

Yamal Railway Company
International Financial Reporting Standards
Financial Statements

31 December 2010

Director general

Yakob S. Kraft

Contents

FINANCIAL STATEMENTS

Statement of Financial Position.....	1
Statement of Comprehensive Income.....	2
Statement of Changes in Equity.....	5
Statement of Cash Flows.....	7

Notes to the Financial Statements

1	Yamal Railway Company and its Operations.....	6
2	Operating Environment of the Company.....	6
3	Summary of Significant Accounting Policies.....	6
4	Critical Accounting Estimates and Judgements in Apply Accounting Policy.....	13
5	Adoption of New or Revised Standards and Interpretations.....	14
6	New Accounting Pronouncements.....	16
7	Balances and Transactions with Related Parties.....	18
8	Property, Plant and Equipment.....	23
9	Inventories.....	24
10	Trade and other receivables.....	24
11	Cash and Cash Equivalents.....	25
12	Share Capital.....	25
13	Borrowings.....	26
14	Accounts Payable and Accrued Expenses.....	27
15	Revenue.....	27
16	Personnel expenses.....	27
17	Purchased services.....	27
18	Other expenses and income.....	28
19	Finance Income and Costs.....	28
20	Income Taxes.....	28
21	Contingencies and Commitments.....	31
22	Financial Risk Management.....	33
23	Management of Capital.....	34

Yamal Railway Company
Statement of Financial Position as at 31 December 2010
(In thousands of Russian Roubles unless otherwise stated)

	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	8	312,869	319,473
Deferred income tax asset	20	10,389	7,045
Total non-current assets		323,258	326,518
Current assets			
Inventories	9	57,639	63,030
Trade and other receivables	10	74,852	54,522
Prepayments		40,639	36,576
Current income tax prepayments		12,552	8,691
Short-term investments		109	-
Cash and cash equivalents	11	140,151	114,677
Total current assets		325,942	277,496
TOTAL ASSETS		649,200	604,014
EQUITY			
Share capital	12	10,000	10,000
Retained earnings		275,716	245,142
TOTAL EQUITY		285,716	255,142
LIABILITIES			
Non-current liabilities			
Long-term borrowings		643	13,200
Total non-current liabilities		643	13,200
Current liabilities			
Short-term borrowings	13	12,557	12,177
Trade and other payables	14	214,336	180,051
Advances from customers		135,948	143,444
Total current liabilities		362,841	335,672
TOTAL LIABILITIES		363,484	348,872
TOTAL LIABILITIES AND EQUITY		649,200	604,014

Approved for issue and signed on behalf of the management on 30 August 2011.

Kraft Y.S.
Chief Executive Officer

Gavriliev V.G.
Chief Financial Officer

Yamal Railway Company
Statement of Comprehensive Income for the year ended 31 December 2010
(In thousands of Russian Roubles unless otherwise stated)

	Note	2010	2009
Revenue		1,589,770	1,275,764
Personnel expenses	16	(797,594)	(683,299)
Railway facilities rental expenses		(173,643)	-
Purchased services	17	(158,111)	(168,054)
Rent expenses		(157,813)	(164,744)
Materials		(141,061)	(139,636)
Railways maintenance expenses		(97,245)	(64,533)
Depreciation	8	(24,745)	(24,406)
Other taxes		(4,050)	(3,760)
Other income (expenses), net	18	14,954	438
Operating profit		50,462	27,770
Finance income		1,308	809
Finance costs		(4,279)	(6,815)
Profit before income tax		47,491	21,764
Income tax expense	20	(14,364)	(9,026)
PROFIT FOR THE YEAR		33,127	12,738
Other comprehensive income for the year			
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		33,127	12,738

Yamal Railway Company
Statement of Changes in Equity for the year ended 31 December 2010
(In thousands of Russian Roubles unless otherwise stated)

	Note	Attributable to owners of the Company		
		Share capital	Retained earnings	Total equity
Balance at 31 December 2008		10,000	232,404	242,404
Profit for the year		-	12,738	12,738
Balance as at 31 December 2009		10,000	245,142	255,142
Profit for the year		-	33,127	33,127
Dividends declared		-	(2,553)	(2,553)
Balance at 31 December 2010		10,000	275,716	285,716

Yamal Railway Company
Statement of Cash Flows for the year ended 31 December 2010
(In thousands of Russian Roubles unless otherwise stated)

