Yamal Railway Company

International Financial Reporting Standards Financial Statements

31 December 2009

Director general — Yakob S. Kraft

Contents

(In thousands of Russian Roubles unless otherwise stated)

	Note	31 December 2009	31 December 2008	1 January 2008
ASSETS				
Non-current assets				
Property, plant and equipment	8	319,473	303,587	237,754
Deferred income tax asset	20	7,045	3,558	3,701
Total non-current assets		**326,518**	**307,145**	**241,455**
Current assets				
Inventories	9	63,030	106,244	109,290
Trade and other receivables	10	54,522	111,376	96,623
Prepayments		36,576	29,205	50,530
Current income tax prepayments		8,691	11,102	2,108
Short-term investments		-	242	-
Cash and cash equivalents	11	114,677	66,917	72,047
Total current assets		**277,496**	**325,086**	**330,598**
TOTAL ASSETS		**604,014**	**632,231**	**572,053**
EQUITY				
Share capital	12	10,000	10,000	10,000
Retained earnings		245,142	232,404	197,886
TOTAL EQUITY		**255,142**	**242,404**	**207,886**
LIABILITIES				
Non-current liabilities				
Long-term borrowings	13	13,200	25,378	36,841
Total non-current liabilities		**13,200**	**25,378**	**36,841**
Current liabilities				
Short-term borrowings	13	12,177	11,464	10,889
Trade and other payables	14	180,051	227,315	185,075
Advances from customers		143,444	125,670	131,362
Total current liabilities		**335,672**	**364,449**	**327,326**
TOTAL LIABILITIES		**348,872**	**389,827**	**364,167**
TOTAL LIABILITIES AND EQUITY		**604,014**	**632,231**	**572,053**

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

(In thousands of Russian Roubles unless otherwise stated)

	Note	2009	2008
Revenue	15	**1,275,764**	**1,829,286**
Personnel expenses	16	(683,299)	(931,039)
Purchased services	17	(168,054)	(219,245)
Rent expenses		(164,744)	(220,110)
Materials		(139,636)	(219,165)
Railways maintenance expenses		(64,533)	(166,187)
Depreciation	8	(24,406)	(18,995)
Other taxes		(3,760)	(8,187)
Other income (expenses), net	18	438	42,048
Operating profit		**27,770**	**88,406**
Finance income		809	-
Finance costs		(6,815)	(9,213)
Profit before income tax		**21,764**	**79,193**
Income tax expense	20	(9,026)	(34,196)
PROFIT FOR THE YEAR		**12,738**	**44,997**
Other comprehensive income for the year			
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**12,738**	**44,997**

(In thousands of Russian Roubles unless otherwise stated)

		Attributable to owners of the Company		
	Note	**Share capital**	**Retained earnings**	**Total equity**
Balance at 1 January 2008		**10,000**	**197,886**	**207,886**
Profit for the year		-	44,997	**44,997**
Dividends declared		-	(10,479)	**(10,479)**
Balance at 31 December 2008		**10,000**	**232,404**	**242,404**
Profit for the year		-	12,738	12,738
Balance at 31 December 2009		**10,000**	**245,142**	**255,142**

(In thousands of Russian Roubles unless otherwise stated)

	Note	2009	2008
Cash flows from operating activities			
Profit before income tax		**21,764**	**79,193**
Adjustments for:			
Depreciation of property, plant and equipment	8	24,406	18,995
Losses less gains on disposals of property, plant and equipment	18	219	2,744
Interest expense, net	19	6,006	9,213
Accounts payables write off	18	(809)	-
Bad debt provision	18	3,116	7,321
Operating cash flows before working capital changes		**54,702**	**117,466**
Decrease (increase) in inventories		43,212	3,047
Decrease (increase) in accounts receivable and prepayments		47,120	(749)
Increase(decrease) in accounts payable and advances from customers		(28,680)	36,549
		116,354	**156,313**
Income taxes paid		(10,102)	(43,047)
Income received		28	-
Interest paid		(6,815)	(9,213)
Dividends paid		-	(10,479)
Net cash from operating activities		**99,465**	**93,574**
Cash flows from investing activities			
Purchase of property, plant and equipment		(40,564)	(89,416)
Proceeds from the sale of property, plant and equipment		53	1,843
Retirement of bills of exchange		270	250
Purchase of bills of exchange		-	(492)
Net cash used in investing activities		**(40,241)**	**(87,815)**
Cash flows from financing activities			
Repayment of finance leasing obligations		(11,464)	(10,889)
Net cash used in financing activities		**(11,464)**	**(10,889)**
Net increase (decrease) in cash		**47,760**	**(5,130)**
Cash and cash equivalents at the beginning of the	11	**66,917**	**72,047**
Cash and cash equivalents at the end of the year	11	**114,677**	**66,917**

