Firm Transgarant LLC

Consolidated Financial Statements
for the year ended 31 December 2010

Contents

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Independent Auditors' Report

To the Participants of

Firm Transgarant LLC

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

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7 April 2011

’000 RUB	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	12	8,304,555	8,484,015
Prepayments for non-current assets		213,282	12,682
Other investments	13	546,800	1,437,902
Other non-current assets		69,836	-
Total non-current assets		**9,134,473**	**9,934,599**
Current assets			
Inventories		75,223	46,748
Other investments	13	71,810	383,972
Current income tax receivable		25,323	196,312
Trade and other receivable	15	1,062,284	1,110,572
Prepayments	16	369,527	276,086
Cash and cash equivalents	17	175,738	290,582
Total current assets		**1,779,905**	**2,304,272**
Total assets		**10,914,378**	**12,238,871**
EQUITY AND LIABILITIES			
Equity	18		
Charter capital		3,696,850	3,696,850
Additional paid-in capital		485,685	150,809
Foreign currency translation reserve		(37,754)	(26,062)
Retained earnings		(397,689)	(701,762)
Total equity		**3,747,092**	**3,119,835**
Non-current liabilities			
Loans and borrowings	19	4,038,467	1,160,444
Derivative financial liability		69,603	-
Deferred tax liabilities	14	176,125	36,557
Total non-current liabilities		**4,284,195**	**1,197,001**
Current liabilities			
Loans and borrowings	19	2,391,500	7,551,973
Trade and other payables	20	488,309	366,532
Current income tax liabilities		3,282	3,530
Total current liabilities		**2,883,091**	**7,922,035**
Total liabilities		**7,167,286**	**9,119,036**
Total equity and liabilities		**10,914,378**	**12,238,871**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 40.

'000 RUB	**Note**	**2010**	**2009**
Revenue	6	6,341,883	4,321,478
Cost of sales	7	(5,269,163)	(4,086,712)
Gross profit		**1,072,720**	**234,766**
Distribution and administrative expenses	8	(110,585)	(94,849)
Other expenses	9	(119,007)	(1,227,024)
Result from operating activities		**843,128**	**(1,087,107)**
Finance income	10	160,233	307,415
Finance costs	10	(846,899)	(1,565,781)
Net finance costs		**(686,666)**	**(1,258,366)**
Profit/(loss) before income tax		**156,462**	**(2,345,473)**
Income tax (expense)/benefit	11	(22,124)	377,969
Profit/(loss) for the year		**134,338**	**(1,967,504)**
Other comprehensive income			
Foreign currency translation differences for foreign operations		(11,692)	4,319
Other comprehensive income for the year, net of income tax		**(11,692)**	**4,319**
Total comprehensive income/(loss) for the year		**122,646**	**(1,963,185)**
Profit/(loss) attributable to Owners of the Company		**134,338**	**(1,967,504)**
Total comprehensive income/(loss) attributable to Owners of the Company		**122,646**	**(1,963,185)**

These consolidated financial statements were approved by management on 28 March 2011 and were signed on its behalf by:

Managing Director — Grom A.N.

Chief Financial Officer — Barbariush A.A.

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 40.

’000 RUB	**Note**	**Equity attributable to the participants of the Company**				
		Share capital	**Additional paid-in capital**	**Translation reserve**	**Retained earnings**	**Total equity attributable to the participants of the Company**
Balance at 1 January 2009	18	**880,000**	**-**	**(30,381)**	**1,417,708**	**2,267,327**
Total comprehensive income for the year						
Loss for the year		-	-	-	(1,967,504)	(1,967,504)
Other comprehensive income						
Foreign currency translation differences		-	-	4,319	-	4,319
Total other comprehensive income		**-**	**-**	**4,319**	**-**	**4,319**
Total comprehensive income for the year		**-**	**-**	**4,319**	**(1,967,504)**	**(1,963,185)**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Contribution from participants	18	2,816,850	-	-	-	2,816,850
Distributions to owners on acquisition of subsidiary	5	-	-	-	(151,966)	(151,966)
Contribution by owners on disposal of investment in associate net of tax		-	150,809	-	-	150,809
Total contributions by and distributions to owners		**2,816,850**	**150,809**	**-**	**(151,966)**	**2,815,693**
Balance at 31 December 2009		**3,696,850**	**150,809**	**(26,062)**	**(701,762)**	**3,119,835**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 40.

’000 RUB	**Note**	**Equity attributable to the participants of the Company**				
		Share capital	**Additional paid-in capital**	**Translation reserve**	**Retained earnings**	**Total equity attributable to the participants of the Company**
Balance at 1 January 2010	18	**3,696,850**	**150,809**	**(26,062)**	**(701,762)**	**3,119,835**
Total comprehensive income for the year						
Profit for the year		-	-	-	134,338	134,338
Other comprehensive income						
Foreign currency translation differences		-	-	(11,692)	-	(11,692)
Total other comprehensive income		**-**	**-**	**(11,692)**	**-**	**(11,692)**
Total comprehensive income for the year		**-**	**-**	**(11,692)**	**134,338**	**122,646**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Contribution from participants, net of deferred tax	18	-	334,876	-	-	334,876
Correction of the cost of tangible fixed assets, net of deferred tax	12	-	-	-	169,735	169,735
Total contributions by and distributions to owners		**-**	**334,876**	**-**	**169,735**	**504,611**
Balance at 31 December 2010		**3,696,850**	**485,685**	**(37,754)**	**(397,689)**	**3,747,092**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 40.

