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THE FOLLOWING DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS DOCUMENT MAY ONLY BE DISTRIBUTED IN “OFFSHORE TRANSACTIONS” AS DEFINED IN, AND AS PERMITTED BY, REGULATIONS UNDER THE US SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITHIN THE UNITED STATES TO QIBs (AS DEFINED BELOW) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) OR ANOTHER EXEMPTION FROM, OR TRANSACTION NOT SUBJECT TO, REGISTRATION UNDER THE SECURITIES ACT. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A “QIB”), OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATIONS UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

Confirmation of your representation: In order to be eligible to view this document or make an investment decision with respect to the securities, you must be (1) a person that is outside the United States or (2) a QIB that is acquiring the securities for its own account or for the account of another QIB. By accepting the e-mail and accessing this document, you shall be deemed to have represented to us that you are outside the United States or that you are a QIB and that you consent to delivery of such document by electronic transmission. You are reminded that this document has been delivered to you on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this document to any other person. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Bookrunners, as named in this document, or any affiliate of the Joint Bookrunners is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Bookrunners or such affiliate on behalf of Globaltrans Investment PLC in such jurisdiction.

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# Globaltrans Investment PLC

(a company organised and existing under the laws of Cyprus)

## Offering of 33,918,128 Global Depositary Receipts Offer Price: USD 13.25 per Global Depositary Receipt

This prospectus (the *Prospectus*) relates to an offering (the *Offering*) by (i) Globaltrans Investment PLC, a company organised and existing under the laws of Cyprus (the *Company*), of 16,959,064 global depositary receipts (*GDRs*), and (ii) Transportation Investments Holding Limited (*TIHL*) and Envesta Investments Ltd. (*EIL*), each of which is a company organised and existing under the laws of Cyprus (together the *Selling Shareholders*), of 16,959,064 GDRs. The GDRs represent interests in ordinary shares of the Company, each with a nominal value of USD 0.10 (the *Ordinary Shares*), and each GDR represents an interest in one Ordinary Share.

The Offering comprises (i) an offering of GDRs (the *Rule 144A GDRs*) within the United States to certain qualified institutional buyers (*QIBs*) as defined in, and in reliance on, Rule 144A (*Rule 144A*) under the US Securities Act of 1933, as amended (the *Securities Act*), or another exemption from, or transaction not subject to, registration under the Securities Act and (ii) an offering of GDRs (the *Regulation S GDRs*) outside the United States and the Russian Federation in reliance on Regulation S (*Regulation S*) under the Securities Act.

In addition, EIL has granted to Deutsche Bank AG, London Branch and Morgan Stanley & Co. International plc (together the *Joint Bookrunners*) an option exercisable within 30 days of the announcement of the offer price (the *Offer Price*) to purchase up to 3,391,813 additional GDRs at the Offer Price, solely to cover over-allotments, if any, in connection with the Offering (the *Over-Allotment Option*).

**The GDRs offered in the Offering have not been and will not be registered under the Securities Act and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Prospective purchasers are hereby notified that the sellers of the GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A or another exemption from, or transaction not subject to, registration under the Securities Act. The GDRs are subject to selling and transfer restrictions in certain jurisdictions (see “Selling and Transfer Restrictions”).**

The GDRs are specialised investments and should normally only be bought and traded by investors who are particularly knowledgeable in investment matters. See “Risk Factors” beginning on page 7 for a discussion of certain matters that prospective investors should consider prior to making an investment in the GDRs.

Application has been made to the Financial Services Authority (the *FSA*) in its capacity as competent authority under the Financial Services and Markets Act 2000 (*FSMA*) for the admission of up to 116,959,064 GDRs, consisting of 33,918,128 GDRs to be issued on the Closing Date (as defined below), up to 3,391,813 GDRs to be issued pursuant to the Over-Allotment Option and up to 79,649,123 GDRs to be issued from time to time against the deposit of Ordinary Shares with The Bank of New York (the *Depository*), to the official list maintained by the FSA and to the regulated main market of London Stock Exchange plc (*London Stock Exchange*) for admission of the GDRs to trading under the symbol “GLTR”. The regulated main market of the London Stock Exchange is a regulated market under the Markets in Financial Instruments Directive (2004/39/EC). Admission to the official list maintained by the FSA together with admission to the regulated main market of the London Stock Exchange constitute admission to official listing on a stock exchange, or *Admission*. Application has been made to have the GDRs designated eligible for trading in The PORTAL Market of the NASDAQ Stock Market, Inc. The Company expects that conditional trading through the International Order Book (*IOB*) will commence on a “when and if issued” basis on or about the date hereof, and unconditional trading through the IOB will commence on or about 8 May 2008. Prior to the Offering, there has been no public market for the GDRs or the Ordinary Shares. Copies of this document, having attached thereto the documents referred to in “Description of Share Capital and Applicable Cypriot Law—Cypriot companies law compliance matters” have been delivered to the registrar of companies in Cyprus. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if the expected admission to the London Stock Exchange does not take place and will be at the sole risk of the parties concerned. The Ordinary Shares are not, and are not expected to be, listed on any stock exchange.**

The Rule 144A GDRs will be evidenced by a master Rule 144A GDR (the *Master Rule 144A GDR*), which shall be registered in the name of Cede & Co., as nominee for The Depository Trust Company (*DTC*). The Regulation S GDRs will be evidenced by a master Regulation S GDR (the *Master Regulation S GDR*, which together with the Master Rule 144A GDR, are referred to as the *Master GDRs*), which will be registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for The Bank of New York, London Branch, as common depository for Euroclear Bank S.A./N.V. as operator of the Euroclear System (*Euroclear*) and Clearstream Banking, société anonyme (*Clearstream, Luxembourg*). The Ordinary Shares represented by the GDRs will be held by BNY (Nominees) Limited, as custodian (the *Custodian*), for the Depository. Except as described herein, beneficial interests in the Master GDRs will be held, and transfers thereof will be elected only through, DTC, Euroclear and Clearstream, Luxembourg and their direct and indirect participants. Transfers within DTC, Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system. It is expected that delivery of the GDRs will be made against payment therefore in US Dollars in same day funds on or about 7 May 2008 (the *Closing Date*) through the facilities of DTC with respect to the Rule 144A GDRs and through Euroclear and Clearstream, Luxembourg with respect to the Regulation S GDRs.

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Global Coordinator

**Deutsche Bank**

Joint Bookrunners

**Deutsche Bank**

**Morgan Stanley**

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The date of this Prospectus is 30 April 2008.



## IMPORTANT INFORMATION

The Company and the Selling Shareholders (in the case of each of the Selling Shareholders, only with respect to the information relating to such Selling Shareholder and the GDRs offered by it) accept responsibility for the information contained in this Prospectus. Having taken all reasonable care to ensure that such is the case, to the best of the knowledge and belief of the Company and the Selling Shareholders (in the case of each of the Selling Shareholders, only with respect to the information relating to such Selling Shareholder and the GDRs offered by it), the information contained in this Prospectus is in accordance with the facts and contains no omissions likely to affect its import.

No representation or warranty, express or implied, is made, nor any responsibility assumed, by the Joint Bookrunners or any of their respective affiliates or advisors as to the accuracy or completeness of any information contained in this Prospectus, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by the Joint Bookrunners or any of their respective affiliates or advisors as to the past or the future.

In this Prospectus, unless the context requires otherwise, references to the *Company* refer to Globaltrans Investment PLC, a company organised and existing under the laws of Cyprus, and references to the *Group* refer collectively to the Company and its consolidated subsidiaries.

The Joint Bookrunners are acting exclusively for the Group and the Selling Shareholders and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering.

**In making an investment decision, prospective investors should rely on their own investigation and analysis of the Group, and their own determination of the suitability of any such investment, with particular reference to their own investment objectives and experience and any other factors that may be relevant to such prospective investors in connection with an investment in the GDRs. Any decision to buy the GDRs should be based solely on the information contained in this Prospectus. No person has been authorised to give any information or to make any representations in connection with the Offering other than those contained in this Prospectus. If any such information is given or any such representations are made, such information or representations must not be relied upon as having been authorised by the Group, the Selling Shareholders or the Joint Bookrunners, any of their respective affiliates, advisers or any other person. At any time following the date of this Prospectus, the information contained in this Prospectus may no longer be correct and the Group's business, financial condition or results of operations may have changed.**

No representation is made by the Group, the Selling Shareholders or the Joint Bookrunners or any of its or their respective representatives to prospective investors as to the legality of an investment in the GDRs. Prospective investors should not construe anything in this Prospectus as legal, business, financial, investment, tax or related advice. Prospective investors should consult their own advisers as to the legal, business, financial, investment, tax and related aspects of an investment in the GDRs.

This Prospectus does not constitute or form part of an offer to sell, or a solicitation of an offer to buy, any security other than the GDRs offered in the Offering. The distribution of this Prospectus and the Offering may, in certain jurisdictions, be restricted by law and this Prospectus may not be used for the purpose of, or in connection with, any offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised, or to any person to whom it is unlawful to make such an offer or solicitation. Persons into whose possession this Prospectus comes are required to inform themselves of and observe all such restrictions and obtain any consent, approval or permission required. None of the Company, either of the Selling Shareholders, or any of the Joint Bookrunners accepts any legal responsibility for any violation by any person, whether or not a prospective investor, of any such restrictions.

No action has been or will be taken in any jurisdiction that would permit a public offering of the GDRs or the possession, circulation or distribution of this Prospectus or any other material relating to the Group or the GDRs in any jurisdiction where action for that purpose is required. Accordingly, the GDRs may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisements in connection with the GDRs may be distributed or published in or from any country or jurisdiction except under circumstances that would result in compliance with any applicable rules and regulations of any such country or jurisdiction. Further information with regard to restrictions on offers and sales of the GDRs is set forth under "Subscription and Sale".

In connection with the Offering, each of the Joint Bookrunners and any respective affiliate acting as an investor for its or their own account(s) may subscribe for or purchase the GDRs and, in that capacity, may

retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities and any other of the Group's securities or related investments in connection with the Offering or otherwise. Accordingly, references in this Prospectus to the GDRs being issued, offered, subscribed, placed or otherwise dealt with should be understood as including any issue, offer, subscription, placement or dealing by the Joint Bookrunners and any of their respective affiliates acting in such capacity. No Joint Bookrunner intends to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The contents of the Group's websites do not form any part of this Prospectus.

NEITHER THE US SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE GDRs OR ORDINARY SHARES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

### STABILISATION

In connection with the Offering, Deutsche Bank AG, London Branch (the *Stabilising Manager*) (or any agent or other person acting for the Stabilising Manager), may over-allot GDRs up to a maximum of 10 per cent. of the total number of GDRs comprised in the Offering or effect other stabilisation transactions with a view to supporting the market price of the GDRs at a higher level than that which might otherwise prevail in the open market. Such stabilisation activities may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the announcement of the Offer Price and ending no later than 30 calendar days thereafter. However, there will be no obligation on the Stabilising Manager or any of its agents to effect stabilising transactions, and there can be no assurance that stabilising transactions will be undertaken. Such stabilising, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the GDRs above the Offer Price.

Save as required by law or regulation, the Stabilising Manager does not intend to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offering.

### NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

This Prospectus has been prepared on the basis that all offers of GDRs, other than the offers of GDRs contemplated in this Prospectus in the United Kingdom once the Prospectus has been approved by the FSA and published in accordance with Directive 2003/71/EC (the *Prospectus Directive*) as implemented in the United Kingdom, will be made pursuant to an exemption under the Prospectus Directive, as implemented in the member states of the European Economic Area (the *EEA*) from the requirement to produce a prospectus for offers of GDRs. Accordingly, any person making or intending to make any offer within the EEA of the GDRs which are the subject of the placement contemplated in this Prospectus should only do so in circumstances under which no obligation arises for the Group or any of the Joint Bookrunners to produce a prospectus for such offer. Neither the Group nor the Joint Bookrunners have authorised, or will authorise, the making of any offer of the GDRs through any financial intermediary, other than offers made by the Joint Bookrunners which constitute the final placement of the GDRs contemplated in this Prospectus.

Each person in a Member State of the EEA that has implemented the Prospectus Directive (a *Relevant Member State*) other than, in the case of (a) below, persons receiving offers contemplated in this Prospectus in the United Kingdom, who receives any communication in respect of, or who acquires any GDRs under, the offers contemplated in this Prospectus will be deemed to have represented, warranted and agreed to and with each Joint Bookrunner and the Group that:

- (a) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and
- (b) in the case of any GDRs acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive:
  - (i) the GDRs acquired by it in the Offering have not been acquired on behalf of, or with a view to the offer or resale to, persons in any Relevant Member State other than qualified investors, as

that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Joint Bookrunners has been given to the offer or resale; or

- (ii) where GDRs have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those GDRs is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this provision, the expression an “offer to the public” in relation to any GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and any GDRs to be offered so as to enable an investor to decide to purchase or subscribe for the GDRs, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the Prospectus Directive includes any relevant implementing measure in each Relevant Member State.

#### **NOTICE TO INVESTORS IN THE RUSSIAN FEDERATION**

Neither the GDRs nor this document have been, or are intended to be, registered with the Federal Service for Financial Markets of the Russian Federation (the *FSFM*) or any other state bodies that may from time to time be responsible for such registration and the GDRs are not being offered, sold or delivered in the Russian Federation or to any Russian resident except as may be permitted by Russian law. This document does not constitute a public offer or advertisement for the GDRs in the Russian Federation, and is not an offer, or an invitation to make offers, to sell, purchase, exchange or otherwise transfer the GDRs to any persons in the Russian Federation.

#### **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES**

The GDRs offered in the Offering have not been, or will not be, registered under the Securities Act, or with any securities authority of any state of the United States, and the GDRs may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. The GDRs are only being offered pursuant to exemptions from, or in transactions not subject to, registration under the Securities Act. Prospective investors are hereby notified that sellers of the GDRs may be relying on the exemption from the registration provisions of Section 5 of the Securities Act provided by Rule 144A. For certain restrictions on sales and transfers of the GDRs, see “Selling and Transfer Restrictions”.

Recipients of this Prospectus in the United States are hereby notified that this document has been furnished to them on a confidential basis and is not to be reproduced, retransmitted or otherwise redistributed, in whole or in part, under any circumstances. Furthermore, recipients are authorised to use it solely for the purpose of considering a purchase of the GDRs in the Offering and may not disclose any of the contents of this Prospectus for any other purpose. This Prospectus is personal to each offeree and does not constitute an offer to any other person or the public generally to subscribe for or otherwise acquire the GDRs. Such recipients of this Prospectus agree to the foregoing by accepting delivery of this Prospectus. This agreement shall be relied upon by the Group, the Selling Shareholders, the Joint Bookrunners and their respective affiliates and agents, as well as persons acting on their behalf.

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (*RSA*) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

## AVAILABLE INFORMATION

So long as any GDRs are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Company has agreed that it will, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, furnish, upon request, to any holder or beneficial owner of such Restricted Securities, or any prospective purchaser designated by any such holder or beneficial owner, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act.

## ENFORCEMENT OF CIVIL LIABILITIES

The Company is organised in Cyprus, and all of its assets and the Group’s assets are located outside the United States and the United Kingdom, and all members of the Company’s board of directors (the *Board of Directors*) are resident outside of the United States or the United Kingdom. As a result, it may not be possible to effect service of process within the United States or the United Kingdom upon the Company or any of its subsidiaries or such persons or to enforce US or UK court judgments obtained against them in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of US securities laws. In addition, it may be difficult to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon US or UK securities laws.

Further, substantially all of the Group’s assets are located in Russia. Judgments rendered by a court in any jurisdiction outside Russia will generally be recognised by courts in Russia only if (i) an international treaty exists between Russia and the country where the judgment was rendered providing for the recognition of judgments in civil cases and/or (ii) a federal law of Russia providing for the recognition and enforcement of foreign court judgments is adopted. No such federal law has been passed, and no such treaty exists, between Russia, on the one hand, and the United States or the United Kingdom, on the other hand. The Group is aware of at least one instance in which Russian courts have recognised and enforced an English court judgment on the basis of a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. However, in the absence of established court practice, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce an English court judgment on these grounds. Furthermore, Russian courts have limited experience in the enforcement of foreign court judgments.

## FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts and events, and can be identified by the use of such words and phrases as “according to estimates”, “anticipates”, “assumes”, “believes”, “could”, “estimates”, “expects”, “intends”, “is of the opinion”, “may”, “plans”, “potential”, “predicts”, “projects”, “should”, “to the knowledge of”, “will”, “would” and similar expressions, which are intended to identify a statement as forward-looking. This applies, in particular, to statements containing information on future financial results, plans, or expectations regarding the Group’s business and management, the Group’s future growth or profitability and general economic and regulatory conditions and other matters affecting the Group.

Forward-looking statements reflect the Group’s current views of future events, are based on the Group’s assumptions and involve known and unknown risks, uncertainties and other factors that may cause the Group’s actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. The occurrence or non-occurrence of an assumption could cause the Group’s actual financial condition and results to differ materially from, or fail to meet expectations expressed or implied by, such forward-looking statements. The Group’s business is subject to a number of risks and uncertainties that could also cause a forward-looking statement, estimate or prediction to become inaccurate. These risks include, but are not limited to, the following:

- fluctuations in the Group’s financial results and financial conditions;
- changes in political, social, legal or economic conditions in Russia;
- the Group’s ability to service the Group’s existing indebtedness;
- the Group’s ability to fund future operations and capital needs through borrowing or otherwise;

- the Group's ability to successfully implement any of the Group's business strategies;
- the Group's expectations about growth in demand for the Group's services;
- competition in the marketplace;
- inflation, interest rates and fluctuation in exchange rates;
- a changing regulatory environment; and
- the Group's success in identifying other risks to the Group's business and managing the risks of the aforementioned factors.

Additional factors that could cause the Group's actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations". Any forward-looking statements speak only as at the date of this Prospectus. After the date of this Prospectus, neither the Group nor the Joint Bookrunners assume, and each of the Group and each of the Joint Bookrunners expressly disclaims, any obligation, except as required by law, the listing rules of the London Stock Exchange or the FSA, to update any forward-looking statements or to conform these forward-looking statements to the Group's actual results.

All subsequent written and oral forward-looking statements attributable to the Group, and those acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Before making an investment decision prospective investors should specifically consider the factors identified in this Prospectus that could cause actual results to differ.

None of the Group, its management or the Joint Bookrunners can give any assurance regarding the future accuracy of the opinions set forth herein or as to the actual occurrence of any predicted developments.

## **PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

### **FINANCIAL INFORMATION**

The Group's audited consolidated financial statements as of and for the years ended 31 December 2007, 2006 and 2005 included in this Prospectus (the *Consolidated Financial Statements*) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (*EU IFRS*).

The Consolidated Financial Statements of the Group, which comprises the Company and all its subsidiaries, include the historic assets, liabilities, revenues and expenses that were directly related to these entities during the relevant financial period. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Business combinations involving entities under common control (ultimately controlled by the same party, before and after the business combination, where such control is not transitory) are accounted for using the predecessor basis of accounting. The equity method of accounting is applied to joint ventures. The consolidated subsidiaries of the Company for each of the years ended 31 December 2007, 2006 and 2005 include OAO New Forwarding Company (*New Forwarding Company*) and OOO Sevtekhnotrans (*Sevtekhnotrans*), companies organised and existing under Russian law. Although Sevtekhnotrans was only acquired by the Company in 2007, its acquisition by the Company was from entities under common control with the Company. In accordance with the Company's accounting policies, Sevtekhnotrans has been treated as a consolidated subsidiary for each of the years ended 31 December 2007, 2006 and 2005. The Company's consolidated financial statements as at and for the years ended 31 December 2006 and 2005 have been restated to reflect the acquisition of, and consolidation of, Sevtekhnotrans.

The Consolidated Financial Statements are presented in US Dollars, which the Group's management believes to be the most useful for users of the financial statements. The functional currency of the Group's companies is the Rouble. The balance sheets of the Group's companies are translated into US Dollars, using the official exchange rate of the Central Bank of the Russian Federation, in accordance with IAS 21, whereby assets and liabilities are translated into US Dollars at the rate of exchange prevailing at the balance sheet date and income and expense items are translated into US Dollars at the average annual exchange rate which approximates the exchange rate existing at the date of the transaction. All resulting foreign currency exchange rate differences are recognised directly in the Group's shareholders' equity as "Translation reserve".



The Consolidated Financial Statements for 2005 and 2006 have been restated to reflect certain changes that the Company believes more accurately represent the Group's activities. These changes relate mainly to the following:

- reclassification of interest income from “other gains—net” to “finance income”;
- accounting for the acquisition of Sevttekhnotrans as a common control transaction using the predecessor basis;
- accounting for joint ventures by applying the equity method of accounting rather than the proportional consolidation method; and
- recognition of revenue on a stage of completion basis rather than deferring recognition until completion of specific transactions.

Rounding adjustments have been made in calculating some of the financial information included in this Prospectus. As a result, numerical figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

On 19 March 2008, the Company changed its authorised and issued 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. The information in this Prospectus reflects the change in issued share capital from 10,000,000 shares to 100,000,000 shares.

#### **NON-GAAP FINANCIAL INFORMATION**

In this Prospectus certain non-GAAP measures are reported. The Group's management believes that these non-GAAP measures provide valuable information to readers because they enable the reader to focus more directly on the underlying day-to-day performance of the Group's business. In this Prospectus the Group has used the following non-GAAP financial information:

- Adjusted Revenue;
- EBITDA;
- Adjusted EBITDA; and
- ROCE.

Adjusted Revenue, EBITDA, Adjusted EBITDA and ROCE are presented as supplemental measures of the Group's operating performance, which the Group believes are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the freight rail transportation sector. All of these supplemental measures have limitations as analytical tools, and investors should not consider any one of them in isolation, or any combination of them together, as a substitute for analysis of the Group's operating results as reported under EU IFRS.

Some of these limitations are as follows:

- EBITDA and Adjusted EBITDA do not reflect the impact of financing costs, which can be significant and could further increase if the Group incurs more borrowings, on the Group's operating performance;
- EBITDA, Adjusted EBITDA and ROCE do not reflect the impact of income taxes on the Group's operating performance; and
- EBITDA and Adjusted EBITDA do not reflect the impact of depreciation and amortisation on the Group's performance. The assets of the Group's business which are being depreciated, depleted and/or amortised will need to be replaced in the future and such depreciation and amortisation expense may approximate the cost of replacing these assets in the future. By excluding this expense from EBITDA and Adjusted EBITDA, EBITDA and Adjusted EBITDA do not reflect the Group's future cash requirements for these replacements. EBITDA and Adjusted EBITDA also does not reflect the impact of loss on disposal of property, plant and equipment.