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 2009, for OAO YamalskayaZheleznodorozhnayaKompaniya ("Yamal Railway Company" or the "Company")

The Company was incorporated and is domiciled in the Russian Federation. The Company isgovernment 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 is629300, 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 ofSignificant Accounting Policies

Basis of preparation.These IFRS financial statements is Company's first complete set of financial statements have been prepared following the requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards (IFRSs) and in accordance with the Standards and Interpretations in effect as at 31 December 2009.

The Company had no subsidiaries, joint ventures or associates as at 31 December 2009, 31 December 2008 and 1 January 2008.

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 valueor amortised cost as described below.

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) theCompanyhas 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 as at 01 January 2008 are stated at fair values determined by an independent value. This amount is used as deemed cost of property, plant and equipmentand the basis for accruing depreciation and recognition of impairment losses. The amounts determined by the independent valuation represent an estimate of the fair value of property, plant and equipment. This independent valuation was performed in order to determine a basis for cost because the historical accounting records for these items of property, plant and equipment were not readily available. The change in carrying value arising from this valuation was recorded directly to retained earnings.

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 lossfor 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.

3 Summary of Significant Accounting Policies (Continued)

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:

	Useful lives in years
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 licencesare 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 chargecomprises 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.

3 Summary of Significant Accounting Policies (Continued)

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.

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.

3 Summary of Significant Accounting Policies (Continued)

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 realisability 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.

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.

3 Summary of Significant Accounting Policies (Continued)

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.

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.

3 Summary of Significant Accounting Policies (Continued)

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 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 2009 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 30.2442 (31 December 2008: USD 1 = RUB 29.3804, 1 January 2008: USD 1 = RUB 24.5462). The principal average rate of exchange used for translating income and expenses was USD 1 = RUB 31.7231(2008: USD 1 = RUB 24.8553).

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, byreference to stage of completion of the specific transaction assessed on the basis of the actual serviceprovided 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.

3 Summary of Significant Accounting Policies (Continued)

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 Note7.

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 2009 was RR319,473 thousand(31 December 2008: RR 303,587thousand, 1 January 2008: RR 237,754 thousand). If depreciation rates were increased by 10%, the carrying amount of property, plant and equipment would decrease by RR4,647 thousand(2008: RR 2,219 thousand).

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.

(In thousands of Russian Roubles unless otherwise stated)

5 First-time Adoption of IFRS

These financial statements are the Company's first annual financial statements that comply with IFRS. The Company's IFRS transition date is 1 January 2008. Subject to certain exceptions, IFRS 1 requires retrospective application of the version of standards and interpretations effective for the year ended 31 December 2009. This version was applied in preparing the opening IFRS statement of financial position at 1 January 2008 and in subsequent periods up to the end of the first IFRS reporting period. In preparing these consolidated financial statements, the Company has applied the mandatory exceptions and has elected to apply the following optional exemptions from retrospective application:

(a) ***Fair value as deemed cost exemption.*** The Company has elected to measure certain items of property, plant and equipment at fair value at 1 January 2008. The effect of the exemption was to increase the RAR carrying amount by RR 25,703 thousand to RR 237,754thousand under IFRS on the date of transition, 1 January 2008.

Exceptions from retrospective application, which are mandatory under IFRS 1 are:

(a) ***Derecognition of financial assets and liabilities exception.*** Financial assets and liabilities derecognised before 1 January 2004 are not re-recognised under IFRS. Management did not choose to apply the IAS 39 derecognition criteria from an earlier date.

(b) ***Hedge accounting exception.*** The Company does not apply hedge accounting.