	Note	2010	2009
Cash flows from operating activities			
Profit before income tax		47,491	21,764
Adjustments for:			
Depreciation and impairment of property, plant and equipment	8	24,745	24,406
Losses less gains on disposals of property, plant and equipment	18	527	219
Interest expense, net	19	2,970	6,006
Accounts payables write-off	18	-	(809)
Bad debt provision	18	2,104	3,116
Operating cash flows before working capital changes		77,837	54,702
Decrease in inventories		5,391	43,212
Decrease (Increase) in accounts receivable and prepayments		(26,499)	47,120
Increase (Decrease) in accounts payable and advances		26,788	(28,680)
		83,517	116,354
Income taxes paid		(21,568)	(10,102)
Interest received		1,308	28
Interest paid		(4,279)	(6,815)
Dividends paid		(2,553)	-
Net cash from operating activities		56 425	99,465
Cash flows from investing activities			
Purchase of property, plant and equipment		(18,665)	(40,565)
Proceeds from the sale of property, plant and equipment		-	53
Retirement of bills of exchange		-	270
Purchase of bills of exchange		(109)	-
Net cash used in investing activities		(18 774)	(40,241)
Cash flows from financing activities			
Repayment of finance leasing obligations		(12,177)	(11,464)
Net cash used in financing activities		(12,177)	(11,464)
Net increase in cash		25,474	47,760
Cash and cash equivalents at the beginning of the year		114,677	66,917
Cash and cash equivalents at the end of the year	11	140,151	114,677

The accompanying notes on pages 6 to 34 are an integral part of these preliminary financial statements.

1 Yamal Railway Company and its Operations

These financial statements have been prepared in accordance with International Financial Reporting Standards for years ended 31 December 2010, for OAO YamalskayaZheleznodorozhnayaKompaniya ("Yamal Railway Company" or the "Company")

The Company was incorporated and is domiciled in the Russian Federation. The Company is government owned entity.

Principal activity.The Company's principal business activity is railway transportation services within the Yamal autonomous national area.

Registered address and place of business.The Company's registered address is 629300, 3 26 Siezda KPSS, NovyiUrengoi, Russian Federation.

2 Operating Environment of the Company

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

Management is unable to predict all developments which could have an impact on the Russian economy and consequently what effect, if any, they could have on the future financial position of the Company. Management believes it is taking all the necessary measures to support the sustainability and development of the Company's business.

3 Summary of Significant Accounting Policies

Basis of preparation.These financial have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented.

The Company had no subsidiaries, joint ventures or associates as at 31 December 2010 and 31 December 2009.

Presentation currency.These financial statements are presented in Russian Roubles ("RR"), unless otherwise stated.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

YAMAL RAILWAY COMPANY
NOTES TO IFRS FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In thousands of Russian Roubles unless otherwise stated)
3 Summary of Significant Accounting Policies (Continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets. Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Financial assets other than loans and receivables are permitted to be reclassified out of the fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term.

Financial assets that would meet the definition of loans and receivables may be reclassified if the Company has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Company intends to sell in the near term.

3 Summary of Significant Accounting Policies (Continued)

Held-to-maturity assets include quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period.

All other financial assets are included in the *available-for-sale* category, which includes investment securities which the Company intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Classification of financial liabilities. Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

Initial recognition of financial instruments. Trading investments, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Derecognition of financial assets. The Company derecognises financial assets when

- (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or
- (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while
 - (i) also transferring substantially all the risks and rewards of ownership of the assets or
 - (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Property, plant and equipment. Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At each end of each reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in profit or loss for the year within other operating income or costs.

Depreciation. Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

YAMAL RAILWAY COMPANY
NOTES TO IFRS FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In thousands of Russian Roubles unless otherwise stated)
3 Summary of Significant Accounting Policies (Continued)

	<u>Useful lives in years</u>
Buildings	20 to 30
Constructions	5 to 100
Machines and equipment	1 to 15
Transport	1 to 15
Other	1 to 63

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Operating leases. Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Finance lease liabilities. Where the Company is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Company, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Company is not reasonably certain that it will obtain ownership by the end of the lease term.