Other companies in the freight rail transportation sector may calculate Adjusted Revenue, EBITDA, Adjusted EBITDA or ROCE differently or may use each of them for different purposes than the Group, limiting their usefulness as comparative measures.

The Group relies primarily on its EU IFRS operating results and uses Adjusted Revenue, EBITDA, Adjusted EBITDA and ROCE only supplementally. See the Consolidated Financial Statements included elsewhere in this Prospectus. Adjusted Revenue, EBITDA, Adjusted EBITDA and ROCE are not defined by, or presented in accordance with, EU IFRS. Adjusted Revenue, EBITDA, Adjusted EBITDA and ROCE are not measurements of the Group's operating performance under EU IFRS and should not be considered as alternatives to revenues, profit, operating profit, net cash provided by operating activities or any other measures of performance under EU IFRS or as alternatives to cash flow from operating activities or as measures of the Group's liquidity. In particular, EBITDA, Adjusted EBITDA and ROCE should not be considered as measures of discretionary cash available to the Group to invest in the growth of its business.

For a reconciliation of Adjusted Revenue to revenue and a reconciliation of EBITDA and Adjusted EBITDA to profit for the year, see footnote 5 under "Selected Consolidated Financial and Operating Information".

#### **A.T. KEARNEY REPORT**

All statistical and market information provided by A.T. Kearney relating to such topics as Russian transportation and logistics, the Russian economy in general and related subjects was reproduced from a report on the freight rail market dated 28 February 2008 prepared by A.T. Kearney at the request of the Group (the *A.T. Kearney Report*).

A.T. Kearney has given and not withdrawn its consent to the inclusion of information from the A.T. Kearney Report in this Prospectus, in the form and content in which it is included, and has authorised the contents of those parts of this Prospectus for the purposes of Rule 5.5.4R(f) of the Prospectus Rules and Annex X item 23.1 in Appendix 3 to the Prospectus Rules. A.T. Kearney accepts responsibility for the information included in this Prospectus from the A.T. Kearney Report and, to the best of A.T. Kearney's knowledge and belief, that having taken all reasonable care to ensure such is the case, the information included in this Prospectus from the A.T. Kearney Report is in accordance with the facts and does not omit anything likely to affect the import of such information.

The information from the A.T. Kearney Report has been presented in this Prospectus under the headings: "Summary", "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Russian Rail Transportation Market", "Business" and "Regulation of Railway Transportation in Russia".

#### **INFORMATION DERIVED FROM THIRD PARTIES**

The Group has obtained certain statistical and market information that is presented in this Prospectus on such topics as Russian transportation and logistics, the Russian economy in general and related subjects from the following third-party sources:

- Business Monitor International;
- CBR (as defined below);
- Directorate General (*DG*) Energy and Transport;
- Global Insight;
- Rosstat;
- Russian Ministry of Economic Development and Trade; and
- Russian Railways (as defined below).

This third-party information is presented in this Prospectus under the headings: "Summary", "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Russian Rail Transportation Market", "Business" and "Regulation of Railway Transportation in Russia".

The Group has accurately reproduced such information and, as far as it is aware and is able to ascertain from information published by such third party, no facts have been omitted that would render the

reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. Market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative. Prospective investors should note that the Group's estimates are based on such third-party information. Neither the Group nor the Joint Bookrunners have independently verified the figures, market data or other information on which third parties have based their studies.

The Group has derived substantially all of the information contained in this Prospectus concerning its competitors from publicly available information and has accurately reproduced such information and, as far as the Group is aware and is able to ascertain from information published by such third-party, no facts have been omitted that would render the reproduced information inaccurate or misleading. The Group has relied on the accuracy of this information without independent verification. The information derived from the official data of various Russian governmental agencies has been accurately reproduced by the Group, and as far as the Group is aware and is able to ascertain from information published by such Russian governmental agencies, no facts have been omitted that would render the reproduced information inaccurate or misleading. The Group has relied on this information without independent verification. The official data published by Russian federal, regional and local government agencies is substantially less complete or researched than that of more developed countries. Official statistics, including data published by the CBR, may also be produced on different bases than those used in more developed countries. Any discussion of matters relating to Russia in this Prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

### EXCHANGE RATE INFORMATION

The official currency of Russia, where the majority of the Group's assets and operations are located, is the Rouble, which is the functional currency of the Group. However, the presentation currency of the Consolidated Financial Statements is the US Dollar. The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Rouble and the US Dollar. This information is based on the official exchange rate quoted by the CBR (the **CBR Rate**), which is set by the CBR, as defined below, without the CBR assuming any obligations to buy or sell the foreign currency at the exchange rate. Fluctuations in the exchange rate between the Rouble and the US Dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Consolidated Financial Statements and other information presented in this Prospectus.

	RUB per USD 1.00			
	High	Low	Period average <sup>(1)</sup>	Period end
<b>Year ended 31 December</b>				
2003	31.88	29.25	30.61	29.45
2004	29.45	27.75	28.73	27.75
2005	29.00	27.46	28.32	28.78
2006	28.48	26.18	27.09	26.33
2007	26.58	24.26	25.49	24.55
<b>Month ended</b>				
31 January 2008	24.89	24.29	24.50	24.48
29 February 2008	24.78	24.12	24.53	24.12
31 March 2008	24.05	23.51	23.76	23.52
30 April 2008	23.67	23.34	23.51	23.65

Source: CBR

(1) The period average in respect of a year is calculated as the average of the exchange rates on the last business day of each month for the relevant annual period. The period average in respect of a month is calculated as the average of the exchange rates for each business day in the relevant month.

The CBR Rate per USD 1.00 on 30 April 2008 was RUB 23.65.

No representation is made that the Rouble or US Dollar amounts referred to herein could have been or could be converted into Roubles or US Dollars, as the case may be, at any particular rate or at all.

## CERTAIN DEFINED TERMS

In this Prospectus:

- **CBR** means the Central Bank of the Russian Federation;
- **Euro, Euros** or **€** refers to the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time;
- **Government** means the federal government of the Russian Federation;
- **LIBOR** means the London interbank offered rate and is the rate of interest at which banks borrow funds from each other, in marketable size, in the London interbank market;
- **Railway Transport Law** means the Federal Law “On Railway Transportation” No. 17-FZ dated 10 January 2003, as amended;
- **Region** means any of the 83 constituent territories of the Russian Federation including republics, territories (kray), regions (oblast), cities with federal status, autonomous areas (okrug) and an autonomous region (oblast);
- **Rosstat** means the Federal State Statistics Service in the Russian Federation;
- **Rouble, Roubles, RUB** or **RUR** means the lawful currency of the Russian Federation;
- **Tax Code** means the Tax Code of the Russian Federation;
- **US Dollar, US Dollars, USD** or **US\$** means the lawful currency of the United States of America; and
- **VAT** means value-added tax.

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## SUMMARY

*This summary should be read as an introduction to this Prospectus and any decision to invest in the GDRs offered in the Offering should be based on consideration of this Prospectus as a whole. Under the national legislation of the individual member states of the EEA, if a claim relating to the information contained in this Prospectus is brought as a legal proceeding before a court, the investor who is the plaintiff in the legal proceeding may have to bear the costs of translating this Prospectus prior to initiation of the legal proceeding. Civil liability attaches to the persons who are responsible for this summary, including any translation of this summary, but only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus.*

### **The Group's Business**

The Group is Russia's largest privately owned freight rail operator, and the second largest freight rail operator in Russia by number of rolling stock operated, after OAO Russian Railways (*Russian Railways*) and its subsidiaries, including Freight One. The Group provides freight rail transport and logistics services, as well as certain ancillary services to large industrial customers and medium-size corporate customers in Russia and to destinations within Russia and to Ukraine.

The Group's key customers include member companies of a number of large Russian industrial groups active in the metals and mining, oil and oil products, and other major sectors of the Russian economy, including Evraz, Lukoil, MMK, RITEK, Rosneft, Severstal and Ural Steel, as well as their affiliates and suppliers.

The Group's modern rolling stock fleet comprises several types of railcars, including gondola (open top) cars, oil tank cars, hopper cars, flatcars and locomotives. As at 31 December 2007, the Group's rolling stock fleet totalled 21,310 cars and 19 locomotives. As at 31 December 2007, approximately 82 per cent. of the Group's rolling stock was either owned or leased from third parties under finance leases, with the remainder leased from third parties under operating leases. The average age of the rolling stock owned by the Group or leased by the Group under finance leases as at 31 December 2007 was approximately 3.1 years.

The Group's business model is based on (a) an extensive modern rolling stock fleet, consisting of several types of railcars, which enables it to cater to the high-volume transportation requirements of its key industrial customers, (b) a strong customer focus and sophisticated logistics know-how, enabling it to provide complex rail transportation and logistics solutions tailored to the needs of its customers, and (c) utilisation of advanced destination management and route optimisation, which reduces "empty runs" of the rolling stock and maximises the efficient commercial utilisation of the Group's rolling stock. The application of this business model has enabled the Group to acquire in a short period of time significant market shares in transportation of such higher-price cargoes as ferrous metals and scrap metal, oil and oil products. According to A.T. Kearney, in the year ended 31 December 2007, the Group transported approximately 27 per cent. of the total volume of ferrous metals, 22 per cent. of the total volume of scrap metal, 7 per cent. of the total volume of iron ore, 7 per cent. of the total volume of oil and oil products and 4 per cent. of the total volume of coal carried in Russia by private freight rail operators.

The Group's operating profit for the years ended 31 December 2007, 2006 and 2005 were USD 127.6 million, USD 76.8 million and USD 67.6 million respectively, and the Group's assets as at 31 December 2007, 2006 and 2005 were USD 778.0 million, USD 697.7 million and USD 581.7 million respectively.

### **Competitive Strengths**

The Group's main competitive strengths are:

- The leading privately owned freight rail operator in Russia,
- Advanced destination management and route optimisation,
- Large and modern fleet of rolling stock,
- Focus on higher revenue generating cargoes,
- Strong customer base and customer-driven relationships, and
- Experienced management team.

## **Business Strategy**

The Group's strategic objective is to strengthen its leading freight rail transportation market position in Russia by further leveraging its scaleable business model. The Group intends to achieve this objective by pursuing a strategy involving the following key elements:

- Enhancing profit-focused growth in transportation volumes,
- Consolidating its position as a leading provider of tailored logistic solutions,
- Continuing to improve operating efficiencies,
- Expanding the client base, and
- Exploring opportunities to increase its services offering.

## **Recent Developments**

Since 31 December 2007, the Group has continued to perform in line with management's expectations, and management believes that the financial and performance outlook for the remainder of the year is also in line with its expectations.

Since 31 December, the Group has:

- taken delivery of 121 gondola (open top) cars purchased in 2007;
- agreed to purchase 1,400 additional gondola (open top) cars of which it has received 165;
- under the terms of a financial lease, received 257 hopper cars;
- purchased a renewed locomotive to be delivered in June 2008; and
- terminated a finance lease it had provided to Transoil, a related party.

In addition, in March 2008 the Company declared and has subsequently paid an interim dividend for the year ended 31 December 2008 totalling USD 8.9 million.

## **Risk Factors**

An investment in the GDRs involves a high degree of risk, including, but not limited to, risks associated with the following matters:

- The Group's business is heavily dependent on services provided by Russian Railways and the ageing railway infrastructure operated by it.
- Insufficient supply of rolling stock may limit the Group's operations and its growth strategy may be impaired.
- The Group's controlling beneficial shareholders may have interests that conflict with those of the holders of the GDRs.
- Expansion of the Group's business may place a strain on its resources.
- The Group's competitive position and prospects depend on the expertise and experience of its key managers.
- The Group's business, financial condition and results of operations are dependent on tariffs set by the Federal Tariff Service.
- The Group's customer base is heavily dependent on a few large industrial groups and their suppliers.
- The Group may be subject to increasing competition from other transportation and logistics companies.
- The Group's success depends on its ability to continue to attract, retain and motivate qualified personnel.
- The Group may be adversely affected by wage increases in Russia.
- Inflation could increase the Group's cost base.

- A major accident or derailment could result in substantial property loss, business disruption or reputational damage to the Group.
- The Group's insurance policies may be insufficient to cover certain losses.
- The Group's relationship with Russian Railways and government authorities may deteriorate.
- The Group's information technology systems may fail or be perceived to be insecure.
- The information technology software systems used by the Group could cease to be available.
- Significant delivery delays could damage the Group's customer relationships and business reputation.
- The Group's indebtedness or the enforcement of certain provisions of its financing arrangements and related security could adversely affect the Group's operational and financial condition.
- The Group's growth strategy requires sufficient funding.
- The Group may be subject to foreign exchange risk.
- The Company is a holding company and its ability to pay dividends or meet costs depends on the receipt of funds from its subsidiaries.
- The Group may have weaknesses in its accounting and reporting systems and the internal controls relating to the preparation of EU IFRS financial statements.
- The Group's presence in the Russian Federation, including political, economic, social and legal risks.
- Risks relating to the GDRs and to the trading market.

### **Summary of the Offering**

The Offering consists of an offering by the Company of 16,959,064 GDRs and by the Selling Shareholders of 16,959,064 GDRs representing interests in Ordinary Shares. In addition, EIL has granted to the Joint Bookrunners in connection with the Offering an option to purchase at the Offer Price up to 3,391,813 additional GDRs solely to cover over-allotments, if any, in connection with the Offering. The GDRs are being offered within the United States to QIBs in reliance on Rule 144A or another exemption from, or transaction not subject to, registration under the Securities Act and outside the United States and the Russian Federation in reliance on Regulation S.

Application has been made to (i) the FSA in its capacity as competent authority under the FSMA for the admission of up to 116,959,064 GDRs, consisting of 33,918,128 GDRs to be issued on the Closing Date, up to 3,391,813 GDRs to be issued pursuant to the Over-Allotment Option and up to 79,649,123 GDRs to be issued from time to time against the deposit of Ordinary Shares (to the extent permitted by law) with the Depositary, to the official list maintained by the FSA, and (ii) the London Stock Exchange for such GDRs to be admitted to trading on the regulated main market of the London Stock Exchange.

The Ordinary Shares are not, and are not expected to be, listed on any stock exchange.

### **Dividend Policy**

While the Company has paid dividends on the Ordinary Shares in the past, it does not currently intend to declare any payments of dividends on the Ordinary Shares (including the Ordinary Shares represented by the GDRs) for the foreseeable future, and expects to invest the majority of its cash flow to fund new rolling stock acquisitions and other business expansion activities. From time to time, the Company may reconsider its dividend policy.

### **Use of Proceeds**

The Company will receive gross proceeds of approximately USD 224.7 million from the Offering. The Company expects that its expenses (including underwriting commissions, fees and expenses) incurred in connection with the Offering will not exceed USD 11 million.



The Group intends to use such net proceeds for:

- implementation of the Group's current capital expenditure program for 2008, including to fund the purchase of additional rolling stock;
- the repayment of USD 50 million, the principal amount of its outstanding debt to TIHL; and
- general corporate purposes.

The USD 50 million of debt outstanding to TIHL carries a fixed interest rate of 8.75 per cent. per year and a maturity date of 15 June 2012.

Except for the repayment of debt to TIHL, the Group will retain significant discretion over the use of the net proceeds received from the Offering, and changes in the Group's plans or in the business environment in which it operates could result in the use of its net proceeds in a manner that is different to that described above.

The Group will not receive any proceeds from the GDRs sold by the Selling Shareholders.

### Summary Financial Information and Other Information

*The summary consolidated financial information as of and for the years ended December 2007, 2006 and 2005 set forth below has been derived from the Consolidated Financial Statements included in this Prospectus beginning on page F-3.*

*It should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations", the Consolidated Financial Statements as at and for the years ended 31 December 2007, 2006 and 2005 and "Presentation of Financial and Other Information".*

### Summary Consolidated Income Statement Data

	Years ended 31 December		
	2007	2006 (Restated)	2005 (Restated)
	(USD in thousands)		
Revenue . . . . .	548,871	557,814	511,850
Cost of sales . . . . .	(380,141)	(469,178)	(423,107)
<b>Gross Profit . . . . .</b>	<b>168,730</b>	<b>88,636</b>	<b>88,743</b>
Selling, marketing and administrative expenses . . . . .	(43,805)	(27,642)	(22,864)
Other gains—net . . . . .	2,700	15,776	1,684
<b>Operating profit . . . . .</b>	<b>127,625</b>	<b>76,770</b>	<b>67,563</b>
Finance costs—net . . . . .	(23,167)	(8,964)	(48,847)
Share of profit of joint ventures . . . . .	—	4,885	4,366
<b>Profit before income tax . . . . .</b>	<b>104,458</b>	<b>72,691</b>	<b>23,082</b>
Income tax expense . . . . .	(26,376)	(14,078)	(5,764)
<b>Profit for the year . . . . .</b>	<b>78,082</b>	<b>58,613</b>	<b>17,318</b>
<b>Attributable to:</b>			
Equity holders of the Company . . . . .	78,498	58,765	17,318
Minority interest . . . . .	(416)	(152)	—
	<b>78,082</b>	<b>58,613</b>	<b>17,318</b>

## Summary Consolidated Balance Sheet Data

	As at 31 December		
	2007	2006 (Restated)	2005 (Restated)
	(USD in thousands)		
<b>Assets</b>			
Non-current assets . . . . .	623,172	519,376	441,182
Current assets . . . . .	154,831	178,358	140,493
<b>Total Assets . . . . .</b>	<b>778,003</b>	<b>697,734</b>	<b>581,675</b>
<b>Equity and Liabilities</b>			
Capital and reserves . . . . .	222,658	209,433	155,653
Minority interest . . . . .	—	702	—
<b>Total equity . . . . .</b>	<b>222,658</b>	<b>210,135</b>	<b>155,653</b>
Non-current liabilities . . . . .	325,028	283,941	268,737
Current liabilities . . . . .	230,317	203,658	157,285
<b>Total liabilities . . . . .</b>	<b>555,345</b>	<b>487,599</b>	<b>426,022</b>
<b>Total equity and liabilities . . . . .</b>	<b>778,003</b>	<b>697,734</b>	<b>581,675</b>

## Additional (Non-GAAP) Financial Information

	Years ended 31 December		
	2007	2006	2005
	(USD in thousands)		
Adjusted Revenue <sup>(1),(5)</sup> . . . . .	352,792	276,215	230,820
EBITDA <sup>(2),(5)</sup> . . . . .	178,189	127,873	73,126
Adjusted EBITDA <sup>(3),(5)</sup> . . . . .	157,352	81,992	79,960
ROCE <sup>(4),(5)</sup> . . . . .	18.8%	10.3%	n/a

## Operating Information

	Years ended 31 December <sup>(6)</sup>		
	2007	2006	2005
Transportation volume (million tonnes) . . . . .	35.4	33.4	26.1
Average number of “loaded trips” per railcar <sup>(7)</sup> . . . . .	28.2	26.6	28.8
Average price per trip (USD) <sup>(8)</sup> . . . . .	616.8	518.5	575.7
Average rolling stock operated <sup>(9)</sup> . . . . .	20,303	20,019	13,914
Total rolling stock owned or leased under finance lease (at period end) . . . . .	17,425	14,319	11,420
“Empty run” ratio for gondola (open top) cars <sup>(10)</sup> . . . . .	21%	36%	39%

(1) Adjusted Revenue is defined as revenue from railway transportation—operators services less infrastructure and locomotive tariff: “loaded trips”.

(2) EBITDA represents profit for the year before income tax expense, net finance costs (excluding net foreign exchange transaction gains/(losses) on financing activities) and depreciation of property, plant and equipment.

(3) Adjusted EBITDA represents EBITDA less gains from sale of joint ventures, gain from sale of subsidiaries, recognised deferred gains, net foreign exchange gains/(losses), other gains and share of profit of joint ventures.

(4) ROCE is defined as Adjusted EBITDA after depreciation of property, plant and equipment divided by the sum of average balances between balance sheet dates of total equity, total borrowings and minority interest.

(5) Adjusted Revenue, EBITDA, Adjusted EBITDA and ROCE are presented as supplemental measures of the Group’s operating performance, which the Group believes is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the freight rail transportation sector. All of these supplemental measures have limitations as analytical tools, and investors should not consider any one of them in isolation, or any combination of them together, as a substitute for analysis of the Group’s operating results as reported under EU IFRS.

Some of these limitations are as follows:

- EBITDA and Adjusted EBITDA do not reflect the impact of financing costs, which can be significant and could further increase if the Group incurs more borrowings, on the Group’s operating performance;

- EBITDA, Adjusted EBITDA and ROCE do not reflect the impact of income taxes on the Group's operating performance; and
- EBITDA and Adjusted EBITDA do not reflect the impact of depreciation and amortisation on the Group's performance. The assets of the Group's business which are being depreciated, depleted and/or amortised will need to be replaced in the future and such depreciation and amortisation expense may approximate the cost of replacing these assets in the future. By excluding this expense from EBITDA and Adjusted EBITDA, EBITDA and Adjusted EBITDA do not reflect the Group's future cash requirements for these replacements. EBITDA and Adjusted EBITDA also does not reflect the impact of loss on disposal of property, plant and equipment.

Other companies in the freight rail transportation sector may calculate Adjusted Revenue, EBITDA, Adjusted EBITDA or ROCE differently or may use it for different purposes than the Group, limiting its usefulness as a comparative measure.

The Group relies primarily on its EU IFRS operating results and uses Adjusted Revenue, EBITDA, Adjusted EBITDA and ROCE only supplementally. See the Consolidated Financial Statements included elsewhere in this Prospectus. EBITDA, Adjusted EBITDA and ROCE are not defined by, or presented in accordance with, EU IFRS. Adjusted Revenue, EBITDA, Adjusted EBITDA or ROCE are not measurements of the Group's operating performance under EU IFRS and should not be considered as an alternative to revenues, profit, operating profit, net cash provided by operating activities or any other measure of performance under EU IFRS or as an alternative to cash flow from operating activities or as a measure of the Group's liquidity. In particular, Adjusted Revenue, EBITDA, Adjusted EBITDA and ROCE should not be considered as measures of discretionary cash available to the Group to invest in the growth of its business.

