directly associated with the assets classified as held for sale	**1,090,819**	–
Net assets directly associated with disposal group	**8,077,519**	–

The above total assets and total liabilities as of 31 December 2010 exclude RUR 4,450 thousand of intercompany balances.

The net cash flows incurred by Rusagrotrans are as follows:

	2010	2009
Operating	500,347	884,451
Investing	(1,209,016)	(3,460,400)
Financing	(25,747)	3,665,301
Net cash (outflow)/inflow	**(734,416)**	**1,089,352**

18. Equity

Share capital

The share capital of the Company as of 31 December 2010 consists of 85,652,434,154 thousand (31 December 2009: 85,652,434,154 thousand) authorized, issued and outstanding common shares with par value of one Russian Rouble.

The Company’s shares were paid through contribution by its parent, OJSC “Russian Railways” of net assets related to cargo transportation activities. Such net assets comprise primarily cash, property, plant and equipment, long-term employee benefit liabilities and the related deferred tax assets and liabilities. Further, under the existing tax rules, the in-kind contribution of property, plant and equipment made by the shareholder to the share capital gives the Company the right to claim VAT related to such property, plant and equipment for reimbursement from the tax authorities. The amount of such VAT equated to RUR 381,968 thousand. This amount was included in the determination of the total value of the consideration paid by OJSC “Russian Railways” for the Company’s shares. The difference between the fair value of net assets contributed and the nominal value of the shares issued by the Company of RUR 15,776,260 thousand was recorded as other reserves.

Further, the Group hired employees previously employed by OJSC “Russian Railways”. During the year ended 31 December 2010 with regard to these employees the Group assumed employee benefits obligations of RUR 46,308 thousand (31 December 2009: RUR 141,263 thousand), refer to Note 21, and related deferred tax asset of RUR 2,856 thousand (31 December 2009: RUR 9,620 thousand), refer to Note 28, which were included into other reserves.

The Company shareholder structure as of 31 December 2010 and 2009 was as follows:

	Number of outstanding ordinary shares	Percentage of ownership
OJSC “Russian Railways” (RZD)	85,652,434,153	99.99999%
OJSC “Baminvest”	1	0.00001%
Total	**85,652,434,154**	**100%**

Dividends declared and paid

In accordance with the Russian legislation, dividends may only be declared to the shareholders of the Company from accumulated undistributed and unreserved earnings as shown in the Company's Russian statutory financial statements. The Company had approximately RUR 20,983,146 thousand and RUR 9,418,986 thousand of undistributed and unreserved earnings as at 31 December 2010 and 2009.

In respect of fourth quarter 2008, dividends of approximately RUR 0.00071 per share were approved at the annual shareholders' meeting on 30 June 2009 and were fully paid before 31 August 2009.

On 30 June 2010 the shareholders of the Company approved the payment of the final dividend in respect of the financial year ended 31 December 2009 in amount of 0.0024976 Russian rouble per each ordinary share, amounting to a total of RUR 213,926 thousand. Dividends were paid on 27 August 2010.

In 2010 CJSC “Rusagrotrans”, subsidiary of the Group, declared dividends. The share of non-controlling shareholders in those dividends was RUR 18,072 thousand. Dividends were paid on 25 August 2010.

Reserve fund

According to its charter, the Company established a reserve fund through the allocation of 5% of net profit as computed under Russian accounting regulations. The total amount of the reserve fund is limited to 5% of the Company’s share capital. The reserve fund may only be used to offset losses of the Company as well as to redeem bonds issued or to purchase treasury shares. As of 31 December 2010 and 2009 the Company’s reserve fund amounted to RUR 550,654 thousand and RUR 425,125 thousand, respectively.

19. Long-term and short-term borrowings

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

31 December 2010	Original currency	Principal amount in original currency	Effective interest rate	Maturity	Current	Non-current
Fixed rates						
Alfa-Bank (C)	RUR	1,500,000	6.5%	28.01.2011	**1,500,534**	–
Floating rates						
EBRD (A)	USD	130,000	3.39%	22.01.2019	491,057	3,349,092
Alfa-Bank (B)	RUR	2,787,668	10.61%	25.12.2016	431,460	2,151,413
					922,517	**5,500,505**
Total					**2,423,051**	**5,500,505**

31 December 2009	Original currency	Principal amount in original currency	Effective Interest rate	Maturity of non-current portion	Current	Non-current
Long-term loans from banks						
Floating rates						
EBRD (A)	USD	130,000	4.18%	22.01.2019	141,112	3,774,495
Alfa-Bank (B)	RUR	2,998,851	11.3%	25.12.2016	430,421	2,568,430
Total					**571,533**	**6,342,925**

(A) On 12 March 2009 the Company obtained a US dollar denominated loan from European Bank for Reconstruction and Development (EBRD). The loan attracts interest calculated as a 3 month USD LIBOR + 3.5%. Interest rate can be further reduced to 3 month USD LIBOR + 3.0% if the Group meets certain conditions. The effective interest rate comprised 3.39% (31 December 2009: 4.18%) for the year ended 31 December 2010. The currency and interest rate risk exposures of this transaction were partially economically hedged (refer to Note 30).

The loan is repayable in 34 equal quarterly installments starting the earlier of (a) 18 months from the date of receipt of the first tranche; (b) 1 March 2011.

The loan is secured by the Group’s rolling stock with a carrying amount of approximately RUR 9,006,868 thousand as of 31 December 2010 (31 December 2009: RUR 9,048,001 thousand).

(B) In December 2009 the Group obtained a Russian Rouble denominated loan from OJSC “Alfa-Bank”. The loan attracts interest calculated as the Russian Central Bank refinancing rate (CBR discount rate) plus 2.5%.

The loan is secured by the Group’s property, plant and equipment with a carrying amount of approximately RUR 2,423,325 thousand as of 31 December 2010 (31 December 2009: RUR 2,525,206 thousand).

Subsequent to 31 December 2010, the Group repaid the outstanding amount of the loan in full ahead of its maturity schedule (refer to Note 33).

(C) In December 2010 the Group obtained a Russian Rouble denominated loan from OJSC “Alfa-Bank”.

The loan is secured by the Group’s goods for resale with a carrying amount of approximately RUR 1,185,692 thousand as of 31 December 2010 (31 December 2009: RUR nil). In January 2011 the Group repaid the outstanding amount of the loan in full in accordance with the payment schedule.

In accordance with the terms of all loan agreements the Group is subject to certain financial and non-financial covenants. As of 31 December 2010 the Group is in compliance with covenants.

20. Finance lease obligations

The Group entered into several finance lease agreements for gondola and cement wagons. The lease agreements are for periods from 6 to 10 years with the effective interest rate varying from 11.40% to 17.53% p.a. Future minimum lease payments together with the present value of the net minimum lease payments as of 31 December 2010 and 2009 are as follows:

	2010	**2009**
Finance lease liabilities – minimum lease payments		
Not later than 1 year	1,332,293	747,078
Later than 1 year and not later than 5 years	4,469,008	2,360,712
Later than 5 years	3,348,721	1,346,652
Total minimum lease payments	**9,150,022**	**4,454,442**
Less: interest	(3,678,817)	(1,610,162)
Present value of minimum lease payments	**5,471,205**	**2,844,280**
Representing lease liabilities		
Current	1,242,245	694,684
Non-current	4,228,960	2,149,596

All leases are denominated in Russian Roubles. The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

Finance charges for the year ended 31 December 2010 amounted to RUR 443,895 thousand (2009: RUR 652,621 thousand) and are included in "Finance costs" in the consolidated statement of income (refer to Note 27).