Intangible assets. The Company's intangible assets other than goodwill have definite useful lives and primarily include capitalised computer software and licences. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Company are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised computer software is amortised on a straight line basis over expected useful lives.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Loans receivable. Loans receivable are carried at amortised cost, using the effective interest rate method. Interest earned on trading investments calculated using the effective interest method is presented in profit or loss as interest income.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

YAMAL RAILWAY COMPANY
NOTES TO IFRS FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In thousands of Russian Roubles unless otherwise stated)
3 Summary of Significant Accounting Policies (Continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Company. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision 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 amount of the provision is recognised in the income statement.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status and reliability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Company obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

3 Summary of Significant Accounting Policies (Continued)

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Company's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment, are not depreciated or amortised. Reclassified non-current financial instruments are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

YAMAL RAILWAY COMPANY
NOTES TO IFRS FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In thousands of Russian Roubles unless otherwise stated)
3 Summary of Significant Accounting Policies (Continued)

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the statement of financial position.

Dividends. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to 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. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings. Borrowings are carried at amortised cost using the effective interest method.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009. The commencement date for capitalisation is when (a) the Company incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Company capitalizes borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Asset retirement obligations. Estimated costs of dismantling and removing an item of property, plant and equipment (asset retirement obligations) are added to the cost of the item either when an item is acquired or as the item is used during a particular period for purposes other than to produce inventories during that period. Changes in the measurement of an existing asset retirement obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate alter the previously recognised revaluation surplus or deficit for an asset carried at valuation or adjust the cost of the related asset in the current period for assets carried under the cost model.

Foreign currency translation. The functional currency of the Company is the currency of the primary economic environment in which the entity operates. The functional currency of the Company, and the Company's presentation currency, is the national currency of the Russian Federation, Russian Roubles ("RUB").

Monetary assets and liabilities are translated into Company's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into Company's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply

3 Summary of Significant Accounting Policies (Continued)

to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

At 31 December 2010 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 30.4769 (31 December 2009: USD 1 = RUB 30.2442). The principal average rate of exchange used for translating income and expenses was USD 1 = RUB 30.3692 (2009: 31.7231).

Revenue recognition. Revenues are recognised when goods are shipped or services rendered for concluded contracts, when the price is fixed or determinable and collectability reasonably assured. Revenues are measured at the fair value of the consideration received or receivable. Sales are shown net of VAT and discounts. Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Company.

Earnings per share. Preference shares are not redeemable and are considered to be participating shares. Earnings per share is determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting year.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

4 Critical Accounting Estimates and Judgements in Apply Accounting Policy

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in this consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

Initial recognition of related party transactions. In the normal course of business the Company enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party balances are disclosed in Note 7.

4 Critical Accounting Estimates and Judgements in Apply Accounting Policy (Continued)

Useful lives of property, plant and equipment. The estimation of the useful lives and residual values of items of property, plant and equipment is a matter of judgement based on experience with similar assets. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives and residual values in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Company. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

Periodic reviews indicate whether there is a need for changes in estimations and assumptions as a result of which the useful lives and residual values need to be adjusted accordingly.

The carrying amount of property, plant and equipment of the Company at 31 December 2010 was 312,869 thousand RR (2009: 319,473 thousand RR). If depreciation rates were increased by 10%, the carrying amount of property, plant and equipment would decrease by 7,040 thousand RR (2009: 4,647 thousand RR).

Going concern. Management prepared these financial statements on a going concern basis. In making this judgement management considered the Company's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Company.

5 Adoption of New or Revised Standards and Interpretations

(a) Standards effective for annual periods beginning on or after 1 January 2009

The following new standards and interpretations became effective for the Company from 1 January 2009:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on these financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 did not have an impact on these financial statements.

IFRS 3, Business Combinations (revised January 2008; 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 allows entities to choose to measure non-controlling interests using the previous 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 purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised IFRS 3 did not have a material impact on these financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments did not have a material impact on these financial statements.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have a material impact on these financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have a material impact on these financial statements.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments did not have a material impact on these financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards*, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have a material impact on these financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

(b) Amendments to standards adopted before their effective date

The Group adopted the amendment to IAS 1, *Presentation of Financial Statements*, which was issued in May 2010 as part of the Annual Improvements to International Financial Reporting Standards. The amendment clarifies the requirements for the presentation and content of the statement of changes in equity. A reconciliation between the carrying amount at the beginning and the end of the period for each component of equity must be presented in the statement of changes in equity, but its content is simplified by allowing an analysis of other comprehensive income by item for each component of equity to be presented in the notes.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Company has not early adopted.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