#### RECONCILIATION OF EBITDA AND ADJUSTED EBITDA TO PROFIT FOR THE YEAR

	Years ended 31 December		
	2007	2006	2005
	(USD in thousands)		
<b>Profit for the year</b> . . . . .	<b>78,082</b>	<b>58,613</b>	<b>17,318</b>
<i>Plus</i>			
Income tax expense . . . . .	26,376	14,078	5,764
Net finance costs (excluding net foreign exchange transaction gains/(losses) on financing activities) . . . . .	41,304	34,184	35,963
Depreciation of property, plant and equipment . . . . .	32,427	20,998	14,081
<b>EBITDA</b> . . . . .	<b>178,189</b>	<b>127,873</b>	<b>73,126</b>
<i>Minus (Plus)</i>			
Gains from sale of joint venture . . . . .	—	15,470	181
Gains from sale of subsidiaries . . . . .	1,897	—	—
Recognised deferred gains . . . . .	185	388	372
Net foreign exchange transaction gains/(losses) . . . . .	17,710	24,984	(12,475)
Other gains . . . . .	1,045	154	722
Share of profit of joint ventures . . . . .	—	4,885	4,366
<b>Adjusted EBITDA</b> . . . . .	<b>157,352</b>	<b>81,992</b>	<b>79,960</b>

#### RECONCILIATION OF ADJUSTED REVENUE TO REVENUE

	Years ended 31 December		
	2007	2006	2005
	(USD in thousands)		
<b>Revenue from railway transportation—operators services</b> . . . . .	<b>525,231</b>	<b>528,766</b>	<b>424,536</b>
<i>Minus</i>			
Infrastructure and locomotive charges: "loaded trips" . . . . .	172,439	252,551	193,716
<b>Adjusted Revenue</b> . . . . .	<b>352,792</b>	<b>276,215</b>	<b>230,820</b>

- (6) Represents years ended 31 December 2007, 2006 and 2005, except for Total rolling stock owned or leased under finance lease (at period end), which is as at 31 December 2007, 2006 and 2005, respectively.
- (7) Average number of "loaded trips" per railcar is calculated as total number of "loaded trips" in the relevant year divided by average rolling stock operated.
- (8) Average price per trip (USD) is calculated as Adjusted Revenue divided by total number of loaded trips during the relevant period.
- (9) Average rolling stock operated is calculated as the average weighted (by days) number of railcars available for operator's services (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased out).
- (10) Empty run ratio is calculated as total empty trips in kilometres divided by total "loaded trips" in kilometres. Empty trips are only applicable to rolling stock operated (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased out).

## RISK FACTORS

*An investment in the GDRs involves a high degree of risk. Prospective investors should consider carefully, among other matters, the risks set forth below and the other information contained elsewhere in this Prospectus prior to making any investment decision with respect to the GDRs. Any of the risks described below, individually or together, could have a material adverse effect on the Group's business, financial condition, results of operations or future prospects and the trading price of the GDRs.*

*In addition, the description of the risks set forth below does not purport to be an exhaustive description of all risks that the Group faces. Additional risks that are not known to the Group at this time, or that it currently believes are immaterial, could also have a material adverse effect on the Group's business, financial condition, results of operations or future prospects and the trading price of the GDRs. The order in which the following risks are presented is not intended to be an indication of the probability of their occurrence or the magnitude of their potential effects.*

### **RISKS RELATING TO THE GROUP'S BUSINESS AND INDUSTRY**

***The Group's business is heavily dependent on services provided by Russian Railways and the ageing railway infrastructure operated by it.***

Russian Railways is the predominant company in the Russian railway sector with the country's largest fleet of rolling stock. It also plays a monopolistic role as the sole railway infrastructure operator, and it enjoys a near monopoly in the provision of locomotive services. As a freight rail operator, the Group depends on the railway infrastructure operated, and for locomotive services, maintenance and other services provided, as well as on operational data generated, by Russian Railways.

The physical infrastructure and other assets owned and operated by Russian Railways, particularly its rail network, largely date back to Soviet times and have in many cases, not been adequately maintained. There can be no assurance that the age and insufficient funding and maintenance of a substantial part of the Russian railway network and other infrastructure operated by Russian Railways will not in the future lead to material disruptions of the Group's business or increase the Group's costs of doing business. Such interruptions or cost increases could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

In addition, Russian Railways and its recently-established, wholly-owned subsidiary, Freight One, compete with the Group in the Russian freight rail transport market. There can be no assurance that, because of the Group's dependence on the rail infrastructure, locomotive and other services provided by Russian Railways, the Group will not become subject to competitive pressures exerted by Russian Railways or that the Group's competitors, including Freight One, will not receive better treatment in terms of service levels and delivery times than those received by the Group. These competitive pressures or preferences afforded to the Group's competitors may have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***Insufficient supply of rolling stock may limit the Group's operations and its growth strategy may be impaired.***

The Group's growth plans require a significant expansion of its fleet of rolling stock, which the Group expects to achieve primarily by purchasing new rolling stock from manufacturers in Russia and the Commonwealth of Independent States (CIS). There are a relatively limited number of quality rolling stock manufacturers in Russia and the CIS, and their output is limited by existing production capacities and insufficient raw material supply. According to A.T. Kearney, due to the increased demand for rolling stock in Russia, most of these manufacturers are already operating at 70 to 80 per cent. of their production capacity. The adaptability of these manufacturers' production facilities from one type of railcar to another is limited. In addition, a significant part of the rolling stock fleet operated by Russian Railways and Freight One, the largest freight rail operator in Russia by number of rolling stock operated, is at an advanced age and may require replacement. Increased orders by Russian Railways and/or Freight One or others for new rolling stock may further increase the level of demand and competition for new rolling stock purchases in the Russian rail transportation market. To date, the Group has been able to source new rolling stock for its fleet on commercially acceptable terms and without material difficulties, including by leasing it from third parties to cover shorter-term requirements. However, there can be no assurance that the Group will continue to be able source sufficient supplies of new rolling stock for its fleet on commercially acceptable terms, or at all. Failure by the Group to acquire the requisite quantity of new rolling stock on commercially acceptable terms may delay or otherwise materially and adversely affect the implementation of the Group's

business strategy, which could have a material adverse effect on the Group's business, results of operations, financial condition, prospects or the trading price of the GDRs.

***The Group's controlling beneficial shareholders may have interests that conflict with those of the holders of the GDRs.***

Prior to the Offering, the Group's controlling beneficial shareholders (through the Selling Shareholders) control 100 per cent. of the Company's issued share capital. Following the Offering, the Selling Shareholders will continue to own approximately 71.0 per cent. of the Company's issued share capital (or 68.1 per cent. if the Over-Allotment Option is exercised in full). As such, the controlling beneficial shareholders will continue to be able to exercise significant control over the Group, such as in electing members of the Board of Directors, approving significant transactions and dividends, if any, and limiting or waiving pre-emption rights of the Company's shareholders. TIHL and EIL have also entered into an agreement which, inter alia, imposes certain limitations on their ability to dispose of their respective interests in the Company. See "Principal and Selling Shareholders". There are no agreements in place between the Company and the controlling beneficial shareholders to ensure that the latter will not abuse their control of the Company. In addition, some of the controlling beneficial shareholders have investments in businesses which currently compete, or may in the future compete, with the Group. The beneficial owners of TIHL, the Company's majority shareholder, also beneficially own, by virtue of their holdings in TIHL, a number of other companies forming the largest privately-held transportation group in Russia and known by the brand name of NTrans. In addition, the beneficial owners of EIL beneficially own an interest in OOO MMK-Trans, a company engaged in freight rail transportation. The controlling beneficial shareholders may therefore pursue interests that are inconsistent with, and may even be adverse to, those of other shareholders, any of which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs. For information regarding the controlling beneficial shareholders, see "Principal and Selling Shareholders".

***Expansion of the Group's business may place a strain on its resources.***

The success of the Group's business strategy is dependent, among other things, on the proposed expansion of the Group's operations, including into new geographic areas and cargo sectors, as well as further growth of its customer base. Although the Group believes that its current managerial, administrative, technical and financial resources are capable of supporting the proposed expansion of transportation volumes, there can be no assurance that the Group's existing resources will be sufficient for this purpose, or that the Group will be able to acquire necessary additional resources on commercially acceptable terms or at all. In particular, there can be no assurance that the Group's existing sales, logistics and dispatching capabilities, which are key for the efficiency and reliability of the Group's business, will continue to support the Group's business at the requisite levels of efficiency if and when the Group's fleet, operational reach and clientele are expanded as contemplated by the Group's strategy.

The proposed expansion of the Group's business may also put a strain on the Group's management resources, distracting the Group's managers from their current tasks and/or require additional management resources to be deployed by the Group. See also "—The Group's success depends on its ability to continue to attract, retain and motivate qualified personnel" below.

Any failure by the Group to acquire, maintain and deploy adequate management, sales, logistics, administrative, technical and financial resources to support its proposed expansion, could undermine the Group's business strategy, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***The Group's competitive position and prospects depend on the expertise and experience of its key managers.***

The Group's business is dependent on retaining the services of, or in due course promptly obtaining equally qualified replacements for, certain key members of its management team, including among others, Mr. Sergey Maltsev, the Chief Executive Officer of the Group, and the Group's senior management team. Although the Group has employment agreements with these key managers, the retention of their services cannot be guaranteed. Should they decide to leave the Group, it may find it difficult to replace them promptly with other managers of sufficient expertise and experience or at all. The Group does not have key-man insurance in place in respect of its senior managers. Should the Group lose any of its key senior managers without prompt and equivalent replacement, this could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***The Group's business, financial condition and results of operations are dependent on tariffs set by the Federal Tariff Service.***

Russian Railways, as the sole operator of the Russian railway network, charges the Group and other private rail operators tariffs for the use of the railway network and for the provision of locomotive services, which are regulated by the Federal Tariff Service (the *FTS*), a Russian federal government agency, and are passed through to the Group's and other private rail operators' customers as part of the price for the transportation services provided. If the infrastructure and locomotive services tariffs charged by Russian Railways are increased significantly in the future, they may make freight transport by rail less competitive compared to other forms of transport, which may reduce demand for the Group's services and affect the Group's revenue and profit.

Russian Railways is also the largest operator in the Russian freight rail market. In contrast to the railcar component of the services price charged by private freight rail operators, such as the Group, its railcar charge is regulated by the FTS and serves, for certain cargoes, as an effective pricing benchmark for private freight rail operators. Should the railcar charge imposed by Russian Railways decrease, as a result of changes in the FTS' regulatory policies, new competitors entering the market or otherwise, this may limit the flexibility currently enjoyed by the Group in the pricing of its freight rail services (including its ability to pass a significant part of its costs to its customers), which may significantly affect the Group's business, financial condition and results of operations.

The government of the Russian Federation is currently conducting negotiations with respect to the proposed accession of the Russian Federation to the World Trade Organisation (*WTO*). The agreements reached between the Russian Federation and member countries of WTO may contemplate an equalisation of the regulated freight rail tariffs charged by Russian Railways relating to domestic and export transportation via seaports of the Russian Federation, on the one hand, and export transportation via land borders of the Russian Federation, on the other hand, potentially resulting, upon Russia's accession to WTO, in significant changes to the regulated tariff rates currently charged by Russian Railways.

Significant upward or downward changes in the regulated tariffs charged by Russian Railways could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***The Group's customer base is heavily dependent on a few large industrial groups and their suppliers.***

The Group's customer base is characterised by significant concentration, with member companies of seven key industrial groups among the Group's customers, Evraz Group, Lukoil, MMK, RITEK, Rosneft, Severstal and Ural Steel and their suppliers, accounting for more than 70 per cent. of the Group's total Adjusted Revenue during the year ended 31 December 2007. Moreover, the largest four member companies of these industrial groups (calculated together with the contribution to the Group's Adjusted Revenue made by their suppliers, where relevant) contributed to more than 50 per cent. of the Group's Adjusted Revenue in the same period. One of these key customers, RITEK is affiliated with Lukoil, and these two key customers (and their suppliers) accounted for more than 22 per cent. of the Group's Adjusted Revenue for the year ended 31 December 2007. Most of these key customers utilise the Group's services for transportation of cargoes (such as ferrous metals, scrap metal, oil and oil products) that generally generate higher revenues than other types of cargo transported by the Group and the geographically diverse locations of those customers' production facilities, and of their customers and suppliers, are important for the profitable operation of the Group's business. The Group also does not have long-term contracts with any of these customers. See "Business—Destination Management and Route Optimisation". Although the Group has enjoyed good working relations with all of these customers to date, there can be no assurance that the Group 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/or volume or at all. If the Group loses any of these key customer groups, and is not able to replace their business, this could materially and adversely affect the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

In addition, the economic sectors in which most of the Group's key customers operate are cyclical and are exposed to downturns, which may adversely affect key customers' production levels, affecting in turn their demand for transportation of production and raw materials. Should any of the Group's key customers experience decreased production levels for macroeconomic or any other reasons, this could materially and adversely affect the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***The Group may be subject to increasing competition from other transportation and logistics companies.***

The Russian rail transportation market is becoming increasingly competitive. While Russian Railways still maintains a dominant position in the market, private companies have significantly increased their market share. As of the end of 2007 there were approximately 2,000 private operators and rolling stock owners in the Russian market, although currently less than twenty of those are considered by the Group to be significant competitors. See “Business—Competitive Environment”. In certain rail cargo segments such as oil, oil products and cement, prices charged by private operators have already displaced the tariff charged by Russian Railways as the market price benchmark. The entry of Freight One, a wholly-owned subsidiary of Russian Railways created to operate in competition with privately owned freight rail operators, into the Russian freight rail industry may further increase the levels of competition in the market, as Freight One has an extensive fleet of rolling stock, significantly exceeding that of the Group.

The Group may face increased competition in the future from competitors with more resources and better access to clients. In addition, the Group believes that there are possibilities that some of its smaller competitors may merge in the future, potentially creating a large competitor of the Group. Increased competition may lead to adverse changes in the prevailing pricing conditions, which could adversely affect the Group’s profitability. Although the Group believes that, to date, it has been able to compete successfully, there can be no assurance that the Group will be able to do so in the future, and any failure to do so may have a material adverse effect on the Group’s business, results of operations, financial condition or prospects and the trading price of the GDRs.

***The Group’s success depends on its ability to continue to attract, retain and motivate qualified personnel.***

The Group’s future success will depend, in part, on its ability to continue to attract, retain and motivate qualified personnel, in particular experienced management personnel. Competition in Russia for such personnel with relevant expertise is intense due to the small number of qualified individuals with suitable practical experience in the rail industry. If the Group is unable to attract or retain sufficient such personnel for its requirements, this could have a material adverse effect on its business, results of operations, financial condition or prospects and the trading price of the GDRs.

***The Group may be adversely affected by wage increases in Russia.***

Wage costs in Russia have historically been significantly lower than wage costs in some of the more developed market economies of North America and Western Europe for similarly skilled employees, giving Russian businesses a significant labour cost advantage. However, the Group’s wage costs have increased significantly in recent years. In light of the increasing level of competition in the Russian freight rail market, the Group might need to increase the levels of its employee compensation more rapidly than in the past to remain competitive. There can be no assurance that the Group will be able to effect commensurate increases in the efficiency and productivity of its employees, or to pass on the extra costs to customers through increases in its prices, and if it is unable to do so, any such wage increases could have a material adverse effect on its business, results of operations, financial condition or prospects and the trading price of the GDRs.

***Inflation could increase the Group’s cost base.***

The Russian economy has recently been characterised by high rates of inflation. The annual inflation rate was 9.0 per cent. in 2006, 10.9 per cent. in 2005 and 11.7 per cent. in 2004 according to Rosstat. Certain of the Group’s costs, such as maintenance costs, operating lease costs and, in particular, wages, are sensitive to rises in general price levels in Russia. However, due to competitive pressures, if the Group’s costs continue to increase the Group may not be able to pass along the costs to its customers. Accordingly if high rates of inflation continue, there can be no assurance that the Group will be able to maintain or increase its margins to cover such cost increases, which could have a material adverse effect on its business, results of operations, financial condition or prospects and the trading price of the GDRs.

***A major accident or derailment could result in substantial property loss, business disruption or reputational damage to the Group.***

Rail operators are subject to accidents and derailments, both as a result of operational failure and due to the nature of the cargoes being transported. Although under Russian law, liability for such accidents or derailments is likely to be attributed to the owner of the cargo being transported and/or Russian Railways as the operator of the railway infrastructure, there can be no assurance that the Group would always be

able to attribute responsibility to, and recover from, a third party in connection with such accidents or derailments. A major rail accident or derailment could also result in damage or loss of the Group's rolling stock and may also disrupt the Group's services. In such circumstances, the Group may not be able to rebuild or repair its railcar fleet or restore operations in a timely fashion or at all. In addition, the Group may not have sufficient insurance in place to cover the costs of such loss or disruption (see "—The Group's insurance policies may be insufficient to cover certain losses" below). Any negative publicity concerning any accident or derailment could also have a material adverse effect on the perception of the Group and the attractiveness of its services in the future. Accordingly, a major accident or derailment could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***The Group's insurance policies may be insufficient to cover certain losses.***

The Group carries insurance for all of its rolling stock in line with market practice in the Russian Federation, but does not carry insurance policies to a similar extent as may be common in some of the more developed market economies of North America and Europe. All rolling stock owned or leased under finance leases by the Group is insured from loss or damage to the rolling stock.

The Group generally does not carry third-party liability insurance, as the Group believes that under Russian law it is not liable for any third-party damages and that Russian Railways as carrier is liable with respect to such damages or losses. However, there can be no assurance that the Group will not be liable to third parties in connection with accidents affecting the cargo carried by the Group. In addition, the Group's exposure to these risks may increase significantly once the Russian locomotive services market is liberalised and the Group commences the provision of locomotive services. Risks which are typically insurable in North America and Europe but for which the Group does not have separate insurance coverage include major accidents. If such an uninsured event were to occur and the Group were liable for it, the Group could experience significant disruption in its operations and/or requirements to make significant payments for which it would not be compensated, which in turn could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***The Group's relationship with Russian Railways and government authorities may deteriorate.***

Although the Group does not generally have regular direct dealings with governmental authorities, such authorities, both local and federal, are critical to the success of the Group's current and future plans. In the Russian freight rail market, government authorities have significant influence over the functioning of and in the approval of new freight routes. A deterioration in the Group's direct or indirect relationship with government authorities at either local or federal level, for example following changes in the political leadership or staffing of such authorities or any change in their political or administrative agendas, could result in higher government scrutiny of, or even government action against, the Group's business. Any or all of these factors could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

In addition, the Group is dependent on the services and information provided by, and its relationship with, Russian Railways, an entity controlled by the state. See "—The Group's business is heavily dependent on services provided by Russian Railways and the ageing railway infrastructure operated by it" above. Although the Group has enjoyed a good relationship with Russian Railways, there is no assurance that it will always continue to do so in the future. If the Group's relationship with Russian Railways deteriorates, this could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***The Group's information technology systems may fail or be perceived to be insecure.***

The Group's business is dependent on the successful and uninterrupted functioning of its information technology systems and their integration with the information technology systems of Russian Railways. See "Business—Information Technology". The Group relies on these systems for complex logistical, dispatching and tracking tasks critical for its customers' transportation needs and central to the Group's business. Although the Group has not experienced any significant failures or interruptions with respect to its information systems in the past, there can be no assurance that such a failure or interruption will not occur in the future. Actual or perceived failures or interruptions in the Group's information technology systems may compromise the Group's ability to provide its value-added transportation, logistics and



tracking services, as well as result in costly delays in the shipment of customer cargo, or otherwise lead to a significant loss of customer business, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs. The Group is currently not insured against any adverse effects from interruptions or failures of its information technology systems.

***The information technology software systems used by the Group could cease to be available.***

The Group uses specialised rail transport and logistics software, including *MC—Slezhenie*, *IRS Perevozki*, *Rail-Tariff* and *ETRAN RZhd*, in order to ensure the efficiency and effectiveness of the Group's logistics, dispatching and rolling stock tracking services. These systems are either licensed to the Group and then customised to the Group's needs or delivered to the Group and maintained for its needs by third parties under service agreements. If these systems fail, the licence for their use is withdrawn or invalidated or service agreements for their use are terminated or their use becomes commercially unattractive, due to the lack of technical support by the relevant developer or otherwise, and the Group is not able to obtain the use of equivalent information technology systems and software, this could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***Significant delivery delays could damage the Group's customer relationships and business reputation.***

The Group's customers rely on the Group for timely provision of its freight rail transportation and associated services. The timely delivery of customer cargo to its intended destination is key for the Group's customer relationships, particularly with respect to the Group's key industrial customers with their high-volume transportation needs and cargo delivery requirements timed to coincide with their manufacturing processes. A significant delay in the delivery of customer cargo, for example through its inadvertent redirection to a destination other than the one intended by the customer, could lead to significant business interruption for, and/or material losses sustained by, such customer, which could lead in turn to a significant loss of customer business by the Group and/or impairment of the Group's business reputation. Accordingly, any such delay could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs. See also “—The Group's customer base is heavily dependent on a few large industrial groups and their suppliers”.

**RISKS RELATING TO THE GROUP'S FINANCIAL CONDITION**

***The Group's indebtedness or the enforcement of certain provisions of its financing arrangements and related security could adversely affect the Group's operational and financial condition.***

The Group has significant indebtedness, including borrowings from banks and other third parties, and the terms of such indebtedness contain certain restrictive covenants. As at 31 December 2007, the Group had total short and long-term borrowings in the principal amount of USD 451,173 thousand. Among other things, the Group's indebtedness could potentially: (a) limit its ability to obtain additional financing; (b) limit its flexibility in planning for, or reacting to, changes in the markets in which it competes; (c) place it at a competitive disadvantage relative to its competitors with lower levels of indebtedness; (d) render it more vulnerable to general adverse economic and industry conditions; (e) require it to dedicate a substantial part of its cash flow to service its borrowings; or (f) in the event of enforcement of any security relating to the indebtedness, it could result in a loss of certain of its assets.

The Group's ability to make payments on its indebtedness depends upon its ability to maintain its operating performance at a certain level, which is subject to general economic and market conditions and to financial, business and many other factors, which the Group cannot control. If the Group's cash flow from operating activities becomes insufficient, the Group may be required to take certain actions, including delaying or reducing capital or other expenditures, selling its properties or other assets or seeking additional equity capital in an attempt to restructure or refinance its indebtedness. The Group may be unable to take any of these actions on favourable terms or in a timely manner. Furthermore, such actions may not be sufficient to allow the Group to service its borrowing obligations in full and, in any event, may have a material adverse effect on its business. As at 31 December 2007, a substantial portion (over 80 per cent. in terms of net book value) of the Group's rolling stock was financed by finance leases or pledged to support certain of the Group's indebtedness and certain indebtedness of non-Group companies (the portion secured with respect to non-Group companies subsequently being released from such pledge). Accordingly, the Group's ability to incur additional secured indebtedness is limited and any inability to

service its borrowings through internally generated cash flow or other sources of liquidity may put it in default of its obligations to its creditors, which could have a material adverse effect on its business, results of operations, financial condition or prospects and the trading price of the GDRs.

