OPEN JOINT STOCK COMPANY
"FREIGHT ONE"

Consolidated Financial Statements
For the Year Ended 31 December 2009

OJSC “FREIGHT ONE”

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OJSC “FREIGHT ONE”

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of OJSC “Freight One” (the “Company”) and its subsidiaries (the “Group”) as of 31 December 2009, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards (“IFRS”).

In preparing the consolidated financial statements, management is responsible for:

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2009 were approved by Management on 31 May 2010.

On behalf of the Management:

S. M. Babayev
General Director

G. A. Panagushina
Chief Accountant

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Moscow, 125047
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INDEPENDENT AUDITORS’ REPORT

To the Shareholders and Board of Directors of Open Joint Stock Company “Freight One”:

We have audited the accompanying consolidated financial statements of Open Joint Stock Company “Freight One” and its subsidiaries (the “Group”), which comprise of the consolidated statement of financial position as of 31 December 2009 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s responsibility

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors’ responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2009, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion we draw your attention to Note 25 to the consolidated financial statements which discloses a significant concentration of the Group's transactions with related parties.

DELOITTE & TOUCHE CIS

31 May 2010

OJSC "FREIGHT ONE"

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2009
(Amounts in thousands of Russian Roubles)

	Notes	2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	7	86,181,413	87,013,089
Advances for acquisition of non-current assets		89,502	104,907
Intangible assets		171,227	54,806
Long-term bank deposits	8	3,138,141	-
Total non-current assets		**89,580,283**	**87,172,802**
Current assets			
Inventories	9	1,573,137	127,035
Trade and other receivables	10	3,702,041	7,799,753
Receivables arising on deemed disposal of minority interest in grain cargo operations	23	-	3,665,301
Prepayments and other current assets	11	9,252,532	3,665,570
Prepaid income tax		229,243	876,006
Short-term bank deposits	12	3,609,210	-
Cash and cash equivalents	13	6,168,645	214,581
Total current assets		**24,534,808**	**16,348,246**
TOTAL ASSETS		**114,115,091**	**103,521,048**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	20	85,652,434	85,652,434
Reserve fund	20	425,125	41,604
Other reserves	20	(16,033,287)	(15,901,644)
Retained earnings		12,613,806	8,969,323
Equity attributable to equity holders of the parent		**82,658,078**	**78,761,717**
Minority interest		3,368,703	3,018,284
Total equity		**86,026,781**	**81,780,001**
Non-current liabilities			
Long-term borrowings	14	6,342,925	-
Finance lease obligations, net of current maturities	15	2,149,596	2,479,543
Employee benefit liability	16	432,101	166,677
Deferred tax liability	24	9,086,649	10,456,280
Total non-current liabilities		**18,011,271**	**13,102,500**
Current liabilities			
Trade and other payables	17	7,607,855	6,211,811
Dividends payable	20	-	706,253
Income tax payable		93,158	176,795
Taxes other than income tax payable	18	767,267	605,845
Provisions for tax liabilities		65,621	-
Finance lease obligations, current maturities	15	694,684	733,085
Short-term borrowings	14	571,533	-
Accrued and other current liabilities	19	276,921	204,758
Total current liabilities		**10,077,039**	**8,638,547**
TOTAL EQUITY AND LIABILITIES		**114,115,091**	**103,521,048**

Первая грузовая компания

S. M. Babayev
General Director

G. A. Panagushina
Chief Accountant

31 May 2010

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

OJSC "FREIGHT ONE"

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009
(Amounts in thousands of Russian Roubles)

	Notes	2009	2008
Revenue	21	75,594,200	51,379,933
Operating expenses, net	22	(69,183,381)	(43,530,651)
Operating income		**6,410,819**	**7,849,282**
Gain on deemed disposal of minority interest in grain cargo operations	23	-	657,107
Interest expense		(821,559)	(206,879)
Interest income		217,119	179,436
Foreign exchange gain/(loss), net		113,975	(4,214)
Profit before income tax		**5,920,354**	**8,474,732**
Income tax (expense)/benefit	24	(1,482,192)	161,241
Profit and comprehensive income for the year		**4,438,162**	**8,635,973**
Attributable to:			
Equity holders of the parent		4,088,775	8,635,883
Minority interest		349,387	90
		4,438,162	**8,635,973**

S. M. Babayev
General Director

31 May 2010

G. A. Panagushina
Chief Accountant

Открытое акционерное общество "Первая грузовая компания" (ОАО «ПГК»)
ОГРН 1077758336985 * ИНН 7708643971
Первая грузовая компания
г. Москва

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

OJSC "FREIGHT ONE"

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009
(Amounts in thousands of Russian Roubles)

	2009	2008
Cash flows from operating activities:		
Profit before income tax	**5,920,354**	**8,474,732**
Adjustments for:		
Depreciation and amortization	11,888,445	11,762,636
Loss on impairment of property, plant and equipment, net	554,353	4,669,286
Change in provision for impairment of receivables	(53,642)	142,957
(Gain)/loss on disposal of property, plant and equipment	(1,679,934)	25,449
Gain on generation of scrap metal and inventory surpluses	(183,756)	(122,887)
Gain on deemed disposal of minority interest in grain cargo operations	-	(657,107)
Interest expense, net	604,440	27,443
Foreign exchange (gain)/loss, net	(113,975)	4,214
Change in provision for tax liabilities	65,621	-
Operating profit before working capital changes	**17,001,906**	**24,326,723**
Increase in inventory	(77,415)	(3,732)
Decrease/(increase) in trade and other receivables	4,492,874	(6,915,860)
Increase in prepayments and other current assets	(5,571,973)	(3,076,948)
Increase in trade and other payables	2,013,959	4,417,779
Increase in taxes other than income tax payable	161,422	260,959
Increase in accrued and other current liabilities	71,228	201,904
Increase/(decrease) in employee benefit liabilities	124,161	(5,138)
Net cash from operating activities before income tax	**18,216,162**	**19,205,687**
Interest paid	(782,076)	(206,879)
Income tax paid	(2,279,077)	(6,561,446)
Net cash provided by operating activities	**15,155,009**	**12,437,362**
Cash flows from investing activities:		
Capital expenditure	(12,276,257)	(15,022,350)
Proceeds from disposal of property, plant and equipment	248,632	-
Proceeds from deemed disposal of minority interest in grain cargo operations	3,665,301	10,000
Short-term bank deposits	(3,524,420)	(1,500,000)
Cash received on maturity of short-term bank deposits	-	1,500,000
Purchase of long-term investments	(3,310,830)	-
Proceeds from disposal of long-term investments	243,230	-
Purchase of intangible assets	(149,718)	(60,513)
Interest received	61,788	188,945
Net cash used in investing activities	**(15,042,274)**	**(14,883,918)**
Cash flows from financing activities:		
Proceeds from short-term borrowings	2,840,000	-
Principal payments on short-term borrowings	(2,840,000)	-
Proceeds from long-term borrowings	7,590,204	-
Dividends paid	(767,024)	(83,208)
Repayments of finance lease obligations	(377,238)	(835,098)
Net cash provided by / (used in) financing activities	**6,445,942**	**(918,306)**
Net increase / (decrease) in cash and cash equivalents	**6,558,677**	**(3,364,862)**
Cash and cash equivalents at beginning of the year	**214,581**	**3,575,097**
Foreign exchange (loss)/gain on cash and cash equivalents	(604,613)	4,346
Net cash and cash equivalents at end of the year	**6,168,645**	**214,581**

S. M. Babayev
General Director

31 May 2010

G. A. Panagushina
Chief Accountant

Первая
грузовая
компания

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

OJSC "FREIGHT ONE"

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009
(Amounts in thousands of Russian Roubles)

