Globaltrans Investment Limited

Report and consolidated financial statements
31 December 2007

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Globaltrans Investment Limited

Board of Directors and other officers

Board of Directors

Alexander Eliseev (appointed 21 March 2008)
Chairman of the Board of Directors
Non-executive Director
Member of the Remuneration Committee

Sergey Maltsev (appointed 21 March 2008)
Executive Director

Michael Zampelas (appointed 21 March 2008)
Independent non-executive Director
Chairman of the Audit Committee
Member of the Remuneration and Nomination Committees

Hans Durrer (appointed 21 March 2008)
Independent non-executive Director
Chairman of the Remuneration Committee
Chairman of the Nomination Committee

Elia Nicolaou (appointed 21 March 2008)
Non-executive Director
Member of the Audit Committee

Konstantin Shirokov (appointed 19 March 2008)
Executive Director

Mikhail Loganov (appointed 21 March 2008)
Executive Director
Member of the Nomination Committee

Michael Thomaides (resigned 21 March 2008)

Company Secretary

Elia Nicolaou
Maria House, 5th Floor
1 Avlonos Street
CY-1075 Nicosia, Cyprus

Registered office

20 Omirou Street
Agios Nicolaos
CY-3095 Limassol, Cyprus

Globaltrans Investment Limited

Report of the Board of Directors

1 The Board of Directors presents its report together with the audited financial statements of the Group for the year ended 31 December 2007.

Principal activities

2 The principal activity of the Group is the provision of railway transportation services using own or leased rolling stock and freight forwarding (agency) services.

Change of name

3 Pursuant to a resolution dated 19 March 2008, the Company is in the process of being converted into a public company and shall be renamed to "Globaltrans Investment Plc".

Review of developments, position and performance of the Group's business

4 The financial position of the Group as presented in the financial statements is considered satisfactory.

Principal risks and uncertainties

5 The principal operating risks and uncertainties that the Group faces (including various risks relating to the Russian Federation), are disclosed in Note 1 of these financial statements.

6 The Group's financial risk management and critical accounting estimates and judgments are disclosed in Notes 3 and 4 to the financial statements.

7 The Group's contingencies are disclosed in Note 27 to the financial statements.

Future developments

8 The Board of Directors does not expect any significant changes in the activities of the Group for the foreseeable future. The Group's strategic objective is to strengthen its leading rail freight transportation market position in Russia by further utilising its scalable business model.

Results

9 The Group's results for the year ended 31 December 2007 are set out on page 9. The Board of Directors recommended the payment of a dividend as detailed below and the remaining net profit for the years is retained.

Globaltrans Investment Limited

Report of the Board of Directors (continued)

Dividends

10 On 19 October 2006, the Board of Directors declared the payment of an interim dividend in respect of the year ended 31 December 2006 of US$2,30 per share amounting to a total dividend of US$23.000.000. The dividend was paid on 25 October 2006. On 31 October 2006 the Board of Directors declared the payment of an interim dividend from the capital contribution reserve in respect of the year ended 31 December 2006 of US$0,38 per share, amounting to US$3.800.000. The dividend was paid on 11 December 2006.

11 During 2007, the Board of Directors declared and the shareholders approved the payment of a dividend in respect of the year ended 31 December 2006 of US$0.12 per share, amounting to a total dividend of US$1.200.000. Furthermore, during 2007, the Board of Directors declared payments of interim dividends in respect of the year ended 31 December 2007 of US$2,63 per share, amounting to a total dividend of US$26.300.000. An amount of US$20.900.000 was paid during 2007. The balance was paid in January 2008. During 2007, the Board of Directors declared the payment of an interim dividend from the capital contribution reserve in respect of the year ended 31 December 2007 of US$1,40 per share amounting to US$14.075.000. An amount of US$9.223.000 thousand was paid in 2007. The balance was paid in January 2008.

Share capital

12 There were no changes in the share capital of the Company.

Board of Directors

13 The members of the Board of Directors at 31 December 2007 and at the date of this report are shown on page 1.

14 Mr Michael Thomaides who held office throughout the year ended 31 December 2007 resigned on 21 March 2008. The Board currently has seven members, consisting of three executive and four non-executive directors. Mr. Shirokov was appointed 19 March 2008. All of the other current members of the Board of Directors were appointed on 21 March 2008.

15 There is no provision in the Company’s Articles of Association for retirement of Directors by rotation and the Directors remain in office.

16 During the year ended 31 December 2007 there were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

Corporate Governance

17 From January to March 2008, the Board of Directors adopted the Company's Code of Corporate Governance which guarantees that the interests of all company shareholders are duly considered. The Code is based on principles recommended by the UK Combined Code on Corporate Governance issued in July 2003.

Board of Directors

18 The Board of Directors expects to meet at least four times a year. To enable the Board of Directors to perform its duties, it is intended that each Director has full access to all relevant information. If necessary, the independent Directors and any future independent Directors may take independent professional advice at the Company's expense.

19 The Company has established three committees: an audit committee, a nominations committee and a remuneration committee. A brief description of the planned terms of reference of the Committees is set out below.

Audit Committee

20 The audit committee comprises two Directors, one of whom will be independent and will meet at least four times each year. The audit committee is chaired by Mr Michael Zampelas and Ms Elias Nicolaou is the other member. The audit committee is responsible for considering, amongst other matters: (i) the integrity of the Company's financial statements, including its annual and interim accounts, and the effectiveness of the Company's internal controls and risk management systems; (ii) auditors' reports; and (iii) the terms of appointment and remuneration of the auditor. The committee supervises and monitors, and advises the Board of Directors on risk management and control systems and the implementation of codes of conduct. In addition, the audit committee supervises the submission by the Company of financial information and a number of other audit-related issues. The audit committee also assesses the efficiency of the work of the Chairman of the Board of Directors.

Nominations Committee

21 The nomination committee comprises three Directors and will meet at least once each year. The nomination committee is chaired by Dr Hans Durrer and the other members are Mr Michael Zampelas and Mr Mikhail Loganov. The committee's remit is to prepare selection criteria and appointment procedures for members of the Board of Directors and to review on a regular basis the structure, size and composition of the Board of Directors. In undertaking this role, the committee refers to the skills, knowledge and experience required of the Board of Directors given the Company's stage of development

Nominations Committee (continued)

and makes recommendations to the Board of Directors as to any changes. The committee also considers future appointments in respect of the Board of Directors composition as well as makes recommendations regarding the membership of the audit and remuneration committees.

Remuneration Committee

22 The remuneration committee comprises three Directors and will meet at least once each year. The remuneration committee is chaired by Dr Hans Durrer and Mr Michael Zampelas and Mr Alexander Eliseev are other members. The remuneration committee has as its remit the determination and review of, amongst other matters, the remuneration of executive directors and review of the Company's remuneration policies. The remuneration of independent Directors is a matter for the chairman of the Board of Directors and the executive directors. No director or manager may be involved in any decisions as to his/her own remuneration.

Internal auditor

23 The Company's internal audit function is performed by Mr Konstantin Shirokov. The internal auditor is responsible for the recommendation of an auditing plan to the audit committee of the Board of Directors. The internal auditor carries out auditing assignments in accordance with such plan and oversees and reports on the Company's compliance with the plan's recommendations. The internal auditor files an annual report with the audit committee and the Board of Directors and is available for any meetings of the audit committee or the Board of Directors.

Events after the balance sheet date

24 The events after the balance sheet date are disclosed in Note 34 to the financial statements.

Branches and research and development

25 The Group operates through branches and representative offices, maintaining ten branches and six representative offices during 2007, eleven branches and five representative offices during 2006.

Globaltrans Investment Limited

Report of the Board of Directors (continued)

Treasury shares

26 The Group did not acquire either directly or through a person acting in his own name but, on the Company's behalf, any of its own shares.

Going concern

27 The Board has satisfied itself that the Group has adequate resources to continue in operation for the foreseeable future. The Group's financial statements have been accordingly prepared on a going concern basis.

Auditors

28 The Independent Auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

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Alexander Eliseev
Chairman of the Board of Directors

Limassol
3 April 2008

PRICEWATERHOUSECOOPERS

2005 Cyprus Export
Award for Services

PricewaterhouseCoopers Limited
City House
6 Karaiskakis Street
CY-3032 Limassol
P O Box 53034
CY-3300 Limassol, Cyprus
Telephone: + 357 - 25555000
Facsimile: + 357 - 25555001
www.pwc.com/cy

Independent Auditors' Report
To the Board of Directors of Globaltrans Investment Limited

Report on the Consolidated Financial Statements

We have audited the accompanying financial statements of Globaltrans Investment Limited (the "Company") and its subsidiaries (the "Group") on pages 9 to 97, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 about whether the financial statements are free from material misstatement

PRICEWATERHOUSECOOPERS

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 the Board of Directors, as well as evaluating the overall presentation of the 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 accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2007 and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirementsof the Cyprus Companies, Cap. 113.

Report on other legal requirements

Pursuant to the requirements of the Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 2 to 6 is consistent with the consolidated financial statements.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Companies Law, Cap. 113 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

PricewaterhouseCoopers Limited
Chartered Accountants

Limassol, 3 April 2008

Globaltrans Investment Limited

Consolidated income statement
for the year ended 31 December 2007

	Note	2007	(Restated) 2006	(Restated) 2005
		US$'000	US$'000	US$'000
Revenue	5	548.871	557.814	511.850
Cost of sales	6	(380.141)	(469.178)	(423.107)
Gross profit		168.730	88.636	88.743
Selling and marketing costs		(1.374)	(1.281)	(1.263)
Administrative expenses		(42.431)	(26.361)	(21.601)
Other gains – net	7	2.700	15.776	1.684
Operating profit		127.625	76.770	67.563
Finance income	9	6.021	7.597	4.584
Finance costs	9	(29.188)	(16.561)	(53.431)
Finance costs – net	9	(23.167)	(8.964)	(48.847)
Share of profit of joint ventures	13	-	4.885	4.366
Profit before income tax		104.458	72.691	23.082
Income tax expense	10	(26.376)	(14.078)	(5.764)
Profit for the year		78.082	58.613	17.318
Attributable to:				
Equity holders of the Company		78.498	58.765	17.318
Minority interest		(416)	(152)	-
		78.082	58.613	17.318
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in US$ per share)	25	7,85	5,88	2,13

The notes on pages 16 to 97 are an integral part of these financial statements.

Globaltrans Investment Limited

Consolidated balance sheet at 31 December 2007

	Note	2007 US$'000	(Restated) 2006 US$'000	(Restated) 2005 US$'000
Assets				
Non-current assets				
Property, plant and equipment	12	602.812	474.241	352.958
Investments in joint ventures	13	-	-	50.318
Trade and other receivables	16	20.360	44.972	37.906
Deferred tax assets	23	-	163	-
		623.172	519.376	441.182
Current assets				
Inventories	17	544	741	3.153
Trade and other receivables	16	122.332	119.974	122.037
Current income tax assets		852	327	294
Cash and cash equivalents	18	31.103	57.316	15.009
		154.831	178.358	140.493
Total assets		778.003	697.734	581.675
Equity and liabilities				
Capital and reserves				
Share capital	19	10.000	10.000	10.000
Share premium	19	61.560	61.560	61.560
Common control transaction reserve		(95.620)	44.380	44.380
Translation reserve		27.195	10.643	(3.047)
Capital contribution		90.000	4.325	-
Retained earnings		129.523	78.525	42.760
		222.658	209.433	155.653
Minority interest		-	702	-
		222.658	210.135	155.653
Non-current liabilities				
Borrowings	22	301.726	269.237	264.162
Trade and other payables	24	427	-	-
Deferred gains	21	124	242	386
Deferred tax liabilities	23	22.751	14.462	4.189
		325.028	283.941	268.737

Globaltrans Investment Limited

Consolidated balance sheet (continued) at 31 December 2007

	Note	2007 US$'000	(Restated) 2006 US$'000	(Restated) 2005 US$'000
Current liabilities				
Borrowings	22	149.447	177.587	107.293
Trade and other payables	24	78.115	24.225	46.545
Deferred gains	21	136	180	366
Current income tax liabilities		2.619	1.666	3.081
		230.317	203.658	157.285
Total liabilities		555.345	487.599	426.022
Total equity and liabilities		778.003	697.734	581.675

On 3 April 2008 the Board of Directors of Globaltrans Investment Limited authorised these financial statements for issue.

Sergey Maltsev, Director

Mikhail Loganov, Director

The notes on pages 16 to 97 are an integral part of these financial statements.

Globaltrans Investment Limited

Consolidated statement of changes in equity
for the year ended 31 December 2007

	Note	Share capital US$'000	Share premium US$'000	Common control transaction reserve US$'000	Translation reserve US$'000	Capital contribution (1) US$'000	Retained earnings US$'000	Total US$'000	Minority interest US$'000	Total US$'000
		Attributable to equity shareholders of the Company								
Balance at 1 January 2005:										
As previously stated		5.000	-	44.380	(781)	-	27.143	75.742	-	75.742
Prior year adjustment	33	-	-	-	-	-	(1.701)	(1.701)	-	(1.701)
As restated		5.000	-	44.380	(781)	-	25.442	74.041	-	74.041
Currency translation differences		-	-	-	(2.266)	-	-	(2.266)	-	(2.266)
Net expense recognised directly in equity		-	-	-	(2.266)	-	-	(2.266)	-	(2.266)
Profit for the year		-	-	-	-	-	17.318	17.318	-	17.318
Total recognised income and expenses for 2005		-	-	-	(2.266)		17.318	15.052	-	15.052
Issue of shares	19	5.000	61.560	-	-	-	-	66.560	-	66.560
Balance at 31 December 2005		10.000	61.560	44.380	(3.047)	-	42.760	155.653	-	155.653
Balance at 1 January 2006		10.000	61.560	44.380	(3.047)	-	42.760	155.653	-	155.653
Currency translation differences		-	-	-	14.950	-	-	14.950	(4)	14.946
Currency translation differences from the disposal of joint venture		-	-	-	(1.260)	-	-	(1.260)	-	(1.260)
Net income recognised directly in equity		-	-	-	13.690	-	-	13.690	(4)	13.686
Profit for the year		-	-	-	-	-	58.765	58.765	(152)	58.613
Total recognised income for 2006		-	-	-	13.690	-	58.765	72.455	(156)	72.299
Contributions from shareholders		-	-	-	-	8.125	-	8.125	-	8.125
Dividends relating to 2006	20	-	-	-	-	(3.800)	(23.000)	(26.800)	-	(26.800)
Advances from minority shareholders		-	-	-	-	-	-	-	726	726
Minority interest on acquisition	26	-	-	-	-	-	-	-	28	28
Minority interest on incorporation		-	-	-	-	-	-	-	104	104
Balance at 31 December 2006		10.000	61.560	44.380	10.643	4.325	78.525	209.433	702	210.135

Globaltrans Investment Limited

Consolidated statement of changes in equity (continued) for the year ended 31 December 2007

	Note	Share capital US$'000	Share premium US$'000	Common control transaction reserve (1) US$'000	Translation reserve US$'000	Capital contribution (1) US$'000	Retained earnings US$'000	Total US$'000	Minority interest US$'000	Total US$'000
		Attributable to equity shareholders of the Company								
Balance at 1 January 2007		10.000	61.560	44.380	10.643	4.325	78.525	209.433	702	210.135
Currency translation differences		-	-	-	16.552	-	-	16.552	33	16.585
Net income recognised directly in equity		-	-	-	16.552	-	-	16.552	33	16.585
Profit for the year		-	-	-	-	-	78.498	78.498	(416)	78.082
Total recognised income for 2007		-	-	-	16.552	-	78.498	95.050	(383)	94.667
Common control transaction	32	-	-	(140.000)	-	99.750	-	(40.250)	-	(40.250)
Dividend relating to 2006	20	-	-	-	-	-	(1.200)	(1.200)	-	(1.200)
Dividend relating to 2007	20	-	-	-	-	(14.075)	(26.300)	(40.375)	-	(40.375)
Advances prior minority shareholders		-	-	-	-	-	-	-	12	12
Minority interest on disposal	26	-	-	-	-	-	-	-	(331)	(331)
Balance at 31 December 2007		10.000	61.560	(95.620)	27.195	90.000	129.523	222.658	-	222.658

(1) During 2006, the shareholders contributed an amount of US$8.125 thousand. On 31 October 2006 the company declared a repayment of US$3.800 thousand from the capital contribution reserve as dividend distribution to the shareholders. In May 2007, the shareholders of the Company transferred their shareholding in Sevtekhnotrans OOO to the Company. 28,75% of shares was sold for a total consideration of US$40.250 thousand and the remaining shares (71,25%) with value of US$99.750 thousand were transferred for no consideration as capital contribution. The acquisition of Sevtekhnotrans OOO has been accounted as a common control transaction using the predecessor basis (Note 2). In December 2007, the Company declared repayments of US$14.075 thousand from the capital contribution reserve as dividend distribution to the shareholders (Note 20). This reserve is distributable.