***The Group's growth strategy requires significant funding.***

The business of freight rail transportation and logistics is capital-intensive. The Group requires significant funding for the purchase and lease of additional rolling stock in order to pursue its growth objectives. The Group plans to finance its future growth plans through cash generated from its operations and will augment such cash, where necessary, with the proceeds of external borrowings and the proceeds of the Offering. There can be no assurance that the Group will be able to raise sufficient funds to finance the expansion of the business contemplated by its strategy. If the Group is not able to obtain the required funding for its growth, or if it is obtained on commercially unfavourable terms, this could have a material adverse effect on its business, results of operations, financial condition or prospects and the trading price of the GDRs.

***The Group may be subject to foreign exchange risk.***

Currently, most of the Group's borrowings are denominated in US Dollars, whereas most of the Group's expenses and revenue are and will be denominated and settled in Roubles. The Group does not hedge this foreign exchange risk. The Group is therefore exposed to the effects of currency fluctuations between the US Dollar and the Rouble. The strengthening of the Rouble in real terms relative to the US Dollar in recent years has been favourable to the Group by reducing the Rouble cost of its US Dollar denominated borrowings. However, there is no guarantee that such trends will continue, and the Rouble may depreciate in value against the US Dollar in the future. This could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***The Company is a holding company and its ability to pay dividends or meet costs depends on the receipt of funds from its subsidiaries.***

The Company is a holding company and operates entirely through its subsidiaries. As a result, the Company's financial condition depends almost entirely on the financial condition of its subsidiaries. The Company is dependent upon dividends and other payments, including by way of loans, from its subsidiaries to generate the funds necessary to meet its financial obligations, including the payment of dividends, if any, on its shares and the payment of principal and interest on any of its borrowings incurred in the future. The Company's subsidiaries may from time to time be subject to restrictions on their ability to make such payments to the Company as a result of regulatory, fiscal and other restrictions. In addition, dividend payments by the Company's subsidiaries, if made, are subject to withholding tax in Russia. There can be no assurance that such restrictions will not have a material adverse effect on the Company's ability to pay dividends or to service its borrowings or meet any other costs it may incur. There can be no assurance that the Company will receive sufficient funds from its subsidiaries to meet its financial obligations. Due to the holding structure of the Group, any claim against the Company (including a claim by its shareholders upon liquidation) will be subordinated to the claims against its subsidiaries. Moreover, the Company could be liable for the debts of its effective subsidiaries in certain cases (see “—Risks Relating to Russia—Legislative and Legal Risks—Shareholder liability under Russian corporate law could cause the Company to become liable for the obligations of its subsidiaries”). If any of the above occurs, it could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***The Group may have weaknesses in its accounting and reporting systems and the internal controls relating to the preparation of EU IFRS financial statements.***

The Group's accounting and reporting systems are not as sophisticated or robust as those of companies with a longer history of reporting under EU IFRS. The lack of established accounting and reporting systems that have been in operation for an extended period of time, and the lack of experience in preparing regular management accounts on a basis consistent with EU IFRS create a risk of potential delays in producing EU IFRS financial statements in the future and could negatively impact the quality of decision making by the Group's senior management.

Each of the Company's Russian subsidiaries prepares financial statements under Russian accounting standards. The preparation of consolidated EU IFRS financial statements for the Group involves, first, the

transformation of the statutory financial statements of these companies into EU IFRS financial statements through accounting adjustments and, second, the consolidation of all such financial statements. This process is complicated and time-consuming, and requires significant attention from the Group's senior accounting personnel. Particularly in light of the Group's past and planned growth, the preparation of annual or interim EU IFRS financial statements may require more time than it does for other companies and such financial statements may be subject to a greater likelihood of misstatements. Accordingly, the Group may be required to recruit additional qualified personnel with EU IFRS accounting expertise. Because there is a limited pool of such personnel in Russia, it may be difficult for the Group to hire and retain such personnel. Thus, there is a risk that an inability to retain qualified accounting staff could have a material adverse effect on the Group's ability to prepare accurate financial information in a timely manner and consequently could have a material adverse effect on its business, results of operations, financial condition or prospects and the trading price of the GDRs.

Notwithstanding these risks, the Group believes that its financial systems are sufficient to ensure compliance with the requirements of the FSA Disclosure and Transparency Rules for a GDR as a listed company.

## **RISKS RELATING TO RUSSIA**

### **General**

*Emerging markets, such as the Russian Federation, are subject to greater risks than more developed markets, including significant economic, political and social, and legal and legislative risks.*

Investors in emerging markets, such as the Russian Federation, should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant economic, political and social, and legal and legislative risks. Investors should also note that emerging economies are subject to rapid change and that the information set forth herein may become outdated relatively quickly. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and prospective investors are urged to consult with their own legal and financial advisors before making an investment in the GDRs.

### **Political Risks**

*Changes in government policy or other government actions could adversely affect the value of investments in Russia.*

Since 1991, Russia has sought to transform itself from a one-party state with a centrally planned economy to a democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the ineffectiveness or failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups.

Political conditions in Russia were highly volatile in the 1990s, as evidenced by frequent conflicts among executive, legislative and judicial authorities, which had a negative effect on Russia's business and investment climate. The government of President Vladimir Putin generally increased governmental stability and accelerated the reform process, which made the political and economic situation in Russia more conducive to investment. On 2 December 2007 the Russian State Duma elections and on 2 March 2008 the Russian presidential elections took place. Though the recent structure of political forces in the State Duma did not change substantially, a new President, Dmitry Medvedev was elected, and he may take a different approach to reforms and to the state's foreign and domestic policies than his predecessor. Shifts in governmental policy and regulation in Russia may be less predictable than in many Western democracies and could disrupt or reverse political, economic and regulatory reforms. Current and future changes in the Government, major policy shifts or lack of consensus between the President of Russia, the Government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on the value of investments relating to Russia and as such on the Group's business, its ability to obtain financing in the international markets and hence its financial condition or prospects, and the trading price of the GDRs.

***The implementation of government policies targeted at specific individuals or companies could have an adverse effect on investments in Russia and the Group's business.***

In the past, Russian authorities have prosecuted some Russian companies, their executive officers and their shareholders on tax evasion and related charges. In some cases, the result of such prosecutions has been the imposition of prison sentences for individuals and significant claims for unpaid taxes from, according to the Russian press, companies such as Yukos, TNK-BP and Vimpelcom. Some analysts contend that such prosecutions demonstrate a willingness to reverse key political and economic reforms of the 1990s. Other analysts, however, believe that these prosecutions are isolated events that relate to the specific individuals and companies involved and do not signal any deviation from broader political and economic reforms or a wider programme of asset redistribution. The occurrence of similar events in the future could result in the deterioration of Russia's investment climate, and such a result could adversely affect the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs. See also "—Legislative and Legal Risks—The Group could be subject to arbitrary government action".

***Political and social conflicts or instability could create an uncertain operating environment.***

The Russian Federation is a federation of sub-federal political units, consisting of republics, regions (*oblasts*), territories (*krais*), cities of federal importance, an autonomous region and autonomous districts (*okrugs*), some of which exercise considerable autonomy in their internal affairs pursuant to arrangements with the Russian Government. The delineation of authority and jurisdiction between federal, regional and local authorities is, in many instances, unclear and contested, particularly with respect to the division of authority over regulatory matters. Lack of consensus between the federal, regional and local authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatisation, securities, corporate legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. The Russian political system is vulnerable to tension and conflict between federal, regional and local authorities. This tension creates uncertainties in the operating environment in Russia, which could hinder the Group's long term planning efforts and may prevent the Group from carrying out its business strategy effectively and efficiently.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, terrorist attacks. If such tensions escalate, significant political consequences could arise, including the imposition of a state of emergency in some or all regions of Russia. Moreover, any terrorist attacks and the resulting heightened security measures could cause disruptions to domestic commerce and could have a material adverse effect on economic confidence in Russia generally which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

## **Economic Risks**

***Economic instability in Russia could harm the Group's business and investment plans.***

Since the dissolution of the Soviet Union the Russian economy has experienced at various times:

- significant declines in its gross domestic product (*GDP*);
- high levels of inflation;
- increases in, or high, interest rates;
- sudden price declines in the natural resource sector;
- instability in the local currency market;
- high levels of government debt relative to *GDP*;
- lack of reform in the banking sector and a weak banking system providing limited liquidity to Russian enterprises;
- the continued operation of loss-making enterprises due to the lack of effective bankruptcy proceedings;
- the use of fraudulent bankruptcy actions in order to take unlawful possession of property;

- widespread tax evasion;
- growth of a black and grey-market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

Any recession, deterioration of general economic conditions or financial crisis in Russia including rail transportation services could adversely influence the economic stability and consumer demand for various products and services, including, among others, those provided by the Group and therefore have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Moreover, fluctuations in international oil and gas prices, the strengthening of the Rouble in real terms relative to the US Dollar and the consequences of a relaxation in monetary policy, or other factors, could adversely affect Russia's economy and could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***Fluctuations in the global economy may adversely affect Russia's economy and thus the Group's business.***

Russia's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. As Russia produces and exports large quantities of oil, natural gas and other mineral resources, the Russian economy is especially vulnerable to commodity prices on the world markets and a decline in such prices or the imposition of restrictions on Russian products by principal export markets could slow or disrupt the Russian economy. In addition, instability in other markets (whether developed or emerging) may affect investor sentiment towards Russia. Such developments could affect economic conditions in Russia and could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

Military conflicts, international terrorist activity and natural disasters have had a significant effect on international finance and commodity prices. Any future military conflicts, acts of terrorism or natural disasters of sizeable magnitude could have an adverse effect on the international financial and commodities markets and the global economy and consequently on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***The physical infrastructure in Russia, including the rail network, is in poor condition.***

The physical infrastructure in Russia largely dates back to Soviet times and has not been adequately funded and maintained since then. Particularly affected are the rail and road networks, power generation and transmission, communication systems, and building stock. Electricity and heating shortages in some of Russia's regions have seriously disrupted local economies. For example, in May 2005, an electricity blackout affected much of Moscow and some other regions in the central part of Russia for a full day, disrupting normal business activity. Other parts of the country face similar problems.

Road conditions throughout Russia are also poor, with many roads not meeting modern quality requirements. Some areas within Russia, particularly those surrounding ageing nuclear power plants, are potentially hazardous. According to A.T. Kearney, rail's share in Russia's total transportation turnover has grown from 34 per cent. in 2000 to 41.9 per cent. in 2006. As one of the alternatives to roads, additional stress has been put on the Russian rail infrastructure for the transportation of freight. The Russian Government is actively pursuing the reorganisation of the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The poor condition or further deterioration of Russia's physical infrastructure may harm the national economy, disrupt access to communications and add costs to doing business in Russia and interrupt business operations. This could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs. See also "—Risks Relating to the Group's Business and Industry—The Group's business is heavily dependent on services provided by Russian Railways and the ageing railway infrastructure operated by it".

***The Russian banking system remains under-developed.***

Russia's banking and other financial systems are not well developed, and Russian legislation relating to banks and bank accounts may be subject to varying interpretations and inconsistent application. The 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. From April to July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. As a result of various market rumours and, in some cases, certain regulatory and liquidity problems, several privately-owned Russian banks experienced liquidity problems and were unable to attract funds on the inter-bank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed or ceased or severely limited their operations. Russian banks owned or controlled by the Russian Government or the CBR and foreign-owned banks generally were not adversely affected by the turmoil. Recently, there has been a rapid increase in lending by Russian banks, which many believe has been accompanied by deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market is leading to Russian banks increasingly holding large amounts of Russian corporate Rouble-denominated bonds in their portfolios, which is further deteriorating the risk profile of Russian bank assets. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. There are currently also only a limited number of creditworthy Russian banks, most of which are located in Moscow. The bankruptcy or insolvency of any banks with which the Group does business could adversely affect the Group's business. Another banking crisis, or the bankruptcy or insolvency of the banks which hold the Group's funds, could result in the loss of its income for several days or affect its ability to complete banking transactions in Russia, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Furthermore, any shortages of funds or other disruptions to banking experienced by the Group's banks from time to time could also have a material adverse effect on the Group's ability to complete its planned developments or obtain finance required for its planned growth and thus have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

**Social Risks**

***Social instability could lead to labour and social unrest, increased support for renewed centralised authority, nationalism or violence.***

The past failures of the Russian Government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. For example, in January 2005, a new law took effect that replaced years-old benefits (including free use of public transportation, free medicine and heavily subsidised utilities) for pensioners, the disabled, war veterans and certain other categories of Russian citizens with cash payments. Groups of pensioners and political organisations held massive demonstrations across Russia protesting against the new law and temporarily blocked various transportation routes. In view of these demonstrations, certain Russian cities and regions restored in part free public transportation and increased cash benefits. Currently the protests have ceased. However, there can be no assurance that such protests will not occur again, whether as a result of any new law or regulation having a similar effect being adopted or otherwise. Labour and social unrest could have political, social and economic consequences, such as increased support for a renewal of centralised authority; increased nationalism, with support for re-nationalisation of property, or expropriation of or restrictions on foreign involvement in the economy of Russia; and increased violence. Any of these could have an adverse effect on confidence in Russia's social environment and the value of investments in Russia, could restrict the Group's operations and lead to a loss of revenue, and could otherwise have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***Crime and corruption could disrupt the Group's ability to conduct its business.***

The political and economic changes in Russia in recent years have resulted in significant dislocations of authority. The local and international press have reported that significant organised criminal activity has arisen, particularly in large metropolitan centres. Property crime in large cities has increased substantially. In addition, there are reportedly high levels of corruption in such centres, including the bribing of officials

for the purpose of obtaining licences or other permissions, for the purpose of obtaining a right to supply goods or services to the state or major purchasers; or for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials have engaged in selective investigations and prosecutions to further their own interests or the interests of certain individuals. Additionally, published reports indicate that a significant number of Russian media regularly publish slanted articles in return for payment. Recent reports in the media have suggested that such practices continue to exist in the country, including as tactics in connection with the acquisition of companies or their assets by so-called “raiders”. Any allegations of the Group’s involvement in such practices would pose a risk of prosecution and of possible criminal or administrative liability or reputational damage. The proliferation of organised or other crime, corruption and other illegal activities that disrupt the Group’s ability to conduct its business effectively, or any claims that it has been involved in corruption, or illegal activities (even if false) that generate negative publicity, could have a material adverse effect on the Group’s business, results of operations, financial condition or prospects and the trading price of the GDRs.

### **Legislative and Legal Risks**

#### ***Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in Russia.***

Russia is still developing the legal framework required to support a market economy. Since 1991, Russian law has been largely, but not entirely, replaced by the new legal regime established by the 1993 Federal Constitution. The Group’s business is subject to the rules of the Russian Civil Code, other federal laws and decrees, and orders and regulations issued by the President, the Government, the federal ministries and the CBR, which are, in turn, complemented by regional and local rules and regulations. The following risks relating to the Russian legal system create uncertainties with respect to the legal and business decisions that the Group makes, many of which do not exist to the same extent in countries with more developed market economies:

- inconsistencies exist between: (a) federal laws; (b) decrees, orders and regulations issued by the President, the Government and federal ministers; and (c) regional and local laws, rules and regulations;
- a lack of judicial and administrative guidance on interpreting legislation as well as a lack of sufficient commentaries on judicial rulings and legislation;
- judges and courts are relatively inexperienced in interpreting legislation in accordance with new principles established under reformed statutes;
- substantial gaps exist in the legal framework due to the delay or absence of implementing regulations for certain legislation;
- a lack of judicial independence from political, social and commercial forces;
- alleged corruption within the judiciary and the governmental authorities;
- problematic and time-consuming enforcement of both Russian and non-Russian judicial orders and international arbitration awards;
- a high degree of discretion on the part of governmental authorities, leaving significant opportunities for arbitrary and capricious government action; and
- bankruptcy procedures are not well developed and are subject to abuse.

Additionally, several fundamental Russian laws have only relatively recently become effective. The enactment of new legislation in the context of a rapid evolution to a market economy and the lack of consensus about the aims, scope, content and pace of economic and political reforms have resulted in ambiguities, inconsistencies and anomalies in the Russian legal system. The enforceability of some of the more recently enacted laws may be subject to doubt and many new laws remain untested. Russian legislation also often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect the Group’s ability to enforce its legal rights in Russia, including rights under contracts, or to defend against claims by others in Russia, which could have a material adverse effect on the Group’s business, results of operations, financial condition or prospects and the trading price of the GDRs.

***The lack of independence of certain members of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent the Group from obtaining effective redress in court proceedings.***

The independence of the judicial system and the prosecutor general's office and their immunity from economic and political influences in Russia are subject to doubt. The court system is under-staffed and under-funded. Judges and courts remain inexperienced in certain areas of business and corporate law, such as international financial transactions. Russia is a civil law jurisdiction where judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organised in a manner that facilitates understanding. The Russian judicial system can be slow and court orders are not always enforced or followed by law enforcement agencies. Additionally, the press has often reported that court claims and governmental prosecutions are sometimes influenced by or used in furtherance of political aims or private interests. The Group may be subject to such claims and may not be able to receive a fair hearing. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***The law relating to Russian corporate governance and control is subject to inconsistent application and may be difficult to enforce.***

All of the Company's operating subsidiaries are organised and existing in Russia and hold all their assets in Russia. Accordingly, corporate actions by such companies, and the rights of the Company as their controlling shareholder, are subject to mandatory rules of Russian corporate law. As with other areas of Russian law, the Russian courts' interpretation of corporate law concepts are at times subject to inconsistent interpretation and application by the courts (see “—Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in Russia” and “—The lack of independence of certain members of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent the Group from obtaining effective redress in court proceedings”). For example, there are conflicting interpretations as to when shareholder approval of a transaction is required as a “major transaction” or, alternatively, when the transaction may be validly authorised by a decision of the company's appointed officers. Accordingly, the Group may be subject to an increased burden in seeking to comply with all reasonably possible interpretations of such requirements or may find itself in formal non-compliance with such requirements. In addition, judgments rendered by a court in any jurisdiction outside Russia will be recognised by courts in Russia only if (i) an international treaty exists between Russia and the country where the judgment was rendered providing for the recognition of judgments in civil cases or (ii) a federal law of Russia providing for the recognition and enforcement of foreign court judgments is adopted. No such federal law has been passed, and no such treaty exists between Russia and the United States or the United Kingdom. As such, the Company may not be able to enforce foreign judgments against its Russian subsidiaries. These uncertainties could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***Shareholder liability under Russian corporate law could cause the Company to become liable for the obligations of its subsidiaries.***

Russian law generally provides that shareholders in a Russian joint stock company or participants in a limited liability company are not liable for the obligations of such a company and bear only the risk of loss of their investment. This may not be the case, however, when a company is capable of determining decisions made by another company. The company capable of determining such decisions is called the effective parent (*osnovnoye obshchestvo* in Russian). The company whose decisions are capable of being so determined is called the effective subsidiary (*docherneye obshchestvo* in Russian). The effective parent bears joint and several liability for transactions concluded by the effective subsidiary in carrying out business decisions if:

- the decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies; and
- the effective parent gives obligatory directions to the effective subsidiary.

Moreover, an effective parent is secondarily liable for an effective subsidiary's debts if the effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of the effective parent. In



these instances, the other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that causes the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. The Company could be found to be the effective parent of its subsidiaries, in which case it could become liable for their debts, which could have a material adverse effect on its business, results of operations, financial condition or prospects and the trading price of the GDRs.

***A Russian legal entity may be liquidated on the basis of formal non-compliance with certain requirements of Russian law.***

Russian law provides for certain requirements that should be complied with in the course of establishing and reorganising a Russian company, or during its operation. Certain provisions of Russian law may allow a court to order the liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during the formation of such entity or during its operation; for example, if it has or has had net assets lower than its share capital (see “—One of the members of the Group has had one year when its net assets were negative and may be subject to an order to be liquidated”). In certain cases the registering state authority even without a court decision may liquidate a Russian legal entity. Some Russian courts, in deciding whether or not to order the liquidation of a company, have looked beyond the fact that the company failed to comply fully with all applicable legal requirements and have taken into account other factors, such as the financial standing of the company and its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation. This judicial approach is supported by a decision of the Constitutional Court of the Russian Federation that held that even repeated violations of law may not serve as a basis for the involuntary liquidation of a company, and instead consideration should be given to whether the liquidation would be an appropriate sanction for such violations. Although the Company's Russian subsidiaries have failed to comply fully with all the applicable legal requirements (for example, with respect to one of the members of the Group the value of net assets was historically negative), the Group believes that none of its members should be subject to liquidation on such grounds because none of the possible violations were significant, caused any damage to any person, or have had any other negative consequences. In addition, the Group believes that the Company and its subsidiaries have been capable at all material times of meeting all of their respective tax and other third party obligations in a timely fashion. However, weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. Therefore, investors should not rely on the Group's interpretation of Russian law. If a Russian court or a governmental authority takes a position unfavourable to the Group, it may need to restructure its operations, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***One of the members of the Group has had one year when its net assets were negative and may be subject to an order to be liquidated.***

Russian law requires, in accordance with Russian Accounting Standards, a limited liability company or a joint stock company to be liquidated if the value of its net assets is lower than the minimum amount of its charter capital specified by Russian law as at the end of the second year following incorporation. If such a company fails to bring itself into compliance with this requirement within a reasonable period of time, a court may order its liquidation. As at the end of 2002, one of the Company's principal subsidiaries, Sevtekhnотrans, had negative net assets and therefore it breached the Russian law requirement described above. Sevtekhnотrans remedied the situation within a year and the three-year statute of limitations for any action by the tax authorities has passed. However, there is precedent of politically motivated actions in Russia and accordingly there is a possibility that the Russian tax or other authorities, and/or third parties, could apply to order Sevtekhnотrans to be put into liquidation, although there is a certain amount of judicial support for the view that, in considering such an application, the courts should look beyond the fact of formal non-compliance and take into account other factors regarding whether the liquidation would be an appropriate sanction for such violations (see “—A Russian legal entity may be liquidated on the basis of formal non-compliance with certain requirements of Russian law” above). There can be no assurance that an order for the liquidation of Sevtekhnотrans will not be made, which could lead to the loss of rights to its properties and have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***The Group could be subject to arbitrary government action.***

Government authorities have a high degree of discretion in Russia and at times appear to act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that may not be in full accordance with the law or that may be influenced by political or commercial considerations. Moreover, government authorities also have the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities also appear to have used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances or registrations or to void transactions, seemingly for political purposes. Standard & Poor's has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups". In this environment, the Group's competitors may receive preferential treatment from the government, potentially giving them a competitive advantage. Although unlawful, selective or arbitrary government action may be challenged in court, such action, if directed at the Group or its shareholders, could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

In addition, since 2003, the Ministry for Taxes and Levies (now succeeded by the Federal Tax Service) has begun to challenge certain Russian companies' use of tax optimisation schemes, and press reports have speculated that these enforcement actions have been selective. Although the Group believes that it is currently in compliance with all of its tax obligations with respect to its operations in Russia, there can be no assurance that the Federal Tax Service, or any of its lower divisions, will not become more aggressive in respect of future tax audits or other compliance activities, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***Russian legislation may not adequately protect against expropriation and nationalisation.***

The Russian Government has enacted legislation to protect foreign investment and other property against expropriation and nationalisation. If such property is expropriated or nationalised, legislation provides for fair compensation. However, there is no assurance that such protections would be enforced. This uncertainty is due to several factors, including:

- the apparent lack of political will to enforce legislation to protect property against expropriation and nationalisation;
- the lack of an independent judiciary and sufficient mechanisms to enforce judgments; and
- reportedly widespread corruption among government officials.