Classification of Rights Issues - Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Company does not expect the amendments to have any material effect on its financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

6 New Accounting Pronouncements (Continued)

The Company is considering the implications of the standard the impact on the Company and of its adoption by the Company.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Company does not expect IFRIC 19 to have any material effect on its financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Company does not expect the amendments to have any material effect on its financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity (this amendment was early adopted by the Company); IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Company does not expect the amendments to have any material effect on its financial statements, except the amendment to IAS 1 which was early adopted by the Company as explained in Note 3.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Company does not expect the amendments to have any effect on its financial statements.

6 New Accounting Pronouncements (Continued)

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.) The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment

includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment is not expected to have any impact on the Company's financial statements.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, *Property, Plant and Equipment*, was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The Company does not expect the amendments to have any material effect on its financial statements.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes. The Company does not expect the amendments to have any effect on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Company's financial statements.

7 Balances and Transactions with Related Parties

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

7 Balances and Transactions with Related Parties (Continued)

At 31 December 2010, the outstanding balances with related parties were as follows:

	31 December 2010	31 December 2009
Trade accounts receivables		
OAO RZD and its subsidiaries	4,089	6,828
Federal and public authorities	-	-
State government owned entities	2,667	2,114
Entities owned by federal and public authorities	68	157
	6,824	9,099
Other accounts receivables		
OAO RZD and its subsidiaries	1,195	828
Federal and public authorities	2,483	1,094
State government owned entities	162	983
Entities owned by federal and public authorities	3,552	3,516
Non-controlling interest	-	-
	7,392	6,421
Total trade and other receivables	14,216	15,520
Prepayments		
OAO RZD and its subsidiaries	4,147	6,482
Federal and public authorities	5	11
State government owned entities	1,334	168
Entities owned by federal and public authorities	401	505
	5,887	7,166
Trade payables		
OAO RZD and its subsidiaries	(4,199)	(4,998)
Federal and public authorities	(22)	(24)
State government owned entities	(9,493)	(9,903)
Entities owned by federal and public authorities	(2,262)	(2,019)
	(15,976)	(16,944)
Accrued liabilities and other creditors		
OAO RZD and its subsidiaries	(47)	(396)
Federal and public authorities	(1,309)	(761)
State government owned entities	(178)	(172)
Entities owned by federal and public authorities	(11)	(11)
Non-controlling interest	(16)	(180)
Other	(228)	(333)
	(1,789)	(1,853)
Total trade and other payables	(17,765)	(18,797)
Advances from customers		
OAO RZD and its subsidiaries	(36)	(35)
Federal and public authorities	(37)	(1)
State government owned entities	(32,738)	(63,953)
Entities owned by federal and public authorities	(217)	(56)
	(33,028)	(64,045)

The accompanying notes on pages 6 to 34 are an integral part of these preliminary financial statements.

7 Balances and Transactions with Related Parties (Continued)

The income and expense items with related parties for the year ended 31 December 2010 were as follows:

	2 010	2 009
Revenue from cargo carriage		
OAO RZD and its subsidiaries	168	136
Federal and public authorities	-	4
State government owned entities	331,127	354,686
Entities owned by federal and public authorities	1,794	1,266
	333,089	356,092
Revenue from other services		
OAO RZD and its subsidiaries	203,128	602
Federal and public authorities	8	5
State government owned entities	52,866	33,903
Entities owned by federal and public authorities	40	27
	256,042	34,537
Revenue from container terminal operations		
OAO RZD and its subsidiaries	142	274
Federal and public authorities	-	10
State government owned entities	18,290	29,456
Entities owned by federal and public authorities	307	312
	18,739	30,052
Revenue from passenger carriage		
OAO RZD and its subsidiaries	7,827	30,496
Federal and public authorities	-	-
State government owned entities	541	521
	8,368	31,017
Total revenue	616,238	451,698
	2010	2009
Other personnel expenses		
OAO RZD and its subsidiaries	19	10
Federal and public authorities	33	44
State government owned entities	-	344
Entities owned by federal and public authorities	-	12
Other	1,222	720
	1,274	1,130
Energy		
State government owned entities	20	127
	20	127
Information and communication		
OAO RZD and its subsidiaries	11,203	10,723
Federal and public authorities	-	-
State government owned entities	826	811
Entities owned by federal and public authorities	286	173

The accompanying notes on pages 6 to 34 are an integral part of these preliminary financial statements.