	Share capital	Reserve fund	Other reserves	Retained earnings	Attributable to equity holders of the parent	Minority interest	Total
Balance at 1 January 2008	**85,652,434**	**-**	**(15,776,260)**	**1,164,505**	**71,040,679**	**-**	**71,040,679**
Profit for the year	-	-	-	8,635,883	**8,635,883**	90	**8,635,973**
Total comprehensive income for the year	-	-	-	**8,635,883**	**8,635,883**	**90**	**8,635,973**
Dividends	-	-	-	(789,461)	**(789,461)**	-	**(789,461)**
Effect of deemed disposal of minority interest in grain cargo operations (Note 23)	-	-	-	-	-	3,018,194	**3,018,194**
Transfer to reserve fund	-	41,604	-	(41,604)	-	-	-
Distribution to shareholder (Notes 15, 20)	-	-	(125,384)	-	**(125,384)**	-	**(125,384)**
Balance at 31 December 2008	**85,652,434**	**41,604**	**(15,901,644)**	**8,969,323**	**78,761,717**	**3,018,284**	**81,780,001**
Profit for the year	**-**	**-**	**-**	4,088,775	**4,088,775**	349,387	**4,438,162**
Total comprehensive income for the year	-	-	-	**4,088,775**	**4,088,775**	**349,387**	**4,438,162**
Dividends	-	-	-	(60,771)	**(60,771)**	-	**(60,771)**
Additional minority interest arising on a business combination	-	-	-	-	-	1,032	**1,032**
Transfer to reserve fund	-	383,521	-	(383,521)	-	-	-
Distribution to shareholder (Note 20)	-	-	(131,643)	-	**(131,643)**	**-**	**(131,643)**
Balance at 31 December 2009	**85,652,434**	**425,125**	**(16,033,287)**	**12,613,806**	**82,658,078**	**3,368,703**	**86,026,781**

S. M. Babayev
General Director

31 May 2010

G. A. Panagushina
Chief Accountant

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

1. NATURE OF THE BUSINESS

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 Railways" ("RZD"), which is 100% state owned, by means of transfer of its activities and certain assets and liabilities related to railway 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 a carrier, whilst the Company assumed the functions of a cargo forwarding agent.

Freight One's principal activities include freight transportation using its own rolling stock, leasing of rolling stock, other freight forwarding and logistic services and railcar washing services. As of 31 December 2009 the Company operated 14 branches located in the Russian Federation. The registered office of the Company is located at 12, building 1, Staraya Basmannaya Street, Moscow, 105064, Russian Federation.

In October 2008 the Company established a subsidiary, LLC "PGK-Leasing", in which it has 100% ownership. The subsidiary was created to handle financial activities of the Group, including acquisition of assets under finance leases.

In December 2008 the Group together with LLC "RusTransCom", a grain cargo forwarding agent, established a subsidiary, CJSC "Rusagrotrans", in which the Group has a 51% share of ownership. The subsidiary was created to handle railway transportation and storage of grain.

The consolidated financial statements of OJSC "Freight One" and its subsidiaries as of 31 December 2009 and for the year then ended were authorized for issue by the General Director of the Company on 31 May 2010.

2. PRESENTATION OF FINANCIAL STATEMENTS

Statement of compliance – These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of preparation – These consolidated financial statements are prepared on the basis of standalone financial statements of the Company and its subsidiaries (together referred to as the "Group"). The entities of the Group maintain their accounting records in accordance with laws, accounting and reporting regulations of the jurisdictions in which they are incorporated and registered.

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

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.

The consolidated financial statements are presented in thousands of Russian Roubles ("RUR"), except where specifically noted otherwise.

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 realization 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 (see Note 27) 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.

3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS and IFRIC interpretations adopted in the current year

In the current year, the Group has adopted all new and revised standards and interpretations issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretation Committee ("IFRIC") of the IASB that are mandatory for adoption in the annual periods beginning on or after 1 January 2009. The effect from their adoption on measurement and presentation of disclosures in the financial statements of the Group are described in more detail below:

- IAS 1 "Presentation of financial statements" (amended) – separates owner and non-owner changes in equity. Based on the revised standard, the statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. The Group opted to present one single statement of comprehensive income.
- IAS 23 "Borrowing costs" (revised) – requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. Accordingly, no changes have been made to the borrowing costs incurred prior to this date.
- IFRS 7 "Financial instruments: disclosure" (amended) – introduces a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments enhance disclosure requirements on the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. These amendmends do not have an impact on the financial position or performance of the Group. The disclosures were not significantly impacted by the amendments.
- IFRS 8 "Operating segments" – requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes provided to the chief operating decision-maker. The Group is not required to apply this IFRS.

IFRS and IFRIC interpretations not yet effective

At the date of authorization of these consolidated financial statements, the following standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods and which the Group has not early adopted:

Standards and Interpretations	Effective for annual periods beginning on or after
IAS 24 "Related party disclosures"(revised)	1 January 2011
IAS 27 "Consolidated and separate financial statements" (amended due to revision of IFRS 3)	1 July 2009
IAS 28 "Investments in associates" (amended due to revision of IFRS 3)	1 July 2009
IAS 31 "Interests in joint ventures" (amended due to revision of IFRS 3)	1 July 2009
IAS 32 "Financial instruments: presentation" (amended)	1 February 2010
IAS 39 "Financial instruments: recognition and measurement" (amended)	1 July 2009
IFRS 2 "Share-based payment" (amended)	1 January 2010
IFRS 3 "Business combinations" (revised)	1 July 2009
IFRS 9 "Financial instruments"	1 January 2013
IFRIC 14 "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction"	1 January 2011
IFRIC 17 "Distributions of non-cash assets to owners"	1 July 2009
IFRIC 19 "Extinguishing financial liabilities with equity instruments"	1 July 2010

Also a number of standards and interpretations were amended with Annual Improvements to IFRS issued in April 2009 and May 2010. These amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in different standards. These amendments are mandatory for adoption in the annual periods beginning on or after 1 January 2010.

The impact of adoption of these standards and interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by management. The new and revised standards which are likely to have an effect on measurement, presentation or disclosure in the financial statements of the Group are described in more detail below:

- IAS 24 “Related party disclosures” (revised) – simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities.
- IFRS 3 “Business combinations” (revised) – is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purpose of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRS, as appropriate, rather than adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.
- IAS 27 “Consolidated and separate financial statements” (amended due to revision of IFRS 3) is effective for annual periods beginning on or after 1 July 2009. The amended IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interest”) even if it results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in the parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. Had the Company adopted this standard in the year ended 31 December 2008 its profit for 2008 year would have been reduced by RUR 657,107 thousand, representing a gain on a deemed disposal of minority interest in a subsidiary which would have been recorded directly to equity.
- IFRS 9 “Financial instruments” – introduces new requirements for classifying and measuring financial assets.

4. 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.

Consolidation – The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared through 31 December each year. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceased.

Intragroup balances and any unrealized gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interest of minority shareholders is stated at the amount of minority interest arising at the date of the original recognition resulting from a business combination or sale of non-controlling interest in a subsidiary plus the minority share of changes in equity since the original recognition. On acquisition of a subsidiary the interests of minority shareholders is calculated with reference to the minority's proportion of the fair values of the assets and liabilities recognized. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. The gain or loss on disposal of interest in a subsidiary representing the difference between the consideration received by the Group and the amount at which minority interests are recognized in the consolidated financial statements is included in the profit or loss.

Foreign currency translation – The Russian Rouble is the functional currency of the Group and is also the currency in which these consolidated financial statements are presented. Transactions in currencies other than the functional currency are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies at the reporting date are translated into the functional currency at the year-end exchange rate. Exchange differences arising from such translation are included into the consolidated profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Russian Roubles at foreign exchange rates ruling at the dates the fair value was determined.

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 accumulated impairment in value. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

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 their carrying value is fairly stated.

Leased assets

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

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The assets being replaced are written off immediately. All other costs are recognized in the consolidated profit or loss as an expense as incurred.

Depreciation

Depreciation is charged to the consolidated profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Owned land plots are not depreciated.

The depreciation periods, which represent the estimated useful economic lives of the respective assets, are 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' useful lives and methods of deprecation are reviewed and adjusted as appropriate at each financial year-end.