Gondola wagons lease

During the year ended 31 December 2008 the Group entered into a finance lease agreement with a third party to acquire new gondola wagons with initial value of RUR 2,965,890 thousand. The lease agreement is for the period of 10 years with the effective interest rate varying from 12.10% to 12.42% per annum, lease payments are adjusted every 90 days in line with changes in MOSPRIME rate. These changes are treated as contingent rentals and are recognised in the period the change occurs.

The total amount of contingent rentals recognised during the year ended 31 December 2010 included into interest expense was RUR 35,070 thousand (2009: RUR 239,582 thousand).

Cement wagons lease

During 2008 the Group assumed rights and obligations under the existing lease agreement with CJSC "Russian-German Company' (RG Leasing), initially concluded between RZD and RG Leasing. RG Leasing is a related party to the Group.

The agreement is for the lease of cement wagons with a net book value (as of the date of transfer of assets) of RUR 1,079,339 thousand. The lease agreement is for a period of 8 years with the effective interest rate varying from 12.10% to 13.18% per annum. The aggregate amount of finance lease liabilities on agreements signed with RG Leasing equated to RUR 398,820 thousand as of 31 December 2010 (31 December 2009: RUR 522,769 thousand).

Sale and lease back agreement

On 20 December 2010 the Group entered into a sale and lease back financing arrangement with LLC "Alfa-Leasing" for 1,425 new gondola wagons. Under the terms of this arrangement, in December 2010 the Group sold to LLC "Alfa-Leasing" 1,425 gondola wagons at price of RUR 2,204,571 thousand, net of VAT. Immediately upon the sale of these wagons, the Group leased back these wagons with initial value of RUR 2,204,571 thousand from the lessor for the period of 7 years with the effective interest rate 11.40% per annum. Under the terms of this arrangement, the Group as a lessee has the option to purchase wagons from the lessor at a fixed bargain price each year after two years from the date of delivery. This arrangement falls under the category of finance lease as described under IAS 17.

The Group continued to recognize gondola wagons under the lease agreement at their previous carrying values of RUR 2,204,571 thousand. As a result of the transaction, no deferred income in the consolidated statement of financial position was recognised.

21. Employee benefits

The Company provides defined benefit and defined contribution pension plans covering substantially all of its employees, requiring contributions to be made to a separately administered non-state pension fund “Blagosostoyanie”.

In order to be entitled to pension through the non-state pension fund “Blagosostoyanie” a person should meet the following criteria:

1) active participants in defined benefit plan[(A)] born before 1967 and joined pension plan before 1 July 2007 – 15 years of past service with RZD and its subsidiaries and railway industry enterprises;
2) active participants in defined benefit plan(A) born in 1967 and later –5 years of participation in the defined benefit plan;
3) employees (including active participants in defined benefit plan[(A)]) should retire from the Company.

(A) An active participant in defined benefit plan is a person making contributions to the pension plan at his/her own expense. Such contributions are matched with the Company’s contributions.

Defined contribution plans

The total amount recognised as an expense in respect of defined contribution plans for the years ended 31 December 2010 and 2009 consisted of the following:

	2010	2009
Pension Fund of the Russian Federation	293,629	85,576
Other employee benefits	8,230	–
Total expense for defined contribution plans	**301,859**	**85,576**

Defined benefit plans

Benefits accrued through pension plan administered by non-state pension fund “Blagosostoyanie” are partially funded. Pension entitlements are accrued using the projected unit credit method.

In addition, the Company provides other retirement and post employment benefits to its employees, which comprise a once per year free of charge transportation on long-distance trains and one-time bonus on retirement ranging from 1 to 6 monthly salaries and depending on the duration of the service period and some other. These benefits are unfunded.

Similarly to pension plans above, entitlements to such additional benefits are accrued using the projected unit credit method.

There were approximately 3,663 employees eligible for some part of the post employment and post retirement benefit programs of the Company as of 31 December 2010 (31 December 2009: 3,570 employees) of which 236 employees were considered active participants in the defined benefit pension plan as at 31 December 2010 (2009: 242 employees).

Effective from 1 January 2010, the Company restricted the availability of once a year free-of charge transportation on long-distance trains only to the employees qualifying for participation in the plans.

In addition, during 2010, the Company discontinued two other retirement and post employment benefits previously available to employees. A gain on curtailment of the plan of RUR 18,769 thousand is included in “Wages, salaries and related contributions” in the consolidated income statement for the year ended 31 December 2010.

The most recent actuarial valuation of the defined benefit obligation was carried out as of 31 December 2010 by an independent actuary. The present value of the defined benefit obligations, and related current service costs and past service cost, were measured using the projected unit credit method.

21. Employee benefits (continued)

Defined benefit plans (continued)

The amounts recognised in the consolidated statement of financial position are as follows:

As of 31 December 2010:

	Blago sostoyanie	One-time bonus	Other employee benefits	Total
Present value of defined benefit obligations	203,814	277,046	68,670	**549,530**
Fair value of plan assets	(7,198)	–	–	**(7,198)**
Present value of unfunded defined benefit obligations	**196,616**	**277,046**	**68,670**	**542,332**
Unrecognised past service cost	(12,343)	(1,938)	(44)	**(14,325)**
Net pension liability in the statement of financial position	**184,273**	**275,108**	**68,626**	**528,007**

As of 31 December 2009:

	Blago-sostoyanie	One-time bonus	Other employee benefits	Total
Present value of defined benefit obligations	162,651	234,336	59,348	**456,335**
Fair value of plan assets	(3,221)	–	–	**(3,221)**
Present value of unfunded defined benefit obligations	**159,430**	**234,336**	**59,348**	**453,114**
Unrecognised past service cost	(18,515)	(2,326)	(172)	**(21,013)**
Net pension liability in the statement of financial position	**140,915**	**232,010**	**59,176**	**432,101**

The amounts recognised in the consolidated statement of income, which are included in “Wages, salaries and related contributions”, are as follows:

For the year ended 31 December 2010:

	Blago-sostoyanie	One-time bonus	Other employee benefits	Total
Current service cost	6,386	15,151	7,862	**29,399**
Interest on benefit obligations	13,988	20,153	5,104	**39,245**
Expected return on plan assets	(322)	–	–	**(322)**
Actuarial loss/ (gain)	17,827	(13,246)	14,496	**19,077**
Curtailment gain	–	–	(18,769)	**(18,769)**
Amortisation of past service cost	6,172	388	128	**6,688**
Net expense for the year	**44,051**	**22,446**	**8,821**	**75,318**

Actual return on plan assets: RUR 174 thousand.