The notes on pages 16 to 97 are an integral part of these financial statements.

Globaltrans Investment Limited

Consolidated cash flow statement for the year ended 31 December 2007

	Note	2007 US$'000	(Restated) 2006 US$'000	(Restated) 2005 US$'000
Cash flows from operating activities				
Profit before tax		104.458	72.691	23.082
Adjustments for:				
Depreciation of property, plant and equipment	12	32.427	20.998	14.081
Loss/(gain) on sale of property, plant and equipment	12	24	31	(152)
Gain on disposal of joint ventures	7	-	(15.470)	(181)
Gain on disposal of subsidiaries	7	(1.897)	-	-
Interest income	9	(6.021)	(7.597)	(4.584)
Interest expense	9	47.325	41.781	40.547
Share of profit of joint ventures	13	-	(4.885)	(4.366)
Exchange (gains)/losses on financing activities		(16.597)	(24.087)	11.856
Recognised deferred gain	7	(185)	(388)	(372)
		159.534	83.074	79.911
Changes in working capital:				
Inventories		(505)	2.759	(2.928)
Trade and other receivables		8.340	(10.156)	(21.227)
Trade and other payables		34.198	(8.185)	23.160
Cash generated from operations		201.567	67.492	78.916
Tax paid		(19.661)	(4.905)	(4.866)
Net cash from operating activities		181.906	62.587	74.050
Cash flows from investing activities				
Acquisition of subsidiaries-net of cash acquired	26/30	(40.250)	(38)	-
Loans granted to third parties	16	(470)	(3.292)	(386)
Loans repayments received from third parties	16	470	3.484	194
Loans granted to related parties	29	-	(7.726)	-
Disposals of subsidiaries – net of cash disposed	26	(1.407)	-	-
Loans repayments received from related parties	29	830	6.921	-
Capital contribution to joint venture	13	-	(8.125)	-
Proceeds from disposal of joint venture	13	-	80.000	500
Proceeds from partial disposal of subsidiary	26	-	5	-
Purchases of property, plant and equipment		(91.567)	(113.913)	(121.752)
Proceeds from disposal of property, plant and equipment	12	140	22	4.339
Interest received		5.923	7.551	4.543
Receipts from finance lease receivable		12.982	14.140	9.891
Net cash used in investing activities		(113.349)	(20.971)	(102.671)

Globaltrans Investment Limited

Consolidated cash flow statement for the year ended 31 December 2007 (continued)

	Note	2007 US$'000	(Restated) 2006 US$'000	(Restated) 2005 US$'000
Cash flows from financing activities				
Proceeds from borrowings		794.174	539.532	339.391
Repayments of borrowings		(792.551)	(503.537)	(431.937)
Finance lease principal payments		(55.015)	(50.329)	(55.749)
Interest paid		(48.498)	(41.623)	(40.460)
Advances from minority shareholders		-	726	-
Proceeds from sale and finance leaseback transactions		38.783	75.730	125.359
Proceeds from issue of shares	19	-	-	66.560
Dividends paid to Company's shareholders	20	(30.123)	(26.800)	-
Capital contribution received		-	8.125	-
Net cash (used in)/from financing activities		(93.230)	1.824	3.164
Net (decrease)/increase in cash and cash equivalents		(24.673)	43.440	(25.457)
Exchange (losses)/gains on cash and cash equivalents		(1.540)	(1.133)	1.028
Cash and cash equivalents at beginning of year	18	57.316	15.009	39.438
Cash and cash equivalents at end of year	18	31.103	57.316	15.009

Non-cash transactions

The principal non-cash transactions consist of:

(a) Finance leases as a lessor (Note 16)
(b) Finance leases as a lessee (Note 22)

The notes on pages 16 to 97 are an integral part of these financial statements.

Notes to the financial statements

1 General information

Country of incorporation

The Company is incorporated and domiciled in Cyprus as a private limited liability company in accordance with the provisions of the Companies Law, Cap. 113. The address of the Company's registered office is 20 Omirou Street, Limassol, Cyprus. The Group's principal place of business is at 12 Ozerkovsky, Moscow, Russia.

These Group consolidated financial statements were authorised for issue by the Board of Directors on 3 April 2008.

Principal activities

The principal activity of the Group, following the common control transaction in May 2007 as explained below, is the provision of railway transportation services using own or leased rolling stock and freight forwarding (agency) services.

Group structure

Globaltrans Investment Limited has direct and indirect shareholding in the following investments in subsidiaries and joint ventures:

				% interest held		
Name	**Status**	**Country of incorporation**	**Principal activities**	**2007**	**2006**	**2005**
Sevtekhnotrans OOO	Subsidiary	Russia	Railway transportation	100	100	100
New Forwarding Company OAO	Subsidiary	Russia	Railway transportation	100	100	100
NPK Finans OOO	Subsidiary	Russia	Dormant	-	100	100
FT Fertilisertrans Holding Limited	Subsidiary	Cyprus	Holding company	-	80	-
Amalfico Holdings Limited	Subsidiary	Cyprus	Holding company	-	75	-
Neteller Holdings Limited	Joint venture	Cyprus	Holding company	-	-	50
Agrohimtrans OOO	Subsidiary	Russia	Railway transportation	-	80	-
Ural Wagonrepair Company ZAO	Subsidiary	Russia	Repairs of rolling stock	-	73	-
Firm "Transgarant" OOO	Joint venture	Russia	Railway transportation	-	-	50

In May 2007, the Company acquired from its shareholders their shareholding in Sevtekhnotrans OOO, a railway transportation company. The acquisition of Sevtekhnotrans OOO has been accounted as a common control transaction using the predecessor basis (Note 2).

1 General information (continued)

Operating environment of the Group

The Group and its subsidiaries mainly operate in the Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and strong economic growth. Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the financial positon of the Group. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and frequent changes and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Foreclosures in the US subprime mortgage market have risen significantly in 2007. The effects have spread beyond the US housing market as global investors were forced to re-evaluate the risks they were taking, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The tighter credit markets may affect the ability of the Group to refinance its borrowings or other liabilities. Management is unable to estimate the effects on the Group's financial position of any further possible deterioration in the financial markets' liquidity and increased volatility.

In addition, the Group's business is heavily dependent on services provided by OAO "Russian Railways" and the ageing railway infrastructure operated by it. OAO "Russian Railways" plays a monopolistic role as the sole railway infrastructure operator and it enjoys a near monopoly in locomotives services in the Russian Federation. The Group depends on the railway infrastructure operated, and for traction and other services provided, as well as on operational data generated, by OAO "Russian Railways". In addition, the physical infrastructure and the rail network had been inadequately maintained and there can be no assurance that it will not lead to material disruption of the Group's business in the future.

Furthermore, the Group's business is heavily dependent on a few large key customers. The Group does not have long term contracts with any of these customers and although it has enjoyed good working relations with these customers to date, there can be no assurance that it will retain their custom in the future or that their custom, if lost, could be easily replaced by that of other customers on comparable terms and volume.

2 Basis of preparation and summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented in these financial statements, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Globaltrans Investment Limited have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

All International Financial Reporting Standards issued by International Accounting Standards Board (IASB) and effective as at 1 January 2007 have been adopted by the EU through the endorsement procedure established by the European Commission with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

New standards, interpretations and amendments to published standards

(a) Standard and amendment effective in 2007

- IFRS 7, "Financial Instruments: Disclosures", and the complementary amendment to IAS 1, "Presentation of Financial Statements – Capital Disclosures" (effective from 1 January 2007) introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

- IFRIC Interpretation 9 "Reassessment of Embedded Derivatives" (effective for annual periods on or after 1 June 2006). The interpretation applies to all embedded derivatives under IAS 39 "Financial Instruments: Recognition and Measurement" and clarifies certain aspects of their treatment. The Standard does not have significant impact on the Group's financial statements.

2 Basis of preparation and summary of significant accounting policies (continued)

Basis of preparation (continued)

New standards, interpretations and amendments to published standards (continued)

(b) Interpretations effective in 2007 but not relevant

- IFRIC Interpretation 8 "Scope of IFRS 2".
- IFRIC Interpretation 10 "Interim Financial Reporting and Impairment".
- IFRIC Interpretation 7 "Applying the restatement approach under IAS 29, Financial Reporting in Hyperinflationary Economies".

(c) Standards and amendments that are not yet effective and have not been early adopted by the Group

The following standards and amendments have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- Amendments to IAS 23 "Borrowing costs"* (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply this Standard from 1 January 2009, but it is not expected to have any impact on the Group's financial statements, as the Group has adopted the allowed alternative treatment in IAS 23 prior to its amendment and is already capitalising borrowing costs directly attributable to the acquisition or production of qualifying assets.

- IAS 1, "Presentation of Financial Statements"* (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

2 Basis of preparation and summary of significant accounting policies (continued)

Basis of preparation (continued)

New standards, interpretations and amendments to published standards (continued)

(c) Standards and amendments that are not yet effective and have not been early adopted by the Group (continued)

- IFRS 8, "Operating Segments" (effective from 1 January 2009).
  IFRS 8 replaces IAS 14, "Segment reporting" and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new Standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. The Group will apply the Standard from 1 January 2009.

- IAS 27 "Consolidated and Separate Financial Statements" (revised January 2008, effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously minority interests) even if this results in the non-controlling interests having a deficit balance. The current standard requires excess losses to be allocated to the owners of the parent, except to the extent that the non-controlling interests have a binding obligation and are able to make an additional investment to cover the losses. The revised standard also specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an equity should measure any gain or loss arising on the loss of control of a subisiary. Any investment retained in the former subsidiary will have to be measured at its fair value at the date when control is lost. The current standard requires the carrying amount of an investment retained in the former subsidiary to be regarded as its cost on initial measurement of the financial asset in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". The Group will apply the Standard from 1 January 2010.

2 Basis of preparation and summary of significant accounting policies (continued)

Basis of preparation (continued)

New standards, interpretations and amendments to published standards (continued)

(c) Standards and amendments that are not yet effective and have not been early adopted by the Group (continued)

- IFRS 3 "Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purpose of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The disclosures required to be made in relation to contingent consideration will be enhanced. The revised IFRS 3 brings in its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group will apply the Standard from 1 January 2010.

2 Basis of preparation and summary of significant accounting policies (continued)

Basis of preparation (continued)

New standards, interpretations and amendments to published standards (continued)

(c) Standards and amendments that are not yet effective and have not been early adopted by the Group (continued)

- Amendment to IFRS 2 “Share-based Payment” (issued in January 2008; effective for annual periods beginning on or after 1 January 2008). The amendment clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply the Standard from 1 January 2008 but it is not expected to have significant impact on the Group’s financial statemenets.

- IAS 32 and IAS 1 Amendment “Puttable financial instruments arising on liquidation” (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group will apply the Standard from 1 January 2009 but it is not expected t6o have significant impact on the Group’s financial statements.

* *Standards and amendments that have not yet been endorsed by the European Union.*

(d) Interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following interpretations to existing standards have been published and are mandatory for the Group’s accounting periods beginning on or after 1 January 2008 and have not been early adopted by the Group:

- IFRIC 11, “IFRS 2—Company and Treasury Share Transactions” (effective for annual periods beginning on or after 1 March 2007). The Interpretation addresses how to apply IFRS 2 Share-based Payments to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group. The Interpretation is not relevant to the Group’s current operations.

2 Basis of preparation and summary of significant accounting policies (continued)

Basis of preparation (continued)

New standards, interpretations and amendments to published standards (continued)

(d) Interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- IFRIC 12, "Service Concession Arrangements"* (effective for annual periods beginning on or after 1 January 2008). The Interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements. The Interpretation is not relevant to the Group's current operations.

- IFRIC 13, "Customer loyalty programmes"* (effective for annual periods beginning on or after 1 July 2008). The Interpretation clarifies that the sale of goods or services together with customer award credits (for example, loyalty points or the right to free products) is accounted for as a multiple-element transaction. The Interpretation is not relevant to the Group's current operations.

- IFRIC 14, "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"* (effective for annual periods beginning on or after 1 January 2008). The Interpretation provides general guidance on how to assess the limit in IAS 19 Employee Benefits on the amount of the surplus that can be recognised as an asset. It also explains how the pension's asset or liability may be affected when there is a statutory or contractual minimum funding requirement. The Interpretation is not relevant to the Group's current operations.

* *Interpretations that have not yet been endorsed by the European Union.*

Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2 Basis of preparation and summary of significant accounting policies (continued)

Basis of consolidation (continued)

(a) Subsidiaries (continued)

Business combinations involving entities under common control (ultimately controlled by the same party, before and after the business combination, and that control is not transitory) are accounted using the predecessor basis of accounting. Under this method, the financial statements of the acquiree are included in the consolidated financial statements using pre-acquisition IFRS carrying amounts using uniform accounting policies, on the assumption that the Group was in existence for all periods presented. The excess of the cost of acquisition over the carrying amount of the Group's share of identifiable net assets is recorded in equity, as "common control transaction reserve".

The purchase method of accounting is used for the acquisitions of subsidiaries that do not involve entities or businesses under common control by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into compliance with those used by the Group.

All intra-company transactions, balances, income, expenses and unrealised gains and losses are eliminated on consolidation. Unrealised losses are also eliminated but considered as an impairment indicator of the asset transferred.

Transactions with minority interest

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

2 Basis of preparation and summary of significant accounting policies (continued)

Basis of consolidation (continued)

(b) Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Each venturer usually contributes cash or other resources to the jointly controlled entity.

Previously, the Group accounted for investments in joint ventures using proportionate consolidation method. However, during 2007, the Group changed its accounting policy for the accounting treatment of joint ventures and applied equity accounting retrospectively (Note 30). Management judges that this policy provides more reliable and relevant information to enable investors of the Group to take informed decisions.

