OPEN JOINT STOCK COMPANY “TRANSCONTAINER”

Consolidated Financial Statements
For the Year Ended 31 December 2010

OJSC "TRANSCONTAINER"

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of OJSC "TransContainer" (the "Company"), its joint ventures and subsidiaries (the "Group") as of 31 December 2010, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2010 were approved on 28 April 2011 by:

P. V. Baskakov	**K. S. Kalmykov**
General Director	Chief Accountant

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Open Joint Stock Company "TransContainer":

We have audited the accompanying financial statements of Open Joint Stock Company "TransContainer", its subsidiaries and its joint ventures (the "Group"), which comprise the consolidated statement of financial position as of 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility

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

Auditors' responsibility

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

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

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

Opinion

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

Emphasis of matter

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

Deloitte & Touche

28 April 2011

OJSC "TRANSCONTAINER"

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2010
(Amounts in millions of Russian Roubles)

	Notes	2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment	7	25,644	23,097
Advances for acquisition of non-current assets	7	2,004	2,308
Intangible assets		85	102
Deferred tax asset	24	4	-
Investments in associates		101	5
Long-term investments	8	8	201
Total non-current assets		**27,846**	**25,713**
Current assets			
Inventory		179	134
Trade and other receivables	9	1,331	1,941
Prepayments and other current assets	10	2,869	2,263
Prepaid income tax		115	98
Short-term investments	11	-	143
Cash and cash equivalents	12	1,291	449
Total current assets		**5,785**	**5,028**
TOTAL ASSETS		**33,631**	**30,741**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	13	13,895	13,895
Reserve fund	13	284	283
Translation reserve		7	-
Other reserves	13	(2,221)	(2,221)
Retained earnings		7,411	6,486
Total equity		**19,376**	**18,443**
Non-current liabilities			
Long-term debt	14	5,976	1,520
Finance lease obligations, net of current maturities	15	392	1,115
Employee benefit liability	16	677	490
Deferred tax liability	24	1,438	1,516
Deferred income	15	12	49
Total non-current liabilities		**8,495**	**4,690**
Current liabilities			
Trade and other payables	17	3,965	3,172
Income tax payable		77	76
Taxes other than income tax payable	18	741	170
Provisions	19	34	-
Finance lease obligations, current maturities	15	545	793
Accrued expenses and other current liabilities	20	248	184
Deferred income	15	37	60
Current portion of long-term debt	14	113	3,153
Total current liabilities		**5,760**	**7,608**
TOTAL EQUITY AND LIABILITIES		**33,631**	**30,741**

P. V. Baskakov
General Director

K. S. Kalmykov
Chief Accountant

28 April 2011

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

OJSC "TRANSCONTAINER"

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010
(Amounts in millions of Russian Roubles, unless otherwise stated below)

	Notes	2010	2009
Revenue	21	22,841	16,400
Operating expenses, net	22	(20,748)	(14,726)
Operating income		**2,093**	**1,674**
Interest expense	23	(848)	(945)
Interest income		15	35
Foreign exchange gain, net		16	4
Other gains and losses		66	-
Profit before income tax		**1,342**	**768**
Income tax expense	24	(414)	(179)
Profit for the year		**928**	**589**
Other comprehensive income:			
Exchange differences on translating foreign operations		7	-
Total comprehensive income for the year		**935**	**589**
Earnings per share, basic and diluted (Russian Roubles)		**67**	**42**
Weighted average number of shares outstanding	**13**	**13,894,778**	**13,894,778**

P. V. Baskakov
General Director

K. S. Kalmykov
Chief Accountant

28 April 2011

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

OJSC "TRANSCONTAINER"

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010
(Amounts in millions of Russian Roubles)

	2010	2009
Cash flows from operating activities:		
Profit before income tax	**1,342**	**768**
Adjustments for:		
Depreciation and amortization	2,237	2,250
Change in provision for impairment of receivables	33	(25)
Gain on disposal of property, plant and equipment	(147)	(257)
Loss on impairment of property, plant and equipment	11	16
Loss from termination of finance leases	31	-
Interest expense, net	833	910
Other gains and losses	(66)	-
Foreign exchange loss/(gain), net	(16)	(4)
Change in provisions	23	(30)
Operating profit before working capital changes	**4,281**	**3,628**
(Increase)/decrease in inventory	(45)	13
(Increase)/decrease in trade and other receivables	(141)	458
Increase in prepayments and other current assets	(484)	(299)
Increase/(decrease) in trade and other payables	599	(458)
Increase/(decrease) in taxes other than income tax payable	643	(48)
Increase/(decrease) in accrued expenses and other current liabilities	64	(138)
Increase in employee benefit liabilities	187	27
Net cash from operating activities before income tax	**5,104**	**3,183**
Interest paid	(949)	(832)
Income tax paid	(502)	(183)
Net cash provided by operating activities	**3,653**	**2,168**
Cash flows from investing activities:		
Purchases of property, plant and equipment	(4,046)	(3,107)
Proceeds from disposal of property, plant and equipment	230	135
Purchases of long-term investments	-	(8)
Purchases of short-term investments	-	(88)
Proceeds from disposal of long-term investments	30	50
Proceeds from disposal of short-term investments	50	-
Purchase of intangible assets	(18)	(66)
Interest received	23	36
Net cash used in investing activities	**(3,731)**	**(3,048)**
Cash flows from financing activities:		
Proceeds from long-term borrowings	-	1,520
Proceeds from short-term borrowings	-	3,521
Proceeds from issue of bonds	2,975	2,855
Dividends paid	(2)	(268)
Repayments of finance lease obligations	(1,001)	(337)
Proceeds from sale and leaseback	404	-
Principal payments on long-term borrowings	(1,520)	-
Principal payments on short-term borrowings	-	(3,378)
Principal payments on short-term RUR bonds	-	(2,902)
Cash received from depository upon shareholder sale of GDRs	66	-
Net cash provided by financing activities	**922**	**1,011**
Net increase in cash and cash equivalents	**844**	**131**
Cash and cash equivalents at beginning of the year	**449**	**453**
Foreign exchange loss on cash and cash equivalents	(2)	(135)
Net cash and cash equivalents at end of the year	**1,291**	**449**

P. V. Baskakov
General Director

K. S. Kalmykov
Chief Accountant

28 April 2011

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts in millions of Russian Roubles)

	Share capital	Reserve fund	Translation reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2009	**13,895**	**149**		**(2,221)**	**6,299**	**18,122**
Profit and comprehensive income for the year	-	-	-	-	589	589
Dividends	-	-	-	-	(268)	(268)
Transfer to reserve fund	-	134	-	-	(134)	-
Balance at 31 December 2009	**13,895**	**283**	**-**	**(2,221)**	**6,486**	**18,443**
Profit for the year	-	-	-	-	928	928
Other comprehensive income for the year	-	-	7	-	-	7
Total comprehensive income for the year	**-**	**-**	**7**	**-**	**928**	**935**
Dividends	-	-	-	-	(2)	(2)
Transfer to reserve fund	-	1	-	-	(1)	-
Balance at 31 December 2010	**13,895**	**284**	**7**	**(2,221)**	**7,411**	**19,376**

P. V. Baskakov
General Director

K. S. Kalmykov
Chief Accountant

28 April 2011

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

(Amounts in millions of Russian Roubles)

1. NATURE OF THE BUSINESS

OJSC "TransContainer" (hereinafter the "Company") was incorporated as an open joint stock company in Moscow, Russian Federation on 4 March 2006. The Company was formed as a result of a spin-off by OJSC "Russian Railways" ("RZD"), which is 100% owned by the Russian Federation, of certain of its activities and certain assets and liabilities related to container transportation into a separate legal entity. In connection with this spin-off RZD contributed to the share capital of the Company containers, flatcars, buildings and constructions in the amount of RUR 13,057 million, VAT receivable related to these assets of RUR 104 million, and cash of RUR 991 million, in exchange for the ordinary shares of the Company. Furthermore, certain employees previously employed by RZD were hired by the Company. The Company assumed related employee benefit liabilities from RZD. Pursuant to this spin-off, RZD maintained the functions of the carrier, whilst the Company assumed the functions of a freight forwarding agent.