21. Employee benefits (continued)

Defined benefit plans (continued)

For the year ended 31 December 2009:

	Blago-Sostoyanie	**One-time bonus**	**Other employee benefits**	**Total**
Current service cost	4,660	5,260	3,965	**13,885**
Interest on benefit obligations	8,716	8,214	2,562	**19,492**
Actuarial (gain)/ loss	(603)	63,048	6,341	**68,786**
Introduction of other employee benefits	–	–	23,042	**23,042**
Amortization of past service cost	6,172	388	29	**6,589**
Net expense for the year	**18,945**	**76,910**	**35,939**	**131,794**

Actual return on plan assets: RUR 42 thousand.

Changes in the present value of the defined benefit obligation are as follows:

	Blago-sostoyanie	**One-time bonus**	**Other employee benefits**	**Total**
Defined benefit obligation at 31 December 2008	**92,728**	**87,378**	**4,206**	**184,312**
Current service cost	4,660	5,260	3,965	**13,885**
Interest on benefit obligations	8,716	8,214	2,562	**19,492**
Benefits paid	–	(1,076)	(3,378)	**(4,454)**
Actuarial loss / (gain)	(561)	63,048	6,341	**68,828**
Introduction of other employee benefits	–	–	23,042	**23,042**
Liabilities from transfer of employees	57,108	71,512	22,610	**151,230**
Defined benefit obligation at 31 December 2009	**162,651**	**234,336**	**59,348**	**456,335**
Current service cost	6,386	15,151	7,862	**29,399**
Interest on benefit obligations	13,988	20,153	5,104	**39,245**
Settlement of liability	(11,170)	–	–	**(11,170)**
Benefits paid	–	(4,052)	(6,695)	**(10,747)**
Actuarial loss/ (gain)	17,679	(13,246)	14,496	**18,929**
Curtailment gain	–	–	(18,769)	**(18,769)**
Liabilities from transfer of employees (i)	14,280	24,704	7,324	**46,308**
Defined benefit obligation at 31 December 2010	**203,814**	**277,046**	**68,670**	**549,530**

(i) Liability arising from transfer of employees represents the transfer of obligations on post-retirement benefits, which originated from the transfer of employees from the parent company subsequent to formation of the Company. Corresponding debit was charged to Other Reserves.

Movements in the net assets of defined benefit pension plans during 2009 and 2008 were as follows:

	31 December 2010	**31 December 2009**
Fair value of plan assets at 1 January	3,221	–
Actuarial (loss) / gain on plan assets	(148)	42
Expected return on plan assets	322	–
Employer contributions	14,973	3,179
Settlement of liability	(11,170)	–
Fair value of plan assets at 31 December	**7,198**	**3,221**

21. Employee benefits (continued)

Defined benefit plans (continued)

The Group expects to contribute approximately RUR 16,216 thousand to its defined benefit pension plans in 2011.

The major categories of plan assets administered by non-state pension fund "Blagosostoyanie" as a percentage of the fair value of total plan assets were as follows as of 31 December 2010 and 2009:

	2010 (%)	2009 (%)
Corporate bonds and stocks of Russian legal entities	43%	46%
Shares in closed investment funds	29%	26%
Cash equivalents and bank deposits	19%	18%
Russian Federal government and municipal bonds	1%	2%
Other	8%	8%
Total	**100%**	**100%**

As of 31 December 2010 and 2009 actuarial assumptions used were as follows:

	31 December 2010	31 December 2009
Discount rate	8.0%	8.6%
Rate used for calculation of annuity value	4%	4%
Average remaining working life	20.2 years	21.5 years
Expected return on plan assets	9%	10%
Mortality tables	Year 2009	Year 2008

The Group further assumed that salary will increase in future in line with inflation rate. The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligations are to be settled. The decrease in discount rate in 2010 resulted from a decrease noted in the reporting period in the market yields of high quality corporate and government bonds.

Amounts for the current and previous two periods since the date of the Company's formation are presented in the table below, as follows:

Blagosostoyanie

	2010	2009	2008
Present value of defined benefit obligations	203,814	162,651	92,728
Fair value of plan assets	(7,198)	(3,221)	–
Present value of unfunded defined benefit obligations	**196,616**	**159,430**	**92,728**
Experience adjustment on plan liabilities: (gain)/loss	(5,592)	(1,534)	(1,347)
Experience adjustment on plan assets: loss / (gain)	148	(42)	–

One-time bonus

	2010	2009	2008
Present value of unfunded defined benefit obligations	277,046	234,336	87,378
Experience adjustment on plan liabilities: (gain)/loss	(20,984)	47,103	(2,290)

Other employee benefits

	2010	2009	2008
Present value of unfunded defined benefit obligations	68,670	59,348	4,206
Experience adjustment on plan liabilities: (gain)/loss	(3,821)	2,675	(69)

22. Trade and other payables

Trade and other payables as of 31 December 2010 and 2009 comprised the following:

	31 December 2010	31 December 2009
Trade payable	1,437,215	1,182,209
Amounts payable for the acquisition of property, plant and equipment	14,762	742,622
Advances received for transportation	7,113,296	5,683,024
Total trade and other payables	**8,565,273**	**7,607,855**

23. Taxes other than income tax payable

Taxes and other than income tax payable as of 31 December 2010 and 2009 comprised the following:

	31 December 2010	31 December 2009
VAT payable	263,853	206,914
Property tax	510,074	493,973
Unified social tax	130,843	63,910
Other taxes	27	2,470
Total taxes other than income tax payable	**904,797**	**767,267**

24. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities as of 31 December 2010 and 2009 comprised the following:

	31 December 2010	31 December 2009
Settlements with employees	808,449	264,326
Other liabilities	29,948	12,595
Total accrued expenses and other current liabilities	**838,397**	**276,921**

Settlements with employees as of 31 December 2010 and 2009 comprise accrued salaries, bonuses and compensation of RUR 680,588 thousand and RUR 159,608 thousand, respectively, and the accrual for unused vacation of RUR 127,861 thousand and RUR 104,718 thousand, respectively.

25. Revenues

Revenues for the year ended 31 December 2010 and 2009 comprised the following:

	2010	2009
Rail-based cargo transportation services	88,008,326	65,550,009
Operating lease of rolling stock	8,225,956	5,471,880
Railcar washing services	973,369	454,781
Sale of goods	6,074,678	–
Other	210,716	164,388
Total revenues	**103,493,045**	**71,641,058**

26. Taxes other than income tax, net

Property tax in the amount of RUR 1,906,138 thousand and RUR 767,267 thousand was included in the amount of taxes other than income tax expense, net for the years ended 31 December 2010 and 2009, respectively.