YAMAL RAILWAY COMPANY
NOTES TO IFRS FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In thousands of Russian Roubles unless otherwise stated)

		12,315	11,707
7 Balances and Transactions with Related Parties (Continued)			
Repair services			
	OAO RZD and its subsidiaries	3,126	448
	Entities owned by federal and public authorities	18	11
		3,144	459
Security expenses			
	OAO RZD and its subsidiaries	34,984	35,385
	Federal and public authorities	151	154
	Entities owned by federal and public authorities	-	1,000
		35,135	36,539
Transport expenses			
	OAO RZD and its subsidiaries	20	45
	Federal and public authorities	-	21
	State government owned entities	34	-
	Entities owned by federal and public authorities	85	65
		139	131
Utility expenses			
	State government owned entities	3,510	6,391
	Entities owned by federal and public authorities	14,659	13,178
		18,169	19,569
Other expenses			
	OAO RZD and its subsidiaries	2,429	3,837
	Federal and public authorities	155	1,093
	State government owned entities	-	91
	Entities owned by federal and public authorities	482	635
		3,066	5,656
Rail facilities rental expenses			
	OAO RZD and its subsidiaries	173,643	-
		173,643	-
Railways maintenance expenses			
	OAO RZD and its subsidiaries	88,947	59,235
		88,947	59,235
Rent expenses			
	OAO RZD and its subsidiaries	1,173	882
	Federal and public authorities	42,505	36,864
	State government owned entities	82,793	96,071
	Non-controlling interest	12	-
	Other	245	-
		126,728	133,817
Total expenses		462,580	268,370

The accompanying notes on pages 6 to 34 are an integral part of these preliminary financial statements.

7 Balances and Transactions with Related Parties (Continued)

		2010	2009
Agent fee			
	OAO RZD and its subsidiaries	842	-
		842	-
Bad debts recovery			
	OAO RZD and its subsidiaries	-	171
		-	171
Penalties received			
	OAO RZD and its subsidiaries	-	9
	State government owned entities	981	793
	Entities owned by federal and public authorities	-	-
		981	802
Rent income			
	State government owned entities	36	41
		36	41
Other income			
	OAO RZD and its subsidiaries	-	2
	Federal and public authorities	374	225
	State government owned entities	-	28
	Entities owned by federal and public authorities	-	-
		374	255
Business development and pocket costs			
	State government owned entities	-	(206)
	Entities owned by federal and public authorities	-	(12)
		-	(218)
Penalties			
	OAO RZD and its subsidiaries	(381)	(716)
	Federal and public authorities	(563)	(499)
		(944)	(1,215)
Other expenses			
	OAO RZD and its subsidiaries	(162)	(646)
	Federal and public authorities	(116)	(71)
	State government owned entities	-	(267)
	Entities owned by federal and public authorities	(59)	(134)
	Non-controlling interest	(76)	-
		(413)	(1,118)
Interest expense			
	OAO RZD and its subsidiaries	(4,279)	(6,815)
		(4,279)	(6,815)
Interest income			
	OAO RZD and its subsidiaries	939	-
	State government owned entities	930	-
		1,869	-
Total other income and expenses, net		(1,534)	(8,050)

The accompanying notes on pages 6 to 34 are an integral part of these preliminary financial statements.

YAMAL RAILWAY COMPANY
NOTES TO IFRS FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In thousands of Russian Roubles unless otherwise stated)

