OPEN JOINT STOCK COMPANY “FREIGHT ONE”

Consolidated Financial Statements
For the Year Ended 31 December 2008

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 2008

The following statement, which should be read in conjunction with the independent auditors’ responsibilities stated in the independent auditors’ report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company “Freight One” and its subsidiaries (the “Group”).

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Group as of 31 December 2008, 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:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the 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 of the Russian Federation;
- 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 for the year ended 31 December 2008 were approved on 29 June 2009 by:

S. M. Babayev	**G. A. Panagushina**
General Director	Chief Accountant

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders 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 balance sheet as of 31 December 2008 and the related consolidated statements of income, cash flows and changes in equity 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 controls relevant to the Group'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 Group's internal controls. 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.

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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 2008 and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

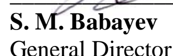
Without qualifying our opinion we draw your attention to Note 21 to the consolidated financial statements which discloses a significant concentration of the Group's transactions with related parties.

10 July 2009

OJSC "FREIGHT ONE"

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2008
(Amounts in thousands of Russian Roubles)

	Notes	2008	2007
ASSETS			
Non-current assets			
Property, plant and equipment	7	87,013,089	74,360,737
Advances for acquisition of non-current assets		104,907	199,916
Intangible assets		54,806	1,424
Total non-current assets		**87,172,802**	**74,562,077**
Current assets			
Inventory		127,035	416
Trade and other receivables	8	7,799,753	1,026,850
Receivables from shareholder	16	-	6,849,289
Receivables arising on deemed disposal of minority interest in grain cargo operations	19	3,665,301	-
Prepayments and other current assets	9	3,665,570	598,131
Prepaid income tax		876,006	-
Cash and cash equivalents	10	214,581	3,575,097
Total current assets		**16,348,246**	**12,049,783**
TOTAL ASSETS		**103,521,048**	**86,611,860**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	16	85,652,434	85,652,434
Reserve fund	16	41,604	-
Other reserves	16	(15,901,644)	(15,776,260)
Retained earnings		8,969,323	1,164,505
Equity attributable to equity holders of the parent		**78,761,717**	**71,040,679**
Minority interest		3,018,284	-
Total equity		**81,780,001**	**71,040,679**
Non-current liabilities			
Finance lease obligations, net of current maturities	11	2,479,543	-
Employee benefit liability	12	166,677	33,883
Deferred tax liability	20	10,456,280	14,142,381
Total non-current liabilities		**13,102,500**	**14,176,264**
Current liabilities			
Trade and other payables	13	6,211,811	303,633
Dividends payable	16	706,253	-
Income tax payable		176,795	697,414
Taxes other than income tax payable	14	605,845	391,016
Finance lease obligations, current maturities	11	733,085	-
Accrued and other current liabilities	15	204,758	2,854
Total current liabilities		**8,638,547**	**1,394,917**
TOTAL EQUITY AND LIABILITIES		**103,521,048**	**86,611,860**



S. M. Babayev
General Director

G. A. Panagushina
Chief Accountant

29 June 2009

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

OJSC “FREIGHT ONE”

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2008
(Amounts in thousands of Russian Roubles)

	Notes	2008	2007
Revenue	17	51,379,933	3,550,473
Operating expenses	18	(43,530,651)	(2,033,265)
Gain on deemed disposal of minority interest in grain cargo operations	19	657,107	-
Interest expense on finance lease obligations		(206,879)	-
Interest income		179,436	17,670
Foreign exchange (loss)/gain, net		(4,214)	83
Profit before income tax		**8,474,732**	**1,534,961**
Income tax benefit/(expense)	20	161,241	(370,456)
Profit for the year		**8,635,973**	**1,164,505**
Attributable to:			
Equity holders of the parent		8,635,883	1,164,505
Minority interest		90	-
		8,635,973	**1,164,505**

S. M. Babayev
General Director

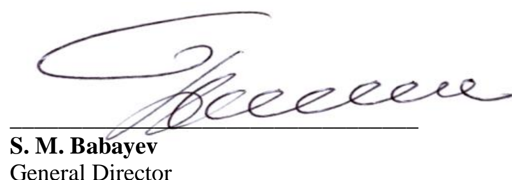
G. A. Panagushina
Chief Accountant

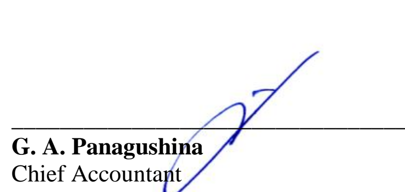
29 June 2009

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008
(Amounts in thousands of Russian Roubles)