27. Finance costs

Finance costs for the year ended 31 December 2010 and 2009 comprised the following:

	2010	2009
Interest expense	468,082	168,938
Finance lease charges	443,895	652,621
Total finance costs	**911,977**	**821,559**

28. Income taxes

Income taxes for the year ended 31 December 2010 and 2009 comprised the following:

	2010	2009
Current tax charge	5,897,232	2,842,203
Adjustment in respect of income tax of previous years	10,062	–
Deferred tax charge, net	(355,390)	(1,360,011)
Total income tax (expense) / benefit	**5,551,904**	**1,482,192**

A reconciliation between income tax (expense) / benefit recorded in the consolidated statements of income for the year ended 31 December 2010 and 2009 and income / (loss) before taxation multiplied by the Russian Federation statutory tax rate of 20% is as follows:

	2010	2009
Income / (Loss) before taxation from continuing operations	23,905,060	5,020,782
Profit/(loss) before tax from a discontinued operation	1,542,119	899,572
Profit before income tax	**25,447,179**	**5,920,354**
Statutory income tax rate	20%	20%
Theoretical tax (expense)/ benefit at statutory tax rate	**(5,089,436)**	**(1,184,071)**
Add (deduct) tax effect of:		
Tax on dividends distributed by the Group's subsidiary to non-controlling shareholder	(1,454)	–
Effect of higher tax rate in Ukraine (25%)	(8,074)	–
Deferred income tax provided for undistributed earnings of the Group's subsidiaries	(51,649)	–
Tax fines	(45,027)	(36,315)
Income tax adjustments for prior periods	(10,062)	–
Reversal of provision for tax liabilities	6,865	(13,124)
Share of loss in joint venture	904	–
Non-deductible expenses:		
Charity	(21,173)	(17,784)
Sale of scrap metal	–	(157,694)
Employee benefits	(53,735)	(53,804)
Shortage/surplus of scrap metal	(3,619)	19,170
Other non-deductible expenses, net	(275,444)	(38,570)
	(5,551,904)	**(1,482,192)**
Income tax expense reported in the consolidated income statement	**(5,238,685)**	**(1,283,976)**
Income tax attributable to a discontinued operation	**(313,219)**	**(198,216)**

28. Income taxes (continued)

As of 31 December 2010 deferred income taxes have been provided for in respect of undistributed earnings of the Group’s subsidiaries amounting to RUR 51,649 thousand, as management intended to dividend these amounts. Management does not intend to distribute other accumulated earnings in the foreseeable future. The current tax rate on intra-group dividend income varies from 0% to 9%.

At 31 December 2010, the Group has not recognised a deferred tax liability in respect of temporary differences of RUR 351,265 thousand (31 December 2009: RUR 2,769,000 thousand). These differences are associated with investments in subsidiaries and were not recognised as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

Total accumulated temporary differences that arise between the Russian statutory tax base of assets and liabilities and their carrying amounts in the accompanying consolidated statements of financial position, which relate primarily to valuation of property, plant and equipment for tax purposes, give rise to the following deferred tax effects:

	31 December 2009	Recognised in equity	Recognition and reversal of temporary differences	Translation difference	31 December 2010
Tax effects of deductible temporary differences:					
Finance lease obligations	649,551	–	444,754	–	1,094,305
Employee benefits liabilities	28,183	2,856	5,816	–	36,855
Inventories	–	–	2,262	–	2,262
Intangible assets	1,850	–	3,629	–	5,479
Trade and other payables	19,230	–	232,311	–	251,541
	698,814	**2,856**	**688,772**	–	**1,390,442**
Tax effects of taxable temporary differences:					
Undistributed earnings of subsidiaries	–	–	(51,649)	–	(51,649)
Property, plant and equipment	(9,671,041)	–	(382,331)	(44)	(10,053,416)
Loans and borrowings	(8,919)	–	4,579	–	(4,340)
Trade and other receivables	(106,241)	–	101,756	–	(4,485)
Other	738	–	(5,737)	–	(4,999)
	(9,785,463)	**–**	**(333,382)**	**(44)**	**(10,118,889)**
Total net deferred tax liability	**(9,086,649)**	**2,856**	**355,390**	**(44)**	**(8,728,447)**

Reflected in the statement of financial position as follows:

	31 December 2010	31 December 2009
Deferred tax liabilities - continuing operations	(8,316,097)	(8,606,753)
Deferred tax liabilities - discontinued operation	(412,350)	(479,896)
	(8,728,447)	**(9,086,649)**

28. Income taxes (continued)

	31 December 2008	Recognised in equity	Recognition and reversal of temporary differences	31 December 2009
Tax effects of deductible temporary differences:				
Finance lease obligations	763,995	–	(114,444)	649,551
Employee benefits liabilities	15,410	9,620	3,153	28,183
Intangible assets	383	–	1,467	1,850
Trade and other payables	90,415	–	(71,185)	19,230
	870,203	**9,620**	**(181,009)**	**698,814**
Tax effects of taxable temporary differences:				
Property, plant and equipment	(11,315,450)	–	1,644,409	(9,671,041)
Loans and borrowings	–	–	(8,919)	(8,919)
Trade and other receivables	(11,007)	–	(95,234)	(106,241)
Other	(26)	–	764	738
	(11,326,483)	**–**	**1,541,020**	**(9,785,463)**
Total net deferred tax liability	**(10,456,280)**	**9,620**	**1,360,011**	**(9,086,649)**

29. Related party transactions

In accordance with IAS 24 *Related Party Disclosure*s, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The ultimate controlling party of the Group is the government of the Russian Federation and, therefore, all companies controlled by the government of the Russian Federation are also treated as related parties for the purposes of these consolidated financial statements. Related parties include shareholders, directors, subsidiaries and enterprises controlled by the government of the Russian Federation.

As a part of its normal operations, the Group enters into various transactions with state-controlled entities and governmental bodies which are shown as “other entities under common control”. The majority of related party transactions are with the following companies: OJSC “Russian Railways” and its subsidiaries, which are also state-controlled. The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm’s length transactions.

The nature of the related party relationships for those related parties with whom the Company entered into significant transactions or had significant balances outstanding at 31 December 2010 and 2009 are disclosed below:

Related party	Nature of relationship
OJSC “Russian Railroads” (RZD)	Parent company
OJSC “TransCreditBank”	Fellow subsidiary of RZD
LLC “VagonRemMash”	Fellow subsidiary of RZD
OJSC “Saranskyi Vagonoremontniy Zavod”	Fellow subsidiary of RZD
OJSC “Barnaulskyi Vagonoremontniy Zavod”	Fellow subsidiary of RZD
CJSC “Olmineya”	Fellow subsidiary of RZD
LLC “Roszheldorstroy”	Fellow subsidiary of RZD
OJSC “Trading House RZD”	Fellow subsidiary of RZD
OJSC “KIT Finance Investment Bank”	Associate of RZD
OJSC “NPK Uralvagonzavod”	State controlled entity
OJSC “Sberbank of Russia”	State controlled entity
OJSC “VTB Bank” (Ukraine)	State controlled entity
CJSC “Sberbank Leasing”	State controlled entity
Fund Blagosostoyanie	Post-employment benefit plan for the benefit of employees of the Company

29. Related party transactions (continued)

Relationships with Open Joint Stock Company "Russian Railroads"

The Company performs a variety of transactions with RZD, which is the sole owner and provider of railroad infrastructure and locomotive services in Russia. Further, RZD owns the vast majority or rail-cars repair facilities in Russia, which are used by the Company to maintain its rolling stock in the operational condition.