8 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Buildings	Construct ions	Transport	Machines and equipment	Other	Assets under constru ction	Total
Cost							
Balance as at 1 January 2009	10,893	10,214	139,420	44,193	5,433	115,623	325,776
Additions	3,000	38,681	4,655	30,248	318	(36,417)	40,485
Disposals	-	-	(157)	(158)	(4)	-	(319)
Balance as at 31 December 2009	13,893	48,895	143,918	74,283	5,747	79,206	365,942
Additions	28,862	80	2,906	4,342	2,280	(19,802)	18,668
Disposals	-	-	-	(960)	(377)	-	(1,337)
Balance as at 31 December 2010	42,755	48,975	146,824	77,665	7,650	59,404	383,273
Accumulated depreciation							
Balance as at 1 January 2009	(446)	(687)	(13,331)	(6,196)	(1,529)	-	(22,189)
Depreciation charge	(511)	(991)	(11,876)	(8,457)	(2,571)	-	(24,406)
Disposals	-	-	50	73	3	-	126
Balance as at 31 December 2009	(957)	(1,678)	(25,157)	(14,580)	(4,097)	-	(46,469)
Depreciation charge	(1,438)	(2,340)	(11,110)	(8,715)	(1,142)	-	(24,745)
Disposals	-	-	-	460	350	-	810
Balance as at 31 December 2010	(2,395)	(4,018)	(36,267)	(22,835)	(4,889)	-	(70,404)
Carrying amount							
Balance as at 1 January 2009	10,447	9,527	126,089	37,997	3,904	115,623	303,587
Balance as at 31 December 2009	12,936	47,217	118,761	59,703	1,650	79,206	319,473
Balance as at 31 December 2010	40,360	44,957	110,557	54,830	2,761	59,404	312,869

Included in transport are assets held under finance leases with a carrying value of RR47,499 thousand (31 December 2009: RR 50,536 thousand). Refer to Note 13.

Construction in progress consists mainly of construction of railway stations.

YAMAL RAILWAY COMPANY
NOTES TO IFRS FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In thousands of Russian Roubles unless otherwise stated)

9 Inventories

	31 December 2010	31 December 2009
Materials	7,093	11,159
Construction materials	1,320	1,027
Fuel	20,609	11,052
Spare parts	17,099	17,526
Other inventories	11,518	22,266
Total inventories	57,639	63,030

10 Trade and other receivables

	31 December 2010	31 December 2009
Trade receivables	46,131	25,456
Other financial receivables	14,762	12,234
Impairment loss provision	(14,519)	(13,572)
Total financial account receivables	46,374	24,118
VAT recoverable	23,380	25,189
Other taxes receivables	5,098	5,215
Total trade and other receivables	74,852	54,522

Analysis by credit quality of trade and other receivables is as follows:

	31 December 2010		31 December 2009	
	Trade accounts receivable	Other accounts receivable	Trade accounts receivable	Other accounts receivable
Total neither past due nor impaired	19,455	8,508	17,104	5,637
<i>Past due but not impaired</i>				
Less than 90 days	14,603	0	134	-
90 to 180 days	2,742	-	177	-
more than 6 months	1,057	10	86	981
Total past due but not impaired	18,402	10	397	981
Total	37,857	8,518	17,501	6,618

The accompanying notes on pages 6 to 34 are an integral part of these preliminary financial statements.

YAMAL RAILWAY COMPANY
NOTES TO IFRS FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In thousands of Russian Roubles unless otherwise stated)

11 Cash and Cash Equivalents

	31 December 2010	31 December 2009
Cash on bank accounts and on hand	108,151	74,677
Bank deposits	32,000	40,000
Total cash and cash equivalents	140,151	114,677

As at 31 December the Company had bank deposits with weighted average annual rate of 4,75% (2009: 10%) and maturity date of the end of January 2011.

The credit quality of cash and cash equivalents balances may be summarised as follows at 31 December 2010:

	Rating of banks in terms of size of their net assets	Foreign currency deposits rating of bank according to Moody's	Cash amount as at 31 December 2010	Cash amount as at 31 December 2009
Cash in hand			310	132
Cash and cash equivalents at bank				
Gasprombank	3	Baa3/stable	8,024	29,858
Transcreditbank	22	Ba1/stable	99,817	44,686
Other bank deposits				
Gasprombank	3	Baa3/stable	-	40,000
Transcreditbank	22	Ba1/stable	32,000	-
Total cash and cash equivalents, and other bank deposits			140,151	114,677

12 Share Capital

The total authorised number of ordinary shares is 1,000 shares (2008: 1,000 shares) with a par value of RR 10,000 per share (2008: RR 10,000 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote. Dividends declared and paid during the year were as follows:

	2010 Ordinary	2009 Ordinary
Dividends payable at 1 January	-	-
Dividends declared during the year	2,553	-
Dividends paid during the year	2,553	-
Dividends payable at 31 December	-	-
Dividends per share declared during the year (Russian Roubles)	2,553	-

The accompanying notes on pages 6 to 34 are an integral part of these preliminary financial statements.