(c) ***Estimates exception.*** Estimates under IFRS at 1 January 2008 and 31 December 2008 should be consistent with estimates made for the same dates under previous GAAP, unless there is evidence that those estimates were in error.

The following reconciliations provide a quantification of the effect of the transition from Russian Accounting Regulations ("RAR") to IFRS at 1 January 2009, 31 December 2009 and for the year ended 31 December 2009:

	31 December 2009	31 December 2008	1 January 2008
EQUITY UNDER RAR	**283,602**	**258,016**	**221,909**
Effects of changes in accounting policies:			
(i) Leasing	24,862	16,288	8,288
(ii) Impairment loss provision of trade, other receivables and prepayments	(18,132)	(17,482)	(10,161)
(iii) Inventory provision	(16,905)	(9,883)	(1,601)
(iv) Adjustment of construction in progress	(15,182)	(15,182)	(15,063)
(v) Property, plant and equipment	18,249	25,399	24,315
(vi) Cut-off adjustments	(9,967)	9,839	(6,472)
(vii) Other	(14,127)	(22,528)	(13,329)
(viii) Provision for unused vacation	4,358	5,966	-
(ix) Deferred tax	7,100	3,903	-
IFRS EQUITY	**255,142**	**242,404**	**207,886**

(In thousands of Russian Roubles unless otherwise stated)

5 First-time Adoption of IFRS (Continued)

	2009	**2008**
PROFIT [LOSS] UNDER RAR	**25,527**	**46,586**
Effects of changes in accounting policies:		
(i) Leasing	8,574	8,000
(ii) Impairment loss provision of trade, other receivables and prepayments	(650)	(7,321)
(iii) Adjustment of construction in progress	-	(119)
(iv) Property, plant and equipment	(7,150)	1,147
(v) Cut-off adjustments	(19,806)	16,312
(vi) Other	1,438	(13,117)
(vii) Provision for unused vacation	1,608	(5,966)
(viii) Deferred tax	3,197	(525)
TOTAL COMPREHENSIVE INCOME UNDER IFRS	**12,738**	**44,997**

The key adjustments for the differences between RAR and IFRS were attributable to the following:

(i) ***Leasing***. The Company had capitalized assets which were leased under finance lease agreements and recognised respectable liabilities.

(ii) ***Impairment loss provision of trade, other receivables and prepayments.***The Company has assessed amount of unrecoverable trade, other receivables and prepayments. The Company has accrued respecting amount of impairment.

(iii) ***Inventory provision.*** The Company has assessed amount of obsolete stock and accrued respective amount of provision.

(iv) ***Adjustment of construction in progress.*** The Company has recognised in profit and loss current expenses which were capitalized in Russian GAAP.

(v) ***Property, plant and equipment:*** The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29. As part of the Company's transition to IFRS, the Company restated its carrying values on the basis of the independent valuation. Restated values represented the fair values of the property, plant and equipment as at the transition date.

(vi) ***Cut-off adjustments***.The Companyadjusted periods of recognition income and expenses as they actually incurred

(viii) ***Provision for unused vacation.*** The Company recognised provision for unused vacation based on the number of days of unused vacation, payroll and expected social tax rates for contributions to non-budget funds as at 1 January 2008, 31 December 2008 and 31 December 2009.

(ix) ***Deferred tax.***Recognition under the balance sheet liability method. The adjustment was required to recognise deferred taxes under the balance sheet liability method for temporary differences detailed in Note20.

The Company's operating, investing and financing cash flows reported under RAR did not significantly differ from IFRS.

The statement of changes in equity for first-time adopters should not include effects of adoption of new or revised standards.

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.

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.

6 New Accounting Pronouncements (Continued)

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 Note3.

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.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periodsbeginning 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.

6 New Accounting Pronouncements (Continued)

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*, whichaddresses 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.

(In thousands of Russian Roubles unless otherwise stated)

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 partyor 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.