Investments in joint ventures are initially recognised at cost and accounted for by the equity method of accounting. Under this method the Group's share of post-acquisition profits or losses of joint ventures is recognised in the income statement and its share of post-acquisition movement in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

The excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired joint venture, at the date of acquisition is recognised as goodwill. Goodwill on acquisition of joint ventures is included in "investments of joint ventures" and is tested for impairment as part of the overall balance. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Unrealised gains on transactions between the Group and its joint venturers are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

The accounting policies of joint ventures have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

Dilution gains and losses, if any, arising in investments in joint ventures are recognised in the income statement.

2 Basis of preparation and summary of significant accounting policies (continued)

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenues earned by the Group are recognised on the following bases:

(1) Revenue from transportation services

The Group operates the following services:

(a) Revenues from railway transportation – using own or leased rolling stock

The Group organises transportation services for clients using its own or leased rolling stock.

There are three types of operator's services:

- The Group has a contractual relationship with the client and sets the terms of the transactions, such as selling and payment terms, bears credit risk and controls the flow of receipts and payments. The OAO "Russian Railways" tariff is borne by the Group. Total proceeds from clients are included in the Group's revenue (Note 5).

2 Basis of preparation and summary of significant accounting policies (continued)

(1) Revenue from transportation services (continued)

(a) Revenues from railway transportation – using own or leased rolling stock (continued)

- The Group has a contractual relationship with the client and sets the terms of the transaction excluding the OAO "Russian Railways" tariff such as selling and payment terms, bears credit risk and controls the flow of receipts and payments. The OAO "Russian Railways" tariff is paid by the Group and recharged to the customer as a reimbursement.

- The Group has a contractual relationship with the customer and sets the terms of the transaction excluding the OAO "Russian Railways" tariff such as selling and payment terms, bears credit risk and controls the flow of receipts and payments. The tariff is paid directly by the customer to OAO "Russian Railways".

Previously, revenue was recognised in the accounting period in which the services were rendered upon completion of the specific transaction. However, management believes that recognition of revenue in accordance to the stage of completion of the transaction is more appropriate. This is applied retrospectively (Note 33).

(b) Revenues from railway transportation - freight forwarding (agency fees)

The Group also has a contractual relationship with the client to act as a legal intermediary for organising transportation services and pays transport fees on behalf of its clients. These fees, which are reimbursed by the Group's clients, are not included in revenues and cost of sales; they are recorded on the Group's transit accounts as reimbursements. In this service the transportation is provided with the use of OAO "Russian Railway" rolling stock and the client is doing business with the OAO "Russian Railways" as the principal carrier. Consequently, only the Group's fees for intermediary activities are recognised as revenue. Receivables and liabilities that arise in the course of these activities are recognised as accounts receivable and accounts payable. Previously, revenues from agency services were recognised in the accounting period in which the services were rendered upon completion of the specific transaction. However, management believes that recognition of revenue in accordance to the stage of completion of the transaction is more appropriate, This is applied retrospectively (Note 33).

2 Basis of preparation and summary of significant accounting policies (continued)

(2) Revenues from leasing

Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term. Assets leased out under operating leases are included in property, plant and equipment in the balance sheet based on the nature of the asset. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment.

(3) Revenues from sale of wagons and locomotives

The Group may acquire wagons and locomotives that are held for sale in the ordinary course of business.

Revenues are recognised when significant risks and rewards of ownership of the wagons and locomotives have been transferred to the customer, which is usually the date of delivery.

No revenue is recognised when wagons and locomotives are acquired and used in the supply of services and are subsequently disposed. Gains and losses on disposal are determined as explained in the accounting policy for property, plant and equipment and are recognised within operating profit.

(4) Interest income

Interest income is recognised on a time proportion basis using the effective interest and method.

(5) Dividend income

Dividend income is recognised when the right to receive payment is established.

Foreign currency translation

(a) Functional and presentation currency

Items included in the Group's financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is the Russian Rouble (RUR). However, the consolidated financial statements are presented in United States dollars (US$) ("the presentation currency") because this is the currency better understood by the principal users of the financial statements.

2 Basis of preparation and summary of significant accounting policies (continued)

Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency using the official exchange rate of the Central Bank of the Russian Federation.

The following exchange rates have been applied to translate financial statements from RUR to US$:

- Assets and liabilities are translated at the closing rate existing at the date of the balance sheet presented;

- Income and expense items at the average annual rate, which approximates the exchange rate existing at the date of transactions; and,

- Share capital, share premium and all other reserves are translated using the historic rate.

- All exchange differences resulting from the above translation are recognised in translation reserve in equity.

On consolidation, exchange differences arising from the transaction of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 Basis of preparation and summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition or construction of the items.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost, less residual value, over their estimated useful lives, as follows:

	Number of years
Hoppers, open wagons, cisterns and tank-wagons	25
Locomotives	15
Mounted wheels	7
Motor vehicles and other property, plant and equipment	3 to 10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Assets under construction are not depreciated until they are completed and brought into use, at which time they are reclassified in the relevant class of property, plant and equipment and depreciated accordingly.

Expenditure for repairs and maintenance of property, plant and equipment is charged to the income statement of the year in which they are incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with carrying amount and these are included within operating income.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

2 Basis of preparation and summary of significant accounting policies (continued)

Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments, the right to use an asset for an agreed period of time.

The Group is the lessee

(a) Finance leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment acquired under finance leases are depreciated over the useful economic life of the asset as it is reasonably certain that ownership will be obtained at the end of the lease term.

(b) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2 Basis of preparation and summary of significant accounting policies (continued)

Leases (continued)

(c) Sale and leaseback

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

When the overall economic effect of a sale and leaseback transaction cannot be understood without reference to the series of transactions as a whole (i.e. when the series of transactions are closely interrelated, negotiated as a single transaction, and take place concurrently or in a continuous sequence) the transaction is accounted for as one transaction, usually a collateralized borrowing.

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

The Group is the lessor

(a) Finance leases

Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. The income is recognised over the term of the lease using the net investment method (before tax) which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the income statement.

2 Basis of preparation and summary of significant accounting policies (continued)

Leases (continued)

(b) Operating leases

Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term. Assets leased out under operating leases are included in property, plant and equipment in the balance sheet based on the nature of the asset. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment.

Financial assets

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and loans to related and third parties.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2 Basis of preparation and summary of significant accounting policies (continued)

Financial assets (continued)

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor/borrower, probability that the debtor/borrower will enter bankruptcy or financial recognition, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business less the cost of completion and applicable variable selling expenses.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Cash flow statement

Cash flow statement is prepared under indirect method. Purchases of property, plant and equipment within cash flows from investing activities and finance lease repayments within cash flows from financing activities are shown net of VAT. Related input VAT is included in movement in changes of working capital, within trade and other receivables.

When the Group enters into a sale and lease back arrangements, the sale proceeds are included within cash flows from financing activities.

2 Basis of preparation and summary of significant accounting policies (continued)

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likehood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2 Basis of preparation and summary of significant accounting policies (continued)

Income taxes

Current tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the country where the entity operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Value Added Tax (VAT)

In the Russian Federation, output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice except for export sales related input VAT which is reclaimable upon confirmation of export. The tax authorities permit the settlement of VAT on a net basis. Where provision has been made for impairment of receivables, impairment loss is recognised for the gross amount of the debtor, including VAT. The lease liabilities are disclosed net of VAT. While the leasing payment includes VAT, the amount of VAT from the lease payment made is reclaimable against sales VAT.

2 Basis of preparation and summary of significant accounting policies (continued)

Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses and other benefits (such as health services) are accrued in the year in which the associated services are rendered by the employees of the Group. These are included in staff costs and the Group has no further obligations once the contributions have been paid.

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by Company's shareholders.

Comparatives

Certain reclassifications have been made to the comparative balances to conform to the current year presentation. The Company believes that the current year presentation more accurately represents the Group's activities. The main changes that arise relate to the following:

Reclassifications

The Group previously disclosed interest income within "other gains-net". Management believes that their inclusion in "finance income" below operating profit is a fairer representation of the Group's activities.

Common Control Transaction

Accounting of the acquisition of Sevtekhnotrans OOO as a common control transaction using the predecessor basis (Note 32).

Change of Accounting Policies

The Group previously accounted for investments in joint ventures using proportionate consolidation method. Management believes that change of the accounting policy and application of the equity accounting method provides more reliable and relevant information to the users of these financial statements (Note 30).

Prior Year Adjustment

Previously, the Group was recognising revenue in the accounting period in which the services were rendered upon completion of the specific transaction. However, management believes that recognition of revenue in accordance with the stage of completion of the transaction is more appropriate (Note 33).

3 Financial risk management

Financial risks factors

The Group's activities exposed it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial results.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in the currency different from the functional currency of each of the entities of the Group.

Currently the Group attracts a substantial amount of long-term borrowings and lease liabilities denominated in US dollars, whereas most of the Group's expenses and revenues are denominated and settled in Russian Roubles.

The strengthening of the Russian Rouble in real terms relative to the US dollar in recent years has been favorable to the Group by reducing the cost of its US dollar denominated borrowings. However, there is no guarantee that such trends will continue, and the Russian Rouble may depreciate in value against the US dollar in the future, leading to the Group realising a foreign exchange loss on its US dollar denominated borrowings. The Group is therefore exposed to the effects of currency fluctuations between the US dollar and the Russian Rouble, which could have a material effect on its results of operations and financial condition.

Current amounts of monetary assets and liabilities denominated in US dollars as at 31 December 2007, 31 December 2006 and 31 December 2005 are as follows:

	2007 US$'000	2006 US$'000	2005 US$'000
Assets	17.740	90.069	36.669
Liabilities	333.579	336.289	326.243
Capital commitments	32.418	20.853	4.280

Had US dollar exchange rate strengthened/weakened by 6% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Group for the years ended 31 December 2007, 2006 and 2005, would have decreased/increased by US$15.880 thousand, US$12.178 thousand and US$13.400 thousand, respectively. This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings, capital commitments and accounts receivable denominated in US dollars.

3 Financial risk management (continued)

Financial risks factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

The Group's current policy is not to hedge this foreign exchange risk. The Group generally intends to raise future long term debt denominated in US dollars, as the US dollar interest rates continue to be relatively attractive compared to the Russian Rouble interest rate and long term borrowings in Russian Roubles are generally not available. The Group's long term borrowings continue to be in US dollars in the expectation that the Russian Rouble will continue to appreciate against the US dollar in the medium term, although it will keep this general intention under review.

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are exposed to changes in market interest rates arising mainly from floating rate lease liabilities and borrowings. In addition the Group is exposed to fair value interest rate risk through market value fluctuations of lease liabilities and lease receivables with fixed interest rate.

Lease and long-term borrowing contracts of the Group are concluded to finance the purchase of rolling stock. While analysing new investment projects and concluding credit facility agreements, loan agreements and lease contracts, various scenarios are developed taking into account terms of refinancing and alternative financing sources. Based on these scenarios the Group measures the impact of a definite change in interest rate on profit or loss and selects the financing model that allows maximizing the estimated future profit.

Had US dollar and Russian Rouble lease and credit interest rates shift by 1% (in the case of floating interest rates) and all other variables remained unchanged, the post tax profit of the Group would have changed by US$1.460 thousand for the year ended 31 December 2007, US$1.133 thousand in 2006 and by US$833 thousand in 2005.

The Group obtains borrowings at current market interest rates and does not use any hedging instruments to manage interest rate risk. 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.

3 Financial risk management (continued)

Financial risks factors (continued)

(b) Credit risk

Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables and finance lease receivables (Note 16), and cash and cash equivalents (Note 18).

The Group has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. These policies enable the Group to reduce its credit risk significantly.

However, the Group's business is heavily dependent on a few large key customers, accounting for 72.36%, 69.68% and 67.96% of the Group's trade and other receivables as at 31 December 2007, 2006 and 2005 respectively.

These figures include trade and other receivables arising from business with related parties which account for 45.54%, 26.23% and 8.10% as at 31 December 2007, 2006 and 2005 respectively.

In addition, current and non current finance lease receivables arise from business with two customers only.

The table below summarises the analysis of accounts receivable under contractual terms of settlement at the balance sheet date.

	Fully performing US$'000	Past due US$'000	Impaired US$'000	Impairment provision US$'000	Total US$'000
As of 31 December 2007					
Trade receivables	13.952	5.428	2.746	(2.746)	19.380
Loans originated	3.363	-	-	-	3.363
Other receivables	9.079	7.009	-	-	16.088
Finance lease receivables	28.471	-	-	-	28.471
	54.865	12.437	2.746	(2.746)	67.302
As of 31 December 2006					
Trade receivables	24.980	12.594	669	(669)	37.574
Loans originated	846	-	-	-	846
Other receivables	1.006	297	-	-	1.303
Finance lease receivables	38.273	-	-	-	38.273
	65.105	12.891	669	(669)	77.996
As of 31 December 2005					
Trade receivables	24.062	13.839	133	(133)	37.901
Loans originated	192	-	-	-	192
Other receivables	49	-	-	-	49
Finance lease receivables	46.299	-	-	-	46.299
	70.602	13.839	133	(133)	84.441

3 Financial risk management (continued)

Financial risks factors (continued)

(c) Liquidity risk

The Group has a net working capital deficit of US$75.486 thousand as at 31 December 2007, US$25.300 thousand as at 31 December 2006 and US$16.792 thousand as at 31 December 2005.

The Group has successful credit and refinancing history and maintains enough flexibility ensuring the ability to attract necessary funds through committed credit facilities. Due to availability of committed credit lines amounting to US$60.184 thousand for 2007, US$59.309 thousand for 2006 and US$6.253 thousand for 2005 together with long-term borrowings (Note 22) the Group has the ability to meet its liabilities as they fall due and mitigate risks of adverse changes in the financial markets environment.

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 table below summarises the analysis of financial liabilities of the Group by maturity as of 31 December 2007, 31 December 2006 and 31 December 2005. The amounts in the table are contractual undiscounted cash flows. Trade and other payables balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than one month US$'000	Between one month and three months US$'000	Between three and six months US$'000	Less than one year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000	Over five years US$'000	Total US$'000
As of 31 December 2007								
Borrowings	26.861	83.043	23.418	54.167	120.771	244.953	18.533	571.746
Trade and other payables	21.871	1.159	2.580	-	427	-	-	26.037
As of 31 December 2006								
Borrowings	53.526	77.411	25.718	52.300	76.386	174.806	100.413	560.560
Trade and other payables	5.914	-	-	-	-	-	-	5.914
As of 31 December 2005								
Borrowings	19.346	44.052	29.311	43.915	68.692	156.950	121.540	483.806
Trade and other payables	14.194	-	-	-	-	-	-	14.194

3 Financial risk management (continued)

Financial risks factors (continued)

(d) Capital risk management

The Group's main objective when managing capital is to maintain the ability to continue as a going concern in order to ensure the required profitability of the Group, maintain optimum equity structure and reduce its cost of capital.

Defining capital, the Group uses the amount of net assets attributable to the Group's shareholders and the Group's borrowings.