Gain or loss on disposal

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

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

Amortization is charged to the consolidated profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortized from the date they are available for use. The estimated useful lives for existing assets range from 3 to 5 years.

Useful lives and amortization 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 the 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 recognized immediately in the consolidated profit or loss.

Where 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 recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated profit or loss.

Financial assets – Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. As of the reporting date the Group had financial assets classified as loans and receivables only.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest income is recognized by applying the effective interest rate except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets – Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account (provision for impairment of receivables).

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Effective interest method – The effective interest method is a method of calculating the amortized cost of a financial asset or liability and allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or, where appropriate, a shorter period, to the net carrying amount of initial recognition.

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 their existing location and condition.

Cash and cash equivalents – Cash and cash equivalents comprise cash on hand, balances with banks and short-term interest-bearing deposits with original maturities of not more than three months.

Employee benefits – Remuneration to employees in respect of services rendered during the reporting period is recognized as an expense in that reporting period.

Defined benefit plans

The Group operates one partially funded defined benefit pension plan. The obligation and cost of benefits under the plan are determined 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 profit or loss, 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 recognized 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 recognized on a straight-line basis over the average period until the amended benefits become vested. To the extent that the benefits are already vested, past service cost is expensed immediately.

State Plan

In addition, the Group is legally obligated to make contributions to the Pension Fund of the Russian Federation (a multi-employer defined contribution plan). The Group's only obligation is to pay the contributions as they fall due. As such, the Group has no legal obligation to pay and does not guarantee any future benefits to its Russian employees. The Group's contributions to the Pension Fund of the Russian Federation relating to defined contribution plans are charged to the consolidated profit or loss in the year to which they relate.

Contribution to the Pension Fund of the Russian Federation together with other social contributions are included within a unified social tax ("UST"), which is calculated by the application of a regressive rate from 26% to 2% to the annual gross remuneration of each employee. UST is allocated to three social funds (including the Pension Fund of the Russian Federation), where the rate of contributions to the Pension Fund of the Russian Federation varies from 20% to 2%, respectively, depending on the annual gross salary of each employee.

Value added tax – Output value added tax ("VAT") related to revenues is payable to the tax authorities upon delivery of the goods or services to customers, as well as upon collection of prepayments from customers. Input VAT 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 sales and purchases is recognized in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, 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.

Accounts payable and other financial liabilities – Accounts payable and other financial liabilities are initially recognized at cost, which is the fair value of the consideration received, taking into account transaction costs. After initial recognition, financial liabilities are carried at amortized cost, using the effective interest method, with interest expense recognized on an effecitve yield basis. As normally the expected term of accounts payable is short, the value is stated at the nominal amount without discounting, which corresponds with fair value.

Provisions – Provisions are recognized 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 recognized as a separate asset but only when the reimbursement is virtually certain. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of 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 recognized 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 recognized when the significant risks and rewards of ownership of the 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 reimburesement or paid directly by the customer to third-party. Revenues from these services are recognized by the Group net of charges for a 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 services are recognized 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 recognized 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 related services. Revenue from railcar washing services is recognized 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 region;
(ii) Cargo tracking services by providing clients with information about cargo location;
(iii) Control over timely provision of rolling stock.

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

Dividend and interest income

(i) Dividends from investments are recognized in consolidated profit and loss when the 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 fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Operating lease payments

Payments made under operating leases are recognized in the consolidated profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized in the consolidated profit or loss as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Borrowing costs – For the periods beginning 1 January 2009, 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 capitalized and amortized over the useful life of the asset. Other borrowing costs are recognized as an expense in the period in which they are incurred. For periods prior to 1 January 2009 all borrowing costs were expensed in the period in which they were incurred. For details of change in accounting policy see Note 3.

Income tax – Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the consolidated profit and loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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. 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 tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries, associates and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply in the period when the liabilities are settled or the assets realized.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are not discounted.

Share capital and other reserves – Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. The difference between the fair value of consideration received and the par value of shares issued is recognized 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 recognized as a liability and deducted from 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 reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

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 consolidated financial statements.

Contingencies – Contingent liabilities are not recognized in the financial statements unless they arise as a result of a business combination. Contingences attributed to specific events are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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.

Provision for impairment of receivables – Management maintains a provision for impairment of short-term receivables in the form of an allowance account equal to estimated losses resulting from the inability of customers and other debtors to make required payments. When evaluating the adequacy of this allowance account, management bases its estimates on the ageing of accounts receivable balances and historical write-off experience, customer creditworthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2009 and 2008 provision for impairment of receivables was recognized in the amount of RUR 89,315 thousand and RUR 142,957 thousand, respectively (see Note 10).

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 assets are 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. If the asset's fair value is not readily determinable or is less than the asset's carrying value plus costs to sell, management necessarily applies its judgment in determining the appropriate cash generating unit to be evaluated, estimating the appropriate discount rate and the timing and value of the relevant cash flows for the value-in-use calculation (see Note 7).

Compliance with tax legislation – Compliance with tax legislation, particularly in the Russian Federation, is subject to significant degree of interpretation and can be routinely challenged by the tax authorities. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Management believes that it has accrued all applicable taxes. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has adequately provided for tax liabilities based on its interpretations of tax legislation. However, there exists a possibility that the relevant tax authorities may have differing interpretations than those of the management, and the effect of such differences could be significant.

Pension obligations – The Group uses actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This method 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 benefits 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 materially affected (see Note 16).

6. CRITICAL ACCOUNTING JUDGEMENTS

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized 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% of 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 2009 the Group has leased five 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 27, 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 have 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 reimburesement. 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.

7. PROPERTY, PLANT AND EQUIPMENT

	Gondola wagons	Cistern wagons	Covered wagons	Cement wagons	Buildings, other wagons and equipment	Assets under construction (i)	Total
Cost							
1 January 2008	**28,350,880**	**24,156,564**	**8,527,525**	**4,665,456**	**10,238,593**	**1,772**	**75,940,790**
Additions through contribution in-kind	194,994	3,161,023	79,236	819,487	4,203,425	-	8,458,165
Additions	9,416,133	3,574,626	1,722,061	3,440,609	302,983	2,188,015	20,644,427
Transfers	318	196,294	-	186,675	55,729	(439,016)	-
Disposals	(3,287)	(6,521)	(553)	(3,056)	(18,170)	-	(31,587)
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	5,396,454	4,199,214	8,075	-	957,774	1,112,936	11,674,453
Transfers	467	738,497	-	131,671	1,967,848	(2,838,483)	-
Disposals	(2,256)	(651,615)	-	(638,866)	(562,104)	-	(1,854,841)
31 December 2009	**43,353,703**	**35,368,082**	**10,336,344**	**8,601,976**	**17,146,078**	**25,224**	**114,831,407**
Accumulated depreciation							
1 January 2008	**(611,301)**	**(570,076)**	**(71,192)**	**(132,813)**	**(194,671)**	**-**	**(1,580,053)**
Depreciation charge	(3,815,009)	(3,918,611)	(534,757)	(1,206,109)	(2,281,019)	-	(11,755,505)
Impairment	(704)	(468,721)	-	(3,139,565)	(1,060,296)	-	(4,669,286)
Disposals	78	1,729	42	893	3,396	-	6,138
31 December 2008	**(4,426,936)**	**(4,955,679)**	**(605,907)**	**(4,477,594)**	**(3,532,590)**	**-**	**(17,998,706)**
Depreciation charge	(4,252,956)	(4,057,246)	(580,215)	(845,253)	(2,119,476)	-	(11,855,146)
Reversal of impairment/(impairment)	442	320,426	-	1,559,677	(2,434,898)	-	(554,353)
Disposals	153	610,113	-	609,321	538,624	-	1,758,211
31 December 2009	**(8,679,297)**	**(8,082,386)**	**(1,186,122)**	**(3,153,849)**	**(7,548,340)**	**-**	**(28,649,994)**
Net book value							
31 December 2008	**33,532,102**	**26,126,307**	**9,722,362**	**4,631,577**	**11,249,970**	**1,750,771**	**87,013,089**
31 December 2009	**34,674,406**	**27,285,696**	**9,150,222**	**5,448,127**	**9,597,738**	**25,224**	**86,181,413**

(i) Assets under construction as of 31 December 2008 primarily consisted of capital expenditure related to construction of the Company's new office in the amount of RUR 1,679,298 thousand.