The Company's principal activities include arrangement of rail-based container shipping and other logistics services including terminal services, freight forwarding and intermodal delivery using rolling stock and containers. The Company owns and operates 46 container terminals along the railway network in Russia. As of 31 December 2010 the Company operated 18 branches located in the Russian Federation. The Company's registered address is 12, Novoryazanskaya Street, Moscow, 107228, Russian Federation, and its principal place of business is 19, Oruzheiniy pereulok, Moscow, 125047, Russian Federation.

The Company has ownership in the following entities:

				% interest held		% control held	
Name of Entity	**Type**	**Country**	**Activity**	**2010**	**2009**	**2010**	**2009**
Oy ContainerTrans Scandinavia Ltd.	Joint venture	Finland	Container shipments	50	50	50	50
JSC TransContainer-Slovakia	Subsidiary	Slovakia	Container shipments	100	100	100	100
Chinese-Russian Rail-Container International Freight Forwarding (Beijing) Co, Ltd.	Joint venture	China	Container shipments	49	-	50	-
TransContainer Europe GmbH	Subsidiary	Austria	Investing activities	100	-	100	-
TransContainer Asia Pacific Ltd.	Subsidiary	Korea	Container shipments	100	-	100	-
Trans-Eurasia Logistics GmbH	Associate	Germany	Container shipments	20	20	20	20
Far East Land Bridge Ltd.	Associate	Cyprus	Container shipments	10	-	25	-

Chinese-Russian Rail-Container International Freight Forwarding (Beijing) Co, Ltd. was established in August 2010 as a joint venture between the Company and China Railway International Multimodal Transport Co., Ltd., to act as an agent in providing transportation services on international routes.

TransContainer Asia Pacific Ltd. was established in August 2010 for the purpose of providing freight-forwarding services on international routes.

TransContainer Europe GmbH was established in August 2010 for the purpose of managing the Group's investments in its Western-European subsidiaries.

The Group acquired 20% interest in Trans-Eurasia Logistics GmbH during 2010 in order to increase its access to traffic flow between Western Europe and Russia. The Group's share in the profit / (loss) of Trans-Eurasia Logistics GmbH subsequent to the acquisition was immaterial.

The Group acquired 10% interest in Far East Land Bridge during 2010 in order to facilitate the expansion of its operations into European markets. The Group's share in the profit / (loss) of Far East Land Bridge subsequent to the acquisition was immaterial.

The consolidated financial statements of OJSC "TransContainer", its subsidiaries and its joint ventures (the "Group") as of 31 December 2010 and for the year then ended were authorized for issue by the General Director of the Company on 28 April 2011.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

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

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

The consolidated financial statements have been prepared using the historical cost convention, except for the effects of assets acquired and liabilities assumed at the formation of the Company, which were recorded at the estimated fair value at the date of transfer.

The accompanying consolidated financial statements differ from the financial statements issued for statutory purposes in that they reflect certain adjustments, not recorded in the statutory books, which are appropriate to present the financial position, results of operations and cash flows of the Group in accordance with IFRS.

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

Going concern **–** These consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future, which implies the realization of assets and settlement of liabilities in the normal course of business.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

The accounting policies have been applied consistently by all consolidated operating entities.

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

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

Interests in joint ventures – A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control i.e. the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

The Company's interests in jointly controlled entities is recognized using proportional consolidation whereby the Company's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis. Where the Group transacts with its jointly controlled entities, unrealized profits and losses are eliminated to the extent of the Group's interest in the joint venture.

The Group discontinues the use of proportionate consolidation from the date on which it ceases to have joint control over a jointly controlled entity.

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

When the functional currency of an entity of the Group is not the presentation currency of the Company, the results and financial position of the entity are translated into the presentation currency using the following procedures:

- all assets and liabilities are translated at the closing rate at the date of each presented statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates for the period if fluctuation of exchange rates during the period was insignificant. Otherwise exchange rates at the dates of the transactions are used for translation to the presentation currency;
- capital and reserves are translated at historical rates;
- all resulting exchange differences are recognized as other comprehensive income;
- in the statement of cash flows cash balances at the beginning and at the end of each presented period are translated at exchange rates effective at the corresponding dates. All cash flows are translated at average exchange rates for the presented periods. All resulting exchange differences are recognized in consolidated profit or loss.

Property, plant and equipment – Property, plant and equipment are recorded at purchase or construction cost, less accumulated depreciation and accumulated impairment in value. The costs of day to day servicing of property, plant and equipment, including repairs and maintenance expenditure, is expensed as incurred.

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

Construction in progress

Construction in progress includes, principally, capital expenditure incurred in relation to the construction of new container terminals and the reconstruction of existing terminals. Construction in progress is carried at cost, less any recognized impairment loss. Cost includes capital expenditures directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads including capitalised borrowing costs on qualifying assets. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are ready for their intended use.

Subsequent costs

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

Depreciation

Depreciation is charged to the consolidated profit or loss so as to write off the cost of assets (other than land and construction in progress) less their estimated residual values over their useful lives, using the straight-line method over the estimated useful lives of each part of an item of property, plant and equipment. Owned land plots are not depreciated.

The estimated useful economic lives for property, plant and equipment are as follows:

	Number of years
Buildings	20-80
Constructions	10-45
Containers	10-15
Flatcars	28-32
Cranes and loaders	5-15
Vehicles	3-10
Other equipment	2-25

The assets' useful lives and methods are reviewed and adjusted as appropriate, at each financial year-end.

Leased assets

Capitalized leased assets and operating leasehold improvements are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Gain or loss on disposal

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

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

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

Useful lives and amortization methods for intangible assets are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for as changes in accounting estimates.

Impairment of non-current assets – At each balance sheet date, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in-use. In assessing value in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated profit or loss.

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

Loans and receivables

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

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

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

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

Inventories – Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

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

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

Defined benefit plans

The Group operates two partially funded defined benefit pension plans. The obligation and cost of benefits under the plans are determined separately for each plan using the projected unit credit method. This method considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The cost of providing pensions is charged to the consolidated profit or loss, so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula of the plan. This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit obligation. Actuarial gains and losses are recognized as income or expense in full as they arise.

In addition, the Group provides certain other retirement and post retirement benefits to its employees. These benefits are not funded.

Upon introduction of a new plan or improvement of an existing plan past service costs are recognized on a straight-line basis over the average period until the amended benefits become vested. To the extent that the benefits are already vested, past service cost is immediately expensed.

Defined contribution plans

In addition to the defined benefit plans described above, the Group also sponsors a defined contribution plan for certain of its employees. The Group's contributions relating to the defined contribution plan are charged to the consolidated profit or loss in the year to which they relate.

State Plan

In addition, the Group is legally obligated to make contributions to the Pension Fund of the Russian Federation (a multi-employer defined contribution plan). The Group's only obligation is to pay the contributions as they fall due. As such, the Group has no legal obligation to pay and does not guarantee any future benefits to its Russian employees. The Group's contributions to the Pension Fund of the Russian Federation, designated as a defined contribution plan, are charged to the consolidated profit or loss in the year to which they relate. Contributions for each employee to the Russian Federation State Pension Fund vary from 0% to 20%, depending on the annual gross remuneration of each employee.

Value added tax – Output value added tax ("VAT") related to revenues is payable to tax authorities upon delivery of the goods or services to customers, as well as upon collection of prepayments from customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis (except for input VAT related to export services provided related input VAT which is reclaimable upon confirmation of export). VAT related to sales and purchases is recognized in the consolidated 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.

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

Provisions – Provisions are recognized when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is significant, the amount of a provision is the present value of the cash flows required to settle the obligation.

Revenue recognition – Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of sales related taxes. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues from sales of inventories are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

Rail-based container shipping services

Rail-based transportation services provided by the Group primarily include arranging the transportation of its own and third-party containers by rail by means of provision of flatcars and/or containers and leasing of flatcars and containers to third parties. Revenues from these services are recognized in the accounting period in which the services are rendered, net of charges for third-party services. Revenues from operating lease of rolling stock are recognized on a straight-line basis over the term of operating lease agreements.