The Group manages the capital based on borrowings to total capitalisation ratio. Borrowings include lease liabilities and loan liabilities. To maintain or change equity structure the Company may vary the amount of dividend paid, or sell assets in order to reduce debts.

Total capitalisation is calculated as the sum of the total Group borrowings and net assets at the date of calculation. The management does not currently have any specific target for the rate of borrowings to total capitalisation.

The rate of borrowings to total capitalisation as at 31 December 2007, 31 December 2006 and 31 December 2005 is as follows:

	2007 US$'000	2006 US$'000	2005 US$'000
Total borrowings	451.173	446.824	371.455
Total capitalisation	673.831	656.959	527.108
Total borrowings to total capitaliation ratio (percentage)	67%	68%	70%

No external requirements are imposed on the capital of the Group as defined by management. However, external requirements are imposed on the equity of one of the Company's subsidiaries (Note 22) in connection with one of its long-term loan agreements with financial institutions. This is monitored at that entity level and there were no instances of non-compliance with externally imposed capital requirements.

3 Financial risk management (continued)

Financial risks factors (continued)

(e) Fair value estimation

Fair value is the amount at which a financial asset could be exchanged or a liability settled in a transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group, using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore do not always represent the fair values of financial instruments. The Group has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables approximate their fair values.

Liabilities carried at amortised cost

The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows, discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4 Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

(i) VAT on export sales

In accordance with the tax legislation the Group's subsidiaries have to present certain documentation to the tax authorities to prove that a sale was an export transaction and therefore no output VAT should be charged on the sale. If documents are not presented within 180 days after the month end, output VAT becomes payable as if the sale was a domestic sale. The Company has a legal right to reclaim this VAT subsequently upon presentation of the documentation. Part of the documentation needs to be collected from the customers. The actual collections from the VAT authorities may differ from the estimates depending on the ability of the Group to collect all the necessary documentation from its customers or the relevant authorities. Thus, if 10% of the customers by value do not provide the Group with the correct documentation, an amount of US$2.965 thousand in 2007, US$4.449 thousand in 2006 and US$3.753 thousand in 2005 would be written off.

Based on previous experience of the Group these amounts are recovered in full.

(b) Critical judgements in applying in Group's accounting policies

(i) Revenue recognition

Operator's services are rendered using own or leased rolling stock. There are two types of operator's services for which critical accounting judgement is involved in revenue recognition:

(i) The Group's customers do not interact with OAO "Russian Railways". A full service is charged by the Group to its customers and the OAO "Russian Railways" tariff is borne by the Group. There are certain characteristics indicating that the Group is acting as an agent, particularly the fact that OAO "Russian Railways" tariffs are available to the public, therefore are known to the customer, and the risk of delivery is borne by OAO "Russian Railways". However, the Group bears the credit risk and controls

4 Critical accounting estimates and judgements (continued)

(b) Critical judgements in applying in Group's accounting policies (continued)

(i) Revenue recognition (continued)

the flow of receipts and payments. The services are rendered with the use of own or leased rolling stock and the Group bears the OAO "Russian Railways" tariff to bring the rolling stock back or to the next destination. The Group is independent in its pricing policy and considers its potential loss for empty run tariff. Management believes that the Group acts as a principal in this arrangements and the Group accounts receipts from customers as sales revenue and the OAO "Russian Railways" tariff is included in cost of sales. Had OAO "Russian Railways" tariff directly attributable to such services been excluded from revenues and cost of sales both would have decreased by US$172.439 thousand, US$252.551 thousand and US$193.716 thousand for the years ended 31 December 2007, 2006 and 2005, respectively.

(ii) The Group agrees with the customer the transport fee as above, excluding the OAO "Russian Railways" tariff which is paid by the Group and reinvoiced to the client as reimbursement. Management believes that OAO "Russian Railways" tariff should not be included in revenue and cost of sales as any variation in the tariff will be borne by the client. Had this OAO "Russian Railways" tariff been included in revenues and cost of sales, both would have increased by US$5.195 thousand, US$8.895 thousand and US$2.458 thousand for the years ended 31 December 2007, 2006 and 2005 respectively.

5 Segmental information

(a) Primary reporting format – business segments

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments.

In the year 2005 the Group had two main business segments:

- Railway transportation services; and
- Resale of wagons and locomotives.

Thereafter, in the years 2006 and 2007 the Group was organised as one main business segment:

- Railway transportation services. Along with transportation services, this segment includes operating leases of temporarily available tankers and open wagons.

5 Segmental information (continued)

(a) Primary reporting format – business segments (continued)

Other Group operations mainly comprise operating leases of locomotives and hoppers. These services do not constitute a separately reportable segment.

Starting from 2006, the activity of resale of wagons and locomotives has been reduced and no longer constitutes a separately reportable segment but is still disclosed separately in the years 2007 and 2006 to provide consistency of presentation.

The Group operates mainly in the Russian Federation and the operations can not be subdivided into smaller geographical segments. All services for the years ended 31 December 2007, 2006 and 2005 are allocated to the geographical segment of the Russian Federation.

The Group does not have transactions between different business segments.

The segment results for the year ended 31 December 2007 are as follows:

	Railway transportation services US$'000	Resale of wagons and locomotives US$'000	Other US$'000	Unallocated US$'000	Group US$'000
Total segment revenue	542.227	465	6.179	-	548.871
Cost of sales	(378.631)	(401)	(1.109)	-	(380.141)
Selling and marketing costs	(1.362)	(12)	-	-	(1.374)
Administrative expenses	(39.221)	-	(2.081)	(1.129)	(42.431)
Other gains - net	449	-	2.097	154	2.700
Operating profit/Segment result	123.462	52	5.086	(975)	127.625
Finance income	1.124	-	-	4.897	6.021
Finance costs	(28.430)	-	(81)	(677)	(29.188)
Profit before income tax					104.458
Income tax expense					(26.376)
Profit for the year					78.082

5 Segmental information (continued)

(a) Primary reporting format – business segments (continued)

The segment results for the year ended 31 December 2006 are as follows:

	Railway transportation services US$'000	Resale of wagons and locomotives US$'000	Other US$'000	Unallocated US$'000	Group US$'000
Total segment revenue	543.812	8.053	5.949	-	557.814
Cost of sales	(461.459)	(6.667)	(1.052)	-	(469.178)
Selling and marketing costs	(1.259)	(20)	(2)	-	(1.281)
Administrative expenses	(25.500)	-	(699)	(162)	(26.361)
Other gains - net	246	-	15.470	60	15.776
Operating profit/Segment result	55.840	1.366	19.666	(102)	76.770
Finance income	1.240	-	-	6.357	7.597
Finance costs	(15.608)	-	(53)	(900)	(16.561)
Share of profit of joint ventures	4.885	-	-	-	4.885
Profit before income tax					72.691
Income tax expense					(14.078)
Profit for the year					58.613

The segment results for the year ended 31 December 2005 are as follows:

	Railway transportation services US$'000	Resale of wagons and locomotives US$'000	Other US$'000	Unallocated US$'000	Group US$'000
Total segment revenue	449.758	55.962	6.130	-	511.850
Cost of sales	(371.113)	(51.050)	(944)	-	(423.107)
Selling and marketing costs	(1.106)	(157)	-	-	(1.263)
Administrative expenses	(21.020)	-	(6)	(575)	(21.601)
Other gains – net	917	-	181	586	1.684
Operating profit/Segment result	57.436	4.755	5.361	11	67.563
Finance income	63	-	-	4.521	4.584
Finance costs	(52.632)	-	(180)	(619)	(53.431)
Share of profit of joint ventures	4.366	-	-	-	4.366
Profit before income tax					23.082
Income tax expense					(5.764)
Profit for the year					17.318

5 Segmental information (continued)

(a) Primary reporting format – business segments (continued)

Other segment items included in the income statement are as follows:

	Year ended 31 December 2007			
	Railway transportation services US$'000	**Resale of wagons and locomotives US$'000**	**Other US$'000**	**Group US$'000**
Depreciation (Note 6)	(31.218)	-	(1.209)	(32.427)

Other segment items included in the income statement are as follows:

	Year ended 31 December 2006			
	Railway transportation services US$'000	**Resale of wagons and locomotives US$'000**	**Other US$'000**	**Group US$'000**
Depreciation (Note 6)	(19.935)	-	(1.063)	(20.998)

Other segment items included in the income statement are as follows:

	Year ended 31 December 2005			
	Railway transportation services US$'000	**Resale of wagons and locomotives US$'000**	**Other US$'000**	**Group US$'000**
Depreciation (Note 6)	(13.137)	-	(944)	(14.081)

Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash. Unallocated assets comprise deferred taxation and finance lease receivables and VAT recoverable in finance lease receivables.

Segment liabilities comprise operating liabilities, which may be allocated to the main business segments. Unallocated liabilities comprise current and deferred taxation and part of current and non-current borrowings.

Capital expenditure comprises additions to property, plant and equipment.

5 Segmental information (continued)

(a) Primary reporting format – business segments (continued)

The segments assets and liabilities as at 31 December 2007 and capital expenditure for the year then ended are as follows:

	Business segment				
	Railway transportation services US$'000	**Resale of wagons and locomotives US$'000**	**Other US$'000**	**Unallocated US$'000**	**Group US$'000**
Total assets	728.746	1.810	14.920	32.527	778.003
Liabilities	514.205	5.394	537	35.209	555.345
Capital expenditure (Note 12)	147.526				147.526

Segment assets and liabilities are reconciled to the Group assets and liabilities as follows:

	Assets US$'000	**Liabilities US$'000**
Segment assets/ liabilities	745.476	520.136
Unallocated:		
Deferred tax	-	22.751
Current tax	852	2.619
Current borrowings	-	2.732
Non-current borrowings	-	7.107
Receivables	31.675	-
Total	778.003	555.345

The total amount of capital commitments as at 31 December 2007 relates to the segment of railway transportation services.

5 Segmental information (continued)

(a) Primary reporting format – business segments (continued)

The segments assets and liabilities as at 31 December 2006 and capital expenditures for the year then ended are as follows:

	Business segment				
	Railway transportation services US$'000	**Resale of wagons and locomotives US$'000**	**Other US$'000**	**Unallocated US$'000**	**Group US$'000**
Total assets	627.982	1.149	26.033	42.570	697.734
Liabilities	449.013	-	9.910	28.676	487.599
Capital expenditure (Note 12)	106.138				106.138

Segment assets and liabilities are reconciled to the Group assets and liabilities as follows:

	Assets US$'000	**Liabilities US$'000**
Segment assets/ liabilities	655.164	458.923
Unallocated:		
Deferred tax	163	14.462
Current tax	327	1.666
Current borrowings	-	2.735
Non-current borrowings	-	9.813
Receivables	42.080	-
Total	697.734	487.599

The total amount of capital commitments as at 31 December 2006 relates to the segment of railway transportation services.

5 Segmental information (continued)

(a) Primary reporting format – business segments (continued)

The segments assets and liabilities as at 31 December 2005 and capital expenditures for the year then ended are as follows:

	Business segment				
	Railway transportation services US$'000	**Resale of wagons and locomotives US$'000**	**Other US$'000**	**Unallocated US$'000**	**Group US$'000**
Assets	461.728	6.034	14.765	48.830	531.357
Joint ventures	50.318	-	-	-	50.318
Total assets	512.046	6.034	14.765	48.830	581.675
Liabilities	390.519	7.819	1.440	26.244	426.022
Capital expenditure (Note 12)	173.761				173.761

Segment assets and liabilities are reconciled to the Group assets and liabilities as follows:

	Assets US$'000	**Liabilities US$'000**
Segment assets/ liabilities	482.527	399.778
Unallocated:		
Deferred tax	-	4.189
Current tax	294	3.081
Current borrowings	-	2.985
Non-current borrowings	-	15.989
Receivables	48.536	-
Total	531.357	426.022

The total amount of capital commitments as at 31 December 2005 relates to the segment of railway transportation services.

5 Segmental information (continued)

(a) Primary reporting format – business segments (continued)

Analysis of revenue by category:

	2007 US$'000	2006 US$'000	2005 US$'000
Railway transportation – operators services (tariff borne by the Group)	272.443	390.950	314.327
Railway transportation – operators services (tariff borne by the client)	252.788	137.816	110.209
Railway transportation – freight forwarding	613	2.683	1.087
Operating leasing of rolling stock (tankers and open wagons)	14.362	11.133	24.135
Operating leasing of locomotives and hoppers	6.178	5.948	6.130
Sale of wagons and locomotives	470	8.054	55.962
Other	2.017	1.230	-
	548.871	557.814	511.850

6 Expenses by nature

	2007 US$'000	2006 US$'000	2005 US$'000
Cost of sales			
Depreciation of property, plant and equipment	31.579	20.769	13.904
Loss/(gain) on sale of property, plant and equipment	26	26	(152)
Employee benefit expense	4.241	3.450	3.446
Operating lease rentals – rolling stock	38.382	52.595	47.372
Repairs and maintenance	31.693	13.784	6.293
Infrastructure and locomotive tariffs:			
Loaded trips	172.439	252.551	193.716
Empty run trips and services provided by other transportation organisations	98.462	119.336	107.478
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)	403	6.667	51.050
Other expenses	2.916	-	-
	380.141	469.178	423.107

6 Expenses by nature (continued)

	2007 US$'000	2006 US$'000	2005 US$'000
Selling, marketing and administrative expenses			
Depreciation of property, plant and equipment	848	229	177
Loss/(gain) on sale of property, plant and equipment	(2)	5	-
Employee benefit expense	21.831	10.812	8.719
Impairment charge of receivables	1.948	508	135
Operating lease rental – office	3.133	2.961	2.219
Auditors' remuneration	836	154	126
Legal, consulting and other professional fees	262	702	577
Advertising and promotion	144	153	92
Communication costs	580	733	349
Information services	762	1.280	599
Taxes (other than income tax and value added taxes)	8.150	5.491	5.145
Other expenses	5.313	4.614	4.726
	43.805	27.642	22.864

	2007 US$'000	2006 US$'000	2005 US$'000
Total expenses			
Depreciation of property, plant and equipment (Note 12)	32.427	20.998	14.081
Loss/(Gain) on sale of property, plant and equipment (Note 12)	24	31	(152)
Employee benefit expense (Note 8)	26.072	14.262	12.165
Impairment charge for receivables (Note 16)	1.948	508	135
Operating lease rentals – rolling stock	38.382	52.595	47.372
Operating lease rentals – office	3.133	2.961	2.219
Repairs and maintenance	31.693	13.784	6.293
Infrastructure and locomotive tariffs:			
Loaded trips	172.439	252.551	193.716
Empty run trips and services provided by other transportation organisations	98.462	119.336	107.478
Auditors' remuneration	836	154	126
Legal, consulting and other professional fees	262	702	577
Advertising and promotion	144	153	92
Communication costs	580	733	349
Information services	762	1.280	599
Taxes (other than income tax and value added taxes)	8.150	5.491	5.145
Other expenses	8.229	4.614	4.726
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)	403	6.667	51.050
Total cost of sales, selling and marketing costs and administrative expenses	423.946	496.820	445.971

7 Other gains – net

	2007 US$'000	2006 US$'000	2005 US$'000
Gain from sale of subsidiaries (Note 26)	1.897	-	-
Gain from sale of joint venture (Note 13)	-	15.470	181
Other gains	1.045	154	722
Recognised deferred gains	185	388	372
Net foreign exchange (losses)/gains (Note 11)	(427)	(236)	409
	2.700	15.776	1.684

8 Employee benefit expense

	2007 US$'000	2006 US$'000	2005 US$'000
Wages and salaries	17.065	12.627	10.295
Bonuses	6.664	-	565
Social insurance costs	2.343	1.635	1.305
	26.072	14.262	12.165

9 Finance income and costs

	2007 US$'000	2006 US$'000	2005 US$'000
Interest expense:			
Bank borrowings	(15.227)	(13.079)	(9.354)
Finance leases	(26.146)	(22.708)	(19.577)
Loans from:			
Related parties (Note 29 (d))	(5.541)	(5.823)	(11.616)
Third parties	-	(12)	-
Other	(411)	(159)	-
Total interest expense	(47.325)	(41.781)	(40.547)
Net foreign exchange transaction gains/(losses) on financing activities (Note 11)	18.137	25.220	(12.884)
Finance costs	(29.188)	(16.561)	(53.431)
Interest income:			
Bank balances	1.121	1.097	75
Finance leases – third parties	3.333	4.753	3.635
Finance leases – related parties (Note 29 (d))	1.523	1.451	874
Loans to:			
Related parties (Note 29 (d))	39	143	-
Third parties	3	10	-
Other	2	143	-
Finance income	6.021	7.597	4.584
Net finance costs	(23.167)	(8.964)	(48.847)

9 Finance income and costs (continued)

Borrowings costs of US$1.648 thousand for 2007, US$147 thousand for 2006 and US$654 thousand for 2005 arising on financing specifically entered into for the construction of assets were capitalised during the years and are included in "additions" in property, plant and equipment.