Leased assets as of 31 December 2009 and 2008, included above, where the Group is a lessee under the finance lease comprised of the following:

	2009	2008
Cost – capitalized finance leases	4,058,504	4,045,229
Accumulated deprecation	(249,706)	(68,946)
Net book value	**3,808,798**	**3,976,283**

Refer to Note 15 for further details regarding finance leases.

Impairment of property, plant and equipment

The Group carried out a review of recoverable amount of its property, plant and equipment as part of its 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 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 from 2010 to 2014, after which it assumed a constant amount of cash flow adjusted for the general inflation for the remaining average useful life of the existing assets.
- 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 leased 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:

	Revenue growth rate assumptions, %		
Cash generating unit	**2010**	**2011-2014**	**Further years**
Cistern wagons	7.0	6.9-8.7	5.1-6.6
Gondola wagons	11.6	6.9-8.7	5.1-6.6
Cement wagons	16.9	6.9-18.3	5.1-6.6
Covered wagons	15.6	6.9-8.7	5.1-6.6
Mineral wagons	15.5	6.9-8.7	5.1-6.6
Timber-carrying platforms	14.1	6.9-8.7	5.1-6.6
Other wagons	14.1	6.9-8.7	5.1-6.6

- Assumed revenue growth rates stated above are after adjustment for inflation. General inflation expectations during the forecast period are 8.7% in 2011 and gradually declining to expected long-term average of 5.1% in further years.
- Operating costs per wagon are expected to grow in line with the general inflation rate, with the exception of 2010 for which the operating costs are projected based on management's best estimate of supplier's prices and the most recent market trends.
- The pre-tax discount rate used in the calculations was equal to 18.7%. It has been determined with reference to the estimated weighted average cost of capital of the Group.

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.

During the year ended 31 December 2009 an impairment loss was identified for the timber-carrying platforms and mineral wagons amounting to RUR 42,951 thousand and RUR 2,391,087 thousand, respectively. Reversal of impairment losses recognized in prior periods in respect of cement wagons during the year ended 31 December 2009 amounted to RUR 1,559,677 thousand. This reversal is attributable to changes in management estimates in relation to the consequences of the economic crisis in the construction sector. In 2010 management expects a 16.9% increase in cement transportation rates, compared to a previous expectation of only 9.7%.

Reversals of impairment losses recognized in prior periods in respect of cistern wagons, gondola wagons and other wagons during the year ended 31 December 2009 amounted to RUR 320,426 thousand, RUR 442 thousand and RUR 177 thousand, respectively. Positive changes in the rail-based transportation sector and related increase in demand resulted in a change in management's plans in respect of those wagons. Currently management expects to restore these wagons and fully utilize them in provision of rail-based cargo transportation services.

8. LONG-TERM BANK DEPOSITS

	Effective interest rate	2009	2008
Russian Rouble denominated bank deposits	11%	3,116,127	-
Other long-term investements		22,014	-
Total long-term investments		**3,138,141**	**-**

Russian Rouble denominated long-term bank deposit, placed with OJSC "Alfa-Bank", attracts interest at a rate of 11% per annum.

9. INVENTORIES

	2009	2008
Spare parts	1,459,977	54,940
Scrap metal	65,023	68,619
Other inventories	48,137	3,476
Total inventories	**1,573,137**	**127,035**

10. TRADE AND OTHER RECEIVABLES

	Outstanding balance, gross	Provision for impairment	Outstanding balance, net
31 December 2009			
Trade receivables	3,317,681	(89,315)	3,228,366
Other receivables	473,675	-	473,675
Total	**3,791,356**	**(89,315)**	**3,702,041**
31 December 2008			
Trade receivables	7,934,790	(142,957)	7,791,833
Other receivables	7,920	-	7,920
Total	**7,942,710**	**(142,957)**	**7,799,753**

Trade receivables as of 31 December 2009 and 2008 includes receivables for services of sub-contractors re-invoiced to customers in the amount of RUR 1,008,679 thousand and RUR 2,784,063 thousand, respectively.

The average credit period on the Group's sales (other than for sales carried out on a prepayment basis) is 11 days.

Included in the Group's total trade and other receivables are debtors with a carrying amount of RUR 1,456,454 thousand and RUR 3,945,755 thousand as of 31 December 2009 and 2008, respectively, which are past due at the respective reporting date and which the Group considers to be recoverable (i.e. not impaired). The Group does not hold any collateral over these outstanding balances.

The ageing of past due but not impaired trade and other receivables is as follows:

	2009	2008
11 — 45 days	415,224	2,317,501
45 — 90 days	244,878	797,065
90 — 180 days	175,419	663,542
more than 180 days	620,933	167,647
Total past due but not impaired	**1,456,454**	**3,945,755**

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

	2009	2008
Balance at beginning of the year	(142,957)	-
Additional provision, recognized in the current year	(44,481)	(142,957)
Release of provision	98,123	-
Balance at end of the year	**(89,315)**	**(142,957)**

11. PREPAYMENTS AND OTHER CURRENT ASSETS

	2009	2008
VAT receivable	7,484,760	2,366,431
Advances to suppliers	1,641,741	1,226,622
Other current assets	126,031	72,517
Total prepayments and other current assets	**9,252,532**	**3,665,570**

12. SHORT-TERM BANK DEPOSITS

	2009	2008
Russian Rouble denominated bank deposits	513,198	-
Foreign currency denominated bank deposits	3,096,012	-
Total short-term bank deposits	**3,609,210**	**-**

A one-year Russian Rouble denominated short-term bank deposit, placed with OJSC "TransCreditBank", a related party (refer to Note 25), attracts interest at a rate of 4.7% per annum. A one-year US Dollar denominated short-term bank deposit, placed with OJSC "KIT Finance Investment Bank", a related party (refer to Note 25), attracts interest at a rate of 6% per annum.

13. CASH AND CASH EQUIVALENTS

	2009	2008
Current bank accounts and cash on hand	674,645	214,581
Bank deposits	5,494,000	-
Total cash and cash equivalents	**6,168,645**	**214,581**

All short-term bank deposits are denominated in Russian Roubles. The terms vary from thirteen days to three months depending on the immediate cash requirements of the Group. The deposits attract interest at a rate of 3.7%-11.25% per annum depending on the maturity of the deposits. Deposits are placed with JSC "TransCreditBank" and JSC "Sberbank", related parties (refer to Note 25), and with OJSC "Alfa-Bank".

14. BORROWINGS

Short-term borrowings

Lender	Currency	Type of interest rate	Effective interest rate, % 2009	Effective interest rate, % 2008	At 31 December 2009	At 31 December 2008
Current portion of long-term debt:						
EBRD	USD	Floating	3.6-4.9	-	141,112	-
Alfa-Bank	RUR	Floating	11.3	-	430,421	-
Total					**571,533**	**-**

Long-term borrowings

Lender	Currency	Type of interest rate	Effective interest rate, % 2009	Effective interest rate, % 2008	At 31 December 2009	At 31 December 2008
EBRD	USD	Floating	3.6-4.9	-	3,774,495	-
Alfa-Bank	RUR	Floating	11.3	-	2,568,430	-
Total					**6,342,925**	**-**

The loans are secured by the Group's property, plant and equipment with a carrying value of approximately RUR 11,756,000 thousand as of 31 December 2009.

In accordance with the terms of both loan agreements the Group is subject to certain financial and non-financial covenants. As of 31 December 2009 the Group is in compliance with covenants.