At 31 December 2009, 31 December 2008, 1 January 2008 the outstanding balances with related parties were as follows:

		31 December 2009	31 December 2008	1 January 2008
Trade receivables				
	OAO RZD and its subsidiaries	6,828	25,763	2,981
	Federal and public authorities	-	54	-
	State government owned entities	2,114	4,868	3,093
	Entities owned by federal and public authorities	157	631	238
		9,099	**31,316**	**6,312**
Other financial receivables				
	OAO RZD and its subsidiaries	828	1,086	1,422
	Federal and public authorities	1,094	494	6,003
	State government owned entities	983	210	393
	Entities owned by federal and public authorities	3,516	3,548	-
	Non-controlling interest	-	12	-
		6,421	**5,350**	**7,818**
Total trade and other receivables		**15,520**	**36,666**	**14,130**
Prepayments				
	OAO RZD and its subsidiaries	6,482	6,005	10,750
	Federal and public authorities	11	1	50
	State government owned entities	168	-	-
	Entities owned by federal and public authorities	505	455	378
		7,166	**6,461**	**11,178**

(In thousands of Russian Roubles unless otherwise stated)

7 Balances and Transactions with Related Parties (Continued)

	31 December 2009	31 December 2008	1 January 2008
Trade payables			
OAO RZD and its subsidiaries	(4,998)	(6,338)	(3,015)
Federal and public authorities	(24)	(273)	(143)
State government owned entities	(9,903)	(24,326)	(2,979)
Entities owned by federal and public authorities	(2,019)	(2,061)	(13,921)
	(16,944)	**(32,998)**	**(20,058)**
Accrued liabilities and other creditors			
OAO RZD and its subsidiaries	(396)	(22)	(108)
Federal and public authorities	(761)	(96)	(98)
State government owned entities	(172)	(69)	(629)
Entities owned by federal and public authorities	(11)	(630)	-
Non-controlling interest	(180)	-	(19)
Other	(333)	(596)	(375)
	(1,853)	**(1,413)**	**(1,229)**
Total trade and other payables	**(18,797)**	**(34,411)**	**(21,287)**
Advances from customers			
OAO RZD and its subsidiaries	(35)	(24)	(17)
Federal and public authorities	(1)	(46)	(11)
State government owned entities	(63,953)	(58,302)	(72,602)
Entities owned by federal and public authorities	(56)	(84)	(1,177)
	(64,045)	**(58,456)**	**(73,807)**

(In thousands of Russian Roubles unless otherwise stated)

7 Balances and Transactions with Related Parties (Continued)

The income and expense items with related parties for the year 2009, 2008, were as follows:

	2009	2008
Revenue from cargo carriage		
OAO RZD and its subsidiaries	136	526
Federal and public authorities	4	95
State government owned entities	354,686	482,173
Entities owned by federal and public authorities	1,266	11,139
	356,092	**493,933**
Revenue from other services		
OAO RZD and its subsidiaries	602	401
Federal and public authorities	5	1,359
State government owned entities	33,903	15,792
Entities owned by federal and public authorities	27	454
	34,537	**18,006**
Revenue from container terminal operations		
OAO RZD and its subsidiaries	274	-
Federal and public authorities	10	-
State government owned entities	29,456	-
Entities owned by federal and public authorities	312	-
	30,052	**-**
Revenue from passenger carriage		
OAO RZD and its subsidiaries	30,496	36,517
Federal and public authorities	-	59
State government owned entities	521	8,314
	31,017	**44,890**
Total revenue	**451,698**	**556,829**

(In thousands of Russian Roubles unless otherwise stated)

7 Balances and Transactions with Related Parties (Continued)

		2009	2008
Other personnel expenses			
	OAO RZD and its subsidiaries	10	17
	Federal and public authorities	44	81
	State government owned entities	344	914
	Entities owned by federal and public authorities	12	-
	Other	720	1 192
		1,130	**2,204**
Energy			
	State government owned entities	127	44
		127	**44**
Information and communication			
	OAO RZD and its subsidiaries	10,723	11,638
	Federal and public authorities	-	1
	State government owned entities	811	1,190
	Entities owned by federal and public authorities	173	149
		11,707	**12,978**
Repair services			
	OAO RZD and its subsidiaries	448	636
	Entities owned by federal and public authorities	11	12
		459	**648**
Security			
	OAO RZD and its subsidiaries	35,385	26,795
	Federal and public authorities	154	135
	Entities owned by federal and public authorities	1,000	1,476
		36,539	**28,406**
Transport			
	OAO RZD and its subsidiaries	45	96
	Federal and public authorities	21	86
	State government owned entities	-	17
	Entities owned by federal and public authorities	65	141
		131	**340**
Utility expenses			
	State government owned entities	6,391	3,595
	Entities owned by federal and public authorities	13,178	11,081
		19,569	**14,676**
Other expenses			
	OAO RZD and its subsidiaries	3,837	10,301
	Federal and public authorities	1,093	1,664
	State government owned entities	91	2
	Entities owned by federal and public authorities	635	972
		5,656	**12,939**
Railways maintenance expenses			
	OAO RZD and its subsidiaries	59,235	166,187
		59,235	**166,187**
Rent expenses			
	OAO RZD and its subsidiaries	882	952
	Federal and public authorities	36,864	70,930
	State government owned entities	96,071	119,649
		133,817	**191,531**
Total expenses		**268,370**	**429,953**