’000 RUB	Note	2010	2009
Cash flows from operating activities			
Profit/(loss) before income tax for the year		156,462	(2,345,473)
Adjustments for:			
Depreciation	7	787,295	626,629
Loss on disposal of property plant and equipment	9	46,207	644,933
(Reversal of)/impairment allowance for current assets	9	(6,771)	468,512
Net finance costs	10	686,666	1,258,366
Cash from operating activities before changes in working capital and provisions		**1,669,859**	**652,967**
Change in inventories		(28,475)	26,073
Change in trade and other receivables		(108,218)	691,205
Change in trade and other payables		124,965	(270,768)
Cash flows from operations before income taxes and interest paid		**1,658,131**	**1,099,477**
Income tax paid		(9,259)	(73,140)
Reimbursment of income tax from tax authorities		171,291	-
Interest paid		(744,858)	(1,493,844)
Net cash from/(used in) operating activities		**1,075,305**	**(467,507)**
Cash flows from investing activities			
Proceeds from sale of property plant and equipment		7,500	97,921
Proceeds from sale of investments		-	720,129
Interest received		332,354	115,292
Acquisition of property plant and equipment		(649,973)	(545,140)
Net loans received/(issued)		1,053,005	(106,000)
Acquisition of subsidiaries net of cash acquired		-	(1,226,788)
Net cash from/(used in) investing activities		**742,886**	**(944,586)**
Cash flows from financing activities			
Contribution from participants		418,595	2,816,850
Proceeds from borrowings		6,733,541	7,751,720
Repayment of borrowings		(8,800,965)	(8,946,866)
Payment of finance lease liabilities		(284,206)	(293,530)
Net cash (used in)/from financing activities		**(1,933,035)**	**1,328,174**
Net decrease in cash and cash equivalents		(114,844)	(83,919)
Cash and cash equivalents at 1 January		290,582	374,501
Effect of exchange rate fluctuations on cash and cash equivalents		-	-
Cash and cash equivalents at 31 December	17	**175,738**	**290,582**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 40.

1 Background

(a) Organisation and operations

The principal activity of Firm Transgarant LLC (the "Company") and its subsidiaries (the "Group") is to provide railway transportation services mainly within the Russian Federation. The Group renders transportation services using its own and leased railway wagons and locomotives. The Company also uses rolling stock leased under short term operating lease agreements from OAO "Russian Railways", its subsidiaries and other companies on an as-needed basis. The Group's main suppliers are OAO "Russian Railways", other Russian state owned railway enterprises, producers of wagons and leasing companies.

The Company is a limited liability company incorporated in the Russian Federation on 23 December 1997. The Company is registered and located at 24, bld. 1, Radio Street, Moscow, Russian Federation. The Company is the subsidiary of the OJSC Far-Eastern Shipping Company (FESCO, the Parent Company).

The Group is ultimately controlled by a single individual, Mr Sergey Generalov, who has the power to direct the transactions of the Group at his own discretion and for his own benefit. He also has a number of other business interests outside the Group.

(b) Russian and Ukrainian business environment

The Group's operations are primarily located in the Russian Federation and Ukraine. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation and Ukraine which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian and Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for derivative financial instruments, which are measured at fair value.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. The functional currency of the Ukrainian operations is the Ukrainian Grivna ("UAH"), Latvian operations – Latvian Lat ("LVL") and Cyprus operations – US Dollar ("USD"). All financial information presented in RUB has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 6 – revenue recognition
- Note 12 – property, plant and equipment
- Note 24 – taxation contingencies

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. Any difference between the carrying amount of net assets and consideration paid is recognized in equity.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to RUB at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUB at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in other comprehensive income. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss as part of the profit or loss on disposal of foreign operations.

Foreign exchange gains and losses arising from a monetary item received from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be reliably measured, investments are stated at cost less impairment losses.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Derivative financial instruments

The Group holds derivative financial instruments to manage its exposure to interest rate movement on its bank borrowings.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit or loss.

(iv) Guarantees

The Group considers that financial guarantee contracts entered into by the Group to guarantee the indebtedness of parties under common control are insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

(v) Equity

Incremental costs directly attributable to issue of participation rights are recognised as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other income" / "other expense" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. If a component of an individual asset has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives are as follows:

- Rolling stock 5-25 years
- Wheel-pair 5-8 years
- Machinery and equipment 5-20 years
- Buildings 30 years
- Office and other assets and equipment 3-5 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(e) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the average costing principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(g) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables and held-to-maturity investment securities

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Revenue

Revenues are recognized in the accounting period in which the services are rendered the price is determinable and collectibilityis probable. The revenues are recognised net of value added tax.

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to the number of days completed out of the total estimated number of days in a particular transportation route. For other services the stage of completion is assessed by reference to surveys of work performed. Estimated losses on transportation in progress are recognised at the time such losses become evident.

(i) Transportation agency fee

The Company is a legal intermediary for transportation organizations and pays transport fees on behalf of its clients. These fees, which are reimbursed by the Company’s clients, are not included in sales or cost of sales. Consequently, only the Company’s fees for intermediary activities are recognised as sales. Debtors and liabilities that occur in accordance with these activities are recognized as accounts receivable and accounts payable.

(ii) Transportation services (operator’s business)

The Company also organizes transportation for clients and provides similar services using its own or leased wagons. Normally, a transportation tariff charged by the Russian Railway is re-charged to the counterparty (the Company acts as an agent). For this type of activity, the Company’s revenue comprises operator’s fee and revenue from rent of wagons.

The costs of sales for this type of activity generally includes transportation fees charged by transportation organizations for transportation of empty wagons (those are not re-charged to the counterparty), depreciation, repairs and maintenance costs for owned and leased wagons and lease payments for wagons rented on the basis of operating leases.

(iii) Revenues from operating lease of rolling stock

Revenue earned by the Company from wagons leased out under operating leases is recognised on a straight line basis over the term of operating rent agreements.

(j) Other expenses

(i) Lease payments

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

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

(ii) Social expenditure

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the Russian Federation State pension scheme are expensed when incurred.