15. FINANCE LEASE OBLIGATIONS

	Minimum lease payments 2009	Minimum lease payments 2008	Present value of minimum lease payments 2009	Present value of minimum lease payments 2008
Due within one year	747,078	789,101	694,684	733,085
Due after one year but not more than five years	2,360,712	2,646,497	1,620,333	1,803,228
Due in more than five years	1,346,652	1,799,952	529,263	676,315
Less future finance charges	(1,610,162)	(2,022,922)	-	-
Present value of minimum lease payments	**2,844,280**	**3,212,628**	**2,844,280**	**3,212,628**

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 a period of 10 years with the effective interest rate varying from 13.63% to 13.97% 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 recognized in the period the change occurs. The total amount of contingent rentals recognized during the year ended 31 December 2009 included in interest expense was RUR 239,582 thousand (2008: RUR 51,389 thousand).

Cement wagons lease

During 2008 the Group assumed rights and obligations under the existing lease agreement with CJSC "Russian-German Leasing 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 16.35% per annum.

In order to acquire the leasing rights under the above agreement the Group paid RZD a total consideration of RUR 72,354 thousand. The transaction has been treated by management as a transaction with shareholders. The related finance lease assets and liabilities have been recorded at their carrying value in the books of RZD immediately before their transfer to the Company with any resulting difference adjusted directly against the Group's equity. Consequently, the difference between the net carrying value of assets and liabilities, acquired under the lease agreement, and payments made to RZD in regard to acquisition of the leasing rights, which gave rise to a net loss of RUR 2,497 thousand, was included in Other Reserves.

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

16. EMPLOYEE BENEFIT LIABILITY

The employees of the Group are members of a state-managed pension plan operated by the government of the Russian Federation. The Group is required to contribute a specified percentage of payroll costs as part of the unified social tax to the Pension Fund of the Russian Federation to fund the benefits.

The Company also provides supplementary defined benefit pension plan covering substantially all of its employees, requiring contributions to be made to a separately administered non-state pension fund "Blagosostoyanie".

Benefits accrued through the pension plan administered by "Blagosostoyanie" are partially funded. In addition, the Group provides other retirement and post-employment benefits to its employees, which consist of a once per year compensation of transportation costs on long-distance trains, one-time bonus on retirement ranging from one to six monthly salaries and depending on the duration of the service period and some other requirements, and some other compensations. These benefits are unfunded.

Defined contribution plans

The total amount recognized as an expense in respect of defined contribution plans for the years ended 31 December 2009 and 2008 consisted of the following:

	2009	2008
Pension Fund of the Russian Federation	154,520	65,231
Total expense for defined contribution plans	**154,520**	**65,231**

Defined benefit plans

All employees are eligible for some part of the supplementary post-employment and post-retirement benefit program of the Group.

There were 242 employees eligible for supplementary defined benefit pension plan administered by non-state pension fund "Blagosostoyanie" as of 31 December 2009 (2008: 167), all of which were considered active participants. An active participant is a person making contributions to the pension plan at his/her own expense. Such contributions are matched by the Group.

The most recent actuarial valuation of the defined benefit obligation was carried out as of 31 December 2009 by an independent actuary. The present value of the defined benefit obligations, and related current service costs and past service cost, were measured using the projected unit credit method.

The amounts recognized in the consolidated profit or loss for the year ended 31 December 2009 in respect of these defined benefit plans, which are included in Payroll and related charges, are as follows:

	Blago-sostoyanie	One-time bonus	Other employee benefits	Total
Current service cost	4,660	5,260	3,965	13,885
Interest on obligation	8,716	8,214	2,562	19,492
Actuarial (gains)/losses recognized in the year	(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 loss recognized in the consolidated profit or loss	**18,945**	**76,910**	**35,939**	**131,794**

The amounts recognized in the consolidated profit or loss for the year ended 31 December 2008 in respect of these defined benefit plans are as follows:

	Blago-sostoyanie	One-time bonus	Other employee benefits	Total
Current service cost	849	1,099	52	2,000
Interest on obligation	1,322	1,212	33	2,567
Actuarial gains recognized in the year	(4,403)	(5,850)	(247)	(10,500)
Amortization of past service cost	746	48	1	795
Net income recognized in the consolidated profit or loss	**(1,486)**	**(3,491)**	**(161)**	**(5,138)**

The amount recognized in the consolidated statement of financial position as of 31 December 2009 in respect of these defined benefit plans is as follows:

	Blago-sostoyanie	One-time bonus	Other employee benefits	Total
Present value of funded defined benefit obligation	162,651	-	-	162,651
Fair value of plan assets	(3,221)			(3,221)
	159,430	-	-	159,430
Present value of unfunded defined benefit obligation	-	234,336	59,348	293,684
Deficit	159,430	234,336	59,348	453,114
Unrecognized past service cost	(18,515)	(2,326)	(172)	(21,013)
Net employee benefit liability	**140,915**	**232,010**	**59,176**	**432,101**

The amount recognized in the consolidated statement of financial position as of 31 December 2008 in respect of these defined benefit plans is as follows:

	Blago-sostoyanie	One-time bonus	Other employee benefits	Total
Present value of funded defined benefit obligation	92,728	-	-	92,728
	92,728	-	-	92,728
Present value of unfunded defined benefit obligation	-	87,378	4,206	91,584
Deficit	92,728	87,378	4,206	184,312
Unrecognized past service cost	(15,677)	(1,884)	(74)	(17,635)
Net employee benefit liability	**77,051**	**85,494**	**4,132**	**166,677**

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

	Blago-sostoyanie	One-time bonus	Other employee benefits	Total
Net defined benefit obligation as of 1 January 2008	**15,852**	**17,555**	**476**	**33,883**
Net income recognized in profit or loss	(1,486)	(3,491)	(161)	(5,138)
Net liabilities from transfer of employees (i)	62,685	71,430	3,817	137,932
Net defined benefit obligation as of 31 December 2008	**77,051**	**85,494**	**4,132**	**166,677**
Net expense recognized in profit or loss	18,945	76,910	35,939	131,794
Net liabilities from transfer of employees (i)	48,098	70,682	22,483	141,263
Contributions	(3,179)	(1,076)	(3,378)	(7,633)
Net defined benefit obligation as of 31 December 2009	**140,915**	**232,010**	**59,176**	**432,101**

(i) Net 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 fair value of defined benefit pension plans assets are as follows:

Fair value of plan assets as of 31 December 2008	**-**
Expected return on plan assets	-
Actuarial gains	42
Contributions from the employer	3,179
Benefits paid	-
Fair value of plan assets as of 31 December 2009	**3,221**

The major categories of plan assets administered by non-state pension fund "Blagosostoyanie" as a percentage of the fair value of total plan assets as of the reporting date were as follows:

	Share in total plan assets 2009
Corporate bonds and stock of Russian legal entities	46%
Shares in closed investment funds	26%
Bank deposits	18%
Sovereign and regional government bonds, including Moscow City Government bonds	2%
Other	8%
	100%

The principal assumptions used for purposes of the actuarial valuations were as follows:

	2009	2008
Discount rate	8.6%	9.4%
Rate used for calculation of annuity value	4%	4%
Average remaining working life	22.5 years	22.5 years
Mortality tables	year 2008	year 2005

The Group further assumed that salary will increase in future in line with inflation rate. The current year actuarial loss related to the defined benefit obligation was significant due to current year increase in the average salary level of the Group's employees.

Contributions to defined benefit pension plans were made at the end of 2009 and therefore expected return from plan assets was immaterial and was not recognized by the Group.

The Group expects to make a contribution of RUR 16,289 thousand to the defined benefit plans during the next financial year.

17. TRADE AND OTHER PAYABLES

	2009	2008
Trade payables	1,182,209	1,517,646
Amounts payable for the acquisition of property, plant and equipment	742,622	1,481,838
Liabilities to customers	5,683,024	3,212,327
Total trade and other payables	**7,607,855**	**6,211,811**

18. TAXES OTHER THAN INCOME TAX PAYABLE

	2009	2008
Property tax	493,973	497,451
VAT payable	206,914	79,975
Unified social tax	63,910	27,826
Other taxes	2,470	593
Total taxes other than income tax	**767,267**	**605,845**

19. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	2009	2008
Settlements with employees	264,326	188,101
Other liabilities	12,595	16,657
Total accrued expenses and other current liabilities	**276,921**	**204,758**

Settlements with employees as of 31 December 2009 and 2008 comprise accrued salaries and bonus of RUR 159,608 thousand and RUR 120,500 thousand, respectively, and an accrual for unused vacation of RUR 104,718 thousand and RUR 67,601 thousand, respectively.