10 Income tax expense

	2007 US$'000	2006 US$'000	2005 US$'000
Current tax:			
Corporation tax	19.155	4.537	3.710
Defence contribution	101	110	-
Deferred tax (Note 23)	7.120	9.431	2.054
	26.376	14.078	5.764

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

	2007 US$'000	2006 US$'000	2005 US$'000
Profit before tax	104.458	72.691	23.082
Tax calculated at the applicable tax rates	25.160	14.866	5.337
Tax effect of expenses not deductible for tax purposes	581	1.127	676
Tax effect of allowances and income not subject to tax	(197)	(2.090)	(436)
Tax effect of tax losses for which no deferred tax asset was recognised	568	65	187
Defence contribution	101	110	-
Derecognition of deferred tax asset previously recognised	163	-	-
Tax charge	26.376	14.078	5.764

The weighted average applicable tax rate was 24% in 2007, 20% in 2006, 23% in 2005. In 2006 the decrease is caused by an improvement in the profitability of the Group's parent company arising mainly from the disposal of the joint venture (Note 13), which is subject to a lower tax rate (see below) compared to the overall profitability of the Group. Thereafter, the profitability of the Russian subsidiaries improved again, causing an increase in the weighted average tax rate.

10 Income tax expense (continued)

The Company and its Cypriot subsidiaries (Note 1) are subject to corporation tax on taxable profits at the rate of 10%. Under certain conditions interest may be subject to defence contribution at the rate of 10%. In such cases 50% of the same interest will be exempt from corporation tax thus having an effective tax rate burden of approximately 15%. In certain cases dividends received from abroad may be subject to defence contribution at the rate of 15%.

The statutory tax rate for the Russian subsidiaries (Note 1) is 24%.

11 Net foreign exchange gains/(losses)

The exchange differences (charged)/credited to the income statement are included as follows:

	2007 US$'000	2006 US$'000	2005 US$'000
Net finance income/(costs) (Note 9)	18.137	25.220	(12.884)
Other gains – net (Note 7)	(427)	(236)	409
	17.710	24.984	(12.475)

12 Property, plant and equipment

	Rolling stock US$'000	Motor vehicles US$'000	Assets under construction US$' 000	Other US$'000	Total US$'000
At 1 January 2005					
Cost	253.243	528	4.120	343	258.234
Accumulated depreciation	(7.693)	(131)	-	(112)	(7.936)
Net book amount	245.550	397	4.120	231	250.298
Year ended 31 December 2005					
Opening net book amount	245.550	397	4.120	231	250.298
Additions	171.281	783	197	1.500	173.761
Transfers	4.038	-	(4.038)	-	-
Disposals	(46.015)	(72)	-	(83)	(46.170)
Depreciation charge	(13.695)	(155)	-	(231)	(14.081)
Exchange difference	(10.715)	(23)	(84)	(28)	(10.850)
Closing net book amount	350.444	930	195	1.389	352.958
At 31 December 2005					
Cost	369.019	1.216	195	1.642	372.072
Accumulated depreciation	(18.575)	(286)	-	(253)	(19.114)
Net book amount	350.444	930	195	1.389	352.958

12 Property, plant and equipment (continued)

	Rolling stock US$'000	Motor vehicles US$'000	Assets under construction US$' 000	Other US$'000	Total US$'000
Year ended 31 December 2006					
Opening net book amount	350.444	930	195	1.389	352.958
Additions	100.299	1.244	4.303	292	106.138
Transfers	203	-	(203)	-	-
Disposals	(34)	(19)	-	-	(53)
Depreciation charge	(20.486)	(287)	-	(225)	(20.998)
Exchange difference	35.829	115	120	132	36.196
Closing net book amount	466.255	1.983	4.415	1.588	474.241
At 31 December 2006					
Cost	505.316	2.556	4.415	2.060	514.347
Accumulated depreciation	(39.061)	(573)	-	(472)	(40.106)
Net book amount	466.255	1.983	4.415	1.588	474.241
Year ended 31 December 2007					
Opening net book amount	466.255	1.983	4.415	1.588	474.241
Additions	127.290	192	19.560	484	147.526
Disposals	(26)	(130)	-	(19)	(175)
Disposed through disposals of subsidiaries	-	(214)	(25.120)	(241)	(25.575)
Depreciation charge	(31.536)	(552)	-	(339)	(32.427)
Exchange difference	37.829	125	1.145	123	39.222
Closing net book amount	599.812	1.404	-	1.596	602.812
At 31 December 2007					
Cost	670.399	2.441	-	2.316	675.156
Accumulated depreciation	(70.588)	(1.037)	-	(719)	(72.344)
Net book amount	599.811	1.404	-	1.597	602.812

In the cash flow statement, proceeds from sale of property, plant and equipment comprise of:

	2007 US$'000	2006 US$'000	2005 US$'000
Net book amount	175	53	46.170
(Loss)/Profit on sale of property, plant and equipment (Note 6)	(24)	(31)	152
Consideration from sale of property, plant and equipment	151	22	46.322

12 Property, plant and equipment (continued)

The consideration from sale of property, plant and equipment is further analysed as follows:

	2007 US$'000	2006 US$'000	2005 US$'000
Cash consideration:			
- Received within year	140	22	4.339
- Received after year end	11	-	-
Disposal of property, plant and equipment via finance lease arrangements	-	-	41.983
	151	22	46.322

Property, plant and equipment includes the following amounts where the Group is the lessee under a finance lease:

	2007 US$'000	2006 US$'000	2005 US$'000
Cost – capitalised finance leases	393.321	321.678	222.205
Accumulated depreciation	(37.670)	(24.148)	(10.959)
Exchange difference	(1.543)	(744)	179
	354.108	296.786	211.425

The net carrying amount of property, plant and equipment that are leased under finance leases, including sale and leaseback transactions, are analysed as follows:

	2007 US$'000	2006 US$'000	2005 US$'000
Rolling stock	353.733	296.020	210.973
Motor vehicles	375	766	452
	354.108	296.786	211.425

The Group is identified as a lessee under a finance lease in the following cases:

(a) The lease transfers ownership of property, plant and equipment to the Group at the end of the lease term;

(b) The Group has the option to purchase the property, plant and equipment at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised.

12 Property, plant and equipment (continued)

The total net book value of pledged property, plant and equipment (included above) which are held as collateral for the borrowings and loans are as follows (Note 22):

	2007 US$'000	2006 US$'000	2005 US$'000
Rolling stock	136.843	100.633	92.888

Depreciation expense of US$31.579 thousand in 2007, US$20.769 thousand in 2006 and US$13.904 thousand in 2005 have been charged to "cost of sales" and US$848 thousand in 2007, US$229 thousand in 2006 and US$177 thousand in 2005 have been charged to administrative expenses.

13 Investments in joint ventures

	2007 US$'000	2006 US$'000	2005 US$'000
At beginning of year	-	50.318	46.550
Share of profit after tax and minority interest in joint ventures	-	4.885	4.366
Capital contribution to joint ventures	-	8.125	-
Disposals	-	(64.530)	(319)
Exchange difference	-	1.202	(279)
At end of year	-	-	50.318
Goodwill included in investments in joint ventures	-	-	37.149

Until December 2005 the Group had a 50% direct share in a joint venture, Firm "Transgarant" OOO. On 15 November 2005 an intermediary joint venture holding company was established, Neteller Holdings Limited, in which 100% of Firm "Transgarant" OOO was contributed by the joint venturers on 21 December 2005 and in which the Group had again a 50% share. The joint venture was unlisted and was engaged in railway transportation.

During 2006, an amount of US$8.125 thousand was contributed by the each of the joint venturers.

In September 2006, the Group disposed of its 50% shareholding in Neteller Holdings Limited for a total consideration of US$80.000 thousand. The carrying value of the net assets disposed amounted to US$64.530 thousand. The gain from the disposal of the company amounted to US$15.470 thousand (Note 7).

13 Investments in joint ventures (continued)

The following amounts represented the aggregate amounts of the assets and liabilities as of the reporting dates and sales and results of the joint venture during the period in which the Group held an interest in these entities.

Name	Country of incorporation	Non-current assets US$'000	Current assets US$'000	Non-current liabilities US$'000	Current liabilities US$'000	Income US$'000	Expenses US$'000	% interest held
2005								
Neteller Holdings Limited	Cyprus	140.679	65.083	43.546	135.876	16.259	15.195	50
Firm "Transgarant" OOO	Russia	-	-	-	-	115.610	107.943	50
		140.679	65.083	43.546	135.876	131.869	123.138	
2006								
Neteller Holdings Limited	Cyprus	-	-	-	-	120.629	110.859	50

There are no contingent liabilities relating to the Group's interest in the joint venture.

As at 31 December 2006 and 2005, the joint venture itself did not have any contractual operating or capital commitments.

Year ended 31 December 2005

Incorporation of joint venture

On 15 November 2005, the Company and Transwagonleasing Limited, the venturers of Firm "Transgarant" OOO, incorporated on intermediate joint venture, Neteller Holdings Limited and each venturer contributed its share in the joint venture at carrying amount.

Disposal of joint venture

At the beginning of 2005, the Group sold its interest in Neocont OOO, which constituted 50% of the share capital of Neocont OOO, held under a joint venture agreement. The Group received US$500 thousand in cash. The carrying value of the net assets disposed amounted to US$319 thousand. The gain from disposal of Neocont OOO amounted to US$181 thousand (Note 7).

14 Financial instruments by category

	Loans and receivables US$'000
31 December 2007	
Financial assets as per balance sheet	
Trade and other receivables	67.302
Cash and cash equivalents	31.103
Total	98.405

	Financial liabilities measured at amortised cost US$'000
Financial liabilities as per balance sheet	
Borrowings	451.173
Trade and other payables	26.037
Total	477.210

	Loans and receivables US$'000
31 December 2006	
Financial assets as per balance sheet	
Trade and other receivables	77.996
Cash and cash equivalents	57.316
Total	135.312

	Financial liabilities measured at amortised cost US$'000
Financial liabilities as per balance sheet	
Borrowings	446.824
Trade and other payables	5.914
Total	452.738

14 Financial instruments by category (continued)

	Loans and receivables US$'000
31 December 2005	
Financial assets as per balance sheet	
Trade and other receivables	84.441
Cash and cash equivalents	15.009
Total	99.450

	Financial liabilities measured at amortised cost US$'000
Financial liabilities as per balance sheet	
Borrowings	371.455
Trade and other payables	14.194
Total	385.649

15 Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit rating if available or to the working history of the counterparty with the Group:

	2007 US$'000	2006 US$'000	2005 US$'000
Trade receivables			
Counterparties with external credit rating			
BB+	4	1.517	1.628
	4	1.517	1.628
Counterparties without external credit rating			
Group 1	51.285	52.221	66.202
Group 2	3.576	11.367	2.772
	54.861	63.588	68.974
	54.865	65.105	70.602

Group 1 - Customers with more than one year of working history with the Group.

Group 2 - Customers with less than one year of working history with the Group.

15 Credit quality of financial assets (continued)

The credit quality of financial assets that are neither past due or impaired can be assessed by reference to external credit rating, if available. For accounts receivable with no external credit rating available management assesses credit quality by reference to the prior history of working with customers. Customer with longer history of working with the Group are regarded by management as having lower risk of default.

Cash at bank and short-term bank deposits

Agency	Rating	2007 US$'000	2006 US$'000	2005 US$'000
Moody's *	Baa2	15.114	55.321	10.709
Moody's *	Ba1	228	806	1.183
Fitch **	A-	15.101	999	571
Moody's *	B1	-	-	2.431
Other		600	188	60
		31.043	57.314	14.954

* International rating agency Moody's Investors Service

** International rating agency Fitch Rating

16 Trade and other receivables

	2007 US$'000	2006 US$'000	2005 US$'000
Trade receivables – third parties	14.265	26.047	28.266
Trade receivables – related parties (Note 29 (f))	7.861	12.196	9.768
Less: Provision for impairment of trade receivables	(2.746)	(669)	(133)
Trade receivables – net	19.380	37.574	37.901
Loans to third parties	-	-	192
Loans to related parties (Note 29 (g))	3.363	846	-
Other receivables	8.292	1.303	42
Other receivables – related parties (Note 29 (f))	7.796	-	7
Prepayments - related parties (Note 29 (f))	1.076	6.039	461
Prepayments – third parties	44.664	36.424	37.507
Finance lease receivables:			
Leases to third parties	9.705	38.273	31.233
Leases to related parties (Note 29 (f))	18.766	-	15.066
VAT recoverable	29.650	44.487	37.534
	142.692	164.946	159.943

16 Trade and other receivables (continued)

	2007 US$'000	2006 US$'000	2005 US$'000
Less non-current portion:			
Prepayments (1)	(103)	(12.226)	(3)
Prepayments-related parties (1)	-	(1.615)	-
Finance lease receivables:			
Leases to third parties	(7.048)	(27.205)	(23.664)
Leases to related parties	(9.589)	-	(12.339)
VAT recoverable	(3.620)	(3.926)	(1.900)
Total non-current portion	(20.360)	(44.972)	(37.906)
Current portion	122.332	119.974	122.037

All non-current receivables are due until 2010.

The fair values of trade and other receivables are as follows:

	2007 US$'000	2006 US$'000	2005 US$'000
Financial assets:			
Trade receivables – third parties	11.519	25.378	28.133
Trade receivables – related parties	7.861	12.196	9.768
Loans to third parties	-	-	192
Loans to related parties	3.363	846	-
Other receivables	8.292	1.303	42
Other receivables – related parties	7.796	-	7
Finance lease receivables:			
Leases to third parties	9.555	37.028	31.233
Leases to related parties	18.586	-	15.066
Total financial assets	66.972	76.751	84.441

	2007 US$'000	2006 US$'000	2005 US$'000
Non-financial assets:			
Prepayments – related parties	1.076	6.039	461
Prepayments – third parties	44.664	36.424	37.507
VAT recoverable	29.650	44.487	37.534
Total non-financial assets	75.390	86.950	75.502
Total trade and other receivables	142.362	163.701	159.943

(1) Prepayments with non-current trade and other receivables represent prepayments for purchases of property, plant and equipment.