(k) Finance income and costs

Finance income comprises interest income on funds invested, dividend income and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, foreign currency losses, impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(l) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities, and therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(m) New Standards and Interpretations not yet adopted

A number of new standards and interpretations are not yet effective as of the reporting date and have not been applied in preparing these consolidated financial information:

- IAS 24 (Revised) - "*Related Parties Disclosures*" (2009) effective for Group's accounting period beginning on 1 January 2011 with retrospective application required ("Revised IAS 24") introduces a number of changes in respect of presentation of related parties transactions. The standard will not have an impact on the presentation of related parties in the financial statements since the Company presents operations with associates of the Parent as related parties transactions.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(b) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

All amounts presented in '000 RUB unless otherwise stated

5 Acquisition of subsidiaries

On 20 February 2009 the Group acquired 60% of charter capital of OOO Transgarant-Vostok from Neteller Holdings Limited (the Group's Parent at that point in time) and obtained control over OOO Transgarant-Vostok. As the acquisition represented a transaction under common control, the result on acquisition was recognized directly in equity.

The acquisition of the subsidiary had the following effect on the Group's assets and liabilities at the date of acquisition:

	Recognised book values on acquisition
Non-current assets	
Property, plant and equipment	2,495,783
Long-term deposits	60,000
Current assets	
Inventories	5,908
Trade and other receivables	526,816
Cash and cash equivalents	29,214
Non-current liabilities	
Loans and borrowings	(28,642)
Finance lease liability	(1,148,096)
Deferred tax liabilities	(199,609)
Current liabilities	
Loans and borrowings	(203,601)
Finance lease liability	(87,327)
Trade and other payables	(234,186)
Net identifiable assets	**1,216,260**
Pre-acquisition share of net assets	(112,224)
Excess of the acquirer's interest in the net assets over the cost of the acquisition recognized in net assets attributable to participants	151,966
Consideration paid	1,256,002
Cash acquired	29,214
Net cash outflow in the cash flow statement	**1,226,788**

6 Revenue

	2010	2009
Transportation services (operator's business)	5,740,682	3,949,251
Operating lease of rolling stock	508,345	235,205
Transportation agency fees	8,312	37,307
Other sales	84,544	99,715
	6,341,883	**4,321,478**

All amounts presented in '000 RUB unless otherwise stated

7 Cost of sales

	2010	**2009**
Railway infrastructure tariff and transportation services	(2,037,273)	(1,578,361)
Operating lease of rolling stock	(1,205,718)	(652,866)
Depreciation	(787,295)	(626,629)
Payroll expenses and social charges	(458,587)	(513,739)
Rolling stock repair and maintenance costs	(449,981)	(406,887)
Taxes other than on income	(202,101)	(195,754)
Raw materials	(42,579)	(13,800)
Communication costs	(35,773)	(36,078)
Insurance	(15,275)	(14,795)
Cost of goods resold	(116)	(5,940)
Other operating expenses	(34,465)	(41,863)
	(5,269,163)	**(4,086,712)**

8 Distribution and administrative expenses

	2010	**2009**
Office rent cost	(65,567)	(78,830)
Other expenses	(45,018)	(16,019)
	(110,585)	**(94,849)**

9 Other expenses

	2010	**2009**
Reversal of/(allowance) for doubtful debts	6,771	(468,512)
Loss on disposal of property, plant and equipment	(46,207)	(644,933)
Other expenses	(79,571)	(113,579)
	(119,007)	**(1,227,024)**

For the movement in the allowance for doubtful debts, see Note 15.

All amounts presented in '000 RUB unless otherwise stated

10 Finance income and finance costs

Finance income comprised of the following items:

	2010	2009
Interest income on deposits and loans issued	109,045	246,063
Interest income on finance lease granted	51,188	61,352
	160,233	**307,415**

Finance costs comprised of the following items:

	2010	2009
Interest expense on loans and borrowings	(669,846)	(1,128,830)
Interest charge on finance lease	(110,608)	(269,839)
Loss on revaluation of derivative financial liability	(30,772)	(38,831)
Foreign exchange loss	(35,673)	(128,281)
	(846,899)	**(1,565,781)**

11 Income tax

	2010	2009
Current tax expense		
Current income tax expense	(8,709)	(42,069)
Deferred tax benefit/(expense)		
Origination and reversal of temporary differences	(13,415)	420,038
Total income tax (expense)/benefit	**(22,124)**	**377,969**

Reconciliation of effective tax rate:

	2010	2009
Profit/(loss) before income tax	156,462	(2,345,473)
Income tax (expense)/income at applicable tax rate	(31,292)	469,095
Effect of income taxed at higher rates	(5,574)	(1,307)
Recognition of previously unrecognized tax assets	45,336	-
Non-taxable differences (net)	(19,024)	(70,421)
Current year losses for which no deferred tax asset was recognized	(11,570)	(19,398)
	(22,124)	**377,969**

All amounts presented in '000 RUB unless otherwise stated

12 Property, plant and equipment

	Rolling stock	Buildings	Machinery and equipment	Other	Construc tion in progress	Total
Cost						
Balance at 1 January 2009	9,479,348	96,123	90,600	116,921	17,859	9,800,851
Acquisitions through transaction under common control	2,472,064	9,995	-	13,724	-	2,495,783
Additions	19,874	3,885	83	965	1,359	26,166
Disposals	(2,129,493)	(8,732)	-	(14,426)	-	(2,152,651)
Transfers	776	9,338	3,705	-	(13,819)	-
Translation differences	(13,847)	-	(1,876)	1,797	-	(13,926)
Balance at 31 December 2009	**9,828,722**	**110,609**	**92,512**	**118,981**	**5,399**	**10,156,223**
Correction of the cost of tangible fixed assets	212,169	-	-	-	-	212,169
Additions	416,001	-	-	12,981	22,793	451,775
Disposals	(85,449)	(98)	-	(5,200)	-	(90,747)
Transfers	-	18	-	874	(892)	-
Translation differences	(8,928)	-	-	(41)	-	(8,969)
Balance at 31 December 2010	**10,362,515**	**110,529**	**92,512**	**127,595**	**27,300**	**10,720,451**
Depreciation						
Balance at 1 January 2009	(1,226,170)	(2,997)	(18,255)	(46,368)	-	(1,293,790)
Depreciation for the year	(597,815)	(4,617)	(2,870)	(21,327)	-	(626,629)
Disposals	227,402	607	-	8,203	-	236,212
Translation differences	11,347	-	1,017	(365)	-	11,999
Balance at 31 December 2009	**(1,585,236)**	**(7,007)**	**(20,108)**	**(59,857)**	**-**	**(1,672,208)**
Depreciation for the year	(768,409)	(3,636)	(2,521)	(12,729)	-	(787,295)
Disposals	34,140	-	-	4,069	-	38,209
Translation differences	5,280	-	-	118	-	5,398
Balance at 31 December 2010	**(2,314,225)**	**(10,643)**	**(22,629)**	**(68,399)**	**-**	**(2,415,896)**
Net book value						
At 31 December 2009	**8,243,486**	**103,602**	**72,404**	**59,124**	**5,399**	**8,484,015**
At 31 December 2010	**8,048,290**	**99,886**	**69,883**	**59,196**	**27,300**	**8,304,555**