(In thousands of Russian Roubles unless otherwise stated)

7 Balances and Transactions with Related Parties (Continued)

		2009	2008
Penalties received			
	OAO RZD and its subsidiaries	9	4
	State government owned entities	793	1,676
	Entities owned by federal and public authorities	-	91
		802	**1,771**
Rent income			
	State government owned entities	41	36
		41	**36**
Other income			
	Federal and public authorities	225	-
		255	**-**
Penalties			
	OAO RZD and its subsidiaries	(716)	(3,852)
	Federal and public authorities	(499)	(20)
		(1,215)	**(3,872)**
Other expenses			
	OAO RZD and its subsidiaries	(646)	-
	Federal and public authorities	(71)	(370)
	State government owned entities	(267)	(763)
	Entities owned by federal and public authorities	(134)	(39)
		(1,118)	**(1,172)**
Interest expense			
	OAO RZD and its subsidiaries	(6,815)	-
		(6,815)	**-**
Total other income and expenses, net		**(8,050)**	**(3,237)**

(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	Construc-tions	Transport	Machines and equipment	Other	Assets under constru ction	Total
Cost							
Balance at 1 January 2008	**15,174**	**1,976**	**135,140**	**35,138**	**4,878**	**48,708**	**241,014**
Additions	-	8,238	4,280	9,093	609	66,915	**89,135**
Disposals	(4,281)	-	-	(38)	(54)	-	**(4,373)**
Balance at 31 December 2008	**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 at 31 December 2009	**13,893**	**48,895**	**143,918**	**74,283**	**5,747**	**79,206**	**365,942**
Accumulated depreciation							
Balance at 1 January 2008	**-**	**-**	**(3,260)**	**-**	**-**	**-**	**(3,260)**
Depreciation charge	(493)	(687)	(10,071)	(6,203)	(1,541)	-	**(18,995)**
Disposals	47	-	-	7	12	-	**66**
Balance at 31 December 2008	**(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 at 31 December 2009	**(957)**	**(1,678)**	**(25,157)**	**(14,580)**	**(4,097)**	**-**	**(46,469)**
Carrying amount							
Balance at 1 January 2008	**15,174**	**1,976**	**131,880**	**35,138**	**4,878**	**48,708**	**237,754**
Balance at 31 December 2008	**10,447**	**9,527**	**126,089**	**37,997**	**3,904**	**115,623**	**303,587**
Balance at 31 December 2009	**12,936**	**47,217**	**118,761**	**59,703**	**1,650**	**79,206**	**319,473**

Included in transport are assets held under finance leases with a carrying value of RR50,536 thousand (31 December 2008: RR 53,572 thousand, 1 January 2008: RR 56,608thousand). Refer to Note 13

(In thousands of Russian Roubles unless otherwise stated)

Construction in progress consists mainly of construction of railway stations.