20. EQUITY

Share Capital

Authorized and issued capital as of 31 December 2009 and 2008 comprises:

	Number of outstanding ordinary shares (thousands)	Value
Ordinary shares of one Russian Rouble each	85,652,434	85,652,434

The Group's shares were paid through contribution by its parent, RZD, of net assets related to cargo transportation activities. Such net assets consisted primarily of cash, property, plant and equipment, long-term employee benefit liabilities and the related deferred tax 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 Group the right to claim VAT related to such property, plant and equipment for reimbursement from the tax authorities. The amount of such VAT was RUR 381,968 thousand. This amount was included in the determination of the total value of the consideration paid by RZD for the Group'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 RZD. During the year ended 31 December 2009 with regard to these employees the Group assumed employee benefit liabilities of RUR 141,263 thousand (2008: RUR 137,932 thousand), refer to Note 16, and related deferred tax asset of RUR 9,620 thousand (2008: RUR 15,045 thousand), refer to Note 24, which were included in other reserves.

The Company's shareholder structure as of 31 December 2009 and 2008 was as follows:

	Number of outstanding ordinary shares	Percentage of ownership
OJSC "RZD"	85,652,434,153	99.999999999%
OJSC "Baminvest"	1	0.000000001%
	85,652,434,154	**100%**

Retained Earnings, Dividends

In accordance with 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 statutory financial statements. OJSC "Freight One" had RUR 9,418,986 thousand and RUR 7,668,723 thousand of undistributed and unreserved earnings as of 31 December 2009 and 2008, respectively.

In respect of 2007, dividends of approximately RUR 0.00097 per share were approved at the extraordinary shareholders' meeting on 21 October 2008 and have been fully paid during the year ended 31 December 2008. In respect of the nine-month period ended 30 September 2008, dividends of approximately RUR 0.00825 per share were approved by the shareholders in December 2008 and have been fully paid during the year ended 31 December 2009. In respect of the fourth quarter 2008, dividends of approximately RUR 0.00071 per share were approved at the annual shareholders' meeting on 30 June 2009 and have been fully paid during the year ended 31 December 2009.

Reserve Fund

According to its charter, the Company established a reserve fund through the allocation of 5 percent of net profit as computed under Russian accounting regulations. The total amount of the reserve fund is limited to 5 percent 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 2009 and 2008 the Company's reserve fund amounted to RUR 425,125 thousand and RUR 41,604 thousand, respectively.

21. REVENUE

	2009	2008
Rail-based cargo transportation services	68,206,145	34,762,085
Operating lease of rolling stock	6,768,886	16,447,888
Railcar washing services	454,781	-
Other	164,388	169,960
Total revenue	**75,594,200**	**51,379,933**

22. OPERATING EXPENSES, NET

	2009	2008
Freight and transportation services	33,512,375	14,211,322
Depreciation and amortization	11,888,445	11,762,636
Materials, repair and maintenance	10,933,093	8,037,881
Operating lease	4,034,367	138,171
Payroll and related charges	3,218,657	1,161,701
Rolling stock servicing	2,877,445	849,995
Taxes other than income tax	1,952,357	1,722,640
Loss on impairment of property, plant and equipment, net	554,353	4,669,286
Information technology services	340,394	189,861
Advertising costs	314,501	215,645
Operating costs of railcar wash stations	217,562	-
Communication costs	125,004	56,413
(Gain)/loss on disposal of property, plant and equipment	(1,679,934)	25,449
Other expenses, net	894,762	489,651
Total operating expenses, net	**69,183,381**	**43,530,651**

During the year ended 31 December 2009 the Group disassembled certain wagons and recognized generated spare parts and scrap metal as proceeds from the disposal. The gain of RUR 1,679,934 thousand arising from the derecognition of those wagons was determined as the difference between the net disposal proceeds and the carrying amount of the items.

23. DEEMED DISPOSAL OF MINORITY INTEREST IN GRAIN CARGO OPERATIONS

In December 2008 the Group transferred rolling stock with a carrying value of RUR 2,929,675 thousand and the related amount of deferred tax liabilities of RUR 445,398 thousand in exchange for 51% of ordinary shares in a newly established subsidiary CJSC “Rusagrotrans”. The remaining 49% of ordinary shares in CJSC “Rusagrotrans” were subscribed by LLC “RusTransCom” for cash contribution of RUR 3,675,301 thousand. This transaction gave rise to a net gain of RUR 657,107 thousand which was recognized in the consolidated profit or loss for the year ended 31 December 2008. During the year ended 31 December 2008 LLC “RusTransCom” contributed RUR 10,000 thousand and fully settled its liabilities during the year ended 31 December 2009.

24. INCOME TAX

	2009	2008
Current income tax charge	(2,842,203)	(5,164,821)
Deferred income tax benefit	1,360,011	3,234,806
Deferred income tax benefit resulting from reduction in tax rate	-	2,091,256
	(1,482,192)	**161,241**

The statutory tax rate effective in the Russian Federation was 24% for the year ended 31 December 2008. In November 2008, an amendment to the Tax Code was enacted to reduce the corporate income tax rate from 24% to 20% effective from 1 January 2009.

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	2009	2008
Profit before income tax	**5,920,354**	**8,474,732**
Theoretical tax charge at statutory rate (2009: 20%; 2008: 24%)	(1,184,071)	(2,033,936)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Effect on deferred tax balances due to the change in income tax rate from 24% to 20%, effective 1 January 2009	-	2,091,256
Deemed disposal of minority interest in grain cargo operation	-	157,706
Non-deductable cost of scrap metal sold	(157,694)	(1,747)
Surplus/(shortage) of inventory	19,170	(25,904)
Charity	(17,784)	(362)
Benefits in-kind and other non-deductible payments to employees	(53,804)	(10,870)
Changes in provision for tax liabilities, other than income tax	(13,124)	-
Tax fines	(36,315)	-
Other non-deductible expenses	(38,570)	(14,902)
Income tax	**(1,482,192)**	**161,241**

The Company has not recognized any deferred tax liability on the difference between the tax base of the investment in its subsidiary CJSC "Rusagrotrans" and its share in net assets of this subsidiary as of 31 December 2009 approximating RUR 2,796,000 thousand (2008: RUR 2,439,000 thousand). The Company is able to control the timing of the reversal of this temporary difference, and it is probable that the temporary difference will not reverse 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 statement of financial position give rise to the following deferred tax effects:

	1 January 2009	Effect of the Company's formation	Charged to profit or loss	31 December 2009
Property, plant and equipment	11,315,450	-	(1,644,409)	9,671,041
Intangible assets	(383)	-	(1,467)	(1,850)
Other	26	-	(764)	(738)
Trade and other receivables	11,007	-	95,234	106,241
Borrowings	-	-	8,919	8,919
Finance lease obligations	(763,995)	-	114,444	(649,551)
Trade and other payables	(90,415)	-	71,185	(19,230)
Employee benefits liability	(15,410)	(9,620)	(3,153)	(28,183)
Total net deferred tax liability	**10,456,280**	**(9,620)**	**(1,360,011)**	**9,086,649**

	1 January 2008	Effect of the Company's formation	Charged to profit or loss	31 December 2008
Property, plant and equipment	14,144,369	1,655,006	(4,483,925)	11,315,450
Intangible assets	-	-	(383)	(383)
Other	-	-	26	26
Trade and other receivables	3,938	-	7,069	11,007
Finance lease obligations	-	-	(763,995)	(763,995)
Trade and other payables	(2,122)	-	(88,293)	(90,415)
Employee benefits liability	(3,804)	(15,045)	3,439	(15,410)
Total net deferred tax liability	**14,142,381**	**1,639,961**	**(5,326,062)**	**10,456,280**

25. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties, with whom the Group entered into significant transactions or had significant balances outstanding as of 31 December 2009 are disclosed below:

Related party	Nature of relationship
OJSC "Russian Railways" (RZD)	Parent company
OJSC "TransCreditBank"	Fellow subsidiary of RZD
OJSC "KIT Finance Investment Bank"	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
OJSC "Uralvagonzavod"	State-controlled entity
LLC "Roszheldorstroy"	Fellow subsidiary of RZD
Fund Blagosostoyanie	Post-employment benefit plan for the benefit of employees of the Company

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 of the Group for the purpose of these consolidated financial statements.