	2008	2007
Cash flows from operating activities:		
Profit before income tax	**8,474,732**	**1,534,961**
Adjustments for:		
Depreciation and amortization	11,762,636	1,580,053
Loss on impairment of property, plant and equipment	4,669,286	-
Change in provision for impairment of receivables	142,957	-
Loss/(gain) on disposal of property, plant and equipment	25,449	(83)
Non-monetary gains on inventory	(122,887)	-
Gain on deemed disposal of minority interest in grain cargo operations	(657,107)	-
Interest expenses/(income), net	27,443	(17,670)
Foreign exchange loss, net	4,214	-
Operating profit before working capital changes	**24,326,723**	**3,097,261**
Increase in inventory	(3,732)	(416)
Increase in trade and other receivables	(6,915,860)	(1,026,850)
Increase in prepayments and other current assets	(3,076,948)	(588,622)
Increase in trade and other payables	4,417,779	303,633
Increase in taxes other than income tax payable	260,959	726,854
Increase in accrued and other current liabilities	201,904	2,854
Decrease in employee benefit liabilities	(5,138)	-
Net cash from operating activities before income tax	**19,205,687**	**2,514,714**
Interest paid	(206,879)	-
Income tax paid	(6,561,446)	-
Net cash provided by operating activities	**12,437,362**	**2,514,714**
Cash flows from investing activities:		
Capital expenditure	(15,022,350)	(246,489)
Proceeds on disposal of property, plant and equipment	-	135
Proceeds from deemed disposal of minority interest in grain cargo operations	10,000	-
Short-term bank deposits	(1,500,000)	-
Cash received on maturity of short-term bank deposits	1,500,000	-
Purchase of intangible assets	(60,513)	(1,424)
Interest received	188,945	8,161
Net cash used in investing activities	**(14,883,918)**	**(239,617)**
Cash flows from financing activities:		
Cash collected for shares issued	-	1,300,000
Dividends paid	(83,208)	-
Repayments of finance lease obligations	(835,098)	-
Net cash (used in) / provided by financing activities	**(918,306)**	**1,300,000**
Net (decrease) / increase in cash and cash equivalents	**(3,364,862)**	**3,575,097**
		-
Cash and cash equivalents at beginning of the year	**3,575,097**	**-**
Foreign exchange gain on cash and cash equivalents	4,346	-
Net cash and cash equivalents at end of the year	**214,581**	**3,575,097**





S. M. Babayev
General Director

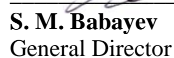
G. A. Panagushina
Chief Accountant

29 June 2009

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008
(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 26 July 2007 (inception)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Issue of share capital (Note 2)	85,652,434	-	(15,776,260)	-	**69,876,174**	-	**69,876,174**
Profit for the period	-	-	-	1,164,505	**1,164,505**	-	**1,164,505**
Balance at 31 December 2007	**85,652,434**	-	**(15,776,260)**	**1,164,505**	**71,040,679**	**-**	**71,040,679**
Dividends	-	-	-	(789,461)	**(789,461)**	-	**(789,461)**
Transfer to reserve fund	-	41,604	-	(41,604)	-	-	-
Distribution to shareholder (Notes 11,16)	-	-	(125,384)	-	**(125,384)**	-	**(125,384)**
Effect of deemed disposal of minority interest in grain cargo operations (Note 19)	-	-	-	-	-	3,018,194	**3,018,194**
Profit for the year	-	-	-	8,635,883	**8,635,883**	90	**8,635,973**
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**



S. M. Babayev
General Director

G. A. Panagushina
Chief Accountant

29 June 2009

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 the 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 has contributed to the share capital of the Company rolling stock in the amount of RUR 84,352,434 thousand, the amounts of VAT 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. With regard to these employees the Company assumed certain employee benefit liabilities. Pursuant to this spin-off, RZD maintained the functions of the carrier, whilst the Company assumed the functions of a cargo forwarding agent.

Freight One's principal activities, which largely commenced from October 2007, include freight transportation using own rolling stock, leasing of rolling stock and other freight forwarding and logistic services. As of 31 December 2008 the Company operated 14 branches located in the Russian Federation. The registered office of the Company is located at 35, Kalanchevskaya Street, Moscow, 107078, 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 lease.

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

The consolidated financial statements of OJSC "Freight One" and its subsidiaries as of 31 December 2008 and for the year ended 31 December 2008 were authorized for issue by the General Director of the Company on 29 June 2009.

2. PRESENTATION OF FINANCIAL STATEMENTS

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

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 Russian Federation.

The consolidated financial statements have been prepared under historical cost convention, except as disclosed in the accounting policies below and further except for the effects of assets acquired and liabilities assumed on 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 and its subsidiaries in accordance with IFRSs. The principal adjustments relate to valuation of unrecoverable assets, valuation and depreciation of property, plant and equipment, deferred income taxes, recognition of employee benefits, use of fair values and accounting for the Company's formation.

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

Comparative information – The corresponding amounts of the previous reporting period included in the consolidated financial statements are for the period from 26 July, the date of the inception of the Company, to 31 December. Therefore these amounts are not directly comparable to the amounts of the current reporting period (year ended 31 December 2008) as they do not represent the full year of operations.

Basis of accounting for formation of the Company – The transfer by RZD of some of its activities and certain assets and liabilities related to railway cargo transportation, and formation of the Company was treated as described below.

All identifiable assets acquired and liabilities were measured initially at their fair values at 26 October 2007, the date of commencement of the Company's operations.

The fair value of the identifiable assets and liabilities as at this date were as follows:

Property, plant and equipment	84,352,434
VAT receivable	381,968
Cash	1,300,000
	86,034,402
Employee benefit liability	(33,883)
Deferred tax liability	(16,124,345)
	(16,158,228)
Net assets	**69,876,174**
(A) Nominal value of shares issued	85,652,434
Less: difference between the fair value of net assets received and nominal value of shares issued	(15,776,260)
	69,876,174

The difference between the fair values of the net assets contributed to and the nominal value of shares issued by the Company was recorded in equity as Other Reserves.

Use of management estimates – The preparation of consolidated financial statements in conformity with IFRS requires that management makes judgments, estimates and assumptions that affect the application of the policies and reported amounts of assets and liabilities, revenue and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The most significant estimates that management had to make in the course of preparation of these consolidated financial statements are discussed in Note 5.