Starting from 1 January 2010 the Group reconsidered the useful life of rolling stock and its components, which resulted in increased depreciation charge by RUB 242,475 thousand. The cost of the property, plant and equipment has been increased on 1 January 2010 by RUB 212,169 thousand to reflect the cumulative effect of corrections relating to prior periods. It was impracticable to reconsider the useful life of rolling stock and its components at prior periods.

At 31 December 2010 properties with a carrying amount of RUB 4,059,065 thousand (2009: RUB 6,264,023 thousand) are subject to a registered debenture to secure bank loans (see note 19).

Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2010 the net book value of leased plant and machinery was RUB 1,370,335 thousand (2009: RUB 1,840,153 thousand). The leased equipment secures lease obligations.

Determination of recoverable amount of property, plant and equipment

The value in use for property, plant and equipment as at 31 December 2010 was determined using projected cash flows. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment in the process of operating activities up to its ultimate disposal to determine the recoverable amount of the assets.

The following key assumptions were used in determining the recoverable amounts of the fixed assets:

- cash flows were projected based on management forecast for six years;
- transportation volumes were estimated to grow at 10 % annually;
- sales prices for transportation services were estimated to grow at 7% annually;
- railway tariffs were estimated to grow at 7% annually;
- operating lease rates were estimated to grow at 7% annually;
- prices for operating expenses were estimated to grow in accordance with the long-term inflation forecasts made by the government;
- the cash flow forecasts were discounted to their present value at the nominal weighted average cost of capital of 14.84% in RUB terms.

As a result of the testing no impairment loss was recognised.

An increase of one percentage point in the discount rate used would have caused no recognition of an impairment lose.

All amounts presented in '000 RUB unless otherwise stated

13 Other investments

	Contract interest rate	2010	2009
Non-current			
Net investments in the finance lease:			
RUB denominated	Fixed 12.7%	81,021	102 767
USD denominated	Fixed 13.2%	263,198	237,076
Loans issued to related parties:			
RUB denominated	Fixed 10.4%-13.78%	102,581	-
USD denominated	Fixed 12%	-	998,059
Long-term bank deposits held to maturity:			
RUB denominated	Fixed 7.75%-11%	100,000	100,000
		546,800	**1,437,902**
Current			
Net investments in the finance lease:			
RUB denominated	Fixed 12.7%	27,161	17,838
USD denominated	Fixed 13.2%	22,541	70,101
Loans issued to related parties:			
RUB Denominated	Fixed 10.4%	-	59,000
Interest receivable on loans issued to related parties		22,108	237,033
Total		**71,810**	**383,972**

Loans issued to related parties represent loans to other entities of FESCO Group.

The finance lease granted is repayable as follows:

	2010			**2009**		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Repayable <1 year	106,905	57,203	49,702	137,595	49,656	87,939
Repayable 1-5 years	433,305	89,086	344,219	427,062	87,219	339,843
	540,210	146,289	393,921	564,657	136,875	427,782

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 21.

All amounts presented in '000 RUB unless otherwise stated

14 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Property, plant and equipment	-	-	(393,543)	(500,970)	(393,543)	(500,970)
Investments in finance leases	-	-	(502,861)	(553,849)	(502,861)	(553,849)
Trade and other receivables	2,587	169,468	-	-	2,587	169,468
Loans and borrowings	535,565	642,172	-	-	535,565	642,172
Trade and other payables	10,935	12,622	-	-	10,935	12,622
Tax loss carry-forwards	192,593	213,398	-	-	192,593	213,398
Allowance for tax losses carried forward	(21,401)	(19,398)	-	-	(21,401)	(19,398)
Tax assets/(liabilities)	720,279	1,018,262	(896,404)	(1,054,819	(176,125)	(36,557)

(b) Movement in temporary differences during the year

	1 January	Recognised in profit or loss	Recognized in equity	31 December
Property, plant and equipment	(500,970)	149,861	(42,434)	(393,543)
Investments in finance leases	(553,849)	50,988	-	(502,861)
Trade and other receivables	169,468	(83,162)	(83,719)	2,587
Loans and borrowings	642,172	(106,607)	-	535,565
Trade and other payables	12,622	(1,687)	-	10,935
Tax loss carry-forwards	213,398	(11,238)	-	202,160
Allowance for tax losses carried forward	(19,398)	(11,570)	-	(30,968)
	(36,557)	(13,415)	(126,153)	(176,125)

	1 January	Recognised in profit or loss	Recognized in equity	Acquired	31 December
Property, plant and equipment	(395,585)	9,757	-	(115,142)	(500,970)
Investments in finance leases	(462,452)	(6,930)	-	(84,467)	(553,849)
Trade and other receivables	(2,052)	171,520	-	-	169,468
Loans and borrowings	675,689	(33,517)	-	-	642,172
Trade and other payables	(34,884)	47,506	-	-	12,622
Tax loss carry-forwards	-	251,100	(37,702)	-	213,398
Allowance for tax losses carried forward	-	(19,398)	-	-	(19,398)
	(219,284)	420,038	(37,702)	(199,609)	(36,557)