9 Inventories

	31 December 2009	31 December 2008	1 January 2008
Materials	11,159	15,648	7,547
Construction materials	1,027	20,059	1,461
Fuel	11,052	23,884	28,161
Spare parts	17,526	27,847	18,577
Other inventories	22,266	18,806	53,544
Total inventories	**63,030**	**106,244**	**109,290**

10 Trade and other receivables

	31 December 2009	31 December 2008	1 January 2008
Trade receivables	25,456	68,518	16,088
Other financial receivables	12,234	21,347	46,537
Impairment loss provision	(13,572)	(15,791)	(8,470)
Total financial account receivables	**24,118**	**74,074**	**54,155**
VAT recoverable	25,189	28,339	23,116
Other taxes receivables	5,215	8,963	19,352
Total trade and other receivables	**54,522**	**111,376**	**96,623**

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

		31 December 2009	
	Trade receivables	Other financial receivables	Total receivables
Total neither past due nor impaired	**17,104**	**5,637**	**22,741**
Past due but not impaired			
- less than 90 days overdue	134	-	134
- 90 to 180 days overdue	177	-	177
- more than 6 months	86	981	1,067
Total past due but not impaired	**397**	**981**	**1,378**
Total	**17,501**	**6,618**	**24,119**

(In thousands of Russian Roubles unless otherwise stated)

10 Trade and other receivables (Continued)

	31 December 2008		
	Trade receivables	Other financial receivables	Total receivables
Total neither past due nor impaired	37,957	11,964	**49,921**
Past due but not impaired			
- less than 90 days overdue	6,883	644	7,527
- 90 to 180 days overdue	8,627	297	8,924
- more than 6 months	7,040	662	7,702
Total past due but not impaired	22,550	1,603	**24,153**
Total	**60,507**	**13,567**	**74,074**

	1 January 2008		
	Trade receivables	Other financial receivables	Total receivables
Total neither past due nor impaired	**9,126**	**43,434**	**52,560**
Past due but not impaired			
- less than 90 days overdue	-	-	-
- 90 to 180 days overdue	-	-	-
- more than 6 months	1,052	93	1,145
Total past due but not impaired	1,052	**93**	**1,145**
Total	**10,178**	**43,527**	**53,705**

(In thousands of Russian Roubles unless otherwise stated)

11 Cash and Cash Equivalents

	31 December 2009	31 December 2008	1 January 2008
Cash on bank accounts and on hand	74,677	66,917	72,047
Bankdeposits	40,000	-	-
Total cash and cash equivalents	**114,677**	**66,917**	**72,047**

Asat of 31 December the Company had bank deposits with weighted average annual rate of 10% and maturity date of 11 January 2010.

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	Long-term rating of issuer default in foreign currency according to Fitch	Foreign currency deposits rating of bank according to Moody's	Cash amount at 31 Decemb er 2009	Cash amount at 31 Decemb er 2008	Cash amount at 31 Decemb er 2008
Cash in hand				**132**	**337**	**74**
Cash and cash equivalents at bank						
Gazprombank	3	non-rated	Baa3/stable	29,859	66,582	71,973
Transcreditbank	25	non-rated	Ba1/stable	44,686	-	-
Other bank deposits						
Gazprombank	3	non-rated	Baa3/stable	40,000	-	-
Total cash and cash equivalents, and other bank deposits				**114,677**	**66,919**	**72,047**

12 Share Capital

The total authorised number of ordinary shares is 1000 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:

	2009	2008
Dividends payable at 1 January	-	-
Dividends declared during the year	-	10,479
Dividends paid during the year	-	(10,479)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year (Russian Roubles)	**-**	**-**

(In thousands of Russian Roubles unless otherwise stated)

12 Share Capital (Contined)

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 2009, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 25,527 thousand (2008: RR 46,586 thousand) and the closing balance of the accumulated profit including the current year net statutory profit totalled RR 273,543thousand (31 December 2008: RR 248,016thousand, 1 January 2008: RR 211,909thousand).

13 Borrowings

Total amount of the Company's borrowings comprised of:

	31 December 2009	31 December 2008	1 January 2008
Short-term borrowings			
Finance lease	12,177	11,464	10,889
Total short-term borrowings	**12,177**	**11,464**	**10,889**
Long-term borrowings			
Finance lease	13,200	25,378	36,841
Total long-term borrowings	**13,200**	**25,378**	**36,841**
Total borrowings	**25,377**	**36,842**	**47,730**

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 2009	31 December 2008	1 January 2008
Finance lease	Nov 2011 - Feb 2012	21-22%	21-22%	21-22%

(In thousands of Russian Roubles unless otherwise stated)