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

Relationships with OJSC "Russian Railways" (RZD) and its subsidiaries

The Group performs a variety of transactions with RZD (the "Parent"), 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 Group to maintain its rolling stock in the operational condition.

The Group maintains several bank accounts in OJSC "TransCreditBank" and OJSC "KIT Finance Investment Bank".

The following tables provide the total amount of transactions, which have been entered into with related parties during the years ended 31 December 2009 and 2008 as well as year-end balances.

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

	Total	RZD and its subsidiaries	Other related parties
Cash and cash equivalents			
Cash on bank accounts	588,573	586,963	1,610
Bank deposits	2,494,000	2,065,000	429,000
	3,082,573	2,651,963	430,610
Short-term bank deposits	3,609,211	3,609,211	-
Trade and other accounts receivable			
Trade and other receivables	635,114	592,484	42,630
Advances to suppliers	1,274,104	1,257,868	16,236
Prepaid income tax	229,243	-	229,243
VAT receivable	7,484,760	-	7,484,760
	9,623,221	1,850,352	7,772,869
Total assets	**16,315,005**	**8,111,526**	**8,203,479**
Trade and other accounts payable			
Trade payables	892,944	547,544	345,400
Liabilities to customers	31,980	211	31,769
Taxes payable	860,425	-	860,425
Other payables	1,785	-	1,785
	1,787,134	547,755	1,239,379
Finance lease obligations	522,769	-	522,769
Total liabilities	**2,309,903**	**547,755**	**1,762,148**
Revenue			
Rail-based cargo transportation services	2,103,756	1,371,791	731,965
Operating lease of rolling stock	1,556,472	1,553,598	2,874
Railcar washing services	12,021	10,418	1,603
Other	467	467	-
	3,672,716	2,936,274	736,442
Interest income on deposits	142,041	125,128	16,913
Total income	**3,814,757**	**3,061,402**	**753,355**
Expenses			
Freight and transportation services	32,416,921	32,416,921	-
Repair services	8,502,071	7,374,544	1,127,527
Operating lease	3,708,201	3,707,240	961
Servicing of wagon park	2,363,532	2,287,134	76,398
Payroll and related charges	470,492	-	470,492
Advertising costs	292,328	291,810	518
Information technology services	179,672	175,267	4,405
Communication costs	78,112	74,925	3,187
Other expenses	145,960	81,737	64,223
	48,157,289	46,409,578	1,747,711
Income tax and other tax expenses	3,434,549	-	3,434,549
Interest expense on finance lease obligations	76,359	-	76,359
Total expenses	**51,668,197**	**46,409,578**	**5,258,619**
Acquisition of property, plant and equipment	6,824,212	1,163,138	5,661,074
Purchase of materials	46	31	15
Contributions to non-state pension funds	3,179	3,179	-
Total other transactions	**6,827,437**	**1,166,348**	**5,661,089**

Transactions and balances with related parties as of and for the year ended 31 December 2008:

	Total	RZD and its subsidiaries	Other related parties
Cash and cash equivalents	212,776	203,568	9,208
Trade and other accounts receivable			
Trade and other receivables	309,940	280,162	29,778
Advances to suppliers	917,853	907,771	10,082
Prepaid income tax	876,006	-	876,006
VAT receivable	2,366,431	-	2,366,431
	4,470,230	1,187,933	3,282,297
Total assets	**4,683,006**	**1,391,501**	**3,291,505**
Trade and other accounts payable			
Trade payables	2,261,512	1,121,752	1,139,760
Liabilities to customers	41,858	-	41,858
Dividends payable	706,253	706,253	-
Taxes payable	782,640	-	782,640
Other payables	11,550	11,550	-
	3,803,813	1,839,555	1,964,258
Finance lease obligations	646,625	-	646,625
Total liabilities	**4,450,438**	**1,839,555**	**2,610,883**
Revenue			
Rail-based cargo transportation services	1,739,720	344,030	1,395,690
Operating lease of rolling stock	11,604,354	11,604,354	-
	13,344,074	11,948,384	1,395,690
Interest income on deposits	130,144	130,144	-
Total income	**13,474,218**	**12,078,528**	**1,395,690**
Expenses			
Freight and transportation services	13,406,458	13,406,458	-
Repair services	7,028,567	6,948,188	80,379
Servicing of wagon park	791,028	676,711	114,317
Payroll and related charges	187,693	-	187,693
Advertising costs	195,039	190,697	4,342
Information technology services	123,609	123,609	-
Communication costs	40,186	40,168	18
Other expenses	59,640	43,966	15,674
	21,832,220	21,429,797	402,423
Income tax and other tax expenses	1,561,399	-	1,561,399
Interest expense on finance lease obligations	44,104	-	44,104
Total expenses	**23,437,723**	**21,429,797**	**2,007,926**
Acquisition of property, plant and equipment	10,492,288	382,572	10,109,716
Purchase of materials	290	-	290
Total other transactions	**10,492,578**	**382,572**	**10,110,006**

The amounts outstanding to and from related parties are unsecured except as disclosed for finance leases (Note 15) and will be settled in cash. No guaranties have been given or received. No expense has been recognized in the period for impairment of receivables in respect of the amounts owed by related parties.

Compensation of key management personnel

Key management personnel consists of members of the Board of Directors of the Company, the General Director and his first deputies, totalling 12 persons as of 31 December 2009 and 2008. Total gross compensation (including unified social tax 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 85,503 thousand (including unified social tax of RUR 1,640 thousand) and RUR 48,516 thousand (including unified social tax of RUR 1,198 thousand) for the years ended 31 December 2009 and 2008, respectively. Such compensation comprises primarily of short-term benefits. Post-employment and other long-term benefits of key management personnel were immaterial.

26. 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 are as follows:

	2009	2008
Within one year	179,046	123,190
In two to five years	376,579	312,937
After five years	354,193	-
Total minimum lease payments	**909,818**	**436,127**

27. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

The Group's capital commitments as of 31 December 2009 and 2008 consisted of the following:

	2009	2008
Acquisition of gondola wagons	3,363,590	4,940,000
Modernization of leased railcar wash stations	1,673,700	-
Acquisition of office equipment	249,242	63,990
Acquisition of cistern wagons	-	2,734,092
Construction of office premises	-	34,011
Total capital commitments	**5,286,532**	**7,772,093**

Operating environment of the Group – Although in recent years there has been a general improvement in economic conditions in Russia, it continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

As a result, laws and regulations affecting businesses in Russia continue to change rapidly. Tax, currency and customs legislation within Russia is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russia. The future economic direction of Russia is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

Environmental matters – The enforcement of environmental regulation in the Russian Federation is continually evolving. The Group periodically evaluates its obligations under environmental regulations. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that the Group has met the government's federal and regional requirements concerning environmental matters. Therefore, there are no significant liabilities for environmental damage or remediation.

Legal proceedings – During the year, 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 management, there are no current legal proceedings or other 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 14, 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 2009 the Group is in compliance with covenants.

Insurance – The Group holds insurance policies in relation to certain assets. As of 31 December 2009 the Group secured part of its rolling stock and office building in a number of insurance companies with a total insurance compensation of approximately RUR 15,158,000 thousand (2008: 74,097,000). The Group holds no insurance policies in relation to operations, or in respect of public liability or other insurable risks.