Integrated logistics services

Integrated logistics services are service packages including basic container shipping, handling of container terminals, truck deliveries, freight forwarding and logistic services rendered to customers under through-rate contracts at a single “through-rate”. Integrated logistics services revenue is a combination of revenues relating to various services provided under through-rate contracts, which, when provided under separate contracts, are shown in corresponding separate revenues line items. Integrated logistics services revenue is recognized in the accounting period in which the services are rendered.

Terminal services and agency fees

Terminal services primarily include container handling, such as loading and unloading operations, container storage and other terminal operations. The Group acts on behalf of RZD in providing mandatory railroad services for all railway users at the Group’s terminals, designated as the “sites of common use” by the legislation. In this capacity the Group provides some of its terminal services as a legal intermediary (agent) between clients and RZD and collects a commision. Commission fees collected from RZD for intermediary activities and revenue from other terminal operations are recognized in the accounting period in which the services are provided.

Bonded warehousing services

Bonded warehousing services are services related to storage of customers’ containers in separate warehouses located at container terminals while pending customs clearance or payment of other applicable duties. Revenue from these services is recognized on the basis of the number of days during which the services are rendered.

Truck deliveries

Truck delivery services include transporting containers between the container terminals and client-designated sites using Group’s own truck fleet as well as third parties’ trucks. Revenue from truck deliveries is recognized in the accounting period in which the services are rendered.

Freight forwarding and logistics services

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

(i) preparation and ensuring of correctness of shipping documentation required for the delivery process to be effected;
(ii) customs clearance brokerage by providing clients with customs documentation and services for Russian customs clearance;
(iii) cargo tracking services by providing clients with information about cargo location;
(iv) route optimization and planning; and
(v) cargo security services, including provision of insurance, special labels for hazardous cargo, special terms for transportation of hazardous cargo, and ensuring proper documentation for the transported cargo.

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

Dividend and interest income

(i) Dividends from investments are recognized in the consolidated profit or loss when the shareholder’s right to receive payment has been established;
(ii) Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Leases – The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operatng leases.

Finance leases

Assets under finance leases are recognized as assets at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

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

Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating leases

Payments made under operating leases are recognized in the consolidated profit or loss on a straight-line basis over the term of the lease. Lease incentives received are as a liability, and recognised as a reduction in expense on a straight-line basis. Contingent rentals under operating leases are recognized as an expense in the period in which they are incurred.

Sale and leaseback

A sale and leaseback transaction involves the sale of an asset and the leasing the same asset back. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortized over the lease term.

If a sale and leaseback transaction results in an operating lease and the transaction is established at fair value any profit or loss is recognized immediately. If the sale price is below fair value any profit or loss will be recognized immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used.

Borrowing costs – For the periods beginning 1 January 2009, borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized and amortized over the useful life of the asset. Other borrowing costs are recognized as an expense in the period in which they are incurred. For periods prior to 1 January 2009 all borrowing costs were expensed in the period in which they were incurred.

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

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date. Provisions in respect of uncertain tax positions which relate to income tax are included in current income tax at an amount expected to be payable including penalties, if any.

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

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

Deferred tax assets and liabilities are not discounted.

Share capital and other reserves – Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. The difference between the fair value of consideration received and the par value of shares issued is recognized as other reserves. Similarly, any differences arising on transactions with shareholders which are treated as equity transactions are adjusted directly against other reserves.

Earnings per share – Earnings per share are calculated by dividing the income for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The Group does not have any potentially dilutive equity instruments.

Dividends – Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date by the shareholders at a general meeting. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorized for issue.

Contractual commitments – Contractual commitments comprise legally binding trading or purchase agreements with stated amount, price and date or dates in the future. The Group discloses significant contractual commitments in the Notes to the consolidated financial statements.

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

4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRSs and IFRIC interpretations adopted in the current year

In the current year, the Group adopted all new and revised standards and interpretations issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretation Committee ("IFRIC") of the IASB that are mandatory for adoption in the annual periods beginning on or after 1 January 2010. The effect from their adoption has not resulted in any significant changes to measurement and presentation of disclosures in the financial statements of the Group.

IFRS and IFRIC interpretations not yet effective

At the date of authorization of these consolidated financial statements, the following standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods and which the entity has not early adopted:

Standards and Interpretations	**Effective for annual periods beginning on or after**
IAS 12 "Income tax" (amended)	1 January 2012
IAS 24 "Related party disclosures"(revised)	1 January 2011
IAS 32 "Financial instruments: presentation" (amended)	1 February 2010
IFRS 7 "Financial instruments: disclosures" (amended)	1 July 2011
IFRS 9 "Financial instruments"	1 January 2013
IFRIC 14 "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" (amended)	1 January 2011
IFRIC 19 "Extinguishing financial liabilities with equity instruments"	1 July 2010

Also a number of standards and interpretations were amended with Annual Improvements to IFRS issued in May 2010. These amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in different standards. These amendments are mandatory for adoption in the annual periods beginning on or after 1 January 2011.

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

- IAS 24 “Related party disclosures” (revised) – simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities.
- IFRS 9 “Financial instruments” – incorporates new requirements on accounting for financial liabilities and includes the existing IAS 39 requirements for derecognition of financial assets and financial liabilities.
- IFRIC 19 “Extinguishing financial liabilities with equity instruments” – clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognized in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Provision for impairment of receivables – Management maintains a provision for impairment of short-term receivables in the form of an allowance account equal to estimated losses resulting from the inability of customers and other debtors to make required payments. When evaluating the adequacy of this allowance account, management bases its estimates on the ageing of accounts receivable balances and historical write-off experience, customer creditworthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2010 and 2009, the provision for impairment of receivables was recognized in the amount of RUR 84 million and RUR 62 million, respectively (Note 9).

Depreciable lives of property, plant and equipment – The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 “Accounting policies, changes in accounting estimates and errors”. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

Impairment of property, plant and equipment – The Group reviews at each reporting date the carrying amounts of its property, plant and equipment to determine whether there is any indication that assets are impaired. This process involves judgment in evaluating the cause for any possible reduction in value, including a number of factors such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists.

Whenever such indications exist management makes an estimate of the asset’s recoverable amount to ensure that it is not less than its carrying value. If the asset’s fair value is not readily determinable or is less than asset’s carrying value plus costs to sell, management necessarily applies its judgment in determining the appropriate cash generating unit to be evaluated, estimating the appropriate discount rate and the timing and value of the relevant cash flows for the value in-use calculation.

Compliance with tax legislation – Compliance with tax legislation, particularly in the Russian Federation, is subject to significant degree of interpretation and can be routinely challenged by the tax authorities. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Management believes that it has accrued all applicable taxes. Where uncertainty exists, the Group has accrued tax liabilities as management’s best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has adequately provided for tax liabilities based on its interpretations of tax legislation (see Note 19). However, there exists a possibility that relevant tax authorities may have differing interpretations than those of the management, and the effect of such differences could be significant.

Pension obligations – The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This method involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.), as well as financial assumptions (discount rate, future salary and benefits levels, expected rate of return on plan assets, etc.). In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be materially affected (Note 16).

6. CRITICAL ACCOUNTING JUDGEMENTS

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Accounting for leases – A lease is classified as finance lease if it transfers substantially all the risks and rewards incidental to ownership. Otherwise it is classified as operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. In determining the accounting treatment of transactions that involve the legal form of a lease, all aspects and implications of an arrangements are evaluated to determine the substance of such transactions with weight given to those aspects and implications that have an economic effect. If the lease term is for longer than 75% of the economic life of the asset, or at the inception of the lease the present value of the minimum lease payments amounts to at least 90% of the fair value of the leased asset, the lease is classified by the Group as a finance lease, unless it is clearly demonstrated otherwise.

7. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and constructions	Containers and flatcars	Cranes and loaders	Vehicles and other equipment	Construction in-progress	Total
Cost						
1 January 2009	**4,098**	**18,823**	**1,184**	**1,593**	**854**	**26,552**
Additions	8	2,657	-	142	523	3,330
Transfers	167	-	-	41	(208)	-
Disposals	(46)	(241)	(11)	(14)	(2)	(314)
31 December 2009	**4,227**	**21,239**	**1,173**	**1,762**	**1,167**	**29,568**
Additions	229	3,586	68	242	742	4,867
Transfers	447	28	60	7	(542)	-
Disposals	(7)	(428)	(11)	(87)	(35)	(568)
31 December 2010	**4,896**	**24,425**	**1,290**	**1,924**	**1,332**	**33,867**
Accumulated depreciation						
1 January 2009	**(753)**	**(2,982)**	**(358)**	**(400)**	**-**	**(4,493)**
Depreciation charge	(202)	(1,517)	(159)	(331)	-	(2,209)
Impairment	(7)	-	(9)	-	-	(16)
Disposals	18	208	9	12	-	247
31 December 2009	**(944)**	**(4,291)**	**(517)**	**(719)**	-	**(6,471)**
Depreciation charge	(210)	(1,529)	(150)	(312)	-	(2,201)
Reversal of impairment / (impairment)	4	-	(13)	1	(3)	(11)
Disposals	4	373	7	76	-	460
31 December 2010	**(1,146)**	**(5,447)**	**(673)**	**(954)**	**(3)**	**(8,223)**
Net book value						
31 December 2009	**3,283**	**16,948**	**656**	**1,043**	**1,167**	**23,097**
31 December 2010	**3,750**	**18,978**	**617**	**970**	**1,329**	**25,644**

Included in land, buildings and constructions is the amount of RUR 231 million and RUR 110 million, which represents the value of land plots owned by the Group as of 31 December 2010 and 31 December 2009 respectively.

During the year ended 31 December 2010 the Group acquired part of the property from LLC “Zapadny Port”, a related party, including land in the amount of RUR 121 million and movable and immovable property in the amount of RUR 80 million.

Vehicles and other equipment includes motor transport used for terminal services and truck deliveries in the amount of RUR 859 million and RUR 844 million as of 31 December 2010 and 31 December 2009, respectively.

Construction in-progress as of 31 December 2010 consisted mainly of the following:

- capital expenditure incurred in relation to the construction of new container terminals in Novosibirsk, Nizhniy Novgorod and Moscow Region amounting to RUR 321 million, RUR 93 million and RUR 69 million, respectively;
- reconstruction of container terminals in Yekaterinburg and Saratov in the amount of RUR 108 million and RUR 24 million, respectively;
- reconstruction of repair depot in Lipetsk region in the amount of RUR 24 million; and
- capital expenditure related to construction of the Company’s new offices of RUR 312 million.

Leased assets as of 31 December 2010 and 2009 where the Group is a lessee under finance leases, comprised the following:

	2010	2009
Cost	1,994	2,753
Accumulated deprecation	(232)	(145)
Net book value	**1,762**	**2,608**

Refer to Note 15 for further details regarding finance leases.

Advances for acquisition of non-current assets

As of 31 December 2010 and 2009 advances for acquisition of non-current assets consisted of amounts paid for the acquisition of an office building in Moscow (RUR 1,642 million), the acquisition of rolling stock (RUR 247 million and RUR 574 million, respectively) and the acquisition of other non-current assets (RUR 115 million and RUR 92 million, respectively).

8. LONG-TERM INVESTMENTS

	Effective interest rate	2010	2009
Promissory notes	0%	-	197
Other long-term investments		8	4
Total long-term investments		**8**	**201**

During the year ended 31 December 2010 the Group used the promissory notes of LLC “Finans-Proekt” in the amount of RUR 165 million as part of the settlement for the acquisition of property from LLC “Zapadny Port” (see also Note 7). The remaining notes in the amount of RUR 32 million were settled in cash.

9. TRADE AND OTHER RECEIVABLES

	Outstanding balance, gross	Provision for impairment	Outstanding balance, net
31 December 2010			
Trade receivables	1,382	(84)	1,298
Other receivables	33	-	33
Total	**1,415**	**(84)**	**1,331**
31 December 2009			
Trade receivables	1,114	(56)	1,058
Other receivables	889	(6)	883
Total	**2,003**	**(62)**	**1,941**

As at 31 December 2009 other receivables include RUR 477 million receivable from CJSC "Gorodskaya Innovacionno-Lizingovaya Kompaniya" under a sale and leaseback agreement (Note 15) and RUR 248 million receivable from LLC "Novorossiysky Mazutny Terminal' for a sale of a plot of land. These amounts were received in cash during 2010.

The average credit period on the Group's sales (other than for sales carried out on a prepayment basis) is 35 days.

Included in the Group's total trade and other receivables are debtors with a carrying amount of RUR 410 million and RUR 346 million as of 31 December 2010 and 2009, respectively, which are past due at the respective reporting date and which the Group considers to be recoverable (i.e. not impaired). The Group does not hold any collateral over these outstanding balances.

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

	2010	2009
35-90 days	74	26
90-180 days	92	151
more than 180 days	244	169
Total past due but not impaired	**410**	**346**

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

	2010	2009
Balance at beginning of the year	**(62)**	**(87)**
Additional provision, recognized in the current year	(42)	(36)
Release of provision	9	61
Utilization of provision	11	-
Balance at end of the year	**(84)**	**(62)**

10. PREPAYMENTS AND OTHER CURRENT ASSETS

	2010	2009
VAT receivable	854	681
Advances to suppliers	1,855	1,450
Other current assets	160	132
Total prepayments and other current assets	**2,869**	**2,263**

11. SHORT-TERM INVESTMENTS

	2010	2009
Promissory notes	-	55
Loans	-	88
Total short-term investments	**-**	**143**

Loans as of 31 December 2009 represent an interest free six-month EURO-denominated loan was issued to Far East Land Bridge Ltd. During 2010 the loan was exchanged for 10% ownership in the entity and therefore entire amount of the loan was transferred to investment in associates.

The promissory notes in the amount of RUR 55 million were redeemed in cash during 2010.

12. CASH AND CASH EQUIVALENTS

	2010	2009
Russian Rouble denominated cash in hand and balances with banks	533	387
Foreign currency denominated balances with banks	154	62
Russian Rouble denominated bank deposits	600	-
Foreign currency denominated bank deposits	4	-
Total cash and cash equivalents	**1,291**	**449**

The terms of Russian Rouble denominated short-term bank deposits vary from nine days to three months depending on the immediate cash requirements of the Company. Two Russian Rouble denominated short-term bank deposits in the amount of RUR 300 million each, bearing interest at annual rates of 2.5% and 2.25%, were placed with JSC TransCreditBank, a related party, as of 31 December 2010 (Note 25). The deposits matured on 11 January 2011.

13. EQUITY

Share Capital

Authorized and issued capital as of 31 December 2010 and 2009 comprises:

	Number of outstanding ordinary shares	Value
Ordinary shares (par value: RUR 1,000)	13,894,778	13,895

On 12 November 2010 in the course of an initial public offering the Company's shares were listed on the Moscow Interbank Currency Exchange (MICEX) and the Russian Trading System stock exchange (RTS), and the Company's global depositary receipts were listed on the London Stock Exchange. A total of 5,002,118 ordinary shares were offered by the existing shareholders in the course of the initial public offering. No additional shares were issued by the Company. RZD continues to be the controlling shareholder of the Company, holding 50%+2 of its ordinary shares.

Other Reserves

As discussed in Note 1, the Company was formed as a result of a spin-off by RZD which involved the contribution by RZD of containers, flatcars, buildings and constructions, VAT receivable related to these assets, and cash, in exchange for ordinary shares in the Company.

The difference between the fair value of net assets contributed and the nominal value of the shares issued by the Company of RUR 2,255 million was recorded as other reserves.

In addition, any differences arising on transactions with shareholders which are treated as equity transactions are adjusted directly against other reserves.

Retained Earnings, Dividends

In accordance with the Russian legislation, dividends may only be declared from the Company's accumulated undistributed and unreserved earnings as shown in the Company's statutory financial statements, which are prepared in accordance the Regulations on Accounting and Reporting of the Russian Federation. The Company had RUR 4,848 million and RUR 4,461 million of undistributed and unreserved earnings as of 31 December 2010 and 2009, respectively.