The Group entered into a variety of transactions with related parties in 2010 and 2009. The most significant of these transactions are as follows:

Transactions and balances with related parties as of 31 December 2010 and for the year then ended.

	31 December 2010		
	RZD and its subsidiaries, associate	**Other entities under common control**	**Total**
Advances for acquisition of non-current assets	**2,394,185**	**1,924,794**	**4,318,979**
Trade and other receivables			
Receivables for transportation services	13,930	276,694	290,624
Other receivables	149,058	1,832	150,890
Prepayments and other current assets			
Advances paid to suppliers	4,376,399	317,549	4,693,948
Cash and cash equivalents			
Cash on bank accounts	2,138,882	24,733	2,163,615
Bank deposits and other cash equivalents	4,568,379	–	4,568,379
	6,707,261	**24,733**	**6,731,994**
Total assets	**13,640,833**	**2,545,602**	**16,186,435**
Finance lease obligations	**–**	**(398,821)**	**(398,821)**
Trade and other payables			
Trade payable	(914,986)	(73,983)	(988,969)
Amounts payable for the acquisition of property, plant and equipment	–	–	–
Advances received for transportation	(4,601)	(701,635)	(706,236)
Total liabilities	**(919,587)**	**(1,174,439)**	**(2,094,026)**

29. Related party transactions (continued)

	Year ended 31 December 2010		
	RZD and its subsidiaries, associate	**Other entities under common control**	**Total**
Revenues			
Rail-based cargo transportation services	2,096,983	7,034,797	9,131,780
Operating lease of rolling stock	8,725	384,405	393,130
Railcar washing services	11,678	63,724	75,402
Sales of goods	4,910,865	–	4,910,865
Other	11,787	789	12,576
Total revenues	**7,040,038**	**7,483,715**	**14,523,753**
Operating expenses			
Freight and transportation services	40,990,397	5,011	40,995,408
Materials, repair and maintenance	6,907,259	–	6,907,259
Rolling stock servicing	1,748,239	116,423	1,864,662
Operating costs of railcar washing stations	43,538	98,664	142,202
Operating lease	10,354,215	–	10,354,215
Advertising costs	350,698	–	350,698
Information technology services	206,739	19	206,758
Communication costs	78,711	2,052	80,763
Consulting services	25,885	–	25,885
Other operating expenses, net	217,320	59,644	276,964
Total operating expenses	**60,923,001**	**281,813**	**61,204,814**
Finance income			
Interest income on deposits	187,268	2,167	189,435
Total finance costs	**187,268**	**2,167**	**189,435**
Finance costs			
Finance lease charge	–	62,055	62,055
Total finance costs	**–**	**62,055**	**62,055**
Acquisition of property, plant and equipment	2,308,373	8,088,335	10,396,708
Purchase of materials	71,538	1,913	73,451
Sales of property, plant and equipment	3,013,806	37,195	3,051,001
Total other transactions	**5,393,717**	**8,127,443**	**13,521,160**

29. Related party transactions (continued)

Transactions and balances with related parties as of 31 December 2009 and for the year then ended.

	31 December 2009		
	RZD and its subsidiaries, associate	**Other entities under common control**	**Total**
Advances for acquisition of non-current assets	**61,000**	**–**	**61,000**
Trade and other receivables			
Receivables for transportation services	300,410	39,511	339,921
Other receivables	292,074	3,119	295,193
	592,484	**42,630**	**635,114**
Prepayments and other current assets			
Advances paid to suppliers	1,257,868	16,236	1,274,104
Short-term bank deposits	3,609,211	–	3,609,211
Cash and cash equivalents			
Cash on bank accounts	586,963	1,610	588,573
Bank deposits and other cash equivalents	2,065,000	429,000	2,494,000
	2,651,963	**430,610**	**3,082,573**
Total assets	**8,172,526**	**489,476**	**8,662,002**
Finance lease obligations	**–**	**522,769**	**522,769**
Trade and other payables			
Trade payable	547,544	119,461	667,005
Amounts payable for the acquisition of property, plant and equipment	–	225,939	225,939
Advances received for transportation	211	31,769	31,980
	547,755	**377,169**	**924,924**
Total liabilities	**547,755**	**899,938**	**1,447,693**

29. Related party transactions (continued)

	Year ended 31 December 2009		
	RZD and its subsidiaries, associate	**Other entities under common control**	**Total**
Revenues			
Rail-based cargo transportation services	1,371,791	731,965	2,103,756
Operating lease of rolling stock	1,553,598	2,874	1,556,472
Railcar washing services	10,418	1,603	12,021
Other	467	–	467
Total revenues	**2,936,274**	**736,442**	**3,672,716**
Operating expenses			
Freight and transportation services	32,416,921	–	32,416,921
Materials, repair and maintenance	7,374,544	1,127,527	8,502,071
Operating lease	3,707,240	961	3,708,201
Rolling stock servicing	2,287,134	76,398	2,363,532
Payroll and related charges	–	470,492	470,492
Advertising costs	291,810	518	292,328
Information technology services	175,267	4,405	179,672
Communication costs	74,925	3,187	78,112
Other operating expenses, net	81,737	64,223	145,960
Total operating expenses	**46,409,578**	**1,747,711**	**48,157,289**
Finance income			
Interest income on deposits	125,128	16,913	142,041
Total finance income	**125,128**	**16,913**	**142,041**
Finance costs			
Finance lease charge	–	76,359	76,359
Total finance costs	**–**	**76,359**	**76,359**
Acquisition of property, plant and equipment	5,661,074	1,163,138	6,824,212
Purchase of materials	15	31	46
Total other transactions	**5,661,089**	**1,163,169**	**6,824,258**

The aggregate amount of finance lease liabilities on agreements signed with the Group's related parties equated to RUR 398,820 thousand as of 31 December 2010 (31 December 2009: RUR 522,769 thousand). Effective interest rate on these agreements varies from 12.10% to 13.18%. The Group's banking subsidiary is in certain instances involved in providing loan financing to the lessors under lease agreements signed by the Company.

Total pension contributions non-state pension fund "Blagosostoyanie" made by the Company for the year ended 31 December 2010 amounted to RUR 40,164 thousand (2009: RUR 3,179 thousand).

Compensation of key management personnel

Key management personnel consist of members of the Board of Directors of the Company, the General Director and his first deputies, totalling 12 persons as of 31 December 2010 and 2009. Total gross compensation (including social contributions and before withholding of personal income tax) to key management personnel included in payroll and related charges in the consolidated profit or loss amounted to RUR 144,430 thousand (including social contributions of RUR 432 thousand) and RUR 85,503 thousand (including unified social tax of RUR 1,640 thousand) for the years ended 31 December 2010 and 2009, respectively. Such compensation comprises primarily of short-term benefits. Post-employment and other long-term benefits of key management personnel were immaterial.