16 Trade and other receivables (continued)

Trade receivables amounting to US$54.865 thousand for 2007, US$65.105 thousand for 2006 and US$70.602 for 2005, were fully performing.

Trade receivables of US$12.437 thousand as of 31 December 2007, US$12.891 thousand as of 31 December 2006, and US$13.839 thousand as of 31 December 2005 were past due but not impaired. These relate to a number of independent customers for whom there is no history of either non repayment in the past or renegotiation of the repayment terms due to inability of the customer to repay the balance. Trade receivables are impaired only when there is an indication that the customer is unable to repay the balance.

The ageing analysis of past due trade receivables is as follows:

	2007 US$000	2006 US$000	2005 US$000
Less than 1 month	6.066	2.313	7.929
From 1 to 3 months	6.234	7.310	3.360
From 3 to 6 months	137	1.606	1.646
From 6 months to 1 year	-	1.662	904
	12.437	12.891	13.839

Trade receivables amounting to US$2.746 thousand as of 31 December 2007, US$669 thousand as of 31 December 2006 and US$133 thousand for 2005 were impaired and provided for in full. The individually impaired receivables mainly relate to customers for railway services, which are in unexpectedly difficult economic situation. It was assessed that no portion of these receivables is expected to be recovered.

The carrying amounts of the group’s trade and other receivables are denominated in the following currencies:

	2007 US$’000	2006 US$’000	2005 US$’000
Currency:			
US dollar	16.369	42.614	36.716
Russian Roubles	125.833	121.580	122.966
Other	490	752	261
	142.692	164.946	159.943

16 Trade and other receivables (continued)

Movements on the group provision for impairment of trade receivables are as follows:

	2007 US$'000	2006 US$'000	2005 US$'000
At 1 January	669	133	-
Provision for receivables impairment (Note 6)	1.948	508	135
Translation reserve	129	28	(2)
At 31 December	2.746	669	133

The creation and release of provision for impaired receivables have been included in "selling and marketing costs" in the income statement (Note 6). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The finance lease receivables are scheduled as follows:

	Less than 1 year US$'000	Between 1 to 5 years US$'000	**Total US$'000**
At 31 December 2007			
Minimum lease receivable	15.136	18.504	**33.640**
Less: Unearned finance income	(3.302)	(1.867)	**(5.169)**
Present value of minimum lease receivables	11.834	16.637	**28.471**
At 31 December 2006			
Minimum lease receivable	15.825	32.176	**48.001**
Less: Unearned finance income	(4.757)	(4.971)	**(9.728)**
Present value of minimum lease receivables	11.068	27.205	**38.273**
At 31 December 2005			
Minimum lease receivable	16.256	45.225	**61.481**
Less: Unearned finance income	(5.960)	(9.222)	**(15.182)**
Present value of minimum lease receivables	10.296	36.003	**46.299**

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security for any receivables, other than those relating to finance leases. Lease receivables are effectively secured as the rights to the lease assets revert to the Group as the lessor in the event of a default.

16 Trade and other receivables (continued)

The amount of the unguaranteed residual values accruing to the benefit of the Group is US$nil for the years ended 31 December 2007, 2006 and 2005.

There are neither accumulated allowances for uncollectible minimum lease payments, nor contingent rent recognised as income for the years ended 31 December 2007, 2006 and 2005.

The net investment in finance leases is analysed as follows:

	2007 US$'000	2006 US$'000	2005 US$'000
Receivable within one year	11.834	11.068	10.296
Receivable later than one year and not later than 5 years	16.637	27.205	36.003
Total	28.471	38.273	46.299

Average effective interest rate implicit in finance lease agreements at 31 December 2007 is 14,4% at 31 December 2006 is 14,4% and at 31 December 2005 is 14,4%.

17 Inventories

	2007 US$'000	2006 US$'000	2005 US$'000
Raw materials and consumables	544	539	1.004
Goods for resale	-	200	2.149
Other	-	2	-
	544	741	3.153

All inventories are stated at cost.

18 Cash and cash equivalents

	2007 US$'000	2006 US$'000	2005 US$'000
Cash at bank and in hand	17.896	8.114	3.926
Short term bank deposits	13.207	49.202	11.083
	31.103	57.316	15.009

The effective interest rate on short-tem deposits was 3,21% in 2007, 5,04% in 2006 and 4,77% in 2005 and these deposits have a maturity of 5 to 10 days in 2007, 7 days in 2006 and 14 days in 2005.

18 Cash and cash equivalents (continued)

Cash and cash equivalents include the following for the purposes of the cash flow statement:

	2007 US$'000	2006 US$'000	2005 US$'000
Cash and cash equivalents	31.103	57.316	15.009

19 Share capital and share premium

	Number of shares	Share capital US$'000	Share premium US$'000	Total US$'000
At 1 January 2005	5 000 000	5.000	-	5.000
Issue of shares	5 000 000	5.000	61.560	66.560
At 31 December 2005/1 January 2006 and 31 December 2006/1 January 2007 and 31 December 2007	10 000 000	10.000	61.560	71.560

The total authorised number of ordinary shares is 10 000 000 shares (2005: 10 000 000 shares) with a par value of US$1 per share. All authorised and issued shares are fully paid.

On 16 May 2005 the Company issued 5 000 000 shares of a nominal value of US$1 each issued at a premium of US$12,312 each.

On 19 March 2008, the Company changed its authorized share capital from 10 000 000 shares with a par value of US$1 per share to 100 000 000 shares with a par value of US$0,10 per share. It also increased its total authorized number of ordinary shares to 116 959 064 shares with a par value of US$0,10 per share (Note 34).

20 Dividends

No dividend was paid or declared in respect of 2005.

On 19 October 2006, the Board of Directors declared the payment of an interim dividend in respect of the year ended 31 December 2006 of US$2,30 per share amounting to a total dividend of US$23.000.000. The dividend was paid on 25 October 2006. On 31 October 2006 the Board of Directors declared the payment of an interim dividend from the capital contribution reserve in respect of the year ended 31 December 2006 of US$0,38 per share, amounting to US$3.800.000. The dividend was paid on 11 December 2006.

During 2007, the Board of Directors declared and the shareholders approved the payment of a dividend in respect of the year ended 31 December 2006 of US$0.12 per share, amounting to a total dividend of US$1.200.000. Furthermore, during 2007, the Board of Directors declared payments of interim dividends in respect of the year ended 31 December 2007 of US$2,63 per share, amounting to a total dividend of US$26.300.000. An amount of US$20.900.000 was paid in 2007. The balance was paid in January 2008. During 2007, the Board of Directors declared the payment of an interim dividend from the capital contribution reserve in respect of the year ended 31 December 2007 of US$1,40 per share amounting to US$14.075.000. An amount of US$9.223.000 thousand was paid in 2007. The balance was paid in January 2008.

21 Deferred gains

	2007 US$'000	2006 US$'000	2005 US$'000
Current	136	180	366
Non-current	124	242	386
	260	422	752

Deferred gains represent gains deferred from sale and finance leaseback transactions entered by the Group.

22 Borrowings

	2007 US$'000	2006 US$'000	2005 US$'000
Current			
Bank borrowings	100.117	129.643	70.786
Loans from third parties	-	-	25
Loans from related parties (Note 29 (h))	1.103	1.412	1.412
Finance lease liabilities	48.227	46.532	35.070
	149.447	177.587	107.293
Non-current			
Bank borrowings	76.235	38.188	54.333
Loan from related parties (Note 29 (h))	50.000	80.000	80.000
Finance lease liabilities	175.491	151.049	129.829
	301.726	269.237	264.162
Total borrowings	451.173	446.824	371.455
Maturity of non-current borrowings (excluding finance lease liabilities)			
Between 1 and 2 years	47.195	12.238	21.919
Between 2 and 5 years	79.040	23.093	23.842
Over 5 years	-	82.857	88.572
	126.235	118.188	134.333

22 Borrowings (continued)

	2007 US$'000	2006 US$'000	2005 US$'000
Finance lease liabilities – minimum lease payments			
Not later than 1 year	73.477	71.032	56.604
Later than 1 year and not later than 5 years	208.209	186.089	149.271
Later than 5 years	18.527	14.938	23.094
	300.213	272.059	228.969
Future finance charges of finance leases	(76.495)	(74.478)	(64.070)
Present value of finance lease liabilities	223.718	197.581	164.899
The present value of finance lease liabilities is as follows:			
Not later than 1 year	48.227	46.532	35.070
Later than 1 year and not later than 5 years	159.282	137.524	108.947
Later than 5 years	16.209	13.525	20.882
	223.718	197.581	164.899

Bank borrowings

Bank borrowings mature until 2012 and bear average interest of 8,96% in 2007, 8,92% in 2006 and 9,06% in 2005.

There were no defaults or breaches of loan terms during any of the years ended 31 December 2007, 2006 and 2005.

Year ended 31 December 2007

The current and non-current bank borrowings amounting to US$12.571 thousand and US$76.235 thousand respectively are secured by pledge of rolling stock and assignment of rights under contracts for organization of transportation services. The remaining current bank borrowings amounting to US$87.546 thousand are unsecured.

The current and non-current bank borrowings include a loan from International Finance Corporation, a subsidiary of the World Bank, amounting to US$25.714 thousand which is secured by pledge of the 26% of charter capital (participation interest) of Sevtekhnotrans OOO. This loan was jointly entered with other related parties and is also guaranteed by the parent of the Group. No other shares of subsidiaries of Globaltrans Investment Limited are pledged as collateral.

The bank and financial institutions loans of a total amount of US$88.806 thousand are secured by property, plant and equipment at the carrying net book value of US$122.323 thousand (Note 12).

22 Borrowings (continued)

Bank borrowings (continued)

Furthermore, property, plant and equipment of a carrying net book value of US$14.520 thousand (Note 12) were pledged as collateral under non-current loan agreement between OAO “Swedbank” and a related party (Note 29 (i)).

The current and non-current related parties borrowings are unsecured.

Furthermore, borrowings amounting to US$56.184 thousand and finance lease and sale and leaseback contracts for financing the purchase of rolling stock amounting to US$137.013 thousand are guaranteed by related parties (Note 29 (i)).

Year ended 31 December 2006

The current and non-current bank borrowings amounting to US$117.532 thousand and US$32.238 thousand respectively are secured by pledge of rolling stock and assignment of rights under contracts for organisation of transportation services. The remaining current and non-current bank borrowings amounting to US$12.111 thousand and US$5.950 thousand respectively, are unsecured.

The current and non-current bank borrowings include a loan from International Finance Corporation, a subsidiary of the World Bank, amounting to US$31.429 thousand which is secured by pledge of the 26% of charter capital (participation interest) of Sevtekhnotrans OOO. This loan was jointly entered with other related parties and is also guaranteed by the parent of the Group. No other shares of subsidiaries of Globaltrans Investment Limited are pledged as collateral.

The bank and financial institutions loans of a total amount of US$149.770 thousand are secured by property, plant and equipment at the carrying net book value of US$100.633 thousand (Note 12).

The current and non-current related parties borrowings are unsecured.

The Group guaranteed lease liabilities to ZAO “Raiffeisenbank” by assignment of rights under transportation services for the maximum amount of US$500 thousand.

Furthermore, borrowings amounting to US$37.418 thousand and finance lease and sale and leaseback contracts for financing the purchase of rolling stock amounting to US$135.266 thousand are guaranteed by related parties (Note 29 (i)).

Year ended 31 December 2005

The current and non-current bank borrowings amounting to US$58.426 thousand and US$54.333 thousand respectively, are secured by pledge of the rolling stock and assignment of rights under contracts for organization of transportation services. The remaining current bank borrowings amounting to US$12.360 thousand are unsecured.

22 Borrowings (continued)

Bank borrowings (continued)

The current and non-current bank borrowings include a loan from International Finance Corporation, a subsidiary of the World Bank, amounting to US$37.143 thousand which is secured by pledge of the 26% of charter capital (participation interest) of Sevtekhnotrans OOO. This loan was jointly entered with other related parties and is also guaranteed by the parent of the Group. No other shares of subsidiaries of Globaltrans Investment Limited are pledged as collateral.

The bank and financial institutions loans on the total amount of US$112.759 thousand are secured by rolling stock at the carrying net book value of US$92.888 thousand (Note 12).

The current and non-current related parties borrowings are unsecured.

The Group guaranteed lease liabilities to ZAO “Raiffeisenbank” by assignment of rights under transportation services for the maximum amount of US$500 thousand.

Furthermore, borrowings amounting to US$39.741 thousand and finance lease and sale and leaseback contracts for financing the purchase of rolling stock amounting to US$122.130 thousand are guaranteed by related parties (Note 29 (i)).

The exposure of the Group’s borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

	2007 US$’000	2006 US$’000	2005 US$’000
6 months or less	265.424	238.299	182.692
6 to 12 months	39.192	20.508	31.632
1 to 5 years	146.557	104.127	61.349
Over 5 years	-	83.890	95.782
	451.173	446.824	371.455

The carrying amount and fair value of non-current borrowings are as follows:

	Carrying amount			Fair value		
	2007 US$’000	2006 US$’000	2005 US$’000	2007 US$’000	2006 US$’000	2005 US$’000
Bank borrowings	76.235	38.188	54.333	76.235	38.188	54.333
Loans from related parties	50.000	80.000	80.000	50.578	69.730	71.224
Finance lease liabilities	175.491	151.049	129.829	166.601	134.643	125.632
	301.726	269.237	264.162	293.414	242.561	251.189

22 Borrowings (continued)

The fair value of current borrowings equals their carrying amount as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the appropriate Libor and MosPrime (1) rates.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2007 US$'000	2006 US$'000	2005 US$'000
US Dollar	321.433	350.053	321.632
Euro	50	-	78
Russian Rouble	129.690	96.771	49.745
	451.173	446.824	371.455

The Group has the following undrawn borrowing facilities:

	2007 US$'000	2006 US$'000	2005 US$'000
Floating rate:			
Expiring within one year	19.629	13.272	5.048
Expiring beyond one year	10.000	8.750	-
Fixed rate:			
Expiring within one year	30.555	37.287	1.205
	60.184	59.309	6.253

The weighted average effective interest rates at the balance sheet were as follows:

	2007	2006	2005
Bank borrowings	8,96%	8,92%	9,06%
Loans from third parties	-	-	14%
Loans from related parties	8,75%	7%	7%
Finance lease liabilities – third parties	12,77%	13,52%	14,12%

(1) MosPrime (Moscow Prime Offered Rate) is the National Foreign Exchange Association fixing of reference rate based on the offered rates of Russian Rouble deposits.