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 their existing liquidity needs on an on-going basis. Although the current economic environment (see Note 22) 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

IFRSs and IFRIC interpretations effective in the current year

In the current year, the Group has adopted all new and revised standards and interpretations issued by 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 2008. Their adoption did not have any effect on the financial performance or position of the Group.

IFRSs 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 2009 or later periods and which the entity has not early adopted:

Standards and Interpretations	Effective for annual periods beginning on or after
IAS 1 "Presentation of financial statements" (amended)	1 January 2009
IAS 23 "Borrowing costs" (revised)	1 January 2009
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 January 2009
IAS 39 "Financial instruments: recognition and measurement" (amended)	1 July 2009
IFRS 2 "Share-based payment" (revised)	1 January 2009
IFRS 3 "Business combinations" (revised)	1 July 2009
IFRS 7 "Financial instruments: disclosure" (amended)	1 January 2009
IFRS 8 "Operating segments"	1 January 2009
IFRIC 15 "Agreements for the construction of real estate"	1 January 2009
IFRIC 17 "Distributions of non-cash assets to owners"	1 July 2009
IFRIC 18 "Transfers of assets from customers"	1 July 2009

Also a number of standards and interpretations were amended with Annual Improvements to IFRS issued in May 2008 and April 2009. 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 2009.

The impact of adoption of these standards and interpretations in the preparation of the 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 of disclosure 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. The statement of changes in equity will include 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 amended standard becomes effective for financial years beginning on or after 1 January 2009.
- IAS 23 "Borrowing costs" (revised) – removed the option of immediate recognition as an expense of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009.
- Amendment to IFRS 7 "Financial instruments: disclosure" issued in March 2008 requires enhanced disclosure about fair value measurement and liquidity risk. The entity will be required to disclose an analysis of financial instruments using three-level fair value measurement hierarchy. The amendment a) clarifies that the maturity analysis of liabilities should include

issued financial guarantee contracts of the maximum amount of the guarantee in the earliest period in which guarantee could be called; and b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing risks, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.

- IFRS 8 "Operating segments" – requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The standard eliminates the principle of identification of two sets of segments (business and geographical), and requires identifying the operating segments and measuring the amounts presented in accordance with the basis used in reporting to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance. In addition, the standard requires a disclosure of factors used to identify the entity's operating segments.
- IAS 27 "Consolidated and separate financial statements" (revised) is effective for annual periods beginning on or after 1 July 2009. The revised 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 its result 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 current reporting year its profit for the year would have been reduced by RUR 657,107 thousand, representing a gain on a deemed disposal of non-controlling interest in a subsidiary which would have been recorded directly to equity.
- 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 IFRSs, 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.

4. PRINCIPAL ACCOUNTING POLICIES

The principal 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 there in. 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 non-controlling interest in a subsidiary plus the minority share of changes in equity since the original recognition. On acquisitions 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 statement of income.

Foreign currency translation – Russian Rouble is the functional currency of the Group and is also the currency in which these 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 balance sheet date are translated into the functional currency at the year-end exchange rate. Exchange differences arising from such translation are included into the consolidated statement of income. 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 Rouble 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 on the consolidated balance sheet 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 and whether appropriate provision for impairment is made.

Leased assets

Capitalized leased assets 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 statement of income as an expense as incurred.

Depreciation

Depreciation is charged to the consolidated statement of income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Assets held under finance lease arrangements and operating leasehold improvements are depreciated over the shorter of their estimated useful lives and lease terms. Land areas 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	30-32
Covered wagons	30-32
Cement wagons	24-26
Gondola wagons	22-24
Other wagons	15-32
Other equipment	2-25

The assets' residual values, useful lives and methods 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 statement of income.

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 statement of income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. 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.

Amortization periods and 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 is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Impairment of non-current assets – At each balance sheet 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 costs 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 statement of income.

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.

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. When financial assets are recognized initially, they are measured at fair value plus, in the case of investments not at fair value through profit and loss, directly attributable transaction costs. All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair market value through profit or loss ("FVTPL")

Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price and those investments specifically designated by management at fair value through profit or loss are classified as financial assets at fair market value through profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the consolidated statement of income in the period in which they arise. During the periods included in these consolidated financial statements the Group did not hold any investments in
this category.

Held-to-maturity investments

Investments in non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, other than loans and receivables, are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis. During the periods included in these consolidated financial statements the Group did not hold any investments in this category.

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 statement of income 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.

Investments available-for-sale ("AFS")

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of income. Available-for-sale investments are classified as current assets if management intends to realize them within twelve months of the balance sheet date. During the periods included in these consolidated financial statements the Group did not hold any investments in this category.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models. When due to the nature of the investment, the reliable determination of its fair value is impracticable by applying valuation techniques, such investments are stated at cost.

Impairment of financial assets – Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet 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 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).

With the exception of AFS equity instruments, 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. In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Effective interest method – The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of 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.

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 finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity).

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 of 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 statement of income, 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 immediately, past service cost is immediately expensed.

State Plan

In addition, the Group is legally obligated to make contributions to the Pension Fund of the Russian Federation, managed by the Russian Federation Social Security (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 statement of income 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 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 related input VAT which is reclaimable upon confirmation of export). VAT related to sales and purchases is recognized in the consolidated balance sheet 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. 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 balance sheet 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 expenditures 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 are 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. Revenues from these services are recognized upon completion of transportation in the accounting period in which the services are rendered. Payments made by customers for third-parties' services, including charges for railway infrastructure and traction, are not included in revenue.