30. Financial instruments and risk management objectives and policies

The Group’s principal financial liabilities, other than derivatives, comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group’s operations and to provide guarantees to support its operations. The Group has loan and other receivables, trade and other receivables, and cash and short-term deposits that arrive directly from its operations. The Group also enters into derivative transactions. The Group is exposed to market risk, credit risk and liquidity risk.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group does not hedge its credit risk.

The maximum exposure to credit risk is equal to the carrying amount of financial assets as at 31 December 2010 and 2009 which is disclosed below:

	31 December 2010	31 December 2009
Cash and cash equivalents (excluding cash on hand)	7,445,220	6,168,645
Short-term bank deposits	–	3,609,210
Long-term bank deposits	500,000	3,116,127
Trade and other receivables	1,315,187	3,702,041
Derivative financial asset	26,444	–
Total credit risk exposure	**9,286,851**	**16,596,023**

Trade accounts receivable

The Group’s exposure to credit risk arises primarily with respect to receivables in connection with cargo transportation activities. Credit exposure is managed by establishing credit terms for the most significant customers that are reviewed and approved by management. Credit sales are offered only to the most significant customers of the Group with proven credit history. Sales to other customers are made on the prepayment basis.

The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

Trade and other receivables that are less than six months past due are generally not considered for impairment unless other indicators of impairment exist. Trade and other receivables of RUR 1,057,536 thousand and RUR 1,456,454 thousand at 31 December 2010 and 2009, respectively were past due but not impaired. These amounts are due from a number of independent customers for whom there is no recent history of default.

The ageing analysis of these past due but not impaired trade and other receivables are as follows:

	31 December 2010	31 December 2009
Less than 180 days past due	935,304	835,521
181 to 360 days past due	88,721	500,659
More than 360 days past year	33,511	120,274
Total past due but not impaired	**1,057,536**	**1,456,454**
Not past due and not impaired	257,651	2,245,587
Total trade and other receivables	**1,315,187**	**3,702,041**

30. Financial instruments and risk management objectives and policies (continued)

Credit risk (continued)

As of 31 December 2010 65% of the total net amount of trade and other receivables related to the five largest debtors of the Group (31 December 2009: 35%). The requirement for impairment is analysed at each reporting date on an individual basis for major clients.

The largest receivables outstanding as of 31 December 2010 are as follows:

	Outstanding balance, net
RZD	358,490
OJSC “ArcelorMittal Kryviy Rih”	257,175
LLC “Transport Logistics Company”	139,305
OJSC “Trading House RZD”	60,594
LLC “Neftetransservice”	39,438
	855,002

The largest receivables outstanding as of 31 December 2009 are as follows:

	Outstanding balance, net
OJSC “Severstal”	411,932
LLC “Transles’	271,532
LLC “RusTransCom”	235,516
LLC “LP Trans”	226,770
OJSC “UK Kuzbasrazrezugol”	140,337
	1,286,087

As of 31 December 2010 and 2009 no impairment loss has been recognised for these customers.

Cash and cash equivalents and bank deposits

Cash and cash equivalents are deposited only with banks that are considered by the Group at the time of deposit to minimal risk of default.

The table below highlights the Group’s cash and cash equivalents balances and bank deposits to published credit ratings of its banks.

Moody’s and/or Fitch	**31 December 2010**	**31 December 2009**
Investment grade rating	14,704	429,125
Non-investment grade rating	7,429,675	5,736,645
No external rating	841	2,875
Total cash and cash equivalents	**7,445,220**	**6,168,645**
Investment grade rating	–	–
Non-investment grade rating	–	513,198
No external rating	–	3,096,012
Total short-term bank deposits	**–**	**3,609,210**
Investment grade rating	–	–
Non-investment grade rating	500,000	3,116,127
No external rating	–	–
Total long-term bank deposits	**500,000**	**3,116,127**

Investment grade ratings classification referred to as Aaa to Baa3 for Moody’s Investment Services and as AAA to BBB- for Fitch Rating, respectively, all the rest ratings are considered as non-investment.

30. Financial instruments and risk management objectives and policies (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation. In managing its liquidity risk, the Group maintains adequate cash reserves and debt facilities, continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities.

The Group prepares various financial plans (monthly, quarterly and annually) which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities for a period of 30 days or more. The Group has entered into a number of short-term credit facilities. Such credit lines and overdraft facilities can be drawn down to meet short-term financing needs. To fund cash requirements of a more permanent nature, the Group will normally raise long-term debt in available domestic markets.

The Group has both interest bearing and non-interest bearing financial liabilities. The interest bearing liabilities consist of loans and borrowings and finance lease obligaitons. The non-interest bearing liabilities include trade and other payables and amounts payable to employees, other liabilities. All of the Group's financial liabilities represent non-derivative financial instruments. The following tables summarize the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments. Repayments, which are subject to notice, are treated as if notice were to be given immediately. Accordingly, the related liabilities were reported as payable within less than 3 months.

As at 31 December 2010	Effective interest rate, %	Less than 3 months	3 to 12 months	1 to 5 year	Over 5 years	Total
Fixed- rate debts						
Loans and borrowings	6.50%	1,500,534	–	–	–	1,500,534
Finance lease liabilities	11.40% - 17.53%	197,058	615,075	2,736,235	2,383,082	5,931,450
Variable -rate debts						
Loans and borrowings	3.39% - 10.61%	326,480	954,647	4,491,219	2,055,813	7,828,159
Finance lease liabilities	12.10% - 12.42%	133,302	386,858	1,732,773	965,639	3,218,572
Non-interest bearing debts						
Trade and other payables		1,451,977	–	–	–	1,451,977
Other liabilities		759,622	78,775	–	–	838,397
Total		**4,368,973**	**2,035,355**	**8,960,227**	**5,404,534**	**20,769,089**

As at 31 December 2009	Effective interest rate, %	Less than 3 months	3 to 12 months	1 to 5 year	Over 5 years	Total
Fixed- rate debts						
Finance lease liabilities	12.10% - 16.35%	47,542	136,596	488,791	–	672,929
Variable -rate debts						
Loans and borrowings	3.6% - 11.3%	217,821	669,114	4,738,586	3,071,097	8,696,618
Finance lease liabilities	13.63% - 13.97%	141,998	420,942	1,871,921	1,346,652	3,781,513
Non-interest bearing debts						
Trade and other payables		1,924,831	–	–	–	1,924,831
Other liabilities		276,921	–	–	–	276,921
Total		**2,609,113**	**1,226,652**	**7,099,298**	**4,417,749**	**15,352,812**

30. Financial instruments and risk management objectives and policies (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. Market risk comprises equity, currency and interest rate risks.

Currency risk

The currency risk is the risk of losses due to adverse changes in foreign exchange rates with regard to the Group's assets and liabilities denominated in foreign currencies.

The Group is exposed to currency risk on cash and cash equivalents, short-term bank deposits, receivables, payables and borrowings that are denominated in a currency other than the Group's functional currency. The currencies in which these transactions are denominated are primarily Euro and US dollars.

The Group manages its foreign currency risk by hedging material transactions, such as borrowings. It is the Group's policy to negotiate the terms of the hedge derivatives to match as close as possible the terms of the hedged item.