Expropriation or nationalisation of all or a portion of the Group's business would have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***Russian currency regulation has only recently been liberalised and may remain subject to change.***

In the 1990s, during a time of adverse economic conditions, the Russian currency control regime was severely restricted. At times, a temporary moratorium was imposed on certain hard currency payments and operations. However, over recent years, there has been a liberalisation of the currency control regime in Russia. Notwithstanding this recent liberalisation, there can be no assurance that future changes to the Russian exchange control regime will not restrict the Company's ability to repatriate earnings from its subsidiaries to pay dividends or to pay for the general operational expenses of the Company in Cyprus, or otherwise have a negative impact on the development of the Russian capital markets, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

## **RISKS RELATING TO THE GDRS**

***Voting rights with respect to the Ordinary Shares represented by the GDRs are limited by the terms of the Deposit Agreement for the GDRs and relevant requirements of Cypriot law.***

GDR holders will have no direct voting rights with respect to the Ordinary Shares represented by the GDRs. GDR holders will be able to exercise voting rights with respect to the shares represented by GDRs only in accordance with the provisions of the deposit agreement to be entered into on or about the Closing Date between the Company and the Depositary (the ***Deposit Agreement***) and relevant requirements of Cypriot law (see “Terms and Conditions of the Global Depositary Receipts”). Therefore, there are practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with such holders.

Holders of Ordinary Shares will receive notice directly from the Company and will be able to exercise their voting rights either personally or by proxy. GDR holders, by comparison, will not receive notice directly from the Company. Rather, in accordance with the Deposit Agreement, the Company will provide notice to the Depositary. The Depositary has agreed that it will, as soon as practicable, at the Company’s expense, distribute to GDR holders notices of meetings, copies of voting materials (if and as received by the Depositary from the Company) and a statement as to the manner in which GDR holders may give instructions.

In order to exercise their voting rights, GDR holders must then instruct the Depositary how to vote the Ordinary Shares represented by the GDRs they hold. As a result of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of Ordinary Shares, and there can be no assurance that GDR holders will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. If the Depositary does not receive timely voting instructions, the Holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a person appointed by the Company to vote such Ordinary Shares, provided that such discretionary proxy will not be given if the Company does not wish such proxy to be given or if such matter materially and adversely affects the rights of holders of Ordinary Shares. If timely voting instructions are not received and no discretionary proxy is given in respect of such Ordinary Shares, or if the Depositary determines that it is not permissible under Cyprus law or it is reasonably impracticable to vote or cause to be voted the Ordinary Shares, such Ordinary Shares will not be voted.

For further details, see “Terms and Conditions of the Global Depositary Receipts”. Concern by GDR holders regarding these limits on voting rights in respect of the Ordinary Shares represented by GDRs could have a material adverse effect on the trading price of the GDRs.

***Sales of GDRs or Ordinary Shares following the Offering may result in a decline in the price of GDRs.***

Each of the Company, TIHL (the owner of 70 per cent. of the Company) and EIL (the owner of 30 per cent. of the Company), has agreed that, until the expiry of a period of 180 days from the Closing Date, neither it nor any person acting on its behalf will, without the prior written consent of the Joint Bookrunners, sell, pledge or encumber the Ordinary Shares or, in the case of the Company, issue new shares (the ***Lock-up Agreement***). Upon the expiry of the Lock-up Agreement, the sale of a substantial number of GDRs following the Offering, in particular by the Selling Shareholders, or the issuance of new shares by the Company, or the possibility that these sales or issuances may occur, may result in a decline in the price of the GDRs, and investors may not be able to sell the GDRs they purchased in the Offering at or above the Offer Price or at all. As a result, investors who purchase GDRs in the Offering could lose all or part of their investment in the GDRs.

***The Company is not subject to the same takeover protection as a company incorporated in the United Kingdom.***

Since the Company has its registered office in Cyprus and GDRs representing its ordinary shares are proposed to be listed on a regulated market in the United Kingdom, the takeover protection regime applicable to the Company is more limited than that applicable to public companies incorporated in the United Kingdom. Any offer for GDRs will be subject to the provisions of the United Kingdom City Code on Takeovers and Mergers (the ***City Code***) in respect only of consideration, disclosure requirements and procedural matters applicable to the offer, while Cypriot law will apply to such an offer in relation to substantive company law matters, such as whether such an offer would trigger a mandatory offer to all holders of GDRs. As at the date of this Prospectus, Cypriot law does not contain any requirement for such a mandatory offer to be made by a person acquiring control of a Cypriot company if such company is not

listed on a regulated market in Cyprus. Consequently, a prospective bidder acquiring GDRs may gain control of the Company in circumstances in which no requirement for a mandatory offer is triggered in respect of the Company under the takeover protection regime applicable to it. As a result, some holders of GDRs may not be given the opportunity to receive treatment equal to that which may be received, in case of an offer made by a potential bidder with a view to gaining control of the Company, by certain other holders of GDRs or, as the case may be, Ordinary Shares at the relevant time.

***Holders of GDRs in certain jurisdictions (including the United States) may not be able to exercise their pre-emptive rights in relation to future issues of Ordinary Shares.***

In order to raise funding in the future, the Company may issue additional Ordinary Shares, including in the form of GDRs. Generally, existing holders of ordinary shares in Cyprus public companies are in certain circumstances entitled to pre-emptive rights on the issue of new ordinary shares in that company as described in “Description of Share Capital and Applicable Cypriot Law”. Holders of GDRs in certain jurisdictions (including the United States) may not be able to exercise pre-emptive rights for ordinary shares represented by GDRs unless the applicable securities law requirements in such jurisdiction (including, in the United States, in some circumstances the filing of a registration statement under the Securities Act) are adhered to or an exemption from such requirements is available. The Company is unlikely to adhere to such requirements and an exemption may not be available. Accordingly, such holders may not be able to exercise their pre-emptive rights on future issuances of Ordinary Shares, and, as a result, their percentage ownership interest in the Company would be reduced.

***The liquidity and price of the GDRs depends on an active trading market for the GDRs developing after the Offering.***

Prior to the Offering, there was no active trading market for the GDRs and, after the Offering, an active trading market may not develop. Furthermore, the Group believes that the European Bank for Reconstruction and Development (the **EBRD**), may purchase a portion of the GDRs representing approximately 10.0 per cent. of the Offering, assuming the exercise of the Over-Allotment Option in full, which will result in it holding a significant portion of the GDRs. See “Subscription and Sale”. If an active trading market for the GDRs does not develop, investors may not be able to sell the GDRs they purchased in the Offering at or above the Offer Price or at all. As a result, investors who purchase GDRs in the Offering could lose all or part of their investment in the GDRs. The Ordinary Shares are not, and are not expected to be, listed on any stock exchange.

## **RISKS RELATING TO TAXATION**

### **Taxation Risks Relating to Russia**

***The Group’s business has a significant exposure to taxation in Russia.***

Generally, taxes payable by Russian companies are relatively substantial and include inter alia corporate profits tax, VAT, property tax and unified social tax (**UST**). The system of tax collection has been relatively ineffective, resulting in the imposition of new taxes in an attempt to increase revenue. The Russian Government has implemented reforms of the tax system that have resulted in some improvement in the tax climate. The cornerstone of such reforms was a complete redrafting of the tax law into the Russian Tax Code. As well as providing greater clarity, this has included the reduction of most “headline” tax rates, and the reduction of a number of taxes applicable to businesses.

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretation and inconsistent enforcement. The law and legal practice in Russia are not as clearly established as those of western countries and there are a number of practical uncertainties in applying the tax legislation provisions. Some of these uncertainties are of a general nature, whereas others relate specifically to companies operating in the freight rail sector.

There are no clear rules or implementation practice for distinguishing between lawful tax optimisation and tax evasion. In practice, Russian tax authorities often have their own interpretations of the tax laws and these interpretations rarely favour taxpayers, who often must resort to court proceedings against the tax authorities to defend their position. Different interpretations of tax regulations exist both among and within Government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with other tax related documentation, are subject to review and investigation by a number of authorities, which may impose fines, penalties and interest for late payment.

Generally, tax audits may cover the taxpayer's activities for a period of three calendar years immediately preceding the year in which the decision to carry out the audit is adopted; however previous tax audits do not completely exclude subsequent claims relating to a period that has already been audited. See “—Russian subsidiaries of the Company are subject to tax audits by Russian tax authorities which may result in additional liabilities for the Group”.

The possibility that Russian tax legislation will change cannot be excluded and such a change may result in the introduction of additional revenue raising mechanisms. Although it is unclear how these measures would operate, the introduction of such measures could affect the overall tax efficiency of the Group's operations and result in significant additional tax liabilities. Additional tax exposure could have a material adverse impact on the Group's business, financial performance and prospects and the trading price of the GDRs.

According to the Constitution of the Russian Federation, laws which introduce new taxes or worsen a taxpayer's position cannot be applied retroactively. However, there have been several instances when such laws were introduced and applied retroactively.

Despite the Russian Government taking steps to reduce the overall tax burden on taxpayers in recent years, certain companies and industries are being challenged over structures, arrangements and transactions which have not been challenged or litigated in prior tax audits. Russian subsidiaries of the Company may therefore be subject to greater than expected tax burdens. Additionally, taxes have been used as a tool for significant state intervention in certain key industries. See “—Risks Relating to Russia—Legislative and Legal Risks—The Group could be subject to arbitrary government action”. All of this could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***Russian subsidiaries of the Company are subject to tax audits by Russian tax authorities which may result in additional liabilities for the Group.***

Taxpayers in Russia are subject to tax audits covering a period of three calendar years immediately preceding the year in which the decision to carry out the audit is adopted. However, previous tax audits do not exclude subsequent claims relating to the audited periods because Russian tax law authorises upper-level tax inspectorates to revisit the results of tax audits conducted by subordinate tax inspectorates, and the tax authorities are allowed to carry out repeat on-site tax audits in connection with the restructuring or liquidation of a taxpayer or if the taxpayer resubmits an adjusted tax return based on which the amount of tax is reduced. The limitation of the tax audit period corresponds to the statute of limitations on the commission of a tax offence, which is also limited to three years from the date on which a tax offence was committed or from the date following the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence).

However, under recent changes to the Tax Code, effective 1 January 2007, the statute of limitations in relation to claims for tax sanctions on underpaid amounts of tax may be revoked in cases where the taxpayer has obstructed the conduct of an on-site tax audit and which may have created an insurmountable obstacle to the performance of that audit. Prior to these changes, on 14 July 2005, the Constitutional Court of the Russian Federation issued a decision that provides grounds for the tax authorities to disregard the period open to inspection if the taxpayer “obstructed” or “hindered” a tax inspection. Since the terms “obstructed”, “hindered” and “created insurmountable obstacles” are not defined, the tax authorities may have broad discretion to argue that a taxpayer has “obstructed” or “hindered” or “created insurmountable obstacles” in respect of an inspection and ultimately to re-inspect a taxpayer for the purpose of assessing additional taxes and fines and late payment interest thereon beyond the three-year statute of limitations.

The tax audits may result in additional tax liabilities, significant penalties, interest for late payment and enforcement measures for the Group if the relevant authorities conclude that the Group did not satisfy its tax obligations in any given year. This may have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs. The tax audits may also impose additional administrative burden on the Group by diverting the attention of its management and financial personnel, requiring resources for defending the Group's tax position, including for any tax litigation.

***The Group may be deemed to receive unjustified tax benefits.***

On 12 October 2006, the Plenum of the Russian Supreme Arbitration Court issued ruling No. 53 concerning judicial practice with respect to unjustified tax benefits received by taxpayers. The ruling provides that a tax benefit means a reduction in the amount of a tax liability resulting, in particular, from a reduction of the tax base, the receipt of a tax deduction (recovery) or tax concession, the application of a reduced tax rate, and the receipt of a right to a refund (offset) or reimbursement of tax from the budget. The court ruled that a tax benefit itself cannot be regarded as a business objective, and such tax benefit may be deemed unjustified if the true economic intent of operations is inconsistent with the manner in which they have been accounted for tax purposes or when an operation lacks a reasonable economic or business purpose. On the other hand, the mere fact that the same economic result might have been obtained with a lesser tax benefit received by the taxpayer should not be treated as grounds for declaring a tax benefit to be unjustified.

There is little practice on interpretation of this relatively new concept by the tax authorities or courts, but it is apparent that the tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the intention of the ruling was to combat abuse of tax law, based on the available court practice relating to this ruling, the tax authorities have started applying the “unjustified tax benefit” concept in a broader sense than may have been intended by the Supreme Arbitration Court. To date in the majority of cases where this concept was applied, the courts ruled in favour of taxpayers but it is too early to generalize regarding court practice in this area. Furthermore, Resolution No. 64 of the Plenum of the Supreme Court of 28 December 2006 “Concerning the Practical Application by Courts of Criminal Legislation Concerning Liability for Tax Crimes” is indicative of the trend to broaden the application of criminal liability for tax violations.

The above risks and uncertainties complicate the Group’s tax planning and related business decisions, potentially exposing the Group to significant penalties and interest for late payments and enforcement measures and could have a material adverse effect on the Group’s business, operating results, financial condition or prospects and the trading price of the GDRs.

***The Company may be exposed to taxation in Russia if the Company is treated as having a Russian permanent establishment.***

The Russian Tax Code contains the concept of permanent establishment in Russia as a means for taxing foreign legal entities which carry on regular entrepreneurial activities in Russia beyond preparatory and auxiliary activities. Russia’s double tax treaties with other countries, including Cyprus, also contain a similar concept. However, the practical application of the concept of permanent establishment under Russian domestic law is not well developed and so foreign companies having even limited operations in Russia, which would not normally satisfy the conditions for creating a permanent establishment under international norms, may be at risk of being treated as having a permanent establishment in Russia and hence being liable to Russian taxation.

Although the Company intends to conduct its affairs so that is not treated as having a permanent establishment in Russia, no assurance can be given that the Company will not be treated as having such a permanent establishment. If the Company were treated as having a permanent establishment in Russia, it would be subject to Russian taxation in a manner broadly similar to the taxation of a Russian legal entity.

Only the part of the income of a foreign entity that is attributable to a permanent establishment should be subject to taxation in Russia. The Russian Tax Code contains some attribution rules which are not sufficiently developed. There is, therefore, a risk that the tax authorities might seek to assess Russian tax on the entire income of a foreign company. Having a permanent establishment in Russia may also have other adverse tax implications, including challenging a reduced withholding tax rate under an applicable double tax treaty, potential effect on VAT and property tax obligations. There is also a risk that penalties could be imposed by the tax authorities for failure to register a permanent establishment with the Russian tax authorities.

Recent events in the Russian Federation suggest that the tax authorities may more actively be seeking to investigate and assert that foreign entities operate through a permanent establishment in Russia. Any such taxes or penalties could have a material adverse effect on the Group’s business, operating results, financial condition or prospects and the trading price of the GDRs.

***The introduction of the tax residency concept in Russia may have an adverse effect on the Group.***

Currently the Russian domestic tax legislation does not have a concept of tax residency. However, the Russian Government in its Main Directions of Russian Tax Policy for 2008-2010 intends to introduce the concept of tax residence for legal entities to the domestic tax law. It is proposed to deem the company a Russian tax resident based on the place of the effective management and control of the company and/or based on the residence of its shareholders.

These changes are proposed to be introduced starting from 2009, but no assurance can be currently given whether and when these amendments will be enacted, their exact nature and potential interpretation by the tax authorities. Nevertheless, it is conceivable that, if enacted, these amendments may have an adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***The Group may be subject to vaguely drafted Russian transfer pricing rules.***

Russian transfer pricing rules give Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of certain types of transactions, which may be controlled by the tax authorities, in cases where the transaction price differs from the market price by more than 20 per cent. The controlled transactions include transactions with related parties, barter transactions, foreign trade transactions and any transactions associated with significant price fluctuations (i.e. if the price of such transactions differs from the prices on similar transactions by more than 20 per cent. within a short period of time). The Russian transfer pricing rules are vaguely drafted and subject to differing interpretations by Russian tax authorities and courts.

While, with respect to related party transactions, the Group seeks to reference market prices, there can be no assurance that the Russian tax authorities will not seek to adjust the pricing thereof for tax purposes. Moreover, in the event that a transfer pricing adjustment is assessed by Russian tax authorities, the Russian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction that is subject to an adjustment.

Furthermore, a draft law, which is currently under discussion in the Russian Government, is intended to tighten Russian transfer pricing rules, although it is unclear if and when these amendments will be enacted and what effect these provisions may have on the Group. Imposition of additional tax liabilities under the Russian transfer pricing legislation may have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

***Withholding income tax could be imposed in Russia on dividends distributed from the Russian subsidiaries of the Company to the Company.***

Dividends paid by a Russian legal entity to a foreign legal entity are generally subject to Russian withholding income tax at a rate of 15 per cent, although this tax rate may be reduced under an applicable double tax treaty. The Company intends to rely on the Russia-Cyprus double tax treaty.

This treaty allows reduction of withholding income tax on dividends paid by a Russian company to a Cypriot company down to 10 per cent. provided that the following conditions are met: (i) the Cypriot company is a tax resident of Cyprus within the meaning of the Russia-Cyprus Treaty; (ii) the Cypriot company is the beneficial owner of the dividends; (iii) the dividends are not attributable to a permanent establishment of the Cypriot company in Russia; and (iv) the treaty clearance procedures are duly performed. This rate is further reduced to 5 per cent. if the direct investment of the Cypriot company in a Russian company paying the dividends is at least US\$100,000.

The management of the Company believes that the 5 per cent. rate should apply to dividends received from the Russian subsidiaries.

Although the Company will seek to claim treaty protection, there is a risk that the applicability of the reduced rate of 5 per cent. or 10 per cent. may be challenged by the Russian tax authorities. As a result, there can be no assurance that the Company would be able to avail itself of the reduced withholding income tax rate in practice.

Specifically, the Company may incur a 15 per cent. withholding income tax at source on dividend payments from the Russian subsidiaries if the treaty clearance procedures are not duly performed at the date when the dividend payment is made. In this case the Company may seek to claim as a refund the difference

between the 15 per cent. tax withheld and the reduced rate of 10 per cent. or 5 per cent. as appropriate. However, there can be no assurance that such taxes would be refunded.

***The Group may encounter difficulties in recovery of VAT paid to vendors or at customs.***

Many Russian companies, especially those involved in leasing activity and export sales (including international transit transportation), encounter difficulties with the recovery of VAT paid to vendors or at customs (“*input VAT*”).

Under the Russian Tax Code, the Group is entitled to recover the excess of input VAT over VAT collected from the buyers (“*output VAT*”), either through cash refunds or offset against future tax liabilities, while the Group is also entitled to earn interest on any excess input VAT amounts which have not been timely refunded by the tax authorities. In practice, however, receipt of cash refunds is virtually impossible, and the Group must seek recovery of excess input VAT through an offset against future tax liabilities over protracted periods of time whilst the receipt of interest thereon is not very likely. Furthermore, the tax authorities often scrutinise the companies showing such excess input VAT amounts in their tax declarations and sometimes seek to challenge them on different grounds.

Despite the Group’s efforts at compliance, there remains a risk that a portion of input VAT may not be recoverable by the subsidiaries of the Company or that the recovery may take a significant amount of time, which may have a material adverse effect on the Group’s business, results of operations, financial condition or prospects and the trading price of the GDRs.

There is a discussion in the Russian Government that the rate of VAT might be reduced. It is difficult to assess at the moment how such change (if and when adopted) may affect the Group’s business, but it cannot be precluded that such a rate reduction may potentially involve a longer period for recovery of input VAT at least temporarily.

***The Group may be adversely affected if its leaseback transactions are challenged by the Russian tax authorities.***

In the course of its business, the Group enters into various sale and leaseback arrangements on a regular basis. Generally, Russian law treats sale and leaseback transactions as legal. However, since the sale and leaseback structures may lead to certain tax benefits, the Russian tax authorities have historically been opposed to companies using such structures and often filed claims against them arguing that the tax benefits received under sale and leaseback arrangements were unjustified. In addition, the relevant court practice is ambiguous and the courts have at times taken different views with respect to these transactions. Therefore, although the Group believes it is in full compliance with Russian tax law requirements, there can be no assurance that the sale and leaseback structures used by the Group will not be challenged by tax authorities in future. Any such challenges may, if successful, result in an additional cost burden for the Group and could have a material adverse effect on the Group’s business, operating results, financial condition or prospects and the trading price of the GDRs.

***Currently, Russian companies cannot be consolidated for tax purposes.***

The financial results of Russian companies currently cannot be consolidated for profit tax purposes. Each of the Russian subsidiaries of the Company pays its own Russian taxes and may not offset its profit against the loss of any of the other companies in the Group and vice versa.

However, the Russian Government in its Main Directions of Russian Tax Policy for 2008-2010 proposes the introduction of consolidated tax reporting that may enable for corporate tax purposes the consolidation of the financial results of taxpayers which are part of one group. These changes are proposed to be introduced starting from 2009; however, at this stage, it is impossible to predict whether, when and how such consolidated tax reporting will be enacted.

In addition, the subsidiaries of the Company cannot offset their input and output VAT liabilities between each other.