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.

Freight forwarding and logistics services

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

(i) Organization of transportation within 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 upon completion of transportation in the accounting period in which the services are rendered.

Dividend and interest income

(i) Dividends from investments are recognized in the consolidated statement of income when the shareholder's right to receive payment has been established;
(ii) Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leases – The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of 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 leases payments

Payments made under operating leases are recognized in the consolidated statement of income on a straight-line basis over the term of the lease. Lease incentives received are recognized in the consolidated statement of income 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 – All borrowing costs are recognized as an expense in the period in which they are incurred.

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

Tax effects related to the revaluation of tax base of assets and liabilities are credited or charged to equity in case such revaluation for tax purposes is related to an accounting revaluation. Otherwise, tax effects are recognized in the consolidated statement of income.

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 balance sheet 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 over 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 balance sheet date only if they are declared before or on the balance sheet date by the shareholders at a general meeting. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet 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. SIGNIFICANT ESTIMATES

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet 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 credit worthiness 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 2008 and 2007 provision for impairment of receivables was recognized in the amount of RUR 142,957 thousand and nil, respectively (see Note 8).

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 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 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 12).

6. KEY MANAGEMENT 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 finance lease if it transfers substantially all the risks and rewards incidental to ownership. Otherwise it is classified as 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 percent 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 percent 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.

7. PROPERTY, PLANT AND EQUIPMENT

	Gondola wagons	Cistern wagons	Covered wagons	Cement wagons	Other wagons and equipment	Assets under construction (i)	Total
Cost							
26 July 2007 (inception)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Additions through contribution in-kind	28,350,880	24,142,089	8,527,525	4,665,456	10,208,319	-	75,894,269
Additions	-	-	-	-	30,274	16,299	46,573
Transfers	-	14,527	-	-	-	(14,527)	-
Disposals	-	(52)	-	-	-	-	(52)
31 December 2007	**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**
Accumulated depreciation							
26 July 2007 (inception)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Depreciation charge	(611,301)	(570,076)	(71,192)	(132,813)	(194,671)	-	(1,580,053)
Impairment	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
31 December 2007	**(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)**
Net book value							
31 December 2007	**27,739,579**	**23,586,488**	**8,456,333**	**4,532,643**	**10,043,922**	**1,772**	**74,360,737**
31 December 2008	**33,532,102**	**26,126,307**	**9,722,362**	**4,631,577**	**11,249,970**	**1,750,771**	**87,013,089**

(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 2008 and 2007, included above, where the Group is a lessee under the finance lease comprised of the following:

	2008	2007
Cost – capitalized finance leases	4,045,229	-
Accumulated deprecation	(68,946)	-
Net book value	**3,976,283**	**-**

Refer to Note 11 for further details regarding finance lease.

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 balance sheet date. For this purpose, the recoverable amount of the Group's cash-generating units was determined based on value in use calculations, except for grain wagons for which the recoverable amount was determined with reference to their fair value less costs to sell. Value in use calculation uses cash flow projections based on actual operating results and business plan approved by management and corresponding discount rate which reflects time value of money and risks associated with the Group's operations. Key assumptions management used in their value in use calculation are as follows:

- The Group estimated its future cash flows for the period from 2009 to 2013, 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 price 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 less free run costs for other wagons. Expectations of operating revenue changes during the forecast period are as follows:

	Revenue growth rate assumptions, %		
Cash generating unit	**2009**	**2010-2013**	**Further years**
Cistern wagons	6.0	7.0–13.9	5.8–6.7
Gondola wagons	(12.2)	7.0–26.2	5.8–6.7
Cement wagons	(44.0)	7.0–33.3	5.8–6.7
Covered wagons	(12.5)	7.0–17.2	5.8–6.7
Mineral wagons	(38.1)	7.0–16.7	5.8–6.7
Timber-carrying platforms	0	7.0–9.7	5.8–6.7
Other wagons	0–4.2	7.0–9.7	5.8–6.7

- Assumed revenue growth rates stated above are after adjustment for inflation. General inflation expectations during the forecast period are 9.7% in 2010 and gradually declining to expected long-term average of 5.8 in further years.
- Operating costs per wagon are expected to grow in line with general inflation rate, with the exception of 2009 for which the operating costs are projected based on the management best estimate of supplier's prices and the most recent market trends.
- The pre-tax discount rate used in the calculations was equal to 19.2%. 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.

For the following cash-generating units an impairment loss was identified:

Cement wagons

An impairment loss of RUR 2,332,701 thousand was recognized.

The above estimates are particularly sensitive to the changes in the following assumptions:

- a 1% increase in discount rate increases the impairment loss by RUR 168,151 thousand;
- a 5% decrease in future planned operating revenues increases the impairment loss by RUR 470,773 thousand.

Timber-carrying platforms

An impairment loss of RUR 76,711 thousand was recognized.

The above estimates are particularly sensitive to the changes in the following assumptions:

- a 1% increase in discount rate increases the impairment loss by RUR 16,198 thousand;
- a 5% decrease in future planned operating revenues increases the impairment loss by RUR 56,562 thousand.

Additional impairment losses recognized in respect of mineral wagons, cement wagons, cistern wagons and other wagons in the year ended 31 December 2008 amounted to RUR 983,407 thousand, RUR 806,864 thousand, RUR 468,721 thousand and RUR 882 thousand, respectively. These losses are attributable to greater than anticipated wear and tear.