Dividends of RUR 0.16 per share (RUR 2 million) were approved at the annual shareholders' meeting on 23 June 2010 relating to the Group's results for the year ended 31 December 2009. As of 31 December 2010, the dividends have been fully paid.

Dividends of RUR 19.29 per share (RUR 268 million) were approved at the annual shareholders' meeting on 23 June 2009, relating to the Group's results for the year ended 31 December 2008. As of 31 December 2009, the dividends have been fully paid.

Reserve Fund

According to its charter, the Company is required to establish a legal reserve fund through the allocation of 5 percent of net profit as computed under the Russian accounting regulations. The total amount of the reserve fund is limited to 5 percent of the nominal registered amount of the Company's issued share capital. The reserve fund may only be used to offset losses of the Company as well as to redeem issued bonds or purchase treasury shares and cannot be distributed to shareholders. As of 31 December 2010 and 2009 the Company's reserve fund is RUR 284 million and RUR 283 million, respectively.

14. LONG-TERM DEBT

Bank loans – During 2009, RUR-denominated five-year loans from Alfa Bank were obtained by the Group to finance the acquisition of flatcars. The effective interest rate for the loans was 12.0%-12.5%, with interest payable on the 25th of each month. As at 31 December 2009 the outstanding amount of loans was RUR 1,520 million. During 2010 the loans were fully repaid.

RUR bonds, series 1 – On 4 March 2008 the Company issued non-convertible five-year bonds for the total amount of RUR 3,000 million with 1,000 Roubles par value maturing in March 2013. These five-year bonds contained two put options which may be exercised by the holders of the bonds in March 2009 and March 2010 for payment of the amortized cost of the bonds. On the same date the bondholders are able to exercise the put options; the Company may reset the coupon rates on such bonds. On 13 March 2009, pursuant to the terms of a put option, majority of bondholders requested redemption of their bonds. The Group redeemed the bonds, re-issuing them on a public market on the same day with a new interest rate of 16.5% per annum, with interest being paid semi-annually. On 12 March 2010, the Company changed the coupon rate was changed to 9.5% for all remaining bonds.

As the bondholder put options have now expired, as of 31 December 2010 the Group has classified the remaining issued bonds as long-term borrowings. The carrying value of the bonds as at 31 December 2010 amounted to RUR 3,095 million (RUR 3,153 million at 31 December 2009).

The amount of accrued interest is RUR 95 million (RUR 164 million at 31 December 2009), and has been included as the current portion of long-term debt in the consolidated statement of financial position.

RUR bonds, series 2 – On 10 June 2010 the Company issued non-convertible five-year bonds for the total amount of RUR 3,000 million with 1,000 Roubles par value. Net proceeds from the issuance after the deduction of related offering costs amounted to RUR 2,975 million. The annual coupon rate of the bonds for five years is 8.8% with interest paid semi-annually.

The bonds, series 2 will be redeemed in four equal semi-annual installments within the fourth and the fifth year. As a result, these borrowings are classified as long-term borrowings as at the reporting date.

The carrying value of the bonds as at 31 December 2010 amounts to RUR 2,994 million. The amount of accrued interest is RUR 18 million, and has been included as the current portion of long-term debt in the consolidated statement of financial position.

15. FINANCE LEASE OBLIGATIONS

	Minimum lease payments		Present value of minimum lease payments	
	2010	2009	2010	2009
Due within one year	610	909	545	793
Due after one year but not more than five years	530	1,682	392	1,115
	1,140	2,591	937	1,908
Less future finance charges	(203)	(683)	-	-
Present value of minimum lease payments	**937**	**1,908**	**937**	**1,908**

During the year ended 31 December 2010 the Group purchased assets leased under two finance lease agreements with LLC Goldline and LLC Alfa Leasing, which were entered into during 2009. The excess of consideration paid over the outstanding finance lease liability as at the date of purchase amounted to RUR 31 million and has been recognized in the consolidated profit or loss.

During the year ended 31 December 2010 the amount of minimum lease payments under the lease agreement with CJSC “Sberbank Leasing” (a related party – Note 26) was revised. The change in minimum lease payments did not result in an extinguishment of lease liability, and, accordingly, the effect of the change is being recognized through an adjustment of the effective interest rate for the remaining term of the lease agreement.

On 31 December 2009 the Group has entered into a sale and leaseback agreement with CJSC “Gorodskaya Innovacionno-Lizingovaya Kompaniya” for the sale and financial leaseback of trucks owned by the Group with a net book value of RUR 296 million. The sale and leaseback transaction resulted in a finance lease for the Group (with the assets being recognized at their previous carrying amount), and consequently, the excess of the sales proceeds over the carrying amount of RUR 109 million was recognized as deferred income in the consolidated statement of financial position, and is being amortized over the lease term. The amortization of this balance during the year ended 31 December 2010 was RUR 60 million and is included in interest expense on finance lease obligations in the consolidated statement of comprehensive income. The lease agreement is for a period of three years with the effective interest rate of 28.3% (including the effect of offsetting the deferred income over the lease term).

All leases are on a fixed repayment basis and denominated in Russian Roubles. The Group’s obligations under finance leases are secured by the lessors’ title to the leased assets.

16. EMPLOYEE BENEFIT LIABILITY

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

The Company also provides supplementary defined benefit and defined contribution retirement benefit plans covering substantially all of its employees, requiring contributions to be made to a separately administered non-state pension fund “Blagosostoyanie” (“Fund Blagosostoyanie”). Not-for-profit fund “Pochet” (“Fund Pochet”) provides pensions to the Company’s employees that retired before the defined benefit plans provided though the Fund Blagosostoyanie were introduced.

Benefits accrued though Fund Blagosostoyanie are partially funded, whilst benefits administered by the Fund Pochet are not funded. In addition, the Company provides other retirement and post employment benefits to its employees, covering compensation for transportation costs on long-distance trains, a one-time bonus on retirement ranging from one to six monthly salaries and depending of the duration of the service period and certain other requirements. These benefits are not funded.

Defined contribution plans

The total amount recognized as an expense in respect of payments to defined contribution plans for the years ended 31 December 2010 and 2009 consisted of the following:

	2010	2009
Pension Fund of the Russian Federation	335	291
Defined contribution plan “Blagosostoyanie”	9	4
Total expense for defined contribution plans	**344**	**295**

Defined benefit plans

There were 5,356 employees eligible for some part of the supplementary post-employment and post-retirement benefit program of the Group as of 31 December 2010 (2009: 5,481), of which 1,123 employees (2009: 1,115) were considered active participants. An active participant is a person making contributions to the pension plan at his/her own expense. Such contributions are matched by the Group. In addition, there were 91 and 106 retired employees eligible for the post-retirement benefit program of the Company though Fund Pochet as of 31 December 2010 and 2009, respectively.

The most recent actuarial valuation of the defined benefit obligation was carried out as of 31 December 2010 by an independent actuary. The present value of the defined benefit obligations, and related current service costs and past service cost, were measured using the projected unit credit method.

The amounts recognized in the consolidated profit or loss for the year ended 31 December 2010 and 2009 in respect of these defined benefit plans, which are included in Payroll and related charges, are as follows:

	2010	2009
Current service cost	28	32
Interest on obligation	47	55
Expected return on plan assets	(3)	(2)
Actuarial losses / (gains) recognized in the year	151	(58)
Amortization of past service cost	16	16
Introduction of other employee benefits	-	50
Losses arising on transfer of employees (i)	6	12
Net expense recognized in the consolidated profit or loss	**245**	**105**

(i) The losses arising from transfer of employees represent the transfer of obligations on post-retirement benefits, which originated from the movement of employees from, as well as back to, the parent company.