23 Deferred income tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The offset amounts are as follows:

	2007 US$'000	2006 US$'000	2005 US$'000
Deferred tax assets:			
- Deferred tax asset to be recovered after more than 12 months	-	(163)	-
Deferred tax liabilities:			
- Deferred tax liability to be recovered after more than 12 months	26.108	14.801	4.189
- Deferred tax liability to be recovered within 12 months	(3.357)	(339)	-
	22.751	14.462	4.189
Deferred tax liabilities (net)	22.751	14.299	4.189

The gross movement on the deferred income tax account is as follows:

	2007 US$'000	2006 US$'000	2005 US$'000
Beginning of year	14.299	4.189	2.269
Exchange differences	1.332	679	(134)
Income statement charge (Note 10)	7.120	9.431	2.054
End of year	22.751	14.299	4.189

23 Deferred income tax (continued)

The movement on the deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities	Property, plant and equipment US$'000	Lease liability US$'000	Tax losses US$'000	Borrowings US$'000	Trade and other payables US$'000	Other assets US$'000	Other liabilities US$'000	Total US$'000
At 1 January 2005	11.539	(8.574)	(211)	367	(315)	(537)	-	2.269
Charged/(credited) to:								
Income statement (Note 10)	17.535	(25.479)	191	(360)	(438)	(40)	10.645	2.054
Translation differences	(700)	723	20	(7)	3	1	(174)	(134)
At 31 December 2005/ 1 January 2006	28.374	(33.330)	-	-	(750)	(576)	10.471	4.189
Charged/(credited) to:								
Income statement (Note 10)	18.630	(14.287)	158	-	175	(690)	5.603	9.589
Translation differences	3.215	(3.543)	5	-	(65)	(76)	1.148	684
At 31 December 2006/ 1 January 2007	50.219	(51.160)	163	-	(640)	(1.342)	17.222	14.462
Charged/(credited) to:								
Income statement (Note 10)	9.664	1.246	(163)	-	(1.569)	(2.247)	26	6.957
Translation differences	4.048	(3.669)	-	-	(111)	(190)	1.254	1.332
At 31 December 2007	63.931	(53.583)	-	-	(2.320)	(3.779)	18.502	22.751

Deferred tax assets	Tax losses US$'000	Total US$'000
1 January 2005/31 December 2005/ 1 January 2006	-	-
Charged/(credited) to:		
Income statement (Note 10)	(158)	(158)
Translation differences	(5)	(5)
At 31 December 2006/1 January 2007	(163)	(163)
Charged/(credited) to:		
Income statement (Note 10)	163	163
At 31 December 2007	-	-

Deferred tax liabilities are expected to be settled after more than twelve months.

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

23 Deferred income tax (continued)

The Group did not recognise deferred income tax assets of US$959 thousand in 2007, US$391 thousand in 2006 and US$326 thousand in 2005 in respect of cumulative losses amounting to US$5.974 thousand in 2007, US$2.225 thousand for 2006 and US$1.858 thousand for 2005. There is no time limit for the utilisation of these tax losses.

24 Trade and other payables

	2007 US$'000	2006 US$'000	2005 US$'000
Current			
Trade payables to third parties	3.419	3.954	5.715
Trade payables to related parties (Note 29 (f))	9.752	1.871	7.494
Other payables to related parties (Note 29 (f))	153	21	270
Other payables to third parties	834	68	715
Accrued expenses	8.677	705	1.167
Advances from customers (1)	38.963	15.967	13.060
Advances from related parties (Note 29 (f)) (1)	4.865	1.639	18.124
Dividends payable (Note 29 (f))	11.452	-	-
	78.115	24.225	46.545
Non-current			
Other payables to third parties (Note 29 (i))	427	-	-

(1) Advances from customers and related parties consist of prepayments received in accordance with contracts on transportation services.

The fair value of trade and other payables approximates their carrying amount at the balance sheet date.

25 Earnings per share

Basic and diluted

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	2007 US$'000	2006 US$'000	2005 US$'000
Profit attributable to equity holders of the company	78.498	58.765	17.318
Weighted average number of ordinary shares in issue (thousand)	100.000	100.000	81.230
Basic and diluted earnings per share (expressed in US$ per share)	0,785	0,588	0,213

On 19 March 2008, the Company changed its authorized share capital from 10 000 000 shares with a par value of US$1 per share to 100 000 000 shares with a par value of US$0,10 per share (Note 34). For the purposes of the calculation of earnings per share in each of the years above, the number of shares was increased using a conversion of 10:1.

26 Business combinations

Year ended 31 December 2007

- In October 2007, the Group sold its interest in FT Fertilisertrans Holding Limited, which constituted 80% of the share capital of FT Fertilisertrans Holding Limited. The Group received US$65 thousand and made a gain of US$42 thousand (Note 7). However, since FT Fertilisertrans Holding Limited had cash and cash equivalents amounting to US$53 thousand at the date of disposal, it resulted to a net cash inflow of US$12 thousand. The minority interest disposed off amounted to a loss of US$6 thousand.

  Details of the assets and liabilities disposed off were as follows:

	Carrying amount US$'000
Trade and other receivables	20
Cash and cash equivalents	53
Trade and other payables	(44)
Minority interest disposed off	(6)
Carrying amount of net assets disposed off	23

- In October 2007, the Group sold its 100% shareholding in NPK Finans OOO for a total consideration of US$6 thousand and made neither a gain nor a loss. However, since NPK Finans OOO had cash and cash equivalents amounting to US$3 thousand at the date of disposal, it resulted to a net cash inflow of US$3 thousand.

  Details of the assets and liabilities disposed off were as follows:

	Carrying amount US$'000
Inventories	3
Cash and cash equivalents	3
Carrying amount of net assets disposed off	6

26 Business combinations (continued)

Year ended 31 December 2007 (continued)

- In December 2007, the Group disposed off its 75% shareholding in Amalfico Holdings Limited to its shareholders for a total amount of US$2.259 thousand (Note 29 (i)). However, since Amalfico Holdings Limited had cash and cash equivalents amounting to US$3.681 thousand at the date of disposal, it resulted to a net cash outflow of US$1.422 thousand. From the disposal, the Group has made a gain of US$1.855 thousand (Note 7). The minority interest disposed off amounted to US$325 thousand. Consequently, the Group has also disposed off Ural Wagonrepair Company ZAO, in which Amalfico Holdings Limited held 97% of the share capital and the Group had an indirect shareholding of 73%.

  Details of the assets and liabilities disposed off were as follows:

	Carrying amount US$'000
Property, plant and equipment	25.109
Trade and other receivables	7.879
Inventories	805
Cash and cash equivalents	3.681
Borrowings	(35.032)
Trade and other payables	(1.690)
Current tax liabilities	(23)
Minority interest disposed off	(325)
Carrying amount of net assets disposed off	404

Year ended 31 December 2006

- In January 2006, the Group established a subsidiary with a third party under the name of FT Fertilisertrans Holding Limited, incorporated in Cyprus with a share capital of C£10 thousand. In March 2006, pursuant to a share purchase agreement dated 29 March 2006 the Group acquired the remaining 50% of the shares of FT Fertilisertrans Holding Limited, Cyprus.

  The Company paid US$10 thousand in cash for this acquisition.

26 Business combinations (continued)

Year ended 31 December 2006 (continued)

Details of the assets and liabilities acquired and goodwill arising, are as follows:

	US$'000
Attributable fair value	
Other assets	10
Fair value of acquired interest in net assets of subsidiary	10
Goodwill arising from acquisition	-
Total purchase consideration	10
Less: Cash and cash equivalents of subsidiary acquired	-
Outflow of cash and cash equivalents on acquisition	10

In October 2006 the Company sold 20% of its investment in FT Fertilisertrans Holding Limited for a consideration of US$4,5 thousand.

- In October 2006, FT Fertilisertrans Holding Limited established a wholly owned subsidiary under the name of Agrohimtrans OOO, incorporated in the Russian Federation with a share capital of RUR1.000 thousand.

- In August 2006, pursuant to a share purchase agreement dated 7 August 2006, the Group acquired the 74.998% of the shares of Amalfico Holdings Limited, Cyprus.

The Company paid US$84 thousand in cash for this acquisition.

Details of the assets and liabilities acquired and goodwill arising, are as follows:

	US$'000
Attributable fair value	
Cash and cash equivalents	56
Other assets	56
Minority interest	(28)
Fair value of acquired interest in net assets of subsidiary	84
Goodwill arising from acquisition	-
Total purchase consideration	84
Less: Cash and cash equivalents of subsidiary acquired	(56)
Outflow of cash and cash equivalents on acquisition	28

- In July 2006, Amalfico Holdings Limited incorporated Ural Wagonrepair Company ZAO, a Russian subsidiary whose main activity is the provision of wagon repair services having 97% of share capital of the company with a share capital of RUR81.000 thousand.

26 Business combinations (continued)

Year ended 31 December 2005

- In August 2005, the Group established a wholly owned subsidiary under the name of NPK Finans OOO, incorporated in the Russian Federation with a share capital of RUR1.000 thousand (US$35 thousand).

27 Contingencies

Tax legislation

Russian tax and currency legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. The Russian tax authorities may be taking more assertive position in their interpretation of the legislation and assessments and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2006, the Supreme Arbitration Court issued guidance to lower courts on renewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceeding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation, which was introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

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

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

27 Contingencies (continued)

Tax legislation (continued)

Tax liabilities of the Group are determined on the assumption that the companies incorporated outside of Russian Federation are not subject to Russian profit tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and changes in the approach of the Russian tax authorities the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, as of 31 December 2007, 2006 and 2005, management believes that no tax liability has to be accrued in the financial statements.

Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including claims for early repayment. The Group is in compliance with covenants.

Insurance policies

The Group holds insurance policies in relation to all vehicles (rolling stock and motor vehicles) and in respect of public third party liability. The Group does not have full insurance for business interruption or third party liability in respect of environmental damage.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Legal proceedings

During the years ended 31 December 2007, 2006 and 2005, the Group was involved as a claimant in a number of court proceedings. In the opinion of management, there are no legal proceedings or other claims outstanding, as of 31 December 2007, 2006 and 2005 which could have a material effect on the results of operations or financial position of the Group and which have not been accrued or disclosed in these financial statements.

28 Commitments

(a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2007 US$'000	2006 US$'000	2005 US$'000
Property, plant and equipment	64.549	20.853	4.280

(b) Operating lease commitments – Group as lessee

The Group leases offices under non-cancellable operating lease agreements. The lease terms are between seven to nine months and the majority of lease agreements are renewable at the end of the lease period at market rate.

The Group also leases various types of rolling stock under cancellable operating lease agreements. The Group is required to give a 30 days notice for the termination of these agreements. The lease expenditure changed to the income statement during the years is disclosed in Note 6.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2007 US$'000	2006 US$'000	2005 US$'000
Not later than 1 year	662	1.980	1.002

The majority of future minimum lease payments under non-cancellable operating leases is with related parties (Note 29 (j)).

29 Related party transactions

The Group is controlled by Transportation Investments Holding Limited incorporated in Cyprus, which owns 70% of the Company's shares. The remaining 30% of the shares is held by Envesta Investments Limited, incorporated in Cyprus. As from 11 July 2007, the ultimate controlling party of the Group is Leverret Holding Limited. Before that date, the Group was jointly controlled by Leverret Holding Limited, incorporated in Cyprus and Rosea Invest Limited, incorporated in the British Virgin Islands.

For the purposes of these financial statements, 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 and operational decisions as defined by IAS 24 "Related Party Disclosures". 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.

29 Related party transactions (continued)

The following transactions were carried out with related parties:

(a) Sales of goods and services

	2007 US$'000	2006 US$'000	2005 US$'000
Sales of goods:			
Other related parties	-	7.164	34.462
Sales of services:			
Joint ventures in which the Group is a venturer	-	13	186
Other related parties	135.916	101.875	22.685
	135.916	109.052	57.333

The majority of the above transactions with "other related parties" were carried out with entities under common control.

(b) Purchases of goods and services

	2007 US$'000	2006 US$'000	2005 US$'000
Purchases of services:			
Joint ventures in which the Group is a venturer	-	438	214
Other related parties	56.943	86.177	46.814
	56.943	86.615	47.028

The majority of the above transactions with "other related parties" were carried out with entities under common control.

(c) Additions and disposals of property, plant and equipment

	2007 US$'000	2006 US$'000	2005 US$'000
Additions:			
Other related parties	11.280	1.564	-
Disposals:			
Other related parties	39	-	4.164
Joint ventures in which the Group is a venturer	-	-	4.841
	39	-	9.005

The majority of the above transactions with "other related parties" were carried out with entities under common control for the years ended 31 December 2007 and 31 December 2005 and with entities under common significant influence for the year ended 31 December 2006.

29 Related party transactions (continued)

(d) Interest income and expenses

	2007 US$'000	2006 US$'000	2005 US$'000
Interest income (Note 9):			
Loans to:			
Other related parties	39	143	-
Finance leases:			
Other related parties	1.523	1.451	874
	1.562	1.594	874
Interest expense (Note 9):			
Entity with significant influence over the Group	(4)	(45)	(498)
The parent	(5.467)	(5.776)	(6.763)
Other related parties	(70)	(2)	(4.355)
	(5.541)	(5.823)	(11.616)

The majority of the above transactions with "other related parties" for the years ended 31 December 2006 and 31 December 2005 were carried out with entities under common control and for the year ended 31 December 2007, with entities under common significant influence.

(e) Key management compensation

	2007 US$'000	2006 US$'000	2005 US$'000
Salaries and other short term employee benefits	7.477	1.400	1.365

The above include bonuses amounting to US$5.487 thousand for the year ended 31 December 2007, US$nil for the year ended 31 December 2006 and US$89 thousand for the year ended 31 December 2005.

29 Related party transactions (continued)

(f) Year-end balances arising from sales/purchases of goods/services

	2007 US$'000	2006 US$'000	2005 US$'000
Trade receivable from related parties (Note 16):			
Other related parties	7.861	12.196	9.768
Other receivables from related parties (Note 16):			
Other related parties	7.796	-	6
Joint ventures in which the Group is a venturer	-	-	1
	7.796	-	7
Prepayments to related parties (Note 16):			
Other related parties	1.076	6.039	461

	2007 US$'000	2006 US$'000	2005 US$'000
Finance lease receivables (Note 16):			
Current:			
Joint ventures in which the Group is a venturer	-	-	2.727
Other related parties	9.177	-	-
Non-current:			
Joint ventures in which the Group is a venturer	-	-	12.339
Other related parties	9.589	-	-
	18.766	-	15.066

29 Related party transactions (continued)

(f) Year-end balances arising from sales/purchases of goods/services (continued)

	2007 US$'000	2006 US$'000	2005 US$'000
Trade payables to related parties (Note 24):			
Joint ventures in which the Group is a venturer	-	-	22
Other related parties	9.752	1.871	7.472
	9.752	1.871	7.494
Other payables to related parties (Note 24):			
Other related parties	153	21	270
Dividends payable	11.452	-	-
Advances from related parties (Note 24):			
Other related parties	4.865	1.639	18.124

The majority of the above payable and receivable balances with "other related parties" arise from transactions with entities under common control.

The majority of the above finance lease receivable balances with "other related parties" arise from transactions with entities under common significant influence.