8. TRADE AND OTHER RECEIVABLES

	Outstanding balance, gross	Provision for impairment	Outstanding balance, net
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**
31 December 2007			
Trade receivables	1,011,019	-	1,011,019
Other receivables	15,831	-	15,831
Total	**1,026,850**	**-**	**1,026,850**

Trade receivables of 31 December 2008 and 2007 includes receivables for services of sub-contractors re-invoiced to customers in the amount of RUR 2,784,063 thousand and RUR 2,297 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 3,945,755 thousand and RUR 2,918 thousand as of 31 December 2008 and 2007, 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:

	2008	2007
11 — 45 days	2,317,501	2,918
45 — 90 days	797,065	-
90 — 180 days	663,542	-
more than 180 days	167,647	-
Total past due but not impaired	**3,945,755**	**2,918**

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

	2008	2007
Balance at beginning of the year	-	-
Provision, recognized in the current year	(142,957)	-
Balance at end of the year	**(142,957)**	-

9. PREPAYMENTS AND OTHER CURRENT ASSETS

	2008	2007
VAT receivable	2,366,431	19,579
Advances to suppliers	1,226,622	574,748
Other current assets	72,517	3,804
Total prepayments and other current assets	**3,665,570**	**598,131**

10. CASH AND CASH EQUIVALENTS

	2008	2007
Current bank accounts and cash on hand	214,581	95,097
Bank deposits	-	3,480,000
Total cash and cash equivalents	**214,581**	**3,575,097**

All short-term bank deposits are denominated in Russian Roubles. The terms vary from sixteen days to three months depending on the immediate cash requirements of the Company. The deposits attract interest at a rate of 3.5%-8.5% per annum depending on the maturity of the deposits. Deposits are placed with JSC “TransCreditBank”, a related party (refer to Note 21), and with JSC “AKB Soyuz”.

11. FINANCE LEASE OBLIGATIONS

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	2008	2007
Due within one year	789,101	-	733,085	-
Due after one year but not more than five years	3,503,431	-	2,177,738	-
Due more then five years	943,018	-	301,805	-
Less future finance charges	(2,022,922)	-	-	-
Present value of minimum lease payments	**3,212,628**	**-**	**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 2008 was RUR 51,389 thousand (2007: nil) and included in interest expense on finance lease obligations.

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 net book value (as at 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 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.

12. 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 pension plan administered by non-state pension fund "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 a compensation of funeral expenses. 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 2008 and 2007 consisted of the following:

	2008	2007
Pension Fund of the Russian Federation	65,231	4,081
Total expense for defined contribution plans	**65,231**	**4,081**

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 167 employees eligible for supplementary defined benefit pension plan administered by non-state pension fund “Blagosostoyanie” as of 31 December 2008 (2007: 11), 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 2008 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 statement of income for the year ended 31 December 2008 in respect of these defined benefit plans, which are included in “Payroll and related charges”, are as follows (2007: nil):

	Blago-sostoyanie	One-time bonus	Other post-employment 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 statement of income	**(1,486)**	**(3,491)**	**(161)**	**(5,138)**

The amount recognized in the consolidated balance sheet as of 31 December 2008 in respect of these defined benefit plans is as follows:

	Blago-sostoyanie	One-time bonus	Other post-employment 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**

The amount recognized in the consolidated balance sheet as of 31 December 2007 in respect of its defined benefit plans is as follows:

	Blago-sostoyanie	One-time bonus	Other post-employment benefits	Total
Present value of funded defined benefit obligation	19,581	-	-	19,581
	19,581	-	-	19,581
Present value of unfunded defined benefit obligation	-	17,950	482	18,432
Deficit	19,581	17,950	482	38,013
Unrecognized past service cost	(3,729)	(395)	(6)	(4,130)
Net employee benefit liability	**15,852**	**17,555**	**476**	**33,883**

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

	Blago-sostoyanie	One-time bonus	Other	Total
Net defined benefit obligation as at 26 July 2007 (inception)	**-**	**-**	**-**	**-**
Net liabilities assumed on formation of the Company (Note 2)	15,852	17,555	476	33,883
Net defined benefit obligation as at 31 December 2007	**15,852**	**17,555**	**476**	**33,883**
Net income recognized in the statement of income	(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 at 31 December 2008	**77,051**	**85,494**	**4,132**	**166,677**

(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.

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

	2008	2007
Discount rate	9.4%	6.75%
Rate used for calculation of annuity value	4%	4%
Average remaining working life	22.5 years	22.5 years
Mortality tables	year 2005	year 2005

The Group further assumed that salary will increase in future in line with inflation rate. The current year actuarial gains related to the defined benefit obligation were significant due to increase in discount rates following its formation.

During 2008 and 2007 the Group has not made any contribution to the non-state pension fund “Blagosostoyanie” and therefore has not recognized any plan asset in the consolidated financial statements as of 31 December 2008 and for the year than ended. The first contribution to the fund was made by the Group subsequently to the balance sheet date.

The Group expects to make a contribution of RUR 38,831 thousand to the defined benefit plans during the next financial year.