The amounts recognized in the consolidated statement of financial position as of 31 December 2010 and 2009 in respect of these defined benefit plans are as follows:

	2010	2009
Present value of funded defined benefit obligation	385	296
Fair value of plan assets	(36)	(32)
	349	264
Present value of unfunded defined benefit obligation	335	249
Deficit	684	513
Unrecognized past service cost	(7)	(23)
Net employee benefit liability	**677**	**490**

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

	2010	2009
Net defined benefit obligation as at 1 January	**490**	**463**
Net expense recognized in profit or loss	245	105
Benefits paid	(58)	(78)
Net defined benefit obligation as at 31 December	**677**	**490**

Movements in the fair value of defined benefit pension plan assets are as follows:

	2010	2009
Fair value of plan assets as at 1 January	**32**	**26**
Expected return on plan assets	3	2
Actuarial (loss) / gains	(2)	1
Contributions from the employer	58	78
Benefits paid	(55)	(75)
Fair value of plan assets as at 31 December	**36**	**32**

The major categories of plan assets administered by Fund Blagosostoyanie as a percentage of the fair value of total plan assets as of the balance sheet date were as follows:

	Share in total plan assets	
	2010	**2009**
Corporate bonds and stock of Russian legal entities	43%	46%
Shares in closed investment funds	29%	26%
Bank deposits	19%	18%
Sovereign and regional government bonds	1%	2%
Other	8%	8%
	100%	**100%**

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

	2010	2009
Discount rate	8.0%	8.8%
Rate used for calculation of annuity value	4%	4%
Average remaining working life, years	17.9	18.5
Expected return on plan assets	9.0%	9.0%
Mortality tables	year 2009	year 2008

As at 31 December 2010 the Group assumed that salary growth rate will be equal to 11.4% and 10.8% in 2011 and 2012 respectively, and in future the salary will increase in line with the inflation rate, while the assumption used as at 31 December 2009 was that salaries would increase in line with the inflation rate. The change in the assumptions for salary growth as well as the decrease in the discount rate resulted in the recognition of an actuarial loss for the current period.

The overall expected rate of return on assets is a weighted average of the expected returns of the various categories of plan assets held. Assessment of the expected returns by management is based on historical return trends and analysts' predictions of the market for the asset in the next twelve months.

The actual return on plan assets was RUR 1 million and RUR 2 million for the years ended 31 December 2010 and 2009, respectively.

The Group expects to make a contribution of RUR 90 million to the defined benefit plans during the next financial year.

17. TRADE AND OTHER PAYABLES

	2010	2009
Trade payables	483	585
Amounts payable for the acquisition of property, plant and equipment	495	342
Liabilities to customers	2,987	2,245
Total trade and other payables	**3,965**	**3,172**

18. TAXES OTHER THAN INCOME TAX PAYABLE

	2010	2009
VAT	561	16
Property tax	120	98
Social insurance contribution (2009: unified social tax)	39	41
Salary withholding tax (employees' personal income tax)	16	10
Other taxes	5	5
Total taxes other than income tax payable	**741**	**170**

19. PROVISIONS

As at 31 December 2010 the Group had recognized a provision for VAT and other tax liabilities in the amount of RUR 21 million and income tax liability in the amount of RUR 11 million, in respect of the claim of the tax authorities arising from a 2010 tax audit covering the years 2006 through 2008. An additional amount of RUR 2 million was recognized in respect of legal proceedings where the Company is a defendant.

20. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	2010	2009
Settlements with employees	194	133
Other liabilities	54	51
Total accrued expenses and other current liabilities	**248**	**184**

Settlements with employees as of 31 December 2010 and 2009 comprised accrued salaries and bonus of RUR 104 million and RUR 65 million, respectively, and the accrual for unused vacation of RUR 90 million and RUR 68 million, respectively.

21. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the General Director of the Company. The Group's business activities are interdependent in providing customers with rail-based container shipping and other logistics services. As such, the Group's internal reporting reviewed by the General Director to assess performance and allocate resources are on a consolidated basis as one reportable segment.The Group's internatal management reports are prepared on the same basis as these consolidated financial statements

A description of each type of revenue is disclosed in the Group's revenue recognition accounting policy in Note 3.

Analysis of revenue by category

	2010	2009
Integrated logistics services	10,794	5,347
Rail-based container shipping services	6,980	6,573
Terminal services and agency fees	2,008	1,678
Truck deliveries	1,513	1,559
Freight forwarding and logistics services	1,192	880
Bonded warehousing services	273	265
Other	81	98
Total revenue	**22,841**	**16,400**

Analysis of revenue by location of customers

	2010	2009
Revenue from external customers		
Russia	20,875	15,321
Germany	700	528
China	444	135
Korea	278	73
Switzerland	191	-
Finland	100	133
Other	253	210
Total revenue	**22,841**	**16,400**

During the years ended 31 December 2010 and 2009 OJSC “Russian Railways” accounted for 10% or more of the Group’s revenue: RUR 2,381 million (10%) and RUR 2,085 million (13%), respectively.

22. OPERATING EXPENSES, NET

	2010	2009
Third-party charges relating to integrated logistics services	6,339	3,138
Freight and transportation services	4,534	3,832
Payroll and related charges	3,128	2,437
Depreciation and amortization	2,237	2,250
Materials, repair and maintenance	1,887	1,182
Taxes other than income tax	559	426
Rent	479	476
Consulting services	234	265
Security	218	210
License and software	131	43
Fuel costs	128	117
Communication costs	101	84
Charity	60	85
Change in provision for impairment of receivables	33	(25)
Changes in provision for tax liabilities, other than income tax	21	(30)
Gain on disposal of property, plant and equipment	(147)	(257)
Other expenses, net	806	493
Total operating expenses, net	**20,748**	**14,726**

23. INTEREST EXPENSE

	2010	2009
Interest expense on RUR bonds	482	506
Interest expense on finance lease obligations	274	326
Interest expense on bank loans	92	113
Total interest expense	**848**	**945**

24. INCOME TAX

	2010	2009
Current income tax charge	(496)	(282)
Deferred income tax benefit	82	103
Income tax	**(414)**	**(179)**

The statutory tax rate effective in the Russian Federation was 20% for the years ended 31 December 2010 and 2009.

Profit before income tax for financial reporting purposes is reconciled to income tax expense for as follows:

	2010	2009
Profit before income tax	**1,342**	**768**
Theoretical tax charge at statutory rate of 20%	(268)	(154)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Benefits in-kind and other non-deductible payments to employees	(33)	(34)
Non-deductible post-employment benefits	(21)	(9)
Non-deductible charitable donations	(12)	(17)
Income tax adjustments for prior periods	-	62
Other non-deductible expenses	(65)	(33)
Changes in provision for tax risks – taxes other than income tax	(4)	6
Changes in provision for tax risks – income tax	(11)	-
Income tax	**(414)**	**(179)**

Total accumulated temporary differences that arise between the Russian statutory tax base of assets and liabilities and their carrying amounts in the accompanying consolidated statements of financial position give rise to the following deferred tax effects:

	1 January 2010	Charged to profit or loss	31 December 2010
Property, plant and equipment	2,017	(184)	1,833
Intangible assets	1	16	17
Trade and other receivables	(12)	(10)	(22)
Loans and borrowings	2	2	4
Finance lease obligations	(387)	200	(187)
Trade and other payables	(30)	(56)	(86)
Employee benefits liability	(49)	(20)	(69)
Deferred income	(22)	12	(10)
Other	(4)	(38)	(42)
Total net deferred tax liability	**1,516**	**(78)**	**1,438**
Total net deferred tax asset	**-**	**(4)**	**(4)**

	1 January 2009	Charged to profit or loss	31 December 2009
Property, plant and equipment	1,944	73	2,017
Intangible assets	2	(1)	1
Trade and other receivables	1	(13)	(12)
Loans and borrowings	1	1	2
Finance lease obligations	(238)	(149)	(387)
Trade and other payables	(41)	11	(30)
Employee benefits liability	(49)	-	(49)
Deferred income	-	(22)	(22)
Other	(1)	(3)	(4)
Total net deferred tax liability	**1,619**	**(103)**	**1,516**

25. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

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

The nature of the related party relationships for those related parties, with whom the Group entered into significant transactions or had significant balances outstanding as of 31 December 2010 are disclosed below:

Related party	Nature of relationship
OJSC “Russian Railways” (RZD)	Parent company
OJSC “TransCreditBank”	Fellow subsidiary of RZD
LLC “FinanceBusinessGroup”	An entity related to OJSC “TransCreditBank”
LLC “Finans-Proekt” (Note 8)	An entity related to OJSC “TransCreditBank”
LLC “Zapadny Port” (Note 7)	Subsidiary of LLC “Finans-Proekt”
CJSC “Sberbank Leasing” (Note 15)	Subsidiary of Sberbank
LLC “Roszheldorstroy”	Fellow subsidiary of RZD
Fund Blagosostoyanie	Post-employment benefit plan for the benefit of employees of the Company
Fund Pochet	Post-employment benefit plan for the benefit of employees of the Company

The ultimate controlling party of the Group is the government of the Russian Federation and therefore all companies controlled by the government of the Russian Federation are also treated as related parties of the Group for the purpose of these consolidated financial statements.