## **Taxation Risks Relating to Cyprus**

***The Company may be subject to Defence Tax in Cyprus.***

Special Contribution for the Defence of the Republic (*Defence Tax*) at a rate of 15 per cent. would be payable by the Cypriot company on deemed dividends to the extent that its shareholders (both individuals and companies) are Cypriot tax residents. A Cypriot company which does not distribute at least 70 per



cent. of its after tax profits within two years of the end of the year in which the profits arose, would be deemed to have distributed this amount as a dividend two years after that year end. The Defence Tax on deemed dividend distribution would be payable by the Company to the extent these profits are attributable to the shareholders (including the holders of the GDRs) which are Cypriot tax residents (both individuals and companies). The Company will debit such Defence Tax paid against the profits attributable to the respective Cypriot shareholders. The amount of this deemed dividend distribution (subject to Defence Tax) is reduced by any actual dividend (not subject to Defence Tax) paid out of the profits of the relevant year at any time up to the date of the deemed distribution. The profits to be taken into account in determining the deemed dividend do not include fair value adjustments to movable or immovable property (if any).

Imposition of such a tax on the Company could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

In case a person who is not tax resident in Cyprus receives a dividend from a Cypriot tax resident company and that dividend is paid out of profits which at any stage were subjected to the deemed dividend distribution rule described above, then the Defence Tax paid due of the deemed distribution which relates to the dividends received by such person is refundable.

## THE GLOBAL OFFERING

<b>The Company</b> .....	Globaltrans Investment PLC, a company organised and existing under the laws of Cyprus.
<b>The Offering</b> .....	The Offering consists of an offering by the Company of 16,959,064 GDRs and by the Selling Shareholders of 16,959,064 GDRs, with each GDR representing an interest in one Ordinary Share. The GDRs are being offered outside the United States and the Russian Federation in reliance on Regulation S and within the United States to QIBs in reliance on Rule 144A or another exemption from, or transaction not subject to, registration under the Securities Act.
<b>Global Coordinator</b> .....	Deutsche Bank AG, London Branch.
<b>Joint Bookrunners</b> .....	Deutsche Bank AG, London Branch and Morgan Stanley & Co. International plc.
<b>Offer Price</b> .....	USD 13.25 per GDR.
<b>Selling Shareholders</b> .....	Transportation Investments Holding Limited ( <i>TIHL</i> ) and Envesta Investments Ltd. ( <i>EIL</i> ), each of which is a company organised and existing under the laws of Cyprus. See “Principal and Selling Shareholders”.
<b>Share Capital</b> .....	Immediately prior to the Offering, the Company’s issued share capital consisted of 100,000,000 Ordinary Shares, which are fully paid. The Company’s authorised share capital consists of 116,959,064 Ordinary Shares. Immediately following the Offering the Company’s issued share capital will consist of 116,959,064 issued Ordinary Shares. See “Description of Share Capital and Applicable Cypriot Law” and “Principal and Selling Shareholders”.
<b>Depository</b> .....	The Bank of New York.
<b>GDRs</b> .....	Each GDR will represent one Ordinary Share on deposit with the Custodian on behalf of the Depository. The GDRs will be issued by the Depository pursuant to a deposit agreement between the Company and the Depository to be entered into on or about the Closing Date (the <i>Deposit Agreement</i> ). The Rule 144A GDRs will be evidenced by the Master Rule 144A GDR, and the Regulation S GDRs will be evidenced by the Master Regulation S GDR. See “Summary of Provisions Relating to the Global Depository Receipts While in Master Form”. Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. See “Terms and Conditions of the Global Depository Receipts”.
<b>Over-Allotment Option</b> .....	EIL has granted to the Joint Bookrunners an Over-Allotment Option to purchase up to 3,391,813 additional GDRs at the Offer Price. The Over-Allotment Option is exercisable on one or more occasions for the purpose of covering over-allotments that may be made, if any, in connection with the Offering and short positions resulting from stabilisation transactions on the date hereof, or from time to time, up to and including the 30 <sup>th</sup> day following the announcement of the Offer Price upon written notice from the Joint Bookrunners to EIL and to the extent not previously exercised by the Joint Bookrunners may be terminated by the Joint Bookrunners at any time. See “Subscription and Sale”.
<b>Closing Date</b> .....	The GDRs are expected to be issued, and payment for them made, on or about 7 May 2008.

<b>Listing</b> .....	<p>Prior to the Offering, there has been no market for the GDRs. Application has been made to (i) the FSA in its capacity as competent authority under the FSMA for the admission of up to 116,959,064 GDRs, consisting of 33,918,128 GDRs to be issued on the Closing Date, up to 3,391,813 GDRs to be issued pursuant to the Over-Allotment Option and up to 79,649,123 GDRs to be issued from time to time against the deposit of Ordinary Shares (to the extent permitted by law) with the Depositary, to the official list maintained by the FSA, and (ii) the regulated main market of London Stock Exchange for admission of the GDRs to trading under the symbol “GLTR”. The Company expects that conditional trading through the IOB will commence on a “when and if issued” basis on or about the date hereof.</p> <p>Application has been made to have the Rule 144A GDRs designated eligible for The PORTAL Market of the NASDAQ Stock Market, Inc.</p> <p>The Ordinary Shares are not, and are not expected to be, listed on any stock exchange.</p>
<b>Lock-Up</b> .....	<p>The Company and each of the Selling Shareholders has agreed that neither it, nor any of its subsidiaries, nor any person acting on its or their behalf will, from the date hereof until 180 days after the Closing Date or, if later, the Over-Allotment Option closing date, without the prior written consent of the Joint Bookrunners: (i) offer, sell, lend, mortgage, assign, pledge, charge, contract to sell, sell or grant any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant or contract to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any Ordinary Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or global depositary receipts representing the right to receive any such securities; or (ii) enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of GDRs, Ordinary Shares or other such shares in the Company; or (iii) enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above, subject to certain limitations. See “Subscription and Sale”.</p>
<b>Use of Proceeds</b> .....	<p>The Company will receive gross proceeds of approximately USD 224.7 million from the Offering. The Company expects that its expenses (including underwriting commissions, fees and expenses) incurred in connection with the Offering will not exceed USD 11 million. The Group intends to use the net proceeds received to implement its current capital expenditure program for 2008, including to fund the purchase of rolling stock, to repay the USD 50 million principal amount of its outstanding debt to TIHL, and for general corporate purposes. The Group will not receive any proceeds from the GDRs being sold by the Selling Shareholders. See “Use of Proceeds”.</p>
<b>Taxation</b> .....	<p>For a discussion of certain Cyprus, United States and United Kingdom tax consequences of purchasing and holding the GDRs, see “Taxation”.</p>

<b>Dividend Policy</b> . . . . .	Holders of the GDRs will be entitled to receive amounts, if any, paid by the Company as dividends, subject to certain provisions. The Company expects to pay dividends (if any) in US Dollars. While the Company has paid dividends on the Ordinary Shares in the past, it does not currently intend to declare any payments of dividends in the foreseeable future. From time to time, the Company may reconsider its dividend policy. See “Dividend Policy”, “Terms and Conditions of the Global Depositary Receipts” and “Description of Share Capital and Applicable Cypriot Law—Articles of Association—Rights Attaching to Ordinary Shares—Dividend and Distribution Rights”.
<b>Voting Rights</b> . . . . .	Subject to the Deposit Agreement, holders of GDRs are entitled to one vote per GDR at shareholders’ meetings. See “Terms and Conditions of the Global Depositary Receipts” and “Description of Share Capital and Applicable Cypriot Law—Articles of Association—Rights Attaching to Ordinary Shares—Voting Rights”.
<b>Transfer Restrictions</b> . . . . .	The GDRs will be subject to certain restrictions as described under “Selling and Transfer Restrictions—Transfer Restrictions”.
<b>Settlement and Transfer</b> . . . . .	The GDRs are being offered by the Joint Bookrunners subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part.

An application has been made to DTC to have the Rule 144A GDRs accepted into DTC’s book-entry settlement system. Upon acceptance by DTC, a single Rule 144A Master GDR will be held in a book-entry form and will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. Application has been made to have the Regulation S Master GDR registered in the name of The Bank of New York Depositary (Nominees) Limited, as nominee for The Bank of New York, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, Luxembourg, as applicable. Transfers within DTC, Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system.

In order to take delivery of the GDRs, investors must pay for them in same-day funds on or prior to the closing of the Offering and must have an appropriate securities account. See “Settlement and Transfer”.

The security identification numbers of the GDRs offered hereby are as follows:

Rule 144A GDR ISIN:	US37949E1055
Rule 144A GDR Common Code:	035751033
Rule 144A GDR CUSIP:	37949E105
Rule 144A SEDOL:	B2QTJ18
Regulation S GDR ISIN:	US37949E2046
Regulation S GDR Common Code:	035751017
Regulation S GDR CUSIP:	37949E204
Regulation S SEDOL:	B2QTGT5
London Stock Exchange GDR trading symbol:	GLTR
PORTAL identification number:	P37949E105

## USE OF PROCEEDS

The Company will receive gross proceeds of approximately USD 224.7 million from the Offering. The Company expects that its expenses (including underwriting commissions, fees and expenses) incurred in connection with the Offering will not exceed USD 11 million.

The Group intends to use such net proceeds for:

- implementation of the Group's current capital expenditure program for 2008, including to fund the purchase of additional rolling stock;
- the repayment of USD 50 million, the principal amount of its outstanding debt to TIHL; and
- general corporate purposes.

The debt outstanding to TIHL carries a fixed interest rate of 8.75 per cent. per year and a maturity date of 15 June 2012.

Except for the repayment of debt to TIHL, the Group will retain significant discretion over the use of the net proceeds received from the Offering, and changes in the Group's plans or in the business environment in which it operates could result in the use of its net proceeds in a manner that is different to that described above.

The Group will not receive any proceeds from the sale of GDRs by the Selling Shareholders.

## DIVIDEND POLICY

Pursuant to its Articles of Association the Company may pay dividends out of its profits. To the extent that the Company declares and pays dividends, owners of GDRs on the relevant record date will be entitled to receive dividends payable in respect of Ordinary Shares underlying the GDRs, subject to the terms of the Deposit Agreement. The Company expects to pay dividends, if at all, in US Dollars. If dividends are not paid in US Dollars, except as otherwise described under “Terms and Conditions of the Global Depositary Receipts—Conversion of Foreign Currency”, they will be converted into US Dollars by the Depositary and paid to holders of GDRs net of currency conversion expenses.

While the Company has paid dividends on the Ordinary Shares in the past, it does not currently intend to declare any payments of dividends on the Ordinary Shares for the foreseeable future, and expects to invest the majority of its cash flow to fund new rolling stock acquisitions and other business expansion activities. From time to time, the Company may reconsider its dividend policy.

The Company is a holding company and thus its ability to pay dividends depends on the ability of its Russian subsidiaries to pay dividends to the Company in accordance with relevant legislation and contractual restrictions. The payment of such dividends by such Russian subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves. The maximum dividend payable by the Company’s Russian subsidiaries is restricted to the total accumulated retained earnings of the relevant subsidiary, determined according to Russian law (see “Risk Factors—Risks Relating to the Group’s Financial Condition—The Company is a holding company and its ability to pay dividends or meet costs depends on the receipt of funds from its subsidiaries”). See “Terms and Conditions of the Global Depositary Receipts” and “Description of Share Capital and Applicable Cypriot Law—Articles of Association—Rights Attaching to Ordinary Shares—Dividend and Distribution Rights”.

## CAPITALISATION

The following table sets forth the Group's cash and cash equivalents, current borrowings and capitalisation as at 31 December 2007, on both an actual basis and as adjusted for the issue of 16,959,064 Ordinary Shares by the Company in connection with the Offering and the repayment of the loan outstanding to TIHL as described under "Use of Proceeds".

Prospective investors should read this table in conjunction with "Selected Consolidated Financial and Operating Information", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements.

	As at 31 December 2007	
	Actual	As adjusted for the Offering <sup>(1)</sup>
	(USD in thousands)	
<b>Cash and cash equivalents</b> . . . . .	<b>31,103</b>	<b>194,811</b>
<b>Current borrowings</b> <sup>(2)</sup> . . . . .	<b>149,447</b>	<b>149,447</b>
<b>Non-current borrowings</b> <sup>(3)</sup>		
Bank borrowings . . . . .	76,235	76,235
Loan from related parties (TIHL loan) . . . . .	50,000	—
Finance lease liabilities . . . . .	175,491	175,491
<b>Total non-current borrowings</b> . . . . .	<b>301,726</b>	<b>251,726</b>
<b>Capital and reserves</b>		
Share capital . . . . .	10,000	11,696
Share premium . . . . .	61,560	273,572
Common control transaction reserve . . . . .	(95,620)	(95,620)
Translation reserve . . . . .	27,195	27,195
Capital contribution . . . . .	90,000	90,000
Retained earnings . . . . .	129,523	129,523
<b>Total equity</b> . . . . .	<b>222,658</b>	<b>436,366</b>
<b>Total capitalisation</b> . . . . .	<b>524,384</b>	<b>688,092</b>

(1) The increase in cash reflects the receipt of the net proceeds of the Offering, after deducting estimated underwriting commissions, fees and expenses incurred in connection with the Offering of approximately USD 11 million and after repayment of the USD 50 million principal amount of indebtedness outstanding to TIHL at 31 December 2007 as referred to in "Use of Proceeds".

(2) Current borrowings include the current portion of non-current loans, borrowings and finance leases.

(3) Non-current borrowings excludes the current portion of non-current loans, borrowings and finance leases.

Other than as a result of the matters set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations", there has been no material change in the Group's capitalisation since 31 December 2007.

## DILUTION

As at 31 December 2007, the Group's consolidated net assets were USD 222.7 million, or USD 2.23 per Ordinary Share, based on 100 million Ordinary Shares outstanding. Consolidated net assets per Ordinary Share is determined by dividing the Group's consolidated total assets less consolidated total liabilities by the number of outstanding Ordinary Shares.

Generally, dilution per ordinary share to new investors is determined by subtracting net assets per ordinary share after an offering from the offer price paid by the new investors for the ordinary shares in such offering. Upon the issue of 16,959,064 Ordinary Shares in connection with the offering of GDRs in the Offering, the Company is expected to receive approximately USD 224.7 million in gross proceeds before the deduction of commissions, fees and expenses in connection with the Offering.

After giving effect to the new issue of Ordinary Shares in connection with the Offering, as if the issue had taken place by 31 December 2007, the Group's consolidated net assets as at 31 December 2007 would have been USD 3.73 per Ordinary Share. This represents an immediate increase in the Group's consolidated net assets per Ordinary Share of USD 1.50 to existing shareholders and an immediate dilution in the Group's consolidated net assets per Ordinary Share of USD 9.52 to new investors who purchased GDRs representing Ordinary Shares in the Offering.

Dilution per GDR representing Ordinary Shares to new investors is determined by subtracting the Group's consolidated net assets per Ordinary Share after the Offering from the Offer Price per GDR paid by investors for the GDRs representing Ordinary Shares in the Offering.

	USD
Offer Price .....	13.25
Consolidated net assets per Ordinary Share as at 31 December 2007 .....	2.23
Increase in consolidated net assets per Ordinary Share attributable to investors purchasing a GDR in the Offering .....	1.50
Consolidated net assets per Ordinary Share after the Offering .....	3.73
Dilution per GDR to new investors purchasing GDRs in the Offering .....	9.52



## SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following selected consolidated financial information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, and the Consolidated Financial Statements included in this Prospectus beginning on page F-3. For a description of the Consolidated Financial Statements, see “Presentation of Financial and Other Information”.

The selected consolidated financial information set forth below shows certain of the Group’s consolidated financial information as at and for the years ended 31 December 2007, 2006 and 2005. It has been derived from the Consolidated Financial Statements.

The Consolidated Financial Statements for 2005 and 2006 have been restated to reflect certain changes that the Company believes more accurately represent the Group’s activities. See “Presentation of Financial and Other Information—Financial Information”.

### CONSOLIDATED INCOME STATEMENT DATA

	Years ended 31 December		
	2007	2006 (Restated)	2005 (Restated)
	(USD in thousands)		
Revenue . . . . .	548,871	557,814	511,850
Cost of sales . . . . .	(380,141)	(469,178)	(423,107)
<b>Gross profit</b> . . . . .	<b>168,730</b>	<b>88,636</b>	<b>88,743</b>
Selling and marketing costs . . . . .	(1,374)	(1,281)	(1,263)
Administrative expenses . . . . .	(42,431)	(26,361)	(21,601)
Other gains—net . . . . .	2,700	15,776	1,684
<b>Operating profit</b> . . . . .	<b>127,625</b>	<b>76,770</b>	<b>67,563</b>
Finance income . . . . .	6,021	7,597	4,584
Finance costs . . . . .	(29,188)	(16,561)	(53,431)
Finance costs—net . . . . .	(23,167)	(8,964)	(48,847)
Share of profit of joint ventures . . . . .	—	4,885	4,366
<b>Profit before income tax</b> . . . . .	<b>104,458</b>	<b>72,691</b>	<b>23,082</b>
Income tax expense . . . . .	(26,376)	(14,078)	(5,764)
<b>Profit for the year</b> . . . . .	<b>78,082</b>	<b>58,613</b>	<b>17,318</b>
<b>Attributable to:</b>			
Equity holders of the Company . . . . .	78,498	58,765	17,318
Minority interest . . . . .	(416)	(152)	—
	<b>78,082</b>	<b>58,613</b>	<b>17,318</b>

## SELECTED CONSOLIDATED BALANCE SHEET DATA

	As at 31 December		
	2007	2006 (Restated)	2005 (Restated)
	(USD in thousands)		
<b>Assets</b>			
Non-current assets . . . . .	623,172	519,376	441,182
Current assets . . . . .	154,831	178,358	140,493
<b>Total Assets . . . . .</b>	<b>778,003</b>	<b>697,734</b>	<b>581,675</b>
<b>Equity and Liabilities</b>			
Capital and reserves . . . . .	222,658	209,433	155,653
Minority interest . . . . .	—	702	—
<b>Total equity . . . . .</b>	<b>222,658</b>	<b>210,135</b>	<b>155,653</b>
Non-current liabilities . . . . .	325,028	283,941	268,737
Current liabilities . . . . .	230,317	203,658	157,285
<b>Total liabilities . . . . .</b>	<b>555,345</b>	<b>487,599</b>	<b>426,022</b>
<b>Total equity and liabilities . . . . .</b>	<b>778,003</b>	<b>697,734</b>	<b>581,675</b>

## ADDITIONAL (NON-GAAP) FINANCIAL INFORMATION

	Years ended 31 December		
	2007	2006	2005
	(USD in thousands)		
Adjusted Revenue <sup>(1)(5)</sup> . . . . .	352,792	276,215	230,820
EBITDA <sup>(2)(5)</sup> . . . . .	178,189	127,873	73,126
Adjusted EBITDA <sup>(3)(5)</sup> . . . . .	157,352	81,992	79,960
ROCE <sup>(4)(5)</sup> . . . . .	18.8%	10.3%	n/a

## OPERATING INFORMATION

	Years ended 31 December <sup>(6)</sup>		
	2007	2006	2005
Transportation volume (million tonnes) . . . . .	35.4	33.4	26.1
Average number of “loaded trips” per railcar <sup>(7)</sup> . . . . .	28.2	26.6	28.8
Average price per trip (USD) <sup>(8)</sup> . . . . .	616.8	518.5	575.7
Average rolling stock operated <sup>(9)</sup> . . . . .	20,303	20,019	13,914
Total rolling stock owned or leased under finance lease (at period end) . . . . .	17,425	14,319	11,420
“Empty run” ratio for gondola (open top) cars <sup>(10)</sup> . . . . .	21%	36%	39%

(1) Adjusted Revenue is defined as revenue from railway transportation—operators services less infrastructure and locomotive tariff: “loaded trips”

(2) EBITDA represents profit for the year before income tax expense, net finance costs (excluding net foreign exchange transaction gains/(losses) on financing activities) and depreciation of property, plant and equipment.

(3) Adjusted EBITDA represents EBITDA less gains from sale of joint ventures, gain from sale of subsidiaries, recognised deferred gains, net foreign exchange gains/(losses), other gains and share of profit of joint ventures.

(4) ROCE is defined as Adjusted EBITDA after depreciation of property, plant and equipment divided by the sum of average balances between balance sheet dates of total equity, total borrowings and minority interest.

(5) Adjusted Revenue, EBITDA, Adjusted EBITDA and ROCE are presented as supplemental measures of the Group’s operating performance, which the Group believes is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the freight rail transportation sector. All of these supplemental measures have limitations as analytical tools, and investors should not consider any one of them in isolation, or any combination of them together, as a substitute for analysis of the Group’s operating results as reported under EU IFRS.

Some of these limitations are as follows:

- EBITDA and Adjusted EBITDA do not reflect the impact of financing costs, which can be significant and could further increase if the Group incurs more borrowings, on the Group’s operating performance;

- EBITDA, Adjusted EBITDA and ROCE do not reflect the impact of income taxes on the Group's operating performance; and
- EBITDA and Adjusted EBITDA do not reflect the impact of depreciation and amortisation on the Group's performance. The assets of the Group's business which are being depreciated, depleted and/or amortised will need to be replaced in the future and such depreciation and amortisation expense may approximate the cost of replacing these assets in the future. By excluding this expense from EBITDA and Adjusted EBITDA, EBITDA and Adjusted EBITDA do not reflect the Group's future cash requirements for these replacements. EBITDA and Adjusted EBITDA also do not reflect the impact of loss on disposal of property, plant and equipment.

Other companies in the freight rail transportation sector may calculate Adjusted Revenue, EBITDA, Adjusted EBITDA or ROCE differently or may use each of them for different purposes than the Group, limiting their usefulness as a comparative measure.

The Group relies primarily on its EU IFRS operating results and uses Adjusted Revenue, EBITDA, Adjusted EBITDA and ROCE only supplementally. See the Consolidated Financial Statements included elsewhere in this Prospectus. EBITDA, Adjusted EBITDA and ROCE are not defined by, or presented in accordance with, EU IFRS. Adjusted Revenue, EBITDA, Adjusted EBITDA and ROCE are not measurements of the Group's operating performance under EU IFRS and should not be considered alternatives to revenue, profit, operating profit, net cash provided by operating activities or any other measure of performance under EU IFRS or alternatives to cash flow from operating activities or as measures of the Group's liquidity. In particular, EBITDA, Adjusted EBITDA and ROCE should not be considered as measures of discretionary cash available to the Group to invest in the growth of its business.