Recent volatility in global and Russian financial markets – The financial markets, both globally and in Russia, have faced significant volatility and liquidity constraints since the onset of the global financial crisis, which began to unfold in the autumn of 2007 and worsened since August 2008. A side effect of those events was an increased concern about the stability of the financial markets generally and the strength of counterparties, and many lenders and institutional investors have reduced funding to borrowers, which has significantly reduced the liquidity in the global financial system.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market that fluctuated significantly during 2008 and 2009. The Russian government initiated the adoption of a package of federal laws and regulations to restore investor confidence, provide liquidity and support medium-term growth of Russia's economy, and those measures have had a positive effect, however at this stage there is no clarity with respect to efficiency of these measures in the long run.

While many countries, including Russia, have recently reported improvement of the situation in the financial markets, a further downturn can still occur, and further state support measures might be required. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment could slow down or disrupt the Russian economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

While the Russian government has introduced a range of stabilization measures aimed at providing liquidity to the Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

Debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets.

Given Group's relatively low debt burden and extended debt repayment profile, as well as low exposure to foreign currency exchange rates, management believes that for the next few years, any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets will have limited effect on the Group's financial position. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances..

28. RISK MANAGEMENT ACTIVITIES

Capital Risk 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 borrowings, finance lease obligations and equity, consisting of issued capital, reserves and retained earnings as disclosed in Note 20.

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 considers acceptable a gearing ratio of 20-30% determined as the proportion of debt to equity.

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. All financial assets fall into loans and receivables category under IAS 39 "Financial instruments: recognition and measurement".

	2009	2008
Financial assets		
Cash and cash equivalents	6,168,645	214,581
Trade and other receivables	3,702,041	7,799,753
Receivables from deemed disposal of minority interest in grain cargo operations	-	3,665,301
Short-term bank deposits	3,609,210	-
Long-term bank deposits	3,116,127	-
Total financial assets	**16,596,023**	**11,679,635**

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

	2009	2008
Financial liabilities		
Trade and other payables	1,937,399	3,016,141
Dividends payable	-	706,253
Payables to employees	264,326	188,101
Long-term borrowings	6,342,925	-
Short-term borrowings	571,533	-
Finance lease obligations	2,844,280	3,212,628
Total financial liabilities	**11,960,463**	**7,123,123**

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed by the treasury function. The Group has established budgeting and cash flow planning procedures to ensure it has adequate cash available to meet its payment obligations as they fall due.

The Group has both interest bearing and non-interest bearing financial liabilities. The interest bearing liabilities consist of borrowings and finance lease obligations. The non-interest bearing liabilities include trade and other payables and amounts payable to employees

The following tables detail the Group's remaining contractual maturity for financial liabilities. The tables have been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Effective interest rate, %	Less than 3 month	3 months-1 year	1-5 years	More than 5 years	Total
2009						
Non-interest bearing liability	-	2,201,725	-	-	-	2,201,725
Borrowings	3.6 - 11.3	217,821	669,114	4,738,586	3,071,097	8,696,618
Finance lease obligations	12.1 - 16.4	189,540	557,538	2,360,712	1,346,652	4,454,442
Total		**2,609,086**	**1,226,652**	**7,099,298**	**4,417,749**	**15,352,785**
2008						
Non-interest bearing liability	-	3,910,495	-	-	-	3,910,495
Finance lease obligations	12.1 - 16.4	201,408	587,693	2,646,497	1,799,952	5,235,550
Total		**4,111,903**	**587,693**	**2,646,497**	**1,799,952**	**9,146,045**

The following tables detail the Group's expected maturity for its financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of financial assets, including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

	Effective interest rate, %	Less than 3 month	3 months-1 year	1-5 years	More than 5 years	Total
2009						
Trade and other receivables	-	3,127,857	574,184			3,702,041
Short-term bank deposits	4.7 - 6	1,544,152	2,126,332	-	-	3,670,484
Long-term bank deposits	11	-	-	4,392,815	-	4,392,815
Total		**4,672,009**	**2,700,516**	**4,392,815**	**-**	**11,765,340**
2008						
Trade and other receivables	-	7,799,753	3,665,301	-	-	11,465,054
Total		**7,799,753**	**3,665,301**	**-**	**-**	**11,465,054**

Currency Risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. A part of cash and cash equivalents, short-term bank deposits, borrowings, receivable and payable balances, are denominated in currencies other than the Russian Rouble, the functional currency of Freight One.

The Group does not have or use any formal arrangements (i.e. derivatives) to manage foreign currency risk 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	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Assets						
Cash and cash equivalents	344,822	6,023	-	-	5,107	844
Trade and other receivables	7,441	18,206	38	-	876	-
Short-term bank deposits	3,096,012	-	-	-	-	-
Total assets	**3,448,275**	**24,229**	**38**	**-**	**5,983**	**844**
Liabilities						
Trade and other payables	24,634	89,215	2,087	215	722	1
Borrowings	3,915,607	-	-	-	-	-
Total liabilities	**3,940,241**	**89,215**	**2,087**	**215**	**722**	**1**

The table below details the Group's sensitivity to strengthening of the Russian Rouble against US Dollar by 10%, all other variables being held constant. The analysis was applied to monetary items at the reporting dates denominated in respective currencies.

	USD – impact	
	2009	**2008**
Gain	**49,196**	**6,499**

The weakening of the Russian Rouble in relation to the same currency by the same percentage will produce an equal and opposite effect on the consolidated financial statements of the Group to that shown above.

Interest rate risk

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.

As of 31 December 2009 the Group's borrowed funds consist of bank loans (Note 14) and finance lease liabilities (Note 15).

The Group is exposed to interest rate risk as the Group has finance lease agreement with floating minimum lease payments (see Note 15). 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. As of 31 December 2009 the implicit interest rate was 11.5% (2008: 23.8%).

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 23.8%, which was the implicit rate as of 31 December 2008, during the year ended 31 December 2009 and all other variables were held constant, the Group's profit for the year ended 31 December 2009 would decrease by RUR 5,383 thousand, due to the corresponding change in the interest expense.

The Group is also exposed to interest rate risk in regard to its borrowings. All outstanding loans have floating interest rates (Note 14). According to the terms of contract with European Bank for Reconstruction and Development the loan interest rate is 3 month USD LIBOR + 3%. According to the terms of contract with OJSC "Alfa-Bank" the loan interest rate is rate of Central Bank of Russia + 2.5%. If the effective interest rate had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2009 would decrease/increase by RUR 16,459 thousand.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group does not hedge its credit risk.

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 a 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.

As of 31 December 2009 35% of the total net amount of trade and other receivables related to the five largest debtors of the Group (31 December 2008: 67%).

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
Total	**1,286,087**

The largest receivables outstanding as of 31 December 2008 are as follows:

	Outstanding balance, net
LLC “RusTransCom”	3,822,633
LLC “Mechel Trans”	1,623,068
OJSC “SUEK”	1,220,271
LLC “Metalloinvesttrans”	519,792
LLC “Transoil”	457,890
Total	**7,643,654**

As of 31 December 2009 and 2008 no impairment has been identified for these customers.

The credit risk on liquid funds is limited because these funds are placed only with financial institutions well known to the Group. 43% and 95% of total cash and cash equivalents as of 31 December 2009 and 2008, respectively, were held with OJSC “TransCreditBank”, which is a party related to the Group.

29. SUBSEQUENT EVENTS

Lease of railcar wash stations – In January 2010 the Group entered into a lease agreement with RZD for the lease of railcar wash station in Syzran, and, in accordance with the lease agreement, hired all employees who previously worked at these station in RZD.

Lease of wagons – In March 2010 the Group entered into a finance lease agreement with LLC “Inpromleasing” for the lease of 700 cement wagons for the period varying from seven to fifteen years.

Acquisition of wagons – Subsequent to the reporting date, the Group signed several agreements for the purchase of 13,800 gondola wagons for a total amount of RUR 20,029,320 thousand (including VAT of RUR 3,055,320 thousand).