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

Relationships RZD and its subsidiaries

The Group performs a variety of transactions with RZD, which is the sole owner and provider of railroad infrastructure and locomotive services in Russia. Furthermore, RZD owns the vast majority of rail-cars repair facilities in Russia, which are used by the Group to maintain its rolling stock in the operational condition.

Under the provisions of the existing Russian regulations, certain functions associated with the arrangement of container transportation process can only be performed by RZD. Pursuant to the transfer of the assets required for performance of such functions to the Group, RZD engaged the Company to act as its agent in performance of these functions. Revenue generated by the Group from such transactions with RZD is reported as agency fees in the accompanying consolidated statement of comprehensive income.

The Group maintains several bank accounts in OJSC “TransCreditBank”.

Transactions and balances with related parties as at and for the year ended 31 December 2010:

	Total	RZD and its subsidiaries	Other
Cash and cash equivalents	1,262	1,261	1
Trade and other accounts receivables			
Trade receivables	527	306	221
Other receivables	40	1	39
	567	307	260
Prepayments and other current assets			
Advances to suppliers	1,651	1,648	3
Prepaid income tax	115	-	115
VAT receivable	854	-	854
	2,620	1,648	972
Long-term investments	101	-	101
Total assets	**4,550**	**3,216**	**1,334**
Trade and other accounts payable			
Trade payables	46	32	14
Liabilities to customers	56	30	26
	102	62	40
Accrued and other liabilities			
Other payables	33	5	28
Income tax payable	76	-	76
Taxes other than income tax payable	741	-	741
Finance lease obligations	756	208	548
Total liabilities	**1,708**	**275**	**1,433**
Revenue			
Rail-based container shipping services	719	696	23
Agency fees	1,612	1,607	5
Other services	174	78	96
	2,505	2,381	124
Interest income on deposits	9	9	-
Total income	**2,514**	**2,390**	**124**
Operating Expenses			
Freight and transportation services	3,336	3,155	181
Third-party charges relating to integrated logistics services	4,972	4,513	459
Repair services	956	952	4
Taxes other than income tax	558	-	558
Rent of property and equipment	144	143	1
Other expenses	344	271	73
	10,310	9,034	1,276
Income tax	414	-	414
Interest expense on finance lease obligations	139	36	103
Total expenses	**10,863**	**9,070**	**1,793**
Acquisition of property, plant and equipment	475	472	3
Purchase of materials	9	-	9
Contributions to non-state pension funds	41	-	41
Total other transactions	**525**	**472**	**53**

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

	Total	**RZD and its subsidiaries**	**Other**
Cash and cash equivalents	429	429	-
Trade and other accounts receivables			
Trade receivables	321	320	1
Other receivables	7	1	6
	328	321	7
Prepayments and other current assets			
Advances to suppliers	1,128	1,123	5
Prepaid income tax	98	-	98
VAT receivable	681	-	681
	1,907	1,123	784
Short-term investments	55	-	55
Long-term investments	197	-	197
Total assets	**2,916**	**1,873**	**1,043**
Trade and other accounts payable			
Trade payables	106	77	29
Liabilities to customers	39	12	27
	145	89	56
Accrued and other liabilities			
Other payables	132	118	14
Income tax payable	76	-	76
Taxes other than income tax payable	170	-	170
Finance lease obligations	973	-	973
Total liabilities	**1,496**	**207**	**1,289**
Revenue			
Rail-based container shipping services	724	703	21
Agency fees	1,367	1,362	5
Other services	102	49	53
	2,193	2,114	79
Interest income on short-term investments	5	-	5
Interest income on deposits	30	29	1
Total income	**2,228**	**2,143**	**85**
Operating Expenses			
Freight and transportation services	2,882	2,871	11
Third-party charges relating to integrated logistics services	2,339	2,209	130
Repair services	730	725	5
Taxes other than income tax	426	-	426
Rent of property and equipment	165	80	85
Other expenses	287	212	75
	6,829	6,097	732
Income tax	179	-	179
Interest expense on loans	54	-	54
Interest expense on finance lease obligations	177	-	177
Total expenses	**7,239**	**6,097**	**1,142**
Acquisition of property, plant and equipment	161	148	13
Purchase of materials	2	2	-
Contributions to non-state pension funds	61	61	-
Total other transactions	**224**	**211**	**13**

The amounts outstanding to and from related parties are unsecured except as disclosed for finance leases (Note 15).

Compensation of key management personnel

Key management personnel consist of members of the Board of Directors of the Company, the General Director and his deputies, totaling 19 persons as of 31 December 2010 and 2009, respectively. Total gross compensation (including insurance contribution and before withholding of personal income tax) to key management personnel included in payroll and related charges in the consolidated profit or loss amounted to RUR 94 million (including social insurance contribution of RUR 1 million) and RUR 54 million (including unified social tax of RUR 1 million) for the years ended 31 December 2010 and 2009, respectively. Such compensation comprises primarily short-term benefits. Post-employment and other long-term benefits of key management personnel were immaterial.

26. COMMITMENTS UNDER OPERATING LEASES

The Group leases certain cranes, production buildings and office premises. The lease agreements have durations varying from one to six years. Additionally the Group leases land on which its container terminals are located.

The Group continues to rent flatcars from OJSC “RusTransVagon” under operating lease agreements. During the year ended 31 December 2010 the Group acquired assets of LLC “Zapadny Port”, which it previously leased under operating lease agreements (Note 7). In addition, the Group discontinued the rent of an office building in Moscow.

Future minimum lease payments under contracted operating leases are as follows:

	2010	2009
Within one year	192	466
In two to five years	56	389
After five years	4	3
Total minimum lease payments	**252**	**858**

27. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

The Group’s capital commitments as of 31 December 2010 and 31 December 2009 consisted of the following:

	2010	2009
Construction of container terminal complexes and modernization of existing assets	786	1,027
Acquisition of containers and flatcars	789	701
Acquisition of lifting machines and other equipment	76	187
Total capital commitments	**1,651**	**1,915**

Operating environment of the Group – Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in the Russian Federation and economy in general.

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

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

Legal proceedings – During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which management believes could have a material effect on the result of operations or financial position of the Group, beyond those already recognized in these financial statements.

Insurance – The Group holds no insurance policies in relation to its assets, operations, or in respect of public liability or other insurable risks, with the exception of insurance policies that partially cover its vehicles, flatcars and buildings, Directors and Officers liability insurance policy, and a carrier's liability insurance policy. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

28. RISK MANAGEMENT ACTIVITIES

Capital Risk Management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to the equity holder through the optimization of the debt and equity balance.

The capital structure of the Group consists of RUR bonds, finance lease obligations and equity, consisting of issued capital, reserves and retained earnings as disclosed in Note 13.

The management of the Group reviews the capital structure on a regular basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital.

Major Categories of Financial Instruments

The Group's financial assets include other long-term investments (Note 8), short-term investments, trade and other receivables, and cash and cash equivalents. All financial assets fall into the loans and receivables category under IAS 39 "Financial instruments: recognition and measurement".