13. TRADE AND OTHER PAYABLES

	2008	2007
Trade payables	1,517,646	36,608
Amounts payable for the acquisition of property, plant and equipment	1,481,838	-
Liabilities to customers	3,212,327	267,025
Total trade and other payables	**6,211,811**	**303,633**

14. TAXES OTHER THAN INCOME TAX PAYABLE

	2008	2007
Property tax	497,451	363,414
VAT payable	79,975	26,433
Unified social tax	27,826	1,139
Other taxes	593	30
Total taxes other than income tax	**605,845**	**391,016**

15. ACCRUED AND OTHER CURRENT LIABILITIES

	2008	2007
Settlements with employees	188,101	2,600
Other liabilities	16,657	254
Total accrued and other current liabilities	**204,758**	**2,854**

Settlements with employees as of 31 December 2008 and 2007 primary comprise accrued salaries and bonus of RUR 120,499 thousand and RUR 2,600 thousand, respectively, and the accrual for unused vacation of RUR 67,601 thousand and nil, respectively.

16. EQUITY

Share Capital

The total authorized and issued capital as of 31 December 2008 and 2007 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 consist 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 (Note 2).

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 as of 31 December 2007.

As of 31 December 2007 all shares have been issued. The amount receivable from shareholders for the shares issued amounted to RUR 6,849,289 thousand as of 31 December 2007. The share capital was fully paid during 2008.

Further during the year ended 31 December 2008, employees previously employed by RZD were hired by the Group. With regard to these employees the Group assumed employee benefit liabilities of RUR 137,932 thousand (Note 12) and related deferred tax asset of RUR 15,045 thousand (Note 20), which were included in Other Reserves as of 31 December 2008.

The Group shareholder structure as of 31 December 2008 and 2007 was as follows:

	Number of outstanding ordinary shares	Percentage of ownership
OJSC "RZD"	85,652,434,153	99.999999999%
OJSC "Baminvest" (2007: Non-commercial organisation "Zheldorreforma")	1	0.000000001%
	85,652,434,154	**100%**

Retained Earnings, Dividends

In accordance with the Russian legislation, dividends may only me 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 approximately RUR 7,668,723 thousand and RUR 832,077 thousand of undistributed and unreserved earnings as of 31 December 2008 and 2007, 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 nine-month period ended 30 September 2008, dividends of approximately RUR 0.00825 per share were approved by shareholders in December 2008. The dividends are to be paid before 15 February 2009.

In respect of fourth quarter 2008, the Board of Directors recommended to approve dividends of RUR 0.00071 per share. The dividends are subject to approval by shareholders at the annual shareholders' meeting and have not been recognized as liability in these financial statements.

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 2008 and 2007 the Company's reserve fund amounted to RUR 41,604 thousand and nil, respectively.

17. REVENUE

	2008	2007
Rail-based cargo transportation services	34,762,085	146,506
Operating lease of rolling stock	16,447,888	3,403,967
Other	169,960	-
Total revenue	**51,379,933**	**3,550,473**

18. OPERATING EXPENSES

	2008	2007
Freight and transportation services	14,211,322	10,545
Depreciation and amortization	11,762,636	1,580,053
Materials, repair and maintenance	8,037,881	6,335
Loss on impairment of property, plant and equipment	4,669,286	-
Taxes other than income tax	1,722,640	363,424
Payroll and related charges	1,161,701	48,802
Rolling stock servicing	849,995	-
Advertising costs	215,645	-
Information technology services	189,861	186
Change in provision for impairment of receivables	142,957	-
Rent	138,171	7,887
Communication costs	56,413	2,995
Loss/(gain) on disposal of property, plant and equipment	25,449	(83)
Other expenses, net	346,694	13,121
Total operating expenses	**43,530,651**	**2,033,265**

19. 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 consolidated statement of income for the year ended 31 December 2008.

20. INCOME TAX

The statutory tax rate effective in the Russian Federation was 24% for the years ended 31 December 2008 and 2007. 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.

	2008	2007
Current income tax charge	(5,164,821)	(697,414)
Deferred income tax benefit	3,234,806	326,958
Deferred income tax benefit resulting from reduction in tax rate	2,091,256	-
	161,241	**(370,456)**

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

	2008	2007
Profit before income tax	**8,474,732**	**1,534,961**
Theoretical tax charge at statutory rate (24%)	(2,033,936)	(368,391)
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	-
Inventory shortages	(25,904)	-
Other non-deductible expenses	(27,881)	(2,065)
Income tax	**161,241**	**(370,456)**

The Company has not recognized any deferred tax liability on the difference between the tax base of investment in its subsidiary CJSC "Rusagrotrans" and its share in net assets of this subsidiary as of 31 December 2008 approximately equal to RUR 2,438,699 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 balance sheets give rise to the following deferred tax effects:

	31 December 2007	Effect of the Company's formation	Charged to statement of income	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**

	26 July 2007 (inception)	Effect of the Company's formation	Charged to statement of income	31 December 2007
Property, plant and equipment	-	14,473,143	(328,774)	14,144,369
Trade and other receivables	-	-	3,938	3,938
Trade and other payables	-	-	(2,122)	(2,122)
Employee benefits liability	-	(3,804)	-	(3,804)
Total net deferred tax liability	**-**	**14,469,339**	**(326,958)**	**14,142,381**

21. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

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

The nature of the related party relationships for those related parties, with which the Group entered into significant transactions or had significant balances outstanding as of 31 December 2008 are disclosed below:

Related party	Nature of relationship
OJSC "Russian Railways" (RZD)	Parent company
OJSC "TransCreditBank"	Fellow subsidiary of RZD
LLC "VagonRemMash"	Fellow subsidiary of RZD
OJSC "Saranskyi Vagonoremontniy Zavod"	Fellow subsidiary of RZD
OJSC "Barnaulskyi Vagonoremontniy Zavod"	Fellow subsidiary of RZD
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 a part of its normal operations, the Group enters into various transactions with state-controlled entities and governmental bodies. The majority of related party transactions are with the following companies: 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".