The Group hedges its exposure to fluctuations on the US dollar denominated borrowings by using foreign currency swaps and forwards. As of 31 December 2010, the Group had hedged approximately 14% (31 December 2009: nil) of its US dollar denominated borrowings.

The Group does not have or use any formal arrangements (i.e. derivatives) to manage foreign currency exposure. The management of the Group aims to mitigate such risk by maintaining monetary assets and liabilities in foreign currency at broadly the same level.

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities as of the reporting date are as follows:

	USD		**EUR**		**Other**	
	31 December		**31 December**		**31 December**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Assets						
Cash and cash equivalents	232,706	344,822	–	–	28,061	5,107
Trade and other receivables	22,286	7,441	3,884	38	270,569	867
Short-term bank deposits	–	3,096,012	–	–	–	–
Long-term bank deposits	–	–	–	–	–	–
Total assets	**254,992**	**3,448,275**	**3,884**	**38**	**298,630**	**5,974**
Liabilities						
Trade and other payables	32,665	24,634	2,977	2,087	3,504	722
Short-term borrowings	491,057	141,112	–	–	–	–
Long-term borrowings	3,349,092	3,774,495	–	–	–	–
Total liabilities	**3,872,814**	**3,940,241**	**2,977**	**2,087**	**3,504**	**722**
Net exposure	**(3,617,822)**	**(491,966)**	**907**	**(2,049)**	**295,126**	**5,252**

30. Financial instruments and risk management objectives and policies (continued)

Market risk (continued)

Sensitivity analysis

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group’s profit before tax. In 2010 and 2009, the Group assessed reasonably possible changes based on the volatility of foreign exchange rates during the reporting periods. The Group’s exposure to foreign currency changes for all other currencies is not material.

	2010		2009	
	Change in exchange rate (%)	Effect on profit before tax	Change in exchange rate (%)	Effect on profit before tax
USD/RUR	+8.90%	(268,606)	+10.0	(49,197)
	-8.90%	268,606	- 10.0	49,197

Interest rate risk

The interest rate risk is the risk that movement in interest rates for borrowed funds will have an adverse effect on the Group’s financial performance. Management monitors changes in interest rates and takes steps to mitigate these risks as far as practicable by ensuring the Group has financial liabilities with both floating and fixed interest rates, and maintaining an appropriate mix between debt and equity.

The Group borrows on both a fixed and variable rate basis and has other interest-bearing liabilities, such as finance lease liabilities. The Group incurs interest rate risk on assets and liabilities with variable interest rate. As of 31 December 2010 the Group’s borrowed funds consist of bank loans (Note 19) and finance lease liabilities (Note 20).

The Group is exposed to interest rate risk as the Group has finance lease agreement with floating minimum lease payments (see Note 20). The float is conditioned by changes in the implicit interest rate, which depends on MOSPRIME rate and is reset every 90 days, following lease inception.

Effective annual interest rate at the inception date of the lease agreement was 13.8%. Subsequently minimum lease payments were changed by the lessor reflecting the change in MOSPRIME rate. If the effective interest rate had been 22.7%, which was the implicit rate as of 31 December 2009, during the year ended 31 December 2010 and all other variables were held constant, the Group’s profit for the year ended 31 December 2010 would decrease by RUR 232,230 thousand, due to the corresponding change in the interest expenses.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings. With all other variables held constant, the Group’s profit before tax is affected through the impact on floating rate borrowings as follows:

	Year ended 31 December 2010		Year ended 31 December 2009	
	Change in rate (%)	Effect on profit before tax	Change in rate (%)	Effect on profit before tax
Liabilities denominated in US dollars				
Increase in LIBOR	+1.0%	(38,401)	+1.0%	(39,156)
Decrease in LIBOR	-0.25%	9,600	-0.25%	9,789
Increase in CBR discount rate	+1.0%	(25,829)	+1.5%	(44,983)
Decrease in CBR discount rate	-0.5%	12,914	-1.5%	44,983

30. Financial instruments and risk management objectives and policies (continued)

Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to the equity holder through the optimization of debt and equity balances.

The capital structure of the Group consists of loans and borrowings, finance lease obligations and equity, consisting of issued capital, reserves and retained earnings as disclosed in Note 18.

The management of the Group reviews the capital structure on a regular basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the acceptable gearing ratio between 20% and 30%. The Group includes within net debt, interest bearing loans and borrowings, finance lease obligations, trade and other payables (excluding advances received for transportation), less cash and cash equivalents, excluding discontinued operations.

Gearing	**31 December 2010**	**31 December 2009**
Trade and other payables (Note 22)	1,451,977	1,924,831
Long-term borrowings	5,500,505	6,342,925
Short-term borrowings	2,423,051	571,533
Finance lease obligations	5,471,205	2,844,280
Less: cash and cash equivalents (Note 16)	(7,445,220)	(6,168,645)
Net debt	**7,401,518**	**5,514,924**
Equity attributable to the holders of the Company	**101,633,345**	**82,658,078**
Net debt and equity attributable to the holders of the Company	**109,034,863**	**88,173,002**
Gearing ratio	**7%**	**6%**

Major categories of financial instruments

The Group's financial assets include long-term bank deposits, short-term bank deposits, trade and other receivables and cash and cash equivalents. Most of financial assets of the Group fall into loans and receivables category under IAS 39 *Financial Instruments: Recognition and Measurement*.

Financial assets	**31 December 2010**	**31 December 2009**
Cash and cash equivalents	7,445,220	6,168,645
Short-term bank deposits	–	3,609,210
Long-term bank deposits	500,000	3,116,127
Trade and other receivables	1,315,187	3,702,041
Derivative financial asset	26,444	–
Total financial assets	**9,286,851**	**16,596,023**

The Group's principal financial liabilities are trade and other payables, borrowings, other liabilities and finance lease obligations. All financial liabilities are carried at amortised cost.

Financial liabilities	**31 December 2010**	**31 December 2009**
Trade and other payables	1,451,977	1,924,831
Accrued expenses and other liabilities	838,397	276,921
Long-term borrowings	5,500,505	6,342,925
Short-term borrowings	2,423,051	571,533
Finance lease obligations	5,471,205	2,844,280
Total financial liabilities	**15,685,135**	**11,960,490**

30. Financial instruments and risk management objectives and policies (continued)

Fair value of financial instruments

The carrying amounts of financial instruments that are liquid or have a short term maturity (less than three months), such as cash and cash equivalents, short-term bank deposits, short-term accounts receivable and payable, short-term borrowings are assumed to approximate their fair value.

As no readily available market exists for a part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument.

With regard to fixed rate financial instruments, their fair value was estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing long-term bank deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. The fair value of long-term borrowings was calculated based on the present value of future principal and interest cash flows, discounted at the Group's market rates of interest at the reporting dates.