All amounts presented in '000 RUB unless otherwise stated

15 Trade and other receivables

	2010	**2009**
Trade accounts receivable	343,976	967,159
Value added taxes receivable	750,585	688,121
Other receivables	42,471	15,209
	1,137,032	**1,670,489**
Allowance for doubtful debts	(74,748)	(559,917)
	1,062,284	**1,110,572**

The balance of value added tax receivable includes tax receivable totalling RUB 222,403 thousand (2009: RUB 314,925 thousand), which was incurred on acquisition of rolling-stock by the Company's subsidiary from the Company. Management expects this amount will be disputed by the Russian Tax Authorities and its recovery can be delayed. However, based on effective tax legislation and his experience, management also believes that the recovery of this balance will be completed within 12 months after the year end, so this amount is included in current assets and no discounting has been applied to the balance.

During the year ended 31 December 2010, the Group assigned doubtful receivables with the historical amount of RUB 418,595 thousand to its fellow subsidiary Crest Island Shipping Company Limited. This transaction represents a transaction under common control and accordingly, the reversal of bad debts provision was recognized in equity as a contribution from participants.

The Group's exposure to credit and currency risks is disclosed in note 21.

16 Prepayments

	2010	**2009**
Prepayments to OAO "Russian Railways" and its branches	299,870	100,895
Other prepayments	69,657	175,191
	369,527	**276,086**

17 Cash and cash equivalents

	2010	**2009**
Bank balances – RUB denominated	118,380	199,054
Bank balances – USD denominated	30,242	62,981
Bank balances – EURO denominated	2,983	-
Other currencies	24,133	28,547
	175,738	**290,582**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 21.

All amounts presented in '000 RUB unless otherwise stated

18 Equity

As of 31 December 2010 the Company's authorized and registered charter capital was RUB 3,696,850 thousand. As of 31 December 2010 it comprised of two participatory holdings with a nominal value of:

- RUB 2,816,850 thousand, having 76.2% voting and dividends rights.
- RUB 880,000 thousand, having 23.8% voting and dividends rights.

On 26 November 2009 OJSC FESCO made a contribution to share capital of the Company amounted RUB 2,616,850 thousand. Contribution resulted in decrease in share of Neteller Holdings Limited in the Company's charter capital to 23.8%. Neteller Holdings Limited is a 100% owned subsidiary of OJSC FESCO.

The Company's charter allows the participants to exit from the Company at their discretion and receive their proportionate share in the net assets of the Company. In accordance with the Law "On Limited Liability Companies", a sole participant may not exit from a limited liability company other than through its liquidation.

Because Neteller Holdings Limited is the wholly owned subsidiary of OJSC FESCO, its decision to exit from the Company would require a consent of OJSC FESCO. In substance, OJSC FESCO is the sole participant in the Company and its participation right has been classified as equity.

The participatory rights have been issued and are fully paid. The Company did not declare or distribute dividends in 2010 or 2009. By the date of approval of these financial statements, no decision has been taken on declaration of dividends in respect of 2010.

19 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 21.

	Contract interest rate	**2010**	**2009**
Non-current			
Secured bank loans:			
USD denominated	LIBOR 1M+3.75%-8.5%	-	112,660
	LIBOR 3M+2.0%-9.5%	1,564,912	323,466
	Fixed 11.25%	-	136,099
RUB denominated	MOSPRIME 3M+2.25%-4.6%	592,572	-
UAH denominated	Fixed 14%	-	7,413
Unsecured bank loans:			
RUB denominated	Fixed 9.5%	300,000	-
	Fixed 11.0%	500,000	-
Unsecured loans from related parties:			
USD denominated	Fixed 0%	274,292	-
RUB denominated	Fixed 11.0%	400,000	-
Finance lease liabilities:			
USD denominated	Fixed 11.3%-15.4%	50,676	166,918
RUB denominated	Fixed 14.2%-18.3%	356,015	413,888
		4,038,467	**1,160,444**

All amounts presented in '000 RUB unless otherwise stated

	Contract interest rate	2010	2009
Current			
Current portion of secured bank loans:			
USD denominated	LIBOR 1M+3.75%-8.5%	1,131,882	1,818,038
	LIBOR 3M+2.0%-9.5%	467,613	3,561,849
	Fixed 11.25%	-	240,441
RUB denominated	MOSPRIME 3M+2.25%-4.6%	2,543	507,914
UAH denominated	Fixed 14%	7,545	9,884
Secured bank loans:			
USD denominated	LIBOR 1M+3.75%-8.5%	113,526	-
	LIBOR 3M+2.0%-9.5%	471,531	-
RUB denominated	Fixed 19%	-	600,000
	Fixed 18%	-	200,000
Unsecured bank loans:			
USD denominated	LIBOR 3M+2.5%-9.5%	-	302,149
Unsecured loans from related parties:			
RUB denominated	Fixed 9.05%-11.8%	-	600
Finance lease liabilities:			
USD denominated	Fixed 11.3%-15.4%	117,526	224,406
RUB denominated	Fixed 14.2%-18.3%	61,640	64,851
Accrued interest		17,694	21,841
		2,391,500	**7,551,973**

The effective interest rates of long-term debt approximate their contractual interest rates. The variable interest bearing loans of the Group re-price on a quarterly and monthly basis.