(g) Loans to related parties

	2007 US$'000	2006 US$'000	2005 US$'000
Other related parties (Note 16):			
Beginning of year	846	-	-
Balances with parties not previously related	3.363	-	-
Loans advanced during year	-	7.726	-
Loans repayments received	(830)	(6.921)	-
Interest charged	39	143	-
Interest received	(80)	(102)	-
Foreign exchange gain	25	-	-
End of year	3.363	846	-

The loans to related parties have the following terms and conditions:

Year ended 31 December 2006:

The loans are payable on 31 January and 30 September 2007 and carry interest at 10,2%, 10% and 14,5% respectively.

29 Related party transactions (continued)

(g) Loans to related parties (continued)

Year ended 31 December 2007:

The loans repaid in July 2007 carried interest at 10%, 14,5% and 10,2%. The remaining loan is payable on June 2008 and carries interest at 12,5%.

The majority of the above loans to "other related parties" arise from transactions with entities under common control.

(h) Loans from related parties

	2007 US$'000	2006 US$'000	2005 US$'000
The parent:			
Beginning of year	81.412	81.412	125.256
Loans advanced during the year	8.324	12.000	-
Loans repaid during the year	(29.754)	(12.000)	(44.845)
Interest charged	5.468	5.776	6.763
Interest repaid	(4.654)	(5.863)	(5.741)
Foreign exchange (loss)/gain	(1.337)	87	(21)
Balances of the parent with parties no longer part of the Group	(8.356)	-	-
	51.103	81.412	81.412

The loans from the parent have the following terms and conditions:

Year ended 31 December 2005 and 2006:

The loan is payable on 15 June 2012 and it carries interest at 7%.

Year ended 31 December 2007:

The balance at the year end carries interest at 8,75% and is payable on 15 June 2012.

29 Related party transactions (continued)

(h) Loans from related parties (continued)

The interest rate has been changed from 7% to 8,75% on 1 August 2007.

	2007 US$'000	2006 US$'000	2005 US$'000
Entity with significant influence over the Group:			
Beginning of year	-	-	19.635
Loans advanced during the year	3.218	3.641	-
Loans repaid during the year	-	(3.641)	(19.230)
Balances of the entity with significant influence over the Group with parties no longer part of the Group	(3.222)	-	-
Interest charged	4	45	498
Interest repaid	-	(45)	(903)
End of year	-	-	-

The above loans have the following terms and conditions:

Year ended 31 December 2005:

The loan has been repaid in May 2005 and carried interest at 7%.

Year ended 31 December 2006:

The loan has been repaid on 20 October 2006 and carried interest at 7%.

Year ended 31 December 2007:

The loans are payable on 31 December 2009 and carry interest at 12,5%.

	2007 US$'000	2006 US$'000	2005 US$'000
Other related parties:			
Beginning of year	-	-	58.021
Loans advanced during the year	4.880	95	125.874
Loans repaid during the year	(587)	(95)	(180.380)
Interest charged	315	2	4.355
Interest repaid	(5)	(2)	(6.687)
Balances of other related parties with parties no longer part of the Group	(4.603)	-	-
Foreign exchange loss	-	-	(1.183)
End of year	-	-	-

The above loans have the following terms and conditions:

Year ended 31 December 2005:

The loans have been repaid during 2005 and they carried interest at 7%, 8% and 10,2%.

29 Related party transactions (continued)

(h) Loans from related parties (continued)

Year ended 31 December 2006:

The loans have been repaid during 2006 and they carried interest at 7%.

Year ended 31 December 2007:

The loan is payable in June 2008 and carried interest at 12,5%.

The majority of the above loans from "other related parties" arise from transactions with entities under common control.

	2007 US$'000	2006 US$'000	2005 US$'000
Total loans:			
Beginning of year	81.412	81.412	202.912
Loans advanced during the year	16.422	15.736	125.874
Loans repaid during the year	(30.341)	(15.736)	(244.455)
Interest charged	5.787	5.823	11.616
Interest repaid	(4.659)	(5.910)	(13.331)
Balances with parties no longer part of the Group	(16.181)	-	-
Foreign exchange (loss)/gains	(1.337)	87	(1.204)
End of year	51.103	81.412	81.412

(i) Other transactions with related parties

Year ended 31 December 2007:

- In December 2007, the Group disposed off its 74,998% shareholding in Amalfico Holdings Limited to its shareholders for a total amount of US$2.259 thousand (Note 26).

- In May 2007, the Company acquired from its shareholders their shareholding in Sevtekhnotrans OOO, a railway transportation company (Note 32).

- As at 31 December 2007, the Company had capital commitments for the purchase of property, plant and equipment from other related party for the total amount of US$3.251 thousand (Note 28).

- In September 2007, the Group signed a property pledge agreement with OAO "Swedbank", under which property, plant and equipment of the Group with carrying net book value of US$14.520 thousand were pledged as a collateral under non-current loan agreement between OAO "Swedbank" and a related party. The Group estimated the value of this pledge at US$427 thousand (Note 22).

29 Related party transactions (continued)

(i) Other transactions with related parties (continued)

Year ended 31 December 2007 (continued):

- As at 31 December 2007, borrowings and finance lease and sale and leaseback contracts for financing the purchase of rolling stock are guaranteed by related parties as follows (Note 22):

	US$'000
Borrowings guaranteed by:	
The parent and the entity with significant influence over the Group	30.470
The parent	25.714
	56.184
Finance lease and sale and leaseback contracts guaranteed by:	
The parent and the entity with significant influence over the Group	47.356
The parent and other related parties	59.081
The parent	20.510
Other related parties	10.066
	137.013

The majority of the above guarantees from "other related parties" are provided by entities under common control.

Year ended 31 December 2006:

- As at 31 December 2006, borrowings and finance lease and sale and leaseback contracts for financing the purchase of rolling stock are guaranteed by related parties as follows (Note 22):

	US$'000
Borrowings guaranteed by:	
The parent	31.429
Other related parties	5.989
	37.418
Finance lease and sale and leaseback contracts guaranteed by:	
The parent and the entity with significant influence over the Group	27.836
The parent	17.824
The parent and other related parties	73.369
Other related parties	16.237
	135.266

29 Related party transactions (continued)

(i) Other transactions with related parties (continued)

The majority of the above guarantees from "other related parties" are provided by entities under common control.

Year ended 31 December 2005:

- As at 31 December 2005, borrowings and finance lease and sale and leaseback contracts for financing the purchase of rolling stock are guaranteed by related parties as follows (Note 22):

	US$'000
Borrowings guaranteed by:	
The parent	37.143
Other related parties	2.598
	39.741
Finance lease and sale and leaseback contracts guaranteed by:	
The parent	9.174
The parent and other related parties	88.124
Other related parties	24.832
	122.130

The majority of the above guarantees from "other related parties" are provided by entities under common control.

(j) Operating lease commitments – Group as lessee

The future aggregate minimum lease payments under non-cancellable operating leases with other related parties are as follows:

	2007 US$'000	2006 US$'000	2005 US$'000
Not later than 1 year	279	1.223	326

(k) Operating leases – Group as lessor

The future minimum lease payments receivable under operating leases with other related parties are as follows:

	2007 US$'000	2006 US$'000	2005 US$'000
Not later than one year	6.573	5.596	5.519

30 Change in accounting policies

As explained in Note 2, the Group changed its accounting policy during 2007 for the accounting treatment of joint ventures. Previously, the Group accounted for investments in joint ventures by the proportionate method of accounting.

The Group is now accounting for these investments by the equity method of accounting. Management judges that this policy provides more reliable and relevant information to enable investors of the Group to take informed decisions.

Under the equity method of accounting, the financial performance and position of the joint venture becomes more transparent. As the joint venture was disposed off in 2006, the financial statements of the Group become more comparable. This change in the accounting policy has been accounted for retrospectively, and the comparative financial statements for 2005 and 2006 have been restated. The effect of the change on 2005 and 2006 is tabulated below.

	2006 US$'000	2005 US$'000
(Decrease) in revenue	(57.066)	(65.090)
Decrease in cost of sales	48.186	45.704
Decrease in selling and marketing costs	-	29
Decrease in administrative expenses	619	5.715
(Decrease) in finance income	(851)	(457)
(Decrease) in other gains	(1.971)	-
Decrease in finance cost	4.575	8.949
(Decrease) in share of profit in associates	(427)	(388)
Decrease in income tax expense	2.050	1.172
Increase in share of profit of joint ventures after tax	4.885	4.366
Net effect on profit for the year	-	-
Decrease in intangible assets	-	37.149
Increase in investments in joint ventures	-	(50.318)
Decrease in property, plant and equipment	-	66.482
Decrease in investments in associates	-	571
Decrease in non-current trade and other receivables	-	3.286
	-	57.170
Decrease in inventories	-	167
Decrease in current trade and other receivables	-	31.211
Decrease in cash and cash equivalents	-	1.152
	-	32.530
Decrease in total assets	-	89.700

30 Changes in accounting policies (continued)

	2006 US$'000	2005 US$'000
(Decrease) in current borrowings	-	(21.190)
(Decrease) in deferred tax liabilities	-	(582)
	-	(21.772)
(Decrease) in trade and other payables	-	(10.900)
(Decrease) in current borrowings	-	(57.028)
	-	(67.928)
Decrease in total liabilities	-	(89.700)

The change in accounting policy has no effect on the balance sheet as of 31 December 2006, as all joint ventures were disposed off during 2006 (Note 13).

The change in accounting policy has no effect on basic and diluted earnings per share.

31 Operating leases

Group as lessor

The future minimum lease payments receivable under operating leases are as follows:

	2007 US$'000	2006 US$'000	2005 US$'000
Not later than one year	6.678	5.676	5.569

The Group leases out rolling stock and locomotives under cancellable operating lease agreements. The lease terms are generally 12 months and the majority of lease agreements are renewable at the end of the lease period at market rate. The Group is required to give up to a three-month notice for the termination of these agreements.

Contingent-based rents recognised in the income statement were US$nil for the years ended 31 December 2007, 2006 and 2005.

32 Common control transaction

In May 2007 the Company acquired from its shareholders their shareholding in Sevtekhnotrans OOO, a railway transportation company (Note 29(i)). 28,75% of share capital of Sevtekhnotrans OOO was acquired for a total consideration of US$40.250 thousand. The remaining share capital (71,25%) with value of US$99.750 thousand was transferred at no consideration as capital contribution. The acquisition of Sevtekhnotrans OOO has been accounted as a common control transaction using the predecessor basis (Note 2). The carrying value of its net assets as of 1 October 2004 was used to account for the common control transaction reserve, since this is the date as of common control has been established.

32 Common control transaction (continued)

On acquisition of Sevtekhnotrans OOO by Transportation Investments Holding Limited on 1 October 2004, its net assets were consolidated in the financial statements of Transportation Investments Holding Limited using the predecessor basis of consolidation, i.e. using book values from venturers applied at the date of the formation of the joint venture, as this transaction was accounted for as formation of a joint venture.

The acquired business contributed revenues of US$70.434 thousand and net profit of US$24.084 thousand in 2007, revenues of US$72.562 thousand and net profit of US$30.842 thousand in 2006 and revenues of US$121.860 thousand and net profit of US$11.096 thousand in 2005. These amounts have been calculated using the Group's accounting policies.

The assets and liabilities of Sevtekhnotrans OOO as of 1 October 2004 were as follows:

	Carrying amount US$'000
Cash and cash equivalents	34.313
Property, plan and equipment	212.711
Investments in joint ventures	32
Inventories	381
Trade and other receivables	46.039
Trade and other payables	(11.594)
Borrowings	(234.189)
Deferred gains	(1.101)
Deferred tax liabilities	(2.212)
Carrying value of net assets acquired	44.380

The assets and liabilities of Sevtekhnotrans OOO as of 31 December 2004 were as follows:

	Carrying amount US$'000
Cash and cash equivalents	35.522
Property, plan and equipment	225.301
Investments in joint ventures	32
Inventories	278
Trade and other receivables	96.633
Trade and other payables	(6.825)
Borrowings	(285.174)
Deferred gains	(1.159)
Deferred tax liabilities	(2.328)
Current income tax liabilities	(913)
Carrying value of net assets acquired	61.367

32 Common control transaction (continued)

The assets and liabilities of Sevtekhnotrans OOO as of 31 December 2005 were as follows:

	Carrying amount US$'000
Cash and cash equivalents	13.036
Property, plan and equipment	250.200
Inventories	2.886
Trade and other receivables	80.247
Trade and other payables	(10.484)
Borrowings	(260.543)
Deferred gains	(752)
Deferred tax liabilities	(3.657)
Current income tax liabilities	(855)
Carrying value of net assets acquired	70.078

The assets and liabilities of Sevtekhnotrans OOO as of 31 December 2006 were as follows:

	Carrying amount US$'000
Cash and cash equivalents	6.182
Property, plan and equipment	278.940
Inventories	255
Trade and other receivables	73.749
Trade and other payables	(3.207)
Borrowings	(234.842)
Deferred gains	(422)
Deferred tax liabilities	(11.459)
Current income tax liabilities	(802)
Carrying value of net assets acquired	108.394

33 Prior year adjustment

As explained in Note 2, previously the Group was recognising revenue in the accounting period in which the services were rendered upon completion of the specific transaction. However, management believes that revenue recognition according to the percentage of completion of the transaction is more appropriate.

The effect of this adjustment at the beginning of the year ended 31 December 2005 was to reduce retained earnings by US$1.701 thousand, trade and other receivables by US$988 thousand and deferred tax liabilities by US$537 thousand. Trade and other payables increased by US$1.250 thousand.

33 Prior year adjustment (continued)

The effect of the adjustment on 2005 and 2006 is tabulated below:

	2006 US$'000	2005 US$'000
Increase in revenue	2.857	-
Increase in cost of sales	(4.596)	-
Decrease in income tax expenses	417	-
Net effect on profit for the year	(1.322)	-

	2006 US$'000	2005 US$'000
Decrease in current trade and other receivables	3.425	-
Decrease in total assets	3.425	-
(Decrease) in translation reserve	(199)	-
(Decrease) in retained earnings	(3.023)	-
(Decrease) in deferred tax liabilities	(1.017)	-
Increase in trade and other payables	814	-
Decrease in total liabilities and equity	(3.425)	-

The adjustment reduces basic and diluted earnings per share for the year ended 31 December 2006 by US$0,13 per share.

34 Events after the balance sheet date

In January 2008 the Group received US$1.300 thousand and RUR30.000 thousand under short term credit line with ZAO "Raiffeisenbank" and US$10.000 thousand under long-term loan agreement with ZAO "UniCredit Bank".

In February 2008 the Group signed an agreement for the early cancellation of the finance lease agreement with a related party with full settlement of the finance lease receivable in March 2008 and the transfer of title of the relevant assets to the related party for an amount of US$17.300 thousand. This resulted in a loss of US$453 thousand.

Pursuant to a resolution dated 19 March 2008, the Company is in the process of being converted into a public company and shall be renamed to Globaltrans Investment Plc.

In March 2008 the Board of Directors declared the payment of an interim dividend for the year ended 31 December 2008 of US$0,89 per share, amounting to US$8.900 thousand.

On 19 March 2008, the Company changed its authorised share capital from 10 000 000 shares with a par value of US$1 per share to 100 000 000 shares with a par value of US$0,10 per share. It also increased its total authorised number of ordinary shares to 116 959 064 shares with a par value of US$0,10 per share.

34 Events after the balance sheet date (continued)

There were no other material events after the balance sheet date which have a bearing on the understanding of the financial statements.

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