The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The following table summarises differences between the carrying amounts and fair values of financial assets and liabilities of the Group as at 31 December 2010:

	Carrying value excluding accrued interest	Fair value	Unrecognised gain / (loss)
Financial assets			
Long-term bank deposits	500,000	469,847	(30,153)
Derivative financial asset	26,444	26,444	–
Trade and other receivables	1,315,187	1,315,187	–
Cash and cash equivalents	7,445,220	7,445,220	–
Financial liabilities			
Interest -bearing borrowings	7,923,556	7,450,304	(473,252)
Finance lease obligations	5,471,205	5,251,644	(219,561)
Trade and other payables	1,451,977	1,451,977	–
Other liabilities	838,397	838,397	–
Total			**(722,966)**

The following table summarises differences between the carrying amounts and fair values of financial assets and liabilities of the Group as at 31 December 2009.

	Carrying value excluding accrued interest	Fair value	Unrecognised gain / (loss)
Financial assets			
Long-term bank deposits	3,116,127	4,004,429	888,302
Trade and other receivables	3,702,041	3,702,041	–
Short-term bank deposits	3,609,210	3,609,210	–
Cash and cash equivalents	6,168,645	6,168,645	–
Financial liabilities			
Interest -bearing borrowings	6,914,458	6,157,235	(757,223)
Finance lease obligations	2,844,280	2,511,200	(333,080)
Trade and other payables	1,924,831	1,924,831	–
Other liabilities	276,921	276,921	–
Total			**(202,001)**

30. Financial instruments and risk management objectives and policies (continued)

Fair value of financial instruments (continued)

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

	Level 1	Level 2	Level 3	Total
Assets valued at fair value at 31 December 2010				
Derivative financial instrument	–	26,441	–	**26,441**
Total	**–**	**26,441**	**–**	**26,441**

31. Derivative financial instruments

The principal amounts and fair values of derivative instruments held are set out in the following table.

The outstanding derivative contracts as of 31 December 2010 and 31 December 2009 were as follows:

	31 December 2010			31 December 2009		
	Notional principal	Fair values		Notional principal	Fair values	
		Asset	Liability		Asset	Liability
	US$ thousand			US$ thousand		
Foreign exchange contracts						
Swaps – foreign	17,572	26,444	–		–	–
Total derivative assets		**26,444**	**–**		**–**	**–**

32. Commitments, contingencies and operating risks

Operating environment in Russia

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2010 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group’s future financial position, results of operations and business prospects.

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

32. Commitments, contingencies operating risks (continued)

Operating environment in Ukraine

The Ukrainian economy while being of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, insufficient level of liquidity in the capital markets, high inflation and the national currency illiquidity outside of Ukraine. The stability of the Ukrainian economy could be significantly impacted by the Government’s policies and actions with regard to administrative, legal, and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets.

The Ukrainian economy is vulnerable to global market downturns and economic slowdowns. The recent global financial crisis has resulted in a decline in the gross domestic product, capital markets instability, and significant deterioration in the liquidity in the banking sector, tighter credit conditions within Ukraine, and significant devaluation of the Ukrainian hryvnia against major currencies. The Ukrainian Government continues to introduce various stabilisation measures aimed at supporting the exchange rate and the banking sector. At the same time, the global economic situation may have a significant impact on Ukraine’s balance of payments and currency stability. These factors could affect the financial position of Group’s subsidiary, results of operations and business prospects.

Taxation

The Russian and Ukrainian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and federal authorities. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods in Russia and Ukraine remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that it has adequately provided tax liabilities in the consolidated statement of financial position as of 31 December 2010 and 2009. Where uncertainty exists, the Group has accrued tax liabilities based on the management’s best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Possible liabilities, which were identified by management at the end of the reporting date as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in these financial statements could be up to approximately RUR 258,268 thousand.

However, the general risk remains that relevant authorities could take different positions with regard to interpretative issues and the effect could be significant.

Insurance

The Group holds insurance policies in relation to certain assets. As of 31 December 2010 the Group secured part of its rolling stock and office building with a number of insurance companies for a total insurance compensation of approximately RUR 41,970,270 thousand (31 December 2009: RUR 15,158,000 thousand). The Group holds no insurance policies in relation to operations, or in respect of public liability or other insurable risks.

Legal proceedings

During the years ended 31 December 2010 and 2009 the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of the management, there are no current legal proceedings or their claims outstanding, which management believes could have a material effect on the result of operations or financial position of the Group.

Compliance with covenants

As disclosed in Note 19, the Group is subject to certain covenants related to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group, including claims for early repayment. As of 31 December 2010 the Group is in compliance with covenants.

32. Commitments, contingencies operating risks (continued)

Commitments under operating leases

The Group leases a number of railcar wash stations and office premises. The respective lease agreements have duration varying from one to ten years. Future minimum lease payments under non-cancelable operating leases as of 31 December 2010 and 2009 are as follows:

	31 December 2010	31 December 2009
Operating lease liabilities – minimum lease payments		
Not later than 1 year	272,759	179,046
Later than 1 year and not later than 5 years	687,095	376,579
Later than 5 years	971,130	354,193
Total minimum lease payments	**1,930,984**	**909,818**

Capital commitments

The Group's capital commitments as of 31 December 2010 and 31 December 2009 comprised as follows:

	31 December 2010	31 December 2009
Acquisition of gondola wagons	15,297,066	3,363,590
Modernization of leased railcar wash stations	–	1,673,700
Acquisition of cistern wagons	59,248	–
Acquisition of hopper-wagons	1,362,440	–
Construction of office premises	512,796	–
Acquisition of covered wagons	1,955,122	–
Acquisition of office equipment	–	249,242
Total capital commitments	**19,186,672**	**5,286,532**

(1) The Company has several long-term contracts signed with OJSC "NPK Uralvagonzavod", a related party, to purchase gondola wagons for RUR 20,977,500 thousand. Purchase commitments under these contracts as of 31 December 2010 equated to RUR 13,192,110 thousand.

Undrawn loan commitments

Financial commitments as at 31 December 2010 comprise undrawn loan commitments of RUR 4,000,000 thousand (31 December 2009: RUR 500,000 thousand).

33. Events after the reporting period

Borrowings

On 22 February 2011 the Federal Service of Financial Markets registered non-convertible Russian Rouble denominated bonds (at par value of 1,000 Rouble each) totalling RUR 10 billion. The bonds mature in 7 years from the date of issue. The bonds are to be placed by open subscription on the Moscow Interbank Currency Exchange.

As discussed in Note 19, in February 2011, the Group fully repaid a long-term loan facility to Alfa-Bank ahead of its maturity schedule.

33. Events after the reporting period (continued)

Subsidiaries

On 16 March 2011 CJSC “Rusagrotrans”, the subsidiary of the Company, performed private offering of shares in favour of other shareholder. The issue included 870,000 thousand of shares with RUR 1 par value. As a result, the Company’s interest in CJSC “Rusagrotrans” decreased from 51% to 46%.

Commitments

In February 2011 the Company signed a long-term contract with OJSC “NPK Uralvagonzavod”, a related party, for the purchase of 20,000 gondola wagons. The aggregate amount of this contract equated to RUR 39,000,000 thousand, net of VAT. Under the terms of the contract gondola wagons will be delivered in 2012 and 2013.