	2010	2009
Financial assets		
Cash and cash equivalents	1,291	449
Trade and other receivables	1,331	1,941
Short-term investments	-	143
Long-term investments	8	201
Total financial assets	**2,630**	**2,734**

The Group's principal financial liabilities are trade and other payables, payables to employees (which form part of accrued expenses and other current liabilities), finance lease obligations, and debt (which includes RUR bonds and long-term borrowings). All financial liabilities are carried at amortized cost.

	2010	2009
Financial liabilities		
Trade and other payables	978	927
Other liabilities	53	48
Payables to employees	194	133
RUR bonds	6,089	3,153
Long-term borrowings	-	1,520
Current portion of long-term borrowings	-	3
Finance lease obligations	937	1,908
Total financial liabilities	**8,251**	**7,692**

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed by the treasury function. The Group has established budgeting and cash flow planning procedures to ensure it has adequate cash available to meet its payment obligations as they fall due. Management controls current liquidity based on expected cash flows and expected revenue receipts. In the long-term perspective the liquidity risk is determined by forecasting future cash flows at the moment of signing new credit, loan or lease agreements and by budgeting procedures.

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

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

	Effective interest rate, %	Less than 1 month	1-3 months	3 months-1 year	1-5 years	Total
2010						
Non-interest bearing liabilities		542	399	284	-	1,225
RUR bonds, series 1,2	8,8%-9,5%	-	142	405	7,150	7,697
Finance lease liabilities	13,24%-28,3%	20	100	490	530	1,140
Total		**562**	**641**	**1,179**	**7,680**	**10,062**
2009						
Non-interest bearing liabilities		409	271	428	-	1,108
RUR bonds, series 1	18.45%	-	3,247	-	-	3,247
Loans and borrowings	12%-12.5%	3	-	-	1,520	1,523
Finance lease liabilities	14.97%-28.3%	128	146	635	1,682	2,591
Total		**540**	**3,664**	**1,063**	**3,202**	**8,469**

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

	Effective interest rate, %	Less than 1 month	1-3 months	3 months-1 year	1-5 years	Total
2010						
Trade and other receivables		550	103	678	-	1,331
Long-term investments	0%	-	-	-	8	8
Total		**550**	**103**	**678**	**8**	**1,339**
2009						
Trade and other receivables		644	596	701	-	1,941
Short-term investments	0%	-	-	143	-	143
Long-term investments	0%	-	-	-	201	201
Total		**644**	**596**	**844**	**201**	**2,285**

Currency Risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group has export revenue, and purchases third party transportation services, which are denominated in foreign currencies. Certain receivable and payable balances, related primarily to settlements with customers, are denominated in currencies other than the Russian Rouble, the functional currency of the Company.

During 2010 and 2009 the Group's financial assets denominated in foreign currency have exceeded its foreign currency financial liabilities. For the year to 31 December 2010 the Russian Rouble depreciated against the US Dollar by 1%, and appreciated against EURO by 7% (depreciated against US Dollar and EURO 3% and 5%, respectively, for the year to 31 December 2009). The Group does not have or use any formal arrangements (i.e. derivatives) to manage foreign currency risk exposure.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as at the reporting date are as follows:

	USD		EUR		Other	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Assets						
Cash and cash equivalents	77	15	76	47	1	-
Trade and other receivables	434	262	71	69	10	1
Total assets	**511**	**277**	**147**	**116**	**11**	**1**
Liabilities						
Trade and other payables	161	83	31	10	9	1
Total liabilities	**161**	**83**	**31**	**10**	**9**	**1**

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

	USD – impact		EUR – impact	
	2010	**2009**	**2010**	**2009**
Loss	**(35)**	**(19)**	**(12)**	**(10)**

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

Interest rate risk

Interest rate risk is the risk that movement in interest rates for borrowed funds will have an adverse effect on the Group's financial performance. Management monitors changes in interest rates and takes steps to mitigate these risks as far as practicable by ensuring the Group has financial liabilities with both floating and fixed interest rates, and maintaining an appropriate mix between debt and equity.

As at 31 December 2010 the Group's borrowed funds consist of RUR bonds, series 1 and series 2 (Note 14) and finance lease liabilities (Note 15). With respect to RUR bonds series 1, issued in March 2008, the Group was exposed to interest rate risk during 2010, because in accordance with terms of the bond offering the coupon rate for these bonds was reset after the second (March 2009) and the fourth (March 2010) semi-annual coupon payment, respectively, due to the accompanying put options at these dates (see also Note 14). In March 2010 the coupon rate was reset to 9.5%, and there are no further changes to interest rate for these bonds until their maturity in February 2013.

The annual coupon rate for RUR bonds, series 2 has been set at 8.8% for the entire five-year maturity period of the bonds, with no subsequent changes. The effective interest rate for these bonds is 9.01%.

Credit risk

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

The Group's exposure to credit risk arises primarily with respect to receivables in connection with container shipping activities.

Credit exposure is managed by establishing credit limits for the most significant customers that are reviewed and approved by management. Deferred payment terms are offered only to the most significant customers of the Group with proven credit history. Sales to other customers are made on a prepayment basis.

The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

The Group's business is dependent on a few large key customers. As of 31 December 2010 60% of the total net amount of trade and other receivables related to the five largest counterparties of the Group (31 December 2009: 62%).

The largest receivables outstanding as of the balance sheet date are as follows:

	2010 Outstanding balance, net
RZD	293
Far East Land Bridge Ltd	212
LLC "Sollers – Elabuga"	115
LLC "Unico Logistics Rus"	99
LLC "Volkswagen Group Rus"	74
Total	**793**

	2009 Outstanding balance, net
CJSC "Gorodskaya Innovacionno-Lizingovaya Kompaniya"	477
RZD	308
LLC "Novorossiysky Mazutniy Terminal"	248
LLC "Sollers – Elabuga"	94
LLC "Volkswagen Group Rus"	69
Total	**1,196**

As of 31 December 2010 and 2009 no impairment has been identified for these customers.

Credit risk on liquid funds is limited because these funds are placed only with financial institutions well known to the Group. 98% of total cash and cash equivalents as of 31 December 2010 (2009: 96%), were held with one bank which is related to the Group.

29. NON-CASH TRANSACTIONS

During 2010 the Group entered into the following non-cash transactions:

- promissory notes of LLC "Finance-Proekt" have been exchange for certain property, plant and equipment of LLC "Zapadny Port" (Note 7);
- a loan due from Far East Land Bridge was settled in exchange for 10% of this entity's shares (Note 11).

30. SUBSEQUENT EVENTS

Acquisition of Kedentransservice – In March 2011 the Company has acquired 67% of shares of JSC “Kedentransservice”, a leading operator of cargo handling terminal facilities and provider of freight forwarding and logistics services in Kazakhstan. The consideration will not exceed USD 69 million (RUR 2,103 million, at the Central Bank of Russia exchange rate as at 31 December 2010), depending on the amount of adjustment to the initial price, calculated at a certain date subsequent to acquisition. The amount of such adjustment has not been calculated as at the date these financial statements are authorized for issue.

As at the date these financial statements are authorized for issue, the Company does not have the necessary financial information of Kedentransservice to be able to complete its assessment of the fair value of the net identifiable assets acquired and a result, such financial information has not been disclosed.

In March 2011 the Group has also entered into a joint venture cooperation agreement with JSC “Kazakh Temir Zholy” (“KTZ”) – the second shareholder of Kedentransservice. In accordance with the terms of the agreement, KTZ shall acquire 17% of the shares from the Company, bringing the Company’s share of ownership in Kedentransservice to 50%, subject to fulfillment of certain conditions and responsibilities of each party, which must be met in order for the agreement to be in effect. As at the date these financial statements are authorized for issue, such necessary conditions have not been met. However, such requirements are expected to be fulfilled before the end of 2011. The join-venture agreement also contains certain clauses which upon formation of the joint-venture serve to protect the interests of both parties and trigger the right of one party to sell its shares to the other party in the event of the other party’s non-compliance with certain provisions of the agreement.

The Group formed Logistics Investments SARL, a 100% subsidiary in Luxembourg, in March 2011, with share capital in the amount of EURO 12.5 thousand. The Company’s ownership of the shares of Kedentransservices will be transferred to this new subsidiary.