Bank loans are secured with the following assets:

	2010		
	Number of pledged items (unaudited)	**Total number of items (unaudited)**	**Net book value of pledged assets**
Tank wagons	416	951	255,007
Boxcars	497	1,077	537,330
Pellet-wagons	998	2,664	149,327
Locomotive	1	6	16,194
Grain-carriers	22	177	14,644
Open wagons	783	3,490	574,853
Skelp-wagons	16	49	22,658
Mineral carrier	-	100	-
Cement carriers	487	582	741,519
Platform-cars	1,349	2,421	1,747,533
	4,569	**11,517**	**4,059,065**

All amounts presented in '000 RUB unless otherwise stated

	2009		
	Number of pledged items (unaudited)	**Total number of items (unaudited)**	**Net book value of pledged assets**
Tank wagons	949	953	610,309
Boxcars	1,011	1,027	1,014,139
Pellet-wagons	2,459	2,912	375,078
Locomotive	4	6	60,797
Grain-carriers	27	27	15,696
Open wagons	1,508	3,493	973,466
Skelp-wagons	69	80	87,701
Mineral carrier	17	100	1,362
Cement carriers	530	582	796,619
Platform-cars	2,384	2,384	2,328,856
	8,958	**11,564**	**6,264,023**

(a) Breach of loan covenants

In the year ended 31 December 2009 the Group breached certain financial covenants contained in its loan agreements, such as the requirement to maintain a ratio of interest-bearing debt to EBITDA above certain level. The non-fulfillment of this covenant triggered a cross-default for some other loans of the Group. As a result, long-term portion of bank loans in the amount of RUB 3,337,827 thousand has been re-classified to current liability as at 31 December 2009. In 2010 the Group received waivers and made repayments of those loans which were in breach as at 31 December 2009. The Group was in compliance with covenants as at 31 December 2010.

(b) Loan agreement with EBRD

In December 2010, the Group entered into loan agreement with European Bank of Reconstruction and Development ("EBRD") totaling RUB 3 billion. The funds in accordance with agreement have not been received yet.

(c) Finance lease liabilities are payable as follows:

	2010			2009		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Payable <1 year	249,939	70,773	179,166	418,125	128,868	289,257
Payable in 1-5 years	425,748	176,718	249,030	648,788	295,877	352,911
Payable >5 years	182,315	24,654	157,661	301,635	73,740	227,895
	858,002	272,145	585,857	1,368,548	498,485	870,063

All amounts presented in '000 RUB unless otherwise stated

20 Trade and other payables

	2010	**2009**
Trade accounts payable	123,703	170,422
Payables for tangible fixed assets	2,313	5,926
Advances from customers	294,156	74,648
Derivative financial liability	-	38,831
Value added tax payable	171	1,707
Payroll and related taxes	26,142	35,826
Property tax	38,463	36,618
Other accounts payable	3,361	2,554
	488,309	**366,532**

21 Financial instruments and risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Group's management has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

(b) Credit risk

Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables, prepayments, loans issued to related parties and finance lease granted. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

All amounts presented in '000 RUB unless otherwise stated

The maximum exposure to credit risk at the reporting date was:

	2010	2009
Net investments in the finance lease	393,921	427,782
Long-term bank deposits held to maturity	100,000	100,000
Trade and other receivables	1,062,284	1,110,572
Loans issued to related parties (including interest receivable)	124,689	1,294,092
Current tax receivable	25,323	196,312
Prepayments	369,527	276,086
Cash and cash equivalents	175,738	290,582
	2,251,482	**3,695,426**

The maturity profile of trade and other receivables is as follows:

	2010		2009	
	Gross	**Allowance for doubtful debts**	**Gross**	**Allowance for doubtful debts**
Not past due	288,986	-	200,863	-
Past due for 3-12 months	22,713	-	324,858	(103,270)
Past due for more than one year	74,748	(74,748)	456,647	(456,647)
Total	**386,447**	**(74,748)**	**982,368**	**(559,917)**

The movement in the allowance for doubtful debts is as follows:

	2010	2009
As at 1 January	559,917	91,405
Bad debts created	-	496,256
Bad debts assigned to the Participants	(418,595)	-
Bad debts reversed	(6,771)	(27,744)
Bad debts written-off	(59,803)	-
	74,748	**559,917**

(c) Guarantees

As at 31 December 2010 the Group provided guarantees for loan from OAO "Sberbank" issued to the Parent Company for the amount of RUB 650,000 thousand (2009: RUB 650,000 thousand). Guarantee is valid through 2011.

(d) Liquidity risk

	2010				
	Carrying value	**Contractual cash flow**	**Within 1 year**	**1-5 years**	**over 5 years**
Secured bank loans	4,362,464	4,746,334	2,449,007	2,297,327	-
Unsecured bank loans	800,000	975,561	83,500	892,061	-
Unsecured loans from related parties	681,646	795,322	51,353	743,969	-
Finance lease liabilities	585,857	858,002	249,939	425,748	182,315
Trade and other payables	263,756	263,756	194,153	69,603	-
Current tax liabilities	3,282	3,282	3,282	-	-
Guarantees issued	650,000	650,000	650,000	-	-
	7,347,005	8,292,257	3,681,234	4,428,708	182,315

All amounts presented in '000 RUB unless otherwise stated

	2009				
	Carrying value	**Contractual flow**	**Within 1 year**	**1-5 years**	**over 5 years**
Secured bank loans	7,539,605	8,157,284	7,347,511	809,773	-
Unsecured bank loans	302,149	328,705	319,432	9,273	-
Unsecured loans from related parties	600	654	654	-	-
Finance lease liabilities	870,063	1,368,548	418,125	648,788	301,635
Trade and other payables	291,884	291,884	291,884	-	-
Current tax liabilities	3,530	3,530	3,530	-	-
Guarantees issued	650,000	650,000	650,000	-	-
	9,657,831	10,800,605	9,031,136	1,467,834	301,635

The contractual maturities of financial liabilities are presented including the estimated interest payments.

(e) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group buys and sells derivatives in order to manage market risks.