The following tables provide the total amount of transactions, which have been entered into with related parties during the years ended 31 December 2008 and 2007 as well as year-end balances. Transactions and balances with related parties as at and for the year ended 31 December 2008:

	Total	**RZD and its subsidiaries**	**Other entities under common control**
Cash and cash equivalents			
Cash on bank accounts	212,776	203,568	9,208
	212,776	203,568	9,208
Trade and other accounts receivable			
Trade receivables	280,162	280,162	-
Advances to suppliers	917,853	907,771	10,082
Prepaid income tax	876,006	-	876,006
VAT receivable	2,366,431	-	2,366,431
	4,440,452	1,187,933	3,252,519
Total assets	**4,653,228**	**1,391,501**	**3,261,727**
Trade and other accounts payable			
Trade payables	2,261,512	1,121,752	1,139,760
Dividends payable	706,253	706,253	-
Taxes payable	782,640	-	782,640
Other payables	11,550	11,550	-
	3,761,955	1,839,555	1,922,400
Finance lease obligations	646,625	-	646,625
Total liabilities	**4,408,580**	**1,839,555**	**2,569,025**
Revenue			
Rail-based cargo transportation services	344,030	344,030	-
Operating lease of rolling stock	11,604,354	11,604,354	-
	11,948,384	11,948,384	-
Interest income on deposits	130,144	130,144	-
Total income	**12,078,528**	**12,078,528**	**-**
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	295,506	-	295,506
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
	21,940,033	21,429,797	510,236
Income tax and other tax expenses	1,561,490	-	1,561,490
Interest expense on finance lease obligations	44,104	-	44,104
Total expenses	**23,545,627**	**21,429,797**	**2,115,830**
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**

Transactions and balances with related parties as at and for the year ended 31 December 2007:

	Total	RZD and its subsidiaries	Other entities under common control
Cash and cash equivalents			
Cash on bank accounts	95,097	95,097	-
Bank deposits	2,980,000	2,980,000	-
	3,075,097	3,075,097	-
Trade and other accounts receivable			
Trade receivables	883,568	883,563	5
Receivables from shareholder	6,849,289	6,849,289	-
Advances to suppliers	573,522	573,522	-
VAT receivable	19,579	-	19,579
Other receivables	7,879	7,879	-
	8,333,837	8,314,253	19,584
Total assets	**11,408,934**	**11,389,350**	**19,584**
Trade and other accounts payable			
Trade payables	21,660	21,660	-
Taxes payable	1,088,430	-	1,088,430
	1,110,090	21,660	1,088,430
Total liabilities	**1,110,090**	**21,660**	**1,088,430**
Revenue			
Operating lease of rolling stock	3,394,376	3,394,376	-
	3,394,376	3,394,376	-
Interest income on deposits	16,040	16,040	-
Total income	**3,410,416**	**3,410,416**	**-**
Expenses			
Payroll and related charges	14,450	-	14,450
Freight and transportation services	9,880	9,880	-
Communication costs	2,903	2,903	-
Repair services	684	73	611
Other expenses	464	462	2
	28,381	13,318	15,063
Income tax and other tax expenses	733,880	-	733,880
Total expenses	**762,261**	**13,318**	**748,943**
Acquisition of property, plant and equipment	14,527	14,527	-
Total other transactions	**14,527**	**14,527**	**-**

The amounts outstanding to and from related parties are unsecured except as disclosed for finance leases (Note 11) 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, totaling 11 persons as of 31 December 2008 and 2007. 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 statement of income amounted to RUR 156,159 thousand (including unified social tax of RUR 4,919 thousand) and RUR 6,773 thousand (including unified social tax of RUR 139 thousand) for the years ended 31 December 2008 and 2007, respectively. Such compensation comprises primarily of short-term benefits. Post-employment and other long-term benefits of key management personnel were immaterial.

22. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

The Group's capital commitments related to acquisition of rolling stock and office equipment and construction of office premises as of 31 December 2008 and 2007 consisted of the following:

	2008	2007
Acquisition of gondola wagons	4,940,000	-
Acquisition of cistern wagons	2,734,092	2,398,988
Acquisition of office equipment	63,990	-
Construction of office premises	34,011	-
Total capital commitments	**7,772,093**	**2,398,988**

Operating environment of the Group – Whilst there have been improvements in the Russian economic situation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

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 could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Insurance – The Group holds insurance policies in relation to most of its assets. As at 31 December 2008 the Group secured part of its rolling stock in a number of insurance companies with a total insurance compensation of approximately RUR 74,096,643 thousand (2007: nil). 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 – In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in Russia, notwithstanding any potential economic stabilisation measures that may be put into place by the government of the Russian Federation, there exist as at the date these financial statements are authorized for issue economic uncertainties surrounding the continual availability, and cost, of credit both for the entity and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential impact on the entity's profitability and management's cash flow forecasts and assessment of the impairment of financial and non-financial assets.

23. 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 the debt and equity balance.

The capital structure of the Group consists of finance lease obligations and equity, consisting of issued capital, reserves and retained earnings as disclosed in Note 16.

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

Major Categories of Financial Instruments

The Group's financial assets include 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".