#### RECONCILIATION OF EBITDA AND ADJUSTED EBITDA TO PROFIT FOR THE YEAR

	Years ended 31 December		
	2007	2006	2005
	(USD in thousands)		
<b>Profit for the year</b> . . . . .	<b>78,082</b>	<b>58,613</b>	<b>17,318</b>
<i>Plus</i>			
Income tax expense . . . . .	26,376	14,078	5,764
Net finance costs (excluding net foreign exchange transaction gains/losses) on financing activities) . . . . .	41,304	34,184	35,963
Depreciation of property, plant and equipment . . . . .	32,427	20,998	14,081
<b>EBITDA</b> . . . . .	<b>178,189</b>	<b>127,873</b>	<b>73,126</b>
<i>Minus (Plus)</i>			
Gains from sale of joint venture . . . . .	—	15,470	181
Gains from sale of subsidiaries . . . . .	1,897	—	—
Recognised deferred gains . . . . .	185	388	372
Net foreign exchange transaction gains/(losses) . . . . .	17,710	24,984	(12,475)
Other gains . . . . .	1,045	154	722
Share of profit of joint ventures . . . . .	—	4,885	4,366
<b>Adjusted EBITDA</b> . . . . .	<b>157,352</b>	<b>81,992</b>	<b>79,960</b>

#### RECONCILIATION OF ADJUSTED REVENUE TO REVENUE

	Years ended 31 December		
	2007	2006	2005
	(USD in thousands)		
<b>Revenue from railway transportation—operators services</b> . . . . .	<b>525,231</b>	<b>528,766</b>	<b>424,536</b>
<i>Minus</i>			
Infrastructure and locomotive charges: "loaded trips" . . . . .	172,439	252,551	193,716
<b>Adjusted Revenue</b> . . . . .	<b>352,792</b>	<b>276,215</b>	<b>230,820</b>

- (6) Represents years ended 31 December 2007, 2006 and 2005, except for Total rolling stock owned or leased under finance lease (at period end), which is as at 31 December 2007, 2006 and 2005, respectively.
- (7) Average number of "loaded trips" per railcar is calculated as total number of "loaded trips" in the relevant year divided by average rolling stock operated.
- (8) Average price per trip (USD) is calculated as Adjusted Revenue divided by total number of loaded trips during the relevant period.
- (9) Average rolling stock operated is calculated as the average weighted (by days) number of railcars available for operator's services (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased out).
- (10) Empty run ratio is calculated as total empty trips in kilometres divided by total "loaded trips" in kilometres. Empty trips are only applicable to rolling stock operated (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased out).

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements included elsewhere in this Prospectus and "Selected Consolidated Financial and Operating Information".*

*In addition, the following discussion contains certain forward-looking statements that reflect the plans, estimates and beliefs of the Group. The actual results of the Group may differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Prospectus, including "Risk Factors".*

### OVERVIEW

The Group is Russia's largest privately owned freight rail operator, and the second largest freight rail operator in Russia by number of rolling stock operated after Russian Railways and its subsidiaries, including Freight One. The Group provides freight rail transport and logistics services, as well as certain ancillary services to large industrial customers and medium-size corporate customers in Russia and carries customers' cargoes to destinations within Russia and to Ukraine.

The Group's key customers include member companies of a number of large Russian industrial groups active in the metals and mining, oil and oil products, and other major sectors of the Russian economy, including Evraz, Lukoil, MMK, RITEK, Rosneft, Severstal and Ural Steel, as well as their affiliates and suppliers.

The Group's modern rolling stock fleet comprises several types of railcars, including gondola (open top) cars, oil tank cars, hopper cars, flat cars and locomotives. As at 31 December 2007, the Group's rolling stock fleet under operation totalled 21,310 cars and 19 locomotives. As at 31 December 2007, approximately 82 per cent. of the Group's rolling stock was either owned or leased from third parties under finance leases, with the remainder leased from third parties under operating leases. The average age of the rolling stock owned by the Group or leased by the Group under finance leases as at 31 December 2007 was approximately 3.1 years.

The Group's business model is based on (a) an extensive modern rolling stock fleet, consisting of several types of railcars, which enables it to cater to the high-volume transportation requirements of its key industrial customers, (b) a strong customer focus and sophisticated logistics know-how, enabling it to provide complex rail transportation and logistics solutions tailored to the needs of its customers, and (c) utilisation of advanced destination management and route optimisation, which reduces "empty runs" of the rolling stock and maximises the efficient commercial utilisation of the Group's rolling stock. See "Business—Destination Management and Route Optimisation". The application of this business model has enabled the Group to acquire in a short period of time significant market shares in transportation of such higher-priced cargoes as ferrous metals, scrap metal and oil and oil products. According to A.T. Kearney, in the year ended 31 December 2007, the Group transported approximately 27 per cent. of the total volume of ferrous metals, 22 per cent. of the total volume of scrap metal, 7 per cent. of the total volume of iron ore, 7 per cent. of the total volume of oil and oil products and 4 per cent. of the total volume of coal carried in Russia by private freight rail operators.

### BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements were prepared in accordance with EU IFRS.

The Consolidated Financial Statements consist of the consolidated financial statements of the Group, which comprises the Company and all its subsidiaries, and include the historic assets, liabilities, revenues and expenses that were directly related to these entities during the relevant financial period. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Business combinations involving entities under common control (ultimately controlled by the same party, before and after the business combination, where such control is not transitory) are accounted for using the predecessor basis of accounting. The equity method of accounting is applied to joint ventures. The consolidated subsidiaries of the Company for each of the years ended 31 December 2007, 2006 and 2005 include New Forwarding Company and Sevtekhnotrans, companies organised and existing under Russian law. See "Business—History, Development and Group Structure". Although Sevtekhnotrans was only acquired by the Company in 2007, its acquisition by the Company was from entities under common control with the Company. In accordance with the Group's accounting policies, Sevtekhnotrans has been treated as a consolidated

subsidiary for each of the years ended 31 December 2007, 2006 and 2005. In connection with the acquisition of Sevtekhnotrans, the Group recorded a common control transaction reserves of USD (95,620) thousand, 44,380 thousand and 44,380 thousand on its balance sheet as at 31 December 2007, 2006, and 2005, respectively, which represented the negative or positive difference between the aggregate net asset value of Sevtekhnotrans at the time of the acquisition and the acquisition price. The Company's consolidated financial statements as at and for the years ended 31 December 2006 and 2005 have been restated to reflect the acquisition of, and consolidation of, Sevtekhnotrans.

The Consolidated Financial Statements as at and for the year ended 31 December 2005 also include the Company's 50 per cent. interest in Neteller Holdings Limited (*Neteller*), a Cyprus holding company and the sole shareholder of Transgarant, a Russian company engaged in rail transportation. The Company sold its 50 per cent. interest in Neteller to its joint venture partner, Transwagonleasing Limited, in September 2006 (the *Neteller Sale*). The Company applied the equity method of accounting to account for its interests in Transgarant and Neteller during those periods in which the Company held such interests.

## KEY FACTORS AFFECTING THE GROUP'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Group's financial results have been affected, and may be affected in the future, by a variety of factors, including those set forth below. See also the notes to the Consolidated Financial Statements for additional information concerning these factors.

### Macroeconomic factors

The Group's results have been, and future results are likely to be, affected by the macroeconomic climate in Russia. The following table sets forth certain information relating to the Russian economy for the period under review.

	Years ended 31 December		
	2007	2006	2005
Russian GDP (USD billion) . . . . .	1,288	989	764
Gross fixed investment (USD billion) . . . . .	257	176	136

Source: Global Insight

During this period, the Russian economy has experienced strong growth in its gross domestic product, which has contributed to the demand in the freight rail transportation market, particularly in the ferrous metals, scrap metal, iron ore, construction, oil and oil products, and coal cargo segments. According to Rosstat, the total Russian freight rail turnover grew from 1,373 billion tonne-kilometres in 2000 to 1,951 billion tonne-kilometres in 2006. Also according to Rosstat, the share of rail in total transportation turnover grew from approximately 39.5 per cent. in 2000 to approximately 42.4 per cent. in 2006. The Group believes that this growth in the freight rail transportation sector has contributed to the growth in domestic demand for the Group's services, positively affecting its pricing, revenue and operating profit. Specifically, the increased domestic demand for, and production of, ferrous metals in Russia and increased demand for transportation services in the ferrous metals and scrap metal segments, produced a significant change in the Group's route network which had a significant positive impact on the Group's revenue and profitability. See "—Changes in the Group's core business—Changes in the Group's route network, logistical patterns and client base" below.

### Russian Railways' tariff and other pricing conditions in the Russian rail transportation market

#### General

A key factor affecting the Group's financial results is the existing pricing conditions in the Russian rail transportation market. Presently, Russian Railways is the sole operator of the Russian railway network, with the legal status of a regulated natural monopoly. It also remains the largest provider of freight rail transportation as well as related services, by number of rolling stock operated. Tariffs charged by Russian Railways are fixed by regulation, with annual revision to take account of inflation and other factors. Although the prices charged by the Group as a privately owned freight rail transportation services provider are not regulated, the Group is subject to the regulated tariff for the use of Russian Railways' infrastructure and locomotive services. Also, for most cargo segments (but with certain exceptions, notably oil and oil products and cement) regulated tariffs charged by Russian Railways often serve as an effective benchmark for unregulated prices charged by privately owned freight rail transportation services providers such as the Group. See "Risk Factors—The Group's business is heavily dependent on services provided by

Russian Railways and the ageing railway infrastructure operated by it”, “Business—Pricing” and “Regulation of Railway Transportation in Russia”.

### ***Russian Railways tariff increases***

According to A.T. Kearney, over the period under review, Russian Railways’ regulated tariff grew at a rate, which exceeded that of inflation. This growth has allowed the Group to increase its rail transportation service prices, which has positively affected the Group’s revenue in the period under review. This positive effect has been offset in part by a corresponding increase in the Group’s cost of sales. Increases in the Russian Railways tariff also contributed to the 18.7 per cent. increase in average price per trip in the year ended 31 December 2007 compared to the year ended 31 December 2006.

### **Types of customer contracts**

Over the period under review, the Group principally derived revenue from providing freight rail transportation services through operating its rolling stock fleet (operators services). The Group also derived revenue from freight forwarding services, leasing of rolling stock and sales of rolling stock. In its freight rail transportation business, the Group’s revenue and cost of sales, as reported under EU IFRS, are impacted by the type of contract entered into by its customers. The Group generally offers its customers two types of contracts: (a) a “lump sum” contract pursuant to which the customer is charged a single price for the Group’s services, the infrastructure and locomotive charges payable to Russian Railways are borne by the Group and the customer has no interaction with Russian Railways, and (b) a “railcar charge only” contract pursuant to which the customer pays only the railcar charge to the Group, and the infrastructure and locomotive charges for the “loaded trip” are payable by the customer to Russian Railways directly. As a result, the Group’s revenue, cost of sales and gross margins can be significantly impacted by the type of contract entered into by new customers and changes in the mix of such contracts with existing customers. In particular, whilst an increase in the proportion of “lump sum” contracts is likely to increase the Group’s revenue derived from such contracts, it will also increase the cost of sales associated with other such contracts, as the relevant infrastructure and locomotive charges will be borne by the Group. Due to these factors, and also because the Group’s total revenue includes revenue derived from freight forwarding and leasing operations and sales of rolling stock to third parties, which the Group does not consider core businesses, and in order to assist investors in understanding the underlying trends in its core freight rail transportation business, the Group has elected to present Adjusted Revenue for its freight rail transportation business. Adjusted Revenue is defined as revenue from railway transportation—operators services less infrastructure and locomotive charges for “loaded trips”. Accordingly, the discussion of the Group’s results of operations below includes a discussion of trends in Adjusted Revenue.

The table below sets forth the calculation of Adjusted Revenue for the years ended 31 December 2007, 2006 and 2005.

	Years ended 31 December		
	2007	2006	2005
	(USD in thousands)		
Revenue from railway transportation—operators services . . . .	525,231	528,766	424,536
<i>Minus</i>			
Infrastructure and locomotive charges: “loaded trips” . . . . .	172,439	252,551	193,716
Adjusted Revenue . . . . .	<u>352,792</u>	<u>276,215</u>	<u>230,820</u>

### **Changes in the Group’s core business**

#### ***Changes in the Group’s route network, logistical patterns and client base***

Prior to 2006, the geography of the Group’s operations was characterised by the then prevailing export-driven demand for transportation to Russian Far-East seaports (for export to China) and seaports in the Black Sea, resulting in long average journeys for the Group’s rolling stock to its destinations, with relatively few opportunities for loaded return journeys. The increase in domestic demand for ferrous metal products in the years ended 31 December 2007 and 2006, strongly supported by the building of customer relationships with key industrial groups active in the Russian metals and mining sector, led to higher demand for the Group’s services in transportation of ferrous metals to multiple domestic destinations within Russia. Supported by an increase in rolling stock operated, this led to a significant increase in the Group’s transportation volumes and resulted in a change in the Group’s route network from a relatively

simple one oriented mainly towards relatively few export destinations to a more complex one with multiple domestic destinations across Russia. The change in the route network resulted in a decrease in average distance of “loaded trip” travelled by the Group’s rolling stock, which was a significant factor influencing the 9.8 per cent. decrease in average price per trip from USD 575.7 in the year ended 31 December 2005 to USD 518.5 in the year ended 31 December 2006. This network transition period as well as significant expansion of rolling stock under operation impacted the effectiveness of usage of the Group’s rolling stock resulting in a 7.6 per cent. decrease in the average number of “loaded trips” per railcar in the year ended 31 December 2006 compared to the year ended 31 December 2005. In particular, the newer rolling stock in operation in the year ended 31 December 2006 compared with the year ended 31 December 2005 could not be fully utilised immediately upon acquisition due to the significant time required to deliver the new rolling stock to the first place of its commercial utilisation. Despite these decreases in average price per trip and average number of loaded trips per railcar, the Group’s Adjusted Revenue increased in the year ended 31 December 2006 by 19.7 per cent. compared with the year ended 31 December 2005, reflecting the significant increase in demand for the Group’s rail transportation services and the related increase in the Group’s transportation volumes from 26.1 million tonnes in the year ended 31 December 2005 to 33.4 million tonnes in the year ended 31 December 2006. The decreases, however, did result in a decline in gross margin in the year ended 31 December 2006 compared to the year ended 31 December 2005.

In the year ended 31 December 2007, when the Group completed its transition to the new route network and was able to adapt its destination management and route optimisation capabilities to the new geography of its operations, the average number of “loaded trips” per railcar increased by 5.6 per cent. compared with the year ended 31 December 2006 and its “empty run” ratio for gondola (open top) cars declined substantially from 36 per cent. in the year ended 31 December 2006 to 21 per cent. in the year ended 31 December 2007. See “—Reduction of “empty runs” of gondola (open top) cars”. These improvements, together with an increase in average price per trip, resulted in a significant improvement in Group profitability in the year ended 31 December 2007 compared with the year ended 31 December 2006.

The table below sets forth the transport volume, annual average price per trip and average number of “loaded trips” per railcar for the years ended 31 December 2007, 2006 and 2005.

	Years ended 31 December		
	2007	2006	2005
Transport volume (million tonnes) . . . . .	35.4	33.4	26.1
Average price per trip (USD) . . . . .	616.8	518.5	575.7
Average number of “loaded trips” per railcar . . . . .	28.2	26.6	28.8

***Expansion of fleet***

The Group significantly expanded its fleet during the period under review, supporting the overall increase in the Group’s business and growth in its Adjusted Revenue. The Group has been focusing in particular on expanding its fleet of gondola (open top) cars, which are used to carry such higher-priced cargoes targeted by the Group such as ferrous metals and scrap metal, and are also used to carry ores, crushed stone and coal on return journeys. See “—Focus on higher revenue generating cargoes”.

The table below shows the size of the Group's railcar and locomotive fleet as at 31 December 2007, 2006 and 2005, respectively.

	As at 31 December		
	2007	2006	2005
<b>Owned<sup>(1)</sup></b>			
Gondola (open top) cars . . . . .	11,668	10,349	8,650
Oil tank cars . . . . .	5,337	3,853	2,653
Hopper cars . . . . .	402	100	100
Locomotives . . . . .	18	17	17
<b>Total owned . . . . .</b>	<b>17,425</b>	<b>14,319</b>	<b>11,420</b>
<b>Leased:</b>			
Gondola (open top) cars . . . . .	2,713	5,428	2,109
Oil tank cars . . . . .	1,152	1,697	3,015
Flat cars . . . . .	38	0	819
Locomotives . . . . .	1	2	2
<b>Total leased . . . . .</b>	<b>3,904</b>	<b>7,127</b>	<b>5,945</b>
<b>Total owned and leased . . . . .</b>	<b>21,329</b>	<b>21,446</b>	<b>17,365</b>

(1) Includes rolling stock owned by the Group and leased from third parties under finance leases.

The table below shows the average number of rolling stock operated for the years ended 31 December 2007, 2006 and 2005.

	Years ended 31 December		
	2007	2006	2005
Average rolling stock operated <sup>(1)</sup> . . . . .	20,303	20,019	13,914

(1) Average rolling stock operated is calculated as the average weighted (by days) number of railcars available for operators services (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased out).

The significant growth in the Group's fleet, particularly in the year ended 31 December 2006 compared with the year ended 31 December 2005, supported the expansion of the Group's business and drove the increases in the Group's Adjusted Revenue, even in the year ended 31 December 2006 when the Group was still in the process of transition and adjustment to its new route network. At the same time, the expansion of the Group's fleet also increased its capital expenditures and operating costs.

***Focus on higher revenue generating cargoes***

The existing pricing conditions in the Russian freight rail transportation market reflect different regulated tariff rates for three main cargo classes, with cargo Class 3 (including ferrous metals and scrap metal) attracting the highest tariff and cargo Class 1 (including iron ore and coal) the lowest. The Group has been concentrating on expanding its operations with respect to cargo Class 3 (such as ferrous metals and scrap metal) and on selected higher price cargoes within Class 1 and Class 2 (such as oil and oil products and cement) where demand has exceeded supply, driving market pricing and allowing the unregulated prices charged by private operators to exceed the regulated tariff rates for these cargo classes. The Group has focused on these higher price cargoes because the Group believes it can achieve higher margins on them. The Group's focus on higher price cargoes has positively affected the Group's Adjusted Revenue during the period under review. See also "Business—Pricing—Transportation services pricing".

***Reduction of "empty runs" of gondola (open top) cars***

Under the pricing conditions prevailing in the Russian rail market during the period under review, and as at the date of this Prospectus, the rail transportation services price for the Group's key cargoes transported by gondola (open top) cars for a one-way journey of cargo to a given destination incorporated a charge for the cost of an assumed empty return journey of the rolling stock for a significant portion of the distance between the destination and the point of origin. See "Business—Destination Management and Route Optimisation" and "Business—Pricing—Transportation services pricing". The Group has generally been



able to pass this charge on to the customer as part of the overall price. However, if the “empty run” on the return journey exceeded such covered portion, this adversely affected the profitability of the entire journey. The ability of the Group to find paying customers with cargo shipments originating in or nearby the relevant destinations, thus enhancing the commercial utilisation of the Group’s rolling stock and the benefit of the “assumed return journey” charge, as well as avoiding costly “empty runs”, is a key factor positively affecting the Group’s Adjusted Revenue over the period under review and its profitability. While the Group’s focus is on transporting higher revenue generating cargoes, in order to optimise the “empty run” ratio the Group sometimes carries low priced cargoes. The transition of the Group in the year ended 31 December 2006 to a new route network involving multiple domestic destinations provided the Group with better opportunities to capitalise on its destination management and route optimisation techniques, resulting in a significant decrease in the “empty run” ratio for gondola (open top) cars (calculated as total empty trips in kilometres divided by total “loaded trips” in kilometres), as well as in a significant increase in the average number of loaded trips, in each case in the year ended 31 December 2007 compared with the year ended 31 December 2006.

The table below sets forth the annual “empty run” ratio for the Group’s gondola (open top) cars for the years ended 31 December 2007, 2006 and 2005.

	Years ended 31 December		
	2007	2006	2005
		(per cent.)	
“Empty run” ratio for gondola (open top) cars . . . . .	21	36	39

See also “—Changes in the Group’s route network, logistical patterns and client base” and “Business—Destination Management and Route Optimisation”.

**Other factors affecting the Group’s financial results**

*Foreign currency fluctuations*

The Consolidated Financial Statements are presented in US Dollars, which the Group’s management believes to be the most useful for users of the financial statements. The functional currency of the Group’s companies is the Rouble. The balance sheets of the Group’s companies are translated into US Dollars, using the official exchange rate of the Central Bank of the Russian Federation, in accordance with IAS 21, whereby assets and liabilities are translated into US Dollars at the rate of exchange prevailing at the balance sheet date and income and expense items are translated into US Dollars at the average annual exchange rate which approximates the exchange rate existing at the date of the transaction. All resulting foreign currency exchange rate differences are recognised directly in the Group’s shareholders’ equity as “Translation reserve”.

The average US Dollar/Rouble exchange rate for the year 2007 decreased by approximately 5.9 per cent. as compared to the average for the year 2006. The average US Dollar/Rouble exchange rate for the year 2006 decreased by approximately 4.3 per cent. as compared to the average rate for the year 2005. Because the Company reports its financial statements in US Dollars, these changes had a material impact on its reported revenues and costs. See “Exchange Rate Information”.

The monetary assets and liabilities of the Group that are denominated in US Dollars are initially recorded by the Group in Roubles at the exchange rate between the Rouble and the US Dollar prevailing at the relevant date. Such monetary assets and liabilities are then retranslated at the exchange rate prevailing at each subsequent balance sheet date. The Group recognises the resulting exchange rate difference between the date such assets or liabilities were originally recorded and such subsequent balance sheet date as foreign exchange losses or gains in the Group’s consolidated income statement.

During the period under review, a significant portion of the Group’s non-current borrowings was US Dollar denominated. During the years ended 31 December 2006 and 2007, because of depreciation of the US Dollar against the Rouble, the Group recognised significant foreign exchange gains in connection with this US Dollar denominated debt financing of its Russian operating companies, resulting in a significant decrease in its finance costs compared with the year ended 31 December 2005.

The Group expects that the majority of its non-current borrowings will continue to be US Dollar denominated, as the Group believes that interest rates for US-denominated non-current borrowings will continue to be more commercially attractive than those for Rouble-denominated non-current borrowings. The Group does not hedge its exposure to foreign currency fluctuations. Accordingly, any future

appreciation of the US Dollar against the Rouble could decrease the Group's US Dollar results, both because of translation effect as well as the recognition of foreign exchange losses on its US Dollar denominated borrowings.