YAMAL RAILWAY COMPANY
NOTES TO IFRS FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In thousands of Russian Roubles unless otherwise stated)
12 Share capital (Continued)

All dividends are declared and paid in Russian Roubles. In accordance with Russian legislation, the Company distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2010, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 46,932 thousand (2009: RR 25,527 thousand) and the closing balance of the accumulated profit including the current year net statutory profit totalled RR 317,981 thousand (31 December 2009: RR 273,543 thousand).

13 Borrowings

Total amount of the Company's borrowings comprised of:

	31 December 2010	31 December 2009
Short-term borrowings		
Finance lease	12,577	12,177
Total short-term borrowings	12,577	12,177
Long-term borrowings		
Finance lease	643	13,200
Total long-term borrowings	643	13,200
Total borrowings	13,220	25,377

The Company's borrowings are denominated in Russian Roubles. Effective interest rates as at the balance sheet dates and maturity dates as at 31 December 2010 were as follows:

	Maturity	31 December 2010	31 December 2009
Finance lease	Nov 2011 - Feb 2012	21-22%	21-22%

Minimum lease payments under finance leases and their present values were as follows:

	Due in 1 year	Due between 1 and 5 years	Total
Minimum lease payments at 31 December 2010	14,130	663	14,793
Less future finance charges	1,553	20	1,573
Present value of minimum lease payments at 31 December 2010	12,577	643	13,220
Minimum lease payments at 31 December 2009	16,456	14,793	31,249
Less future finance charges	4,279	1,593	5,872

The accompanying notes on pages 6 to 34 are an integral part of these preliminary financial statements.

YAMAL RAILWAY COMPANY
NOTES TO IFRS FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In thousands of Russian Roubles unless otherwise stated)

Insurance	984	552
Professional services	595	17,000
Others	28,693	15,478
Total	158,111	168,054

18 Other expenses and income

	2010	2009
Agent fee	9,104	518
Penalties received	8,599	14,747
Rent income	6,626	6,091
Income from sales of materials	4,362	3,553
Income from transportation service (auto)	1,135	1,094
Bank charges	(5,052)	(4,911)
Business development and pocket costs	(4,505)	(5,168)
Bad debts provision	(2,104)	(3,116)
Charity expenses	(1,375)	(1,004)
Penalties paid	(1,269)	(910)
Loss from disposal of property, plant and equipment	(527)	(219)
Accounts payable write-off	-	809
Other expenses	(914)	(11,714)
Other income	874	668
Total other operating income less expenses	14,954	438

19 Finance Income and Costs

	2010	2009
Interest income	1,308	809
Finance charges payables under finance leases	(4,279)	(6,815)
	(2,971)	(6,006)

20 Income Taxes

(a) Components of income tax expense

Income tax expense comprises the following:

	2010	2009
Current tax expense	17,709	12,512
Deferred tax benefit	(3,345)	(3,486)
Income tax expense for the year	14,364	9,026

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Company's 2010 and 2009 income is 20%.

The accompanying notes on pages 6 to 34 are an integral part of these preliminary financial statements.

20 Income Taxes (Continued)

	2010	2009
Profit before tax	47,491	21,764
Theoretical tax charge at statutory rate of 20%(2009: 20%):	9,498	4,353
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Other undeductable expense	4,866	4,673
Income tax expense for the year	14,364	9,026

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2009: 20%).

	1 January 2010	Charged/ (credited) to profit or loss	31 December 2010
Tax effect of deductible/(taxable) temporary differences [and tax loss carry forwards]			
Property, plant and equipment	(494)	(1,759)	(2,253)
Trade and other receivables	2,385	374	2,759
Prepayments	1,825	1,193	3,018
Inventories	2,282	3,130	5,412
Trade accounts payable	5,855	2,259	8,114
Financial leasing	(4,985)	(1,845)	(6,830)
Loss carried forward	176	(7)	169
Net deferred tax asset/(liability)	7,044	3,345	10,389
Recognised deferred tax asset	12,523		19,472
Recognised deferred tax liability	(5,479)		(9,083)
Net deferred tax asset/(liability)	7,044		10,389

The accompanying notes on pages 6 to 34 are an integral part of these preliminary financial statements.