(i) Currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	USD-denominated 2010	**USD-denominated 2009**
Current assets		
Cash and cash equivalents	30,242	62 981
Net investment in finance lease	22,541	70,101
Trade accounts receivable	19,934	14 388
Interest receivable on loans issued to related parties	-	226 319
Non-current assets		
Net investment in finance lease	263,198	237 076
Loans issued to related parties	-	998 059
Current liabilities		
Finance lease	(117,526)	(224 406)
Loans and borrowings	(2,178,119)	(5 922 477)
Interest payable	(5 270)	(16 046)
Non-current liabilities		
Finance lease	(50,676)	(166 918)
Loans and borrowings	(1,839,204)	(572 225)
	(3,854,880)	**(5 293 148)**

The following exchange rates were applied at 31 December:

	RUB 2010	**RUB 2009**
1 USD equals	30.4769	30.2442

Management estimate that a 10% strengthening/(weakening) of RUB against the abovementioned currency, based on the Group's exposure as at the balance sheet date would have increased/(decreased) the Group's equity and net profit for the year by RUB 385,488 thousand, before any tax effect (31 December 2009: RUB 529,315 thousand). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

(ii) Interest rate risk

Changes in interest rates impact primarily loans by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates, and trades in interest rate derivative instruments in managing its exposure in accordance with that policy.

The table below details the Group's sensitivity to increase or decrease of floating interest rates by 1%.The analysis was applied to loans and borrowings (financial liabilities) based on the assumptions that amount of liability outstanding as at the balance sheet date was outstanding for the whole year. No impact of derivative financial instruments was considered in analysis.

	2010			
	LIBOR impact		**MOSPRIME impact**	
	Interest rate +1%	Interest rate - 1%	Interest rate +1%	Interest rate -1%
	RUB'000	RUB'000	RUB'000	RUB'000
Profit/(loss)	(37,238)	37,238	(5,951)	5,951

	2009			
	LIBOR impact		**MOSPRIME impact**	
	Interest rate +1%	Interest rate - 1%	Interest rate +1%	Interest rate -1%
	RUB'000	RUB'000	RUB'000	RUB'000
Profit/(loss)	(61,699)	61,699	(5,157)	5,157

As at 31 December 2010, the group entered into the following interest rate financial derivatives:

Type of instrument	**Notional amount '000 USD**	**Interest rate against LIBOR 3M**	**Expiry date**
Swap	28,368	2.64%	2013
Swap	17,021	2.64%	2013
Swap	22,694	2.64%	2013

At 31 December 2010 the fair value of interest rate derivative instruments based on broker quotes is a liability of RUB 69,603 thousand (2009: RUB 38,831 thousand).

(f) Fair values versus carrying amounts

Management believe that the fair value of its financial assets and liabilities approximate their carrying amounts.The fair value of the derivative financial instrument has been determined using the valuation technique. The derivative financial instruments correspond to level 2 of the hierarchy of fair value measurements.

All amounts presented in '000 RUB unless otherwise stated

(g) Capital management

The management board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. This policy includes compliance with certain externally imposed minimum capital requirements. The management board monitors profitability and leverage ratios and compliance with the minimum capital requirements. The management board uses a return on capital ratio which the Group defines as net profit divided by total net assets attributable to equity participants equity. There were no changes in the Group's approach to capital management during the year.

22 Operating leases

The Group leases rolling-stock and office premises under non-cancellable lease agreements. The lease expenditure on rent of rolling-stock charged to the consolidated statement of comprehensive income during the year is disclosed in note 8. The lease expenditure on office rent is included in selling, general and administrative expenses. The future aggregate minimum lease payments under non-cancellable operating leases as at 31 December are as follows for each of the following periods:

	2010	**2009**
Less than one year	654,930	735,250
Between one and five years	364,416	108,572
	1,019,346	**843,822**

23 Capital commitment

At 31 December 2010 the Group has capital commitment for acquisition of rolling stock in the amount of RUB 201,190 thousand (2009: nil).

24 Contingencies

Taxation contingencies in the Russian Federation and Ukraine

Russian and Ukrainian tax law and practice are not as clearly established as those of more developed market economies. Russian tax laws, regulations and court practice are subject to frequent change, varying interpretation and inconsistent and selective enforcement. As a result, sometimes taxpayers are being challenged as to structures and transactions which have not been challenged or litigated as a result of prior tax audits. Taxation of companies in the transportation and freight forwarding industry (including VAT treatment of services relating to imported goods) has historically been a vague area in the Russian tax legislation. The Russian Supreme Arbitration Court issued a ruling # 8133/09 of 8 December 2009 upholding the position of lower courts that there is no basis to apply 0% VAT to unloading and storage of imported goods unless the goods have been placed under the customs regime of free customs zone and stating that the Russian Tax Code does not unequivocally require application of 0% VAT rate to services with respect to unloading and storage of imported goods. Based on that line of reasoning the court confirmed the importer's entitlement to recovery of 18% input VAT on respective services. There were a number of cases where the tax authorities attempted to assess additional VAT on transportation companies and freight forwarders for prior periods arguing that 18% VAT rate (rather than 0% VAT rate) should apply to services on the transportation of imported goods and using the above decision as a basis for their challenge. As of today the court practice on that matter has not been consistent.

On 4 December 2010, Ukrainian parliament adopted a new Tax Code. The Tax Code implements number of legislation changes that affect the taxation of Ukrainian corporate entities and individuals. Accounting treatment of some changes is not clearly described in the Tax Code. Therefore, further clarifications are expected from the relevant Tax authorities with regard to implementation of the new legislative regulations.

The Company has historically applied 0% VAT rate to its services relating to the freight forwarding and transportation of imported goods.

As a result of the field tax audit of the Company for 2007-2008 completed in February 2011 the tax authorities challenged applicability of 0% VAT rate to the services provided by the Company under contracts for provision of freight forwarding services in respect of international transportations of exported and imported goods and assessed additional VAT liabilities on the Company in the amount of RUB 140 m. The tax authorities argued that services rendered by the Company should be qualified as provision of rolling stock for international transportation for a fee (rather than transportation or freight forwarding services) that is taxable at the rate of 18% in the opinion of the tax authorities.