	2008	**2007**
Financial assets		
Cash and cash equivalents	214,581	3,575,097
Trade and other receivables	7,799,753	1,026,850
Receivables from deemed disposal of minority interest in grain cargo operations	3,665,301	-
Total financial assets	**11,679,635**	**4,601,947**

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

	2008	**2007**
Financial liabilities		
Trade and other payables	3,016,141	36,862
Dividends payable	706,253	-
Payables to employees	188,101	2,600
Finance lease obligations	3,212,628	-
Total financial liabilities	**7,123,123**	**39,462**

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 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
2008						
Non-interest bearing liability	-	3,910,495	-	-	-	3,910,495
Finance lease obligations	12.10% – 16.35%	201,408	587,693	3,503,431	943,018	5,235,550
Total		**4,111,903**	**587,693**	**3,503,431**	**943,018**	**9,146,045**
2007						
Non-interest bearing liability	-	39,462	-	-	-	39,462
Total		**39,462**	**-**	**-**	**-**	**39,462**

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 the 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
2008						
Trade and other receivables	-	7,799,753	3,665,301	-	-	11,465,054
Total		**7,799,753**	**3,665,301**	**-**	**-**	**11,465,054**
2007						
Trade and other receivables	-	1,026,850	-	-	-	1,026,850
Total		**1,026,850**	**-**	**-**	**-**	**1,026,850**

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 receivable and payable balances, related primarily to settlements with customers, is 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 at the reporting date are as follows:

	USD		EUR		Other	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Assets						
Cash and cash equivalents	6,023	-	-	-	844	-
Trade and other receivables	18,206	-	-	-	-	-
Total assets	**24,229**	**-**	**-**	**-**	**844**	**-**
Liabilities						
Trade and other payables	89,215	178	215	-	1	-
Total liabilities	**89,215**	**178**	**215**	**-**	**1**	**-**

For the year to 31 December 2008 the Russian Rouble depreciated against the US Dollar by 20%, and against EURO by 15%.

The table below details the Group's sensitivity to strengthening of the Russian Rouble against US Dollar and EURO by 10%. The analysis was applied to monetary items at the balance sheet dates denominated in respective currencies.

	USD – impact		EUR – impact	
	2008	**2007**	**2008**	**2007**
Gain	**6,499**	**18**	**22**	**-**

The weakening of the Russian Rouble in relation to the same currencies 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

The Group is exposed to interest rate risk as the Group has finance lease agreement with floating minimum lease payments (see Note 11). 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 2008 the implicit interest rate rose to 23.8%.

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. The group manages the interest rate risk by maintaining an appropriate mix between own and borrowed finance.

Effective annual interest rate at the inception date of the lease agreement was 13.8%. Subsequently minimum lease payments were increased by the lessor reflecting the change in MOSPRIME rate. If effective interest rate had been 23.8% since the inception date and all other variables were held constant, the Group's profit for the year ended 31 December 2008 would decrease by RUR 29,997 thousand, due to the corresponding change in the interest expense.

Credit risk

Credit risk refers to the risk that 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 and receivables from deemed disposal of minority interest in grain cargo operations.

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. Receivables from deemed disposal of minority interest in grain cargo operations are partially secured by corresponding minority interest of RUR 3,018,284 thousand.

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 2008 67% of the total net amount of trade and other receivables related to the five largest debtors of the Group (31 December 2007: 93%).

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**

The largest receivables outstanding as of 31 December 2007 are as follows:

	Outstanding balance, net
OJSC "Russian Railways"	883,562
LLC "Mechel Trans"	34,020
OJSC "Maltsovskiy portlantsement"	17,529
OJSC "Mordovtsement"	10,797
CJSC "Pikalevskiy tsement"	8,007
Total	**953,915**

The credit risk on liquid funds is limited because these funds are placed only with financial institutions well known to the Group. 95% and 86% of total cash and cash equivalents as of 31 December 2008 and 2007, respectively, were held with OJSC "TransCreditBank", which is a party related to the Group.

24. SUBSEQUENT EVENTS

Acquisition of wagons – In January 2009 the Group has signed an agreement for the purchase of 695 wagons for a total amount of RUR 1,073,466 thousand (including VAT of RUR 163,749 thousand).

Acquisition of LLC "Freight One in Ukraine" – In January 2009 the Group acquired 61% stake in Limited Liability Company "Freight One in Ukraine" for RUR 167 thousand.

Credit line from Alfa-bank – On 4 February 2009 the Group entered into a renewable credit line agreement with Alfa-Bank with the limit equal to a quarterly cash receipts from customers debited to the Group's current account opened in the same bank. The Group's Board of Directors made a decision to limit outstanding debt under the credit line agreement to RUR 600,000 thousand.

Long-term borrowings – On 12 March 2009 the Group borrowed USD 130,000 thousand for ten years under the non-renewable credit line agreement with European Bank for Reconstruction and Development. The loan is secured by the Group's property, plant and equipment with a caring value of approximately RUR 9,590,631 thousand as of 31 January 2009. The loan interest rate is 3 month USD LIBOR + 3.5% and can be further reduced to 3 month USD LIBOR + 3.0% if certain conditions are met by the Group.

Lease of gondola wagons – In March 2009 the Group signed an agreement for the lease of 25,000 gondola wagons from RZD for the period ending 31 December 2009.

Lease of grain wagons – In March 2009 the Group signed an agreement for the lease of 14,000 grain wagons from RZD for the period ending 31 December 2009.

Lease of railcar wash stations – In June 2009 the Group leased from RZD 7 railcar wash stations, and, in accordance with the lease agreements, hired all employees who previously worked at these stations in RZD.