20 Income Taxes (Continued)

	1 January 2009	Charged/ (credited) to profit or loss	31 December 2009
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards			
Loss carried forward	219	(43)	176
Cash and cash equivalents	-	-	-
Trade and other receivables	(1,910)	4,295	2,385
Prepayments and other current assets	1,581	244	1,825
Inventories	1,012	1,270	2,282
Property, plant and equipment	(2,249)	1,755	(494)
Financial leasing	(3,257)	(1,728)	(4,985)
Trade and other payables	8,162	(2,307)	5,855
Net deferred tax asset	3,558	3,486	7,044
Recognised deferred tax asset	10,974		12,523
Recognised deferred tax liability	(7,416)		(5,479)
Net deferred tax asset	3,558		7,044

The accompanying notes on pages 6 to 34 are an integral part of these preliminary financial statements.

21 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Company may be received. On the basis of its own estimates, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these financial statements.

At 31 December 2010 the Company was engaged in a number of litigation proceedings. A provision of RR 16,377 thousand (31 December 2009: RR 14,373 thousand) has been made as the Company has indicated that it is likely that a loss will arise.

Tax legislation. Russian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes them following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

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.

Russian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

YAMAL RAILWAY COMPANY
NOTES TO IFRS FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In thousands of Russian Roubles unless otherwise stated)
21 Contingencies and Commitments (Continued)

In addition to the above transfer pricing matters, management estimates that the Company has other possible obligations from exposure to other than remote tax risks.

Capitalexpenditurecommitments.At 31 December 2010 and 31 December 2009 the Company had no contractual capital expenditure commitments.

Operating lease commitments.Where the Company is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2010	31 December 2009
Not later than 1 year	6,948	40,765
Later than 1 year and not later than 5 years	-	-
Later than 5 years	-	-
Total operating lease commitments	6,948	40,765

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. 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 there are no significant liabilities for environmental damage.

YAMAL RAILWAY COMPANY
NOTES TO IFRS FINANCIAL STATEMENTS – 31 DECEMBER 2010
(In thousands of Russian Roubles unless otherwise stated)
22 Financial Risk Management

The risk management function within the Company is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Company's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

The Company's maximum exposure to credit risk by class of assets.

The Company's reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 0.

Credit risks concentration. The Company is exposed to concentrations of credit risk. At 31 December 2010 the Company had 9 counterparties (2009: 6 counterparties) with aggregated receivables balances above RR 1,000 thousand. The total aggregate amount of these balances was RR 30,161 thousand (2009: RR 12,919 thousand) or 40% of the net amount of trade and other receivables (2009: 24%).

The Company's bank deposits are held only with Transcreditbank thus exposing the Company to a concentration of credit risk.

Market risk. The Company takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity products, all of which are exposed to general and specific market movements.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

Currency risk. All Company's transactions are presented in domestic currency.

Interest rate risk. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Company does not apply any hedging instruments for the purpose of interest rate risk management. Management monitors changes in the interest rates and takes measures to reduce these risks, to the possible extent, ensuring that the Company has financial liabilities only with fixed interest rates. Changes in interest rates are possible, but they are not expected to have a considerable impact on the Company's financial results.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to daily calls on its available cash resources. Liquidity risk is managed by financial department of the Company. Management monitors monthly rolling forecasts of the Company's cashflows.

Management estimates that the liquidity portfolio cash, bank deposits can be realised in cash in order to meet unforeseen liquidity requirements.

The table below shows liabilities at 31 December 2010 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the statement of financial position amount is based on discounted cash flows.

22 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2010 is as follows:

	Demand and less than 1 year	From 1 year to 5 years	Over 5 years	Total
Liabilities				
Gross finance lease liabilities	14,130	663	-	14,793
Trade payables	37,692	-	-	37,692
Other financial payables	20,159	-	-	20,159
Total future payments, including future principal and interest payments				
	71,981	663	-	72,644

The maturity analysis of financial liabilities at 31 December 2009 is as follows:

	Demand and less than 1 year	From 1 year to 5 years	Over 5 years	Total
Liabilities				
Gross finance lease liabilities	16,456	14,793	-	31,249
Trade payables	42,226	-	-	42,226
Other financial payables	2,890	-	-	2,890
Total future payments, including future principal and interest payments				
	61,572	14,793	-	76,365

23 Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The amount of capital that the Company managed as of 31 December 2010 was RR 285,716 thousand (2009: RR 255,142 thousand).