Management believes that the application of 0% VAT rate to such services is justified and no provision is required. Moreover, the Company was already involved in the past in litigations with the tax authorities regarding the legitimacy of application of 0% VAT rate to respective sales revenue in certain quarters of 2007 and 2008 and won the cases.

As of today, 2009 and 2010 technically remain open for tax audit. Management believes that the Company legitimately applied 0% VAT rate to its sales revenue in respective periods. In view of the above mentioned developments in the court practice regarding the application of 0% VAT rate on transportation of imported goods as well as the position taken by the tax authorities during the tax audit for 2007-2008, there is a risk that the tax authorities may assess additional VAT on the Company for 2009 and 2010. In case of such a challenge the amount of such additional assessments and potential impact on these financial statements may be significant.

The taxation system in the Russian Federation and countries of the former Soviet Union is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, different interpretations exist amongst numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are able by law to impose severe fines, penalties and interest charges. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These facts may create tax risks in Russia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

All amounts presented in '000 RUB unless otherwise stated

25 Related party transactions

(a) Transactions with the parent company

	2010	2009
Loans payable by the Group as at 1 January	-	1,400,000
Loans received during the year	500,000	1,586,850
Repayment during the year	(100,000)	(2,986,850)
Loans payable by the Group as at 31 December	400,000	-
Interest payable by the Group as at 1 January	-	29,056
Interest charged to the statement at comprehensive income	11,502	336,856
Interest paid on the loans	(18,854)	(365,912)
Interest payable by the Group as at 31 December	7,354	-
Contribution to charter capital of the Group	-	2,816,850
Proceeds on sale of investments by the Group	-	720,129

(b) Transactions with jointly controlled entities of the parent company

	2010	2009
Amounts due from at the end of year	8,233	20,183
Present value of minimum lease payments receivable as at 1 January	307,177	320,372
Interest income on finace lease	36,552	44,049
Interest income on finance lease paid	(60,272)	(69,965)
Foreign exchange difference	2,282	12,721
Present value of minimum lease payments receivable as at 31 December	285,739	307,177
Loan issued by the Group as at 1 January	-	-
Loans issued during the year	46,081	-
Loans repaid during the year	-	-
Loan issued by the Group as at 31 December	46,081	-
Interest receivable by the Group as at 1 January	-	-
Interest accrued in the statement of comprehensive income	5,517	-
Interest repaid on the loans	-	-
Interest receivable by the Group as at 31 December	5,517	-
Rendering of services by the Group	45,932	-
Services provided to the Group	(176)	-

All amounts presented in '000 RUB unless otherwise stated

(c) Transactions with subsidiaries of the parent company

	2010	2009
Amounts due (to)/from at the end of year	5,685	25,497
Present value of minimum lease payments receivable as of 1 January	120,605	134,443
Interest income on finance lease	14,636	17,303
Interest income on finance lease paid	(27,059)	(31,141)
Present value of minimum lease payments receivable as at 31 December	108,182	120,605
Loans issued by the Group as at 1 January	1,057,059	1,017,709
Loans issued during the year	444,390	1,188,912
Repaid during the year	(1,460,927)	(1,080,412)
Foreign exchange differences	15,978	(69,150)
Loans issued by the Group as at 31 December	56,500	1,057,059
Deposits as at 1 January	255,500	100,000
Deposits placed during the year	889,400	1,891,400
Deposits repaid during the year	(1,044,900)	(1,735,900)
Deposits as at 31 December	100,000	255,500
Interest receivable by the Group as at 1 January	237,033	43,290
Interest accrued in the statement of comprehensive income	91,637	239,456
Interest repaid on the loans	(313,417)	(45,713)
Foreign exchange differences	1,338	-
Interest receivable by the Group as at 31 December	16,591	237,033
Loans payable by the Group as at 1 January	600	293,800
Loans received during the year	274,123	320,254
Repayment during the year	(1,400)	(653,558)
Foreign exchange differences	969	40,104
Loans payable by the Group as at 31 December	274,292	600
Interest payable by the Group as at 1 January	10	9,609
Interest charged to the statement of comprehensive income	62	3,372
Interest paid on the loans	(72)	(12,971)
Interest payable by the Group as at 31 December	-	10
Rendering of services by the Group	93,784	55,767
Services provided to the Group	(61,106)	(59,255)
Proceeds on sale of fixed assets by the Group	-	27,465
Consideration paid for acquisition of subsidiary by the Group	-	(1,256,002)
Contribution received from participants	418,595	-

(d) Management remuneration

During the year key management personnel received RUB 62,921 thousand (2009: RUB 36,097 thousand) in remuneration.

All amounts presented in '000 RUB unless otherwise stated

26 Significant subsidiaries

The principal subsidiaries consolidated within the Group and the degree of control exercised by the Company are as follows:

Entity	Country of Incorporation	Activity	Ownership at 31/12/2010	Ownership at 31/12/2009
OOO "TG-Leasing"	Russia	Lease of rolling stock	100%	100%
TG Finance Limited	Cyprus	Financial business	100%	100%
DP "Transgarant-Ukraine"	Ukraine	Transportation services	100%	100%
OOO "Transgarant Vostok"	Russia	Transportation services	100%	100%
SIA "TEKTRANS"	Latvia	Transportation services	100%	100%

27 Events subsequent to the reporting date

- In February 2010 the Group entered into a loan agreement with related party for receipt of a loan of USD 83 million. Maturity date of the loan is 2016;
- In February 2010 the Group received a second tranch within the credit line in the amount of RUB 600 million, payable in 180 days from the moment of borrowing;
- In February 2010 the Group redeemed loans in the amount of USD 56,725 thousand and RUB 800 million;
- Subsequent to the balance sheet date the Group entered into rolling stock finance lease agreement where contracted value of leased rolling stock is RUB 3,969 million.