13 Borrowings (Continued)

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 2009	**16,456**	**14,793**	**31,249**
Less future finance charges	4,279	1,593	5,872
Present value of minimum lease payments at 31 December 2009	12,177	13,200	25,377
Minimum lease payments at 31 December 2008	**18,278**	**31,248**	**49,526**
Less future finance charges	6,814	5,870	12,684
Present value of minimum lease payments at 31 December 2008	11,464	25,378	36,842
Minimum lease payments at 1 January 2008	20,102	49,527	69,629
Less future finance charges	9,213	12,686	21,899
Present value of minimum lease payments at 1 January 2008	10,889	36,841	47,730

(In thousands of Russian Roubles unless otherwise stated)

14 Accounts Payable and Accrued Expenses

	31 December 2009	31 December 2008	1 January 2008
Trade payables	42,226	91,475	36 058
Accrued liabilities and other creditors	2,890	2,797	29,083
Total financial account payables	**45,116**	**94,272**	**65,141**
Accrued employee benefit costs	77,744	41,055	38,943
Other taxes payable	51,595	35,147	39,952
Other	5,596	56,841	41,039
Total accounts payables and accrued expenses	**180,051**	**227,315**	**185,075**

15 Revenue

	2009	2008
Cargo carriage	1,011,743	1,655,770
Passenger carriage	70,450	86,066
Container terminal operations	71,915	2,934
Other services	121,656	84,516
Total revenue	**1,275,764**	**1,829,286**

16 Personnel expenses

	2009	2008
Salaries and other payroll	558,377	766,487
Pension contributions	54,604	62,232
Other contributions to non-budget funds	49,287	75,359
Business trips	6,221	7,858
Other personnel expenses	14,810	19,103
Total	**683,299**	**931,039**

17 Purchased services

	2009	2008
Security	47,921	62,874

(In thousands of Russian Roubles unless otherwise stated)

Utility expenses	28,851	25,252
Information and communication	22,502	25,482
Professional services	17,000	4,645
Repair services	16,069	49,073
Energy	14,541	12,012
Transport	5,140	4,830
Insurance	552	575
Other	15,478	34,502
Total	**168,054**	**219,245**

18 Other expenses and income

	2009	2008
Penalties received	14,747	59,442
Income from sales of materials	8,419	12,070
Rent income	6,091	7,023
Accounts payable write-off	809	-
Agent fee	518	10,750
Business development and pocket costs	(5,168)	(8,526)
Bank fees	(4,911)	(6,868)
Cost of materials sold	(4,867)	(8,126)
Bad debt provision	(3,116)	(7,321)
Charity expenses	(1,004)	(2,553)
Penalties	(910)	(3,852)
Gain (loss) on disposal of property, plant and equipment	(219)	(2,744)
Other income	1,763	3,489
Other expenses	(11,714)	(10,736)
Total other operating expenses less income	**438**	**42,049**

19 Finance income and costs

	2009	2008
Interest income	809	-
Finance charges payables under finance leases	(6,815)	(9,213)
Total finance income and costs	**(6,006)**	**(9,213)**

20 Income Taxes

(In thousands of Russian Roubles unless otherwise stated)

(a) Components of income tax expense

Income tax expense recorded in profit or losscomprises the following:

	2009	2008
Current tax expense	12,512	34,053
Deferred tax expense (benefit)	(3,486)	143
Income tax expense for the year	**9,026**	**34,196**

(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 2009income is 20%(2008: 24%). A reconciliation between the expected and the actual taxation charge is provided below.

20 Income Taxes (Continued)

	2009	2008
Profit/(loss) before tax	21,764	79,193
Theoretical tax charge at statutory rate of 20%(2008: 24%):	4,353	19,006
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Effect of reduction in taxrate from 24% to 20% enacted in 2008 with effect from 1 January 2009	-	781
- Other undeductible expense	4,673	14,409
Income tax expense for the year	**9,026**	**34,196**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russiagive 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% (2008: 24%).

	1 January 2009	Charged/ (credited) to profit or loss	31 Dec 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)	4,296	2,386
Prepayments and other current assets	1,581	244	1,825
Inventories	1,012	1,270	2,282

(In thousands of Russian Roubles unless otherwise stated)

Property, plant and equipment	(2,249)	1,754	(495)
Financial leasing	(3,257)	(1,728)	(4,985)
Trade and other payables	8,162	(2,249)	5,855
Net deferred tax asset	**3,558**	**3,486**	**7,044**
Recognised deferred tax asset	**10,974**		**12,524**
Recognised deferred tax liability	**(7,416)**		**(5,480)**
Net deferred tax asset	**3,558**		**7,044**

20 Income Taxes (Continued)

The tax effect of the movements in the temporary differences for the year ended 31 December 2009 are:

	1 January 2008	Charged/ (credited) to profit or loss	Deferred tax charged to profit or loss due to change in tax rate	31 Dec 2008
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Loss carried forward	-	219	-	219
Cash and cash equivalents	-	-	-	-
Trade and other receivables	2,127	(4,419)	382	(1,910)
Prepayments	(205)	2,092	(306)	1,581
Inventories	(533)	1,899	(354)	1,012
Property, plant and equipment	(2,155)	(572)	478	(2,249)
Financial leasing	(1,989)	(1,920)	652	(3,257)
Trade and other payables	6,456	3,338	(1,632)	8,162
Net deferred tax asset	**3,701**	**637**	**(780)**	**3,558**
Recognised deferred tax asset	**8,583**			**10,974**
Recognised deferred tax liability	**(4,882)**			**(7,416)**
Net deferred tax asset	**3,701**			**3,558**

21 Contingencies and Commitments

Legal proceedings.From time to time and in the normal course of business, claims against the Companymay 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 thesefinancial statements.

At 31 December 2009 the Company was engage in a number oflitigation proceedings. A provision of RR 14,373 thousand (31 December 2008:RR 11,293 thousand,1 January 2008:RR 4,665 thousand)has been made as the Company has indicated that it is likely that a loss will arise.

Tax legislation. Russian taxlegislation 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 relevantauthorities.

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.

21 Contingencies and Commitments

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.

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 2009, 31 December 2008 and 1 January 2008 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:

In thousands of Russian Roubles	**31 December 2009**	**31 December 2008**	**1 January 2008**
Not later than 1 year	40,765	24,501	73,968
Later than 1 year and not later than 5 years	-	2,358	4,716
Later than 5 years	-	-	-
Total operating lease commitments	**40,765**	**26,859**	**78,684**

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.

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 10.

Credit risks concentration. The Company is exposed to concentrations of credit risk. At 31 December 2009 the Company had 6 counterparties (31 December 2008: 12 counterparties,1 January 2008:8 counterparties) with aggregated receivables balances above RR 1,000 thousand. The total aggregate amount of these balances was RR 12,919 thousand (31 December 2008: RR 35,256 thousand, 1 January 2008:RR 46,315thousand) or 24% of the gross amount of trade and other receivables (31 December 2008: 32%, 1 January 2008:48%).

The Company's bank deposits are held only with Gazprombank 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.

If interest rates on finance leasing had increased/decreased by 50 basis points, assuming that all other variables were unchanged, profit after taxes for the year ended 31 December 2010 would have decreased/increased by 411 thousand roubles(31 December 2009: US dollars 356 thousand roubles).

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 departmentof 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.

(In thousands of Russian Roubles unless otherwise stated)

22 Financial Risk Management (Continued)

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.

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**

The maturity analysis of financial liabilities at 31 December 2008 is as follows:

	Demand and less than 1 year	From 1 year to 5 years	Over 5 years	Total
Liabilities				
Gross finance lease liabilities	18,278	31,248	-	**49,526**
Trade payables	91,475	-	-	**91,475**
Other financial payables	2,798	-	-	**2,798**
Total future payments, including future principal and interest payments	**112,551**	**31,248**	-	**143,799**

The maturity analysis of financial liabilities at 1 January 2008 is as follows:

	Demand and less than 1 year	From 1 year to 5 years	Over 5 years	Total
Liabilities				
Gross finance lease liabilities	20,102	49,527	-	**69,629**
Trade payables	36,058	-	-	**36,058**
Other financial payables	29,083	-	-	**29,083**
Total future payments, including future principal and interest payments	**85,243**	**49,527**	-	**134,770**

23 Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern inorder 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 2009 was RR 255,142thousand (2008:31 December 2008: RR 242,404thousand; 1 January 2008: RR 207,886thousand).