#### ***Resales of rolling stock to related parties and third parties***

In the years ended 31 December 2007, 2006 and 2005, the Group purchased rolling stock for resale to certain related parties, OOO Baltransservis (*Baltransservis*), OOO Transoil (*Transoil*) and OOO Firma Transgarant (*Transgarant*), and to third parties (the *Exceptional Rolling Stock Sales*). In each of these years, the Group took advantage of its strong purchasing power with rolling stock manufacturers to purchase and resell rolling stock in excess of the Group's then current needs. The gain realised from these rolling stock sales was a significant exceptional factor positively affecting the Group's revenue and operating profit in the years ended 31 December 2006 and 2005. In the future, the Group does not expect to engage in any significant resales of rolling stock on an ongoing basis, although it may consider engaging in such resales on an opportunistic basis from time to time.

#### ***Neteller Sale***

In September 2006, the Group realised a gain of USD 15,470 thousand from the Neteller Sale. This gain made a significant one-off contribution to operating profit for the year ended 31 December 2006.

### **RECENT DEVELOPMENTS**

Since 31 December 2007, the Group has continued to perform in line with management's expectations, and management believes that the financial and performance outlook for the remainder of the year is also in line with its expectations.

Since 31 December, the Group has:

- taken delivery of 121 gondola (open top) cars purchased in 2007;
- agreed to purchase 1,400 additional gondola (open top) cars of which it has received 165;
- under the terms of a financial lease, received 257 hopper cars;
- purchased a renewed locomotive to be delivered in June 2008; and
- terminated a finance lease it had provided to Transoil, a related party.

In addition, in March 2008 the Company declared and has subsequently paid an interim dividend for the year ended 31 December 2008 totalling USD 8.9 million.

### **RESULTS OF OPERATIONS**

#### **Description of Income Statement Line Items**

The following discussion provides a description of the composition of the principal line items on the Group's income statement for the periods presented.

#### ***Revenue and Adjusted Revenue***

To date, the Group has derived its revenue from freight rail transportation—operators services provided by the Group as well as from freight forwarding, leasing of rolling stock and resale of rolling stock and other revenue from resales of rolling stock included the revenue from the Exceptional Rolling Stock Sales in the years ended 31 December 2006 and 2005. Where referred to in the following discussion, Adjusted Revenue means revenue from railway transportation—operators services, less infrastructure and locomotive charges for "loaded trips".

#### ***Cost of sales***

Cost of sales comprises costs related to the provision of railway transportation services to customers. The majority of the cost of sales can be attributed to tariffs for infrastructure and locomotive services provided by Russian Railways for both outbound "loaded trips" and return "empty runs". Infrastructure and locomotive tariffs for "loaded trips" are charged by Russian Railways to the Group for customers having "lump sum" contracts with the Group. See "—Key Factors Affecting the Group's Financial Condition and Results—Types of customer contracts". Operating lease costs for rolling stock, repair and maintenance of

rolling stock and depreciation of rolling stock are the other significant costs included within cost of sales. Employee costs associated with rail transportation, freight forwarding and leasing operations and sales of rolling stock are also items included in cost of sales. In addition, cost of sales also includes cost of railcars and locomotives that are not part of property, plant and equipment sold in trading transactions (which represents, principally, the expense of purchasing the rolling stock associated with Exceptional Rolling Stock Sales).

#### ***Gross profit and gross margin***

Gross profit comprises revenue less cost of sales. Gross margin is gross profit divided by revenue.

#### ***Selling, marketing and administrative expenses***

Selling and marketing expenses include advertising and marketing expenses, selling expenses and employee costs. Administrative expenses primarily include employee salaries and incentives, office rent, communication and information services costs, taxes other than income, impairment charges for receivables and other expenses. Employee costs are recognised as selling, marketing and administrative expenses to the extent they are associated with selling and marketing activities of the Group.

#### ***Other gains—net***

Other gains—net include gain from sale of subsidiaries, gain from sale of joint venture, other gains, recognised deferred gains and net foreign exchange (losses)/gains.

#### ***Operating profit***

Operating profit is gross profit less selling, marketing and administrative expenses, plus other gains—net.

#### ***Finance income***

Finance income primarily consists of interest earned on: (a) finance leases to third and related parties; and (b) bank balances.

#### ***Finance costs***

Finance costs primarily consist of interest incurred on the Group's borrowings (including bank borrowings, finance leases and loans from related parties) and net foreign exchange transaction gains/(losses) on financing activities.

#### ***Share of profit of joint ventures***

Share of profit of joint ventures is the amount of profit the Group recognised as a result of its 50 per cent. interest in Neteller.

#### ***Profit before income tax***

Profit before income tax is operating profit less finance costs—net, plus share of profit of joint ventures.

#### ***Income tax expense***

Income taxes are calculated based on the tax legislation applicable to the respective countries of residence of the Company and each member of the Group, as the case may be. The Company is based and organised in Cyprus, while all of its subsidiaries are based and organised in Russia. The Company is currently subject to a statutory income tax rate of 10 per cent. in Cyprus, and its Russian subsidiaries are subject to a statutory income tax rate of 24 per cent. in Russia. For more information regarding the Group's income taxes, see "Risk Factors—Risks Relating to Taxation" and Note 10 to the Consolidated Financial Statements.

#### ***Profit for the year***

Profit for the year is profit before income tax less income tax expense.

## Results of Operations for the Years Ended 31 December 2007 and 2006

The following table sets forth the principle components of the Group's consolidated income statement for the years ended 31 December 2007 and 2006.

	Years ended 31 December	
	2007	2006 (Restated)
	(USD in thousands)	
Revenue . . . . .	548,871	557,814
Cost of sales . . . . .	(380,141)	(469,178)
<b>Gross profit . . . . .</b>	<b>168,730</b>	<b>88,636</b>
Selling, marketing and administrative expenses . . . . .	(43,805)	(27,642)
Other gains—net . . . . .	2,700	15,776
<b>Operating profit . . . . .</b>	<b>127,625</b>	<b>76,770</b>
Finance income . . . . .	6,021	7,597
Finance costs . . . . .	(29,188)	(16,561)
Finance costs—net . . . . .	(23,167)	(8,964)
Share of profit of joint ventures . . . . .	—	4,885
<b>Profit before income tax . . . . .</b>	<b>104,458</b>	<b>72,691</b>
Income tax expense . . . . .	(26,376)	(14,078)
<b>Profit for the year . . . . .</b>	<b>78,082</b>	<b>58,613</b>
<b>Attributable to:</b>		
Equity holders of the Company . . . . .	78,498	58,765
Minority interest . . . . .	(416)	(152)
	<b>78,082</b>	<b>58,613</b>

See also “—Key Factors Affecting the Group's Financial Condition and Results of Operations.”

### Revenue and Adjusted Revenue

The following table sets forth revenue, broken down by area of revenue-generating activity, and Adjusted Revenue of the Group for the years ended 31 December 2007 and 2006.

	Years ended 31 December	
	2007	2006 (Restated)
	(USD in thousands)	
Railway transportation—operators services:		
Adjusted Revenue . . . . .	352,792	276,215
Infrastructure and locomotive tariffs: “loaded trips” . . . . .	172,439	252,551
Total railway transportation—operators services . . . . .	525,231	528,766
Railway transportation—freight forwarding . . . . .	613	2,683
Operating leasing of rolling stock . . . . .	20,540	17,081
Sale of wagons and locomotives . . . . .	470	8,054
Other . . . . .	2,017	1,230
<b>Total . . . . .</b>	<b>548,871</b>	<b>557,814</b>

Revenue decreased by USD 8,943 thousand, or 1.6 per cent., from USD 557,814 thousand in the year ended 31 December 2006 to USD 548,871 thousand in the year ended 31 December 2007. This decrease was primarily due to the decrease in the share of customer “lump sum” contracts, resulting in a decrease in the infrastructure and locomotive tariffs for “loaded trips” reflected in the Company's revenues. See “—Key Factors Affecting the Group's Financial Condition and Results of Operations—Types of customer contracts”. In addition, Exceptional Rolling Stock Sales contributed USD 8,054 thousand in revenue for the year ended 31 December 2006, which was not repeated to this extent in 2007. The Group also substantially decreased its freight forwarding services in the year ended 31 December 2007, as the Group

gained substantial in-house expertise in freight rail transportation services to its customers. This decrease was partially offset by a USD 3,459 thousand or 20.3 per cent. increase in revenue from operating leasing of rolling stock in the year ended 31 December 2007 compared with the year ended 31 December 2006.

Adjusted Revenue increased by USD 76,577 thousand, or 27.7 per cent. from USD 276,215 thousand in the year ended 31 December 2006 to USD 352,792 thousand in the year ended 31 December 2007. This increase in Adjusted Revenue reflected both an increase of approximately 6.0 per cent. in transportation volumes as well as an increase of approximately 19.0 per cent. in average price per trip. The increase in transportation volumes reflected increased demand for the Group's services while the increase in average price per trip was driven by overall market price increases for freight rail transportation, as well as a shift in the Group's cargo portfolio towards higher-priced cargoes.

### *Cost of sales*

The following table sets forth a breakdown of cost of sales for the years ended 31 December 2007 and 2006.

	Years ended 31 December	
	2007	2006 (Restated)
	(USD in thousands)	
Infrastructure and locomotive tariffs:		
“Loaded trips” . . . . .	172,439	252,551
“Empty run” trips and services provided by other transportation organisations . . . . .	98,462	119,336
Total infrastructure and locomotive tariffs . . . . .	270,901	371,887
Depreciation of property, plant and equipment . . . . .	31,579	20,769
Operating lease rentals—rolling stock . . . . .	38,382	52,595
Repairs and maintenance . . . . .	31,693	13,784
Employee benefit expense . . . . .	4,241	3,450
Loss/(gain) on sale of property, plant and equipment . . . . .	26	26
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment) . . . . .	403	6,667
Other expenses . . . . .	2,916	—
<b>Total</b> . . . . .	<b>380,141</b>	<b>469,178</b>

Cost of sales decreased by USD 89,037 thousand, or 19.0 per cent., from USD 469,178 thousand in the year ended 31 December 2006 to USD 380,141 thousand in the year ended 31 December 2007. Cost of sales in each period included infrastructure and locomotive charges for “loaded trips” related to customer’s “lump sum” contracts and paid to Russian Railways by the Group. See “—Key Factors Affecting the Group’s Financial Condition and Results of Operations—Types of customer contracts”. Cost of sales also included cost of goods sold including the expense of purchasing the rolling stock associated with the Exceptional Rolling Stock Sales. Excluding these amounts, cost of sales remained broadly stable at USD 207,299 thousand for the year ended 31 December 2007 compared to USD 209,960 thousand for the year ended 31 December 2006, a 1.3 per cent. decrease, despite the increase in transportation volumes resulting in the increase of Adjusted Revenue as discussed above. First of all, it was due to the fact that the tariff paid to Russian Railways for “empty run” trips remained broadly stable at USD 82,476 thousand in the year 2007 compared to USD 83,064 thousand in the year 2006 due to the decrease in the “empty run” ratio reflecting the effective and continuous utilisation by the Group of its destination management and route optimisation capabilities. The total cost for services provided by other transportation organisations decreased significantly due to a decrease in the Group’s demand for such services as a result of the increase in the Group’s rolling stock and the improved effectiveness of the Group’s operations. This decrease in the cost of sales was supported by a 27.0 per cent decrease in operating lease costs, resulting from the decision to reduce the Group’s reliance on leased rolling stock and increase its owned rolling stock and rolling stock on finance leases. These decreases were partially offset by a 129.9 per cent. increase in repair and maintenance of rolling stock as a significant portion of the Group’s rolling stock entered the first year of scheduled maintenance and market rates charged by railcar repair and maintenance service providers increased, and a 52.0 per cent. increase in depreciation of property, plant and equipment, resulting primarily from the increase in the Group’s owned rolling stock and rolling stock on finance leases in the year ended 31 December 2007 compared with the year ended 31 December 2006.

### ***Gross profit***

Gross profit increased by USD 80,094 thousand, or 90.4 per cent., from USD 88,636 thousand in 2006 to USD 168,730 thousand in 2007. This increase reflected the significant growth of the Group's business as well as the improved profitability of the Group's rail transportation business resulting from the improved utilisation of its destination management and route optimisation capabilities. This was evidenced by a significant decrease in the "empty run" ratio from 36 per cent. in the year ended 31 December 2006 to 21 per cent. in the year ended 31 December 2007, and a significant increase in average price per trip from USD 518.5 in the year ended 31 December 2006 to USD 616.8 in the year ended 31 December 2007.

### ***Selling, marketing and administrative expenses***

Selling, marketing and administrative expenses increased by USD 16,163 thousand, or 58.5 per cent., to USD 43,805 thousand for the year ended 31 December 2007 from USD 27,642 thousand for the year ended 31 December 2006, reflecting an increase in employee headcount, introduction of a performance based bonus system, an increase in compensation paid to the existing employees and an increase in the office space rented. The increase in selling, marketing and administrative expenses was also contributed to by an increase in taxes (other than income tax and value added taxes) reflecting increases in property tax resulting from the increase in the Group's average rolling stock in 2007 and withholding taxes paid by the Group in connection with dividends paid by the Group's operating subsidiaries to the Company in the year ended 31 December 2007 to fund a dividend to the Company's shareholders.

### ***Other gains—net***

Other gains—net decreased by USD 13,076 thousand, from USD 15,776 thousand in the year ended 31 December 2006 to USD 2,700 thousand in the year ended 31 December 2007. The significant decrease reflected the large exceptional gain from the Neteller Sale in the year ended 31 December 2006.

### ***Operating profit***

The Group's operating profit increased by USD 50,855 thousand, or 66.2 per cent., from USD 76,770 thousand in the year ended 31 December 2006 to USD 127,625 thousand in the year ended 31 December 2007. This increase was due to the increase in gross profit which was partially offset by the increase in selling, marketing and administrative expenses and the decrease in other gains—net as discussed above.

### ***EBITDA and Adjusted EBITDA***

EBITDA represents profit for the year before income tax expense, net finance costs (excluding net foreign exchange transaction gains/(losses) on financing activities) and depreciation of property, plant and equipment. Adjusted EBITDA represents EBITDA less gain from sale of joint ventures, gain from sale of subsidiaries, recognised deferred gains, net foreign exchange gains/(losses), other gains and share of profit of joint ventures.

EBITDA increased by USD 50,316 thousand, or 39.3 per cent., from USD 127,873 thousand in the year ended 31 December 2006 to USD 178,189 thousand in the year ended 31 December 2007. EBITDA in both periods included net foreign exchange gains associated with the Group's US Dollar denominated borrowings (see "—Key Factors Affecting the Group's Financial Condition and Results of Operations—Other factors affecting the Group's financial results—Foreign currency fluctuations") and certain exceptional gains (including those realised from the Neteller Sale and the Exceptional Rolling Stock Sales in 2006). Adjusted EBITDA (which excludes the net foreign exchange gains associated with the Group's US Dollar denominated borrowings and the exceptional gain from the Neteller Sale) increased by USD 75,360 thousand, or 91.9 per cent., from USD 81,992 thousand in the year ended 31 December 2006 to USD 157,352 thousand in the year ended 31 December 2007. The increase in Adjusted EBITDA in the year ended 31 December 2007 compared with the year ended 31 December 2006 principally reflected the significant improvement in operating profit discussed above.

### ***Finance income***

Finance income decreased by USD 1,576 thousand or 20.7 per cent., from USD 7,597 thousand in the year ended 31 December 2006 to USD 6,021 thousand in the year ended 31 December 2007. This decrease was primarily due to decreases in interest income received from finance leases to third parties.

### *Finance costs*

The following table sets forth a breakdown of finance costs for the years ended 31 December 2007 and 2006.

	Years ended 31 December	
	2007	2006 (Restated)
	(USD in thousands)	
Interest expense:		
Bank borrowings . . . . .	(15,227)	(13,079)
Finance leases . . . . .	(26,146)	(22,708)
Loans from:		
Related parties . . . . .	(5,541)	(5,823)
Third parties . . . . .	—	(12)
Other . . . . .	(411)	(159)
Total interest expense . . . . .	(47,325)	(41,781)
Net foreign exchange transaction gains/(losses) on financing activities . . . . .	18,137	25,220
<b>Finance costs . . . . .</b>	<b>(29,188)</b>	<b>(16,561)</b>

Finance costs increased by USD 12,627 thousand, or 76.2 per cent., in the year ended 31 December 2007 compared with the year ended 31 December 2006. The increase in finance costs was primarily due to a decrease in net foreign exchange transaction gains on financing activities of USD 7,083 thousand, from net foreign exchange transaction gains of USD 25,220 thousand in the year ended 31 December 2006 to net foreign exchange transaction gains of USD 18,137 thousand in the year ended 31 December 2007, an increase in interest expenses on finance leases of USD 3,438 thousand and an increase in interest expense on bank borrowings of USD 2,148 thousand. The Rouble appreciated against the US Dollar in the year ended 31 December 2007 but at a lower rate compared to the year ended 31 December 2006, resulting in net lower foreign exchange transaction gains in the year ended 31 December 2007. The increase in finance costs was also driven by an increase in total interest expense of USD 5,544 thousand, or 13.3 per cent., reflecting significant increases in the interest expense payable on finance leases and bank borrowings, as the Group's finance leases and bank borrowings increased to finance the acquisitions of additional rolling stock in the years ended 31 December 2006 and 2007. This increase was partially offset by a small decrease in interest expense due to related parties. As at 31 December 2007, the Group's only related party indebtedness was a USD 50,000 thousand principal amount related party loan from TIHL. Among other uses, the Group intends to repay this loan in full with the proceeds of the Offering. See "Use of Proceeds".

### *Share of profit of joint ventures*

The share of profit of joint ventures was reduced to nil in the year ended 31 December 2007 from USD 4,885 thousand in the year ended 31 December 2006, reflecting the Neteller Sale.

### *Profit before income tax*

Profit before income tax increased by USD 31,767 thousand, or 43.7 per cent., from USD 72,691 thousand in the year ended 31 December 2006 to USD 104,458 thousand in the year ended 31 December 2007. This increase was due to the significant increase in operating profit which was offset in part by the decrease in finance income and the increase in finance costs discussed above.

### *Income tax expense*

Income tax expense increased by USD 12,298 thousand, or 87.4 per cent., from USD 14,078 thousand in the year ended 31 December 2006 to USD 26,376 thousand in the year ended 31 December 2007. This increase was primarily due to the increase in profit before income tax discussed above.

The effective income tax rates were 25.2 per cent. and 19.4 per cent. in the year ended 31 December 2007 and the year ended 31 December 2006, respectively. The lower effective tax rate in the year ended 31 December 2006 was due to the fact that the Neteller Sale was structured as a sale of shares by a Cypriot company which was not Russian tax resident with the result that the exceptional gain realised by the Group was subject to Cypriot capital gains taxation at rates that are lower than the Russian corporate income tax rates of 24 per cent.

## Results of Operations for the Years Ended 31 December 2006 and 2005

The following table sets forth the principal components of the Group's consolidated income statement for the years ended 31 December 2006 and 2005.

	Years ended 31 December	
	2006 (Restated)	2005 (Restated)
	(USD in thousands)	
Revenue . . . . .	557,814	511,850
Cost of sales . . . . .	(469,178)	(423,107)
<b>Gross profit</b> . . . . .	<b>88,636</b>	<b>88,743</b>
Selling and marketing costs and administrative expenses . . . . .	(27,642)	(22,864)
Other gains—net . . . . .	15,776	1,684
<b>Operating profit</b> . . . . .	<b>76,770</b>	<b>67,563</b>
Finance income . . . . .	7,597	4,584
Finance costs . . . . .	(16,561)	(53,431)
Finance costs—net . . . . .	(8,964)	(48,847)
Share of profit of joint ventures . . . . .	4,885	4,366
<b>Profit before income tax</b> . . . . .	<b>72,691</b>	<b>23,082</b>
Income tax expense . . . . .	(14,078)	(5,764)
<b>Profit for the year</b> . . . . .	<b>58,613</b>	<b>17,318</b>
<b>Attributable to:</b>		
Equity holders of the Company . . . . .	58,765	17,318
Minority interest . . . . .	(152)	—
	<b>58,613</b>	<b>17,318</b>

See also “—Key Factors Affecting the Group's Financial Condition and Results of Operations.”

### Revenue and Adjusted Revenue

The following table sets forth revenue, broken down by area of revenue-generating activity, and Adjusted Revenue of the Group for the years ended 31 December 2006 and 2005.

	Years ended 31 December	
	2006 (Restated)	2005 (Restated)
	(USD in thousands)	
Rail transportation—operators services:		
Adjusted Revenue . . . . .	276,215	230,820
Infrastructure and locomotive tariffs: “loaded trips” . . . . .	252,551	193,716
Total rail transportation services . . . . .	528,766	424,536
Railway transportation—freight forwarding . . . . .	2,683	1,087
Operating leasing of rolling stock . . . . .	17,081	30,265
Sale of wagons and locomotives . . . . .	8,054	55,962
Other . . . . .	1,230	—
<b>Total</b> . . . . .	<b>557,814</b>	<b>511,850</b>

Revenue increased by USD 45,964 thousand, or 9.0 per cent., from USD 511,850 thousand in the year ended 31 December 2005 to USD 557,814 thousand in the year ended 31 December 2006. This increase is partly supported by an increase of 30.4 per cent. in infrastructure and locomotive tariffs for “loaded” trips borne by the Group, which drives higher revenue from “lump sum” contracts. The increase also reflected an overall 28.0 per cent. increase in transportation volumes from 26.1 million tonnes in 2005 to 33.4 million tonnes in 2006. An increase in freight forwarding revenue of USD 1,596 thousand, or 146.8 per cent., also contributed to the revenue increase. These increases were offset by a USD 47,908 thousand decrease in sales of railcars and locomotives (reflecting a significant reduction in Exceptional Rolling Stock Sales in



the year ended 31 December 2006 compared with the year ended 31 December 2005) and a USD 13,184 thousand, or 43.6 per cent., decrease in revenue from operating leasing of rolling stock.

Adjusted Revenue increased by USD 45,395 thousand, or 19.7 per cent., from USD 230,820 in the year ended 31 December 2005 to USD 276,215 thousand in the year ended 31 December 2006. This increase in Adjusted Revenue was primarily due to the significant expansion in the Group's fleet of rolling stock and the increase of demand for the Group's rail transportation services. The increase in customer demand for the Group's freight rail transportation services was driven by the Group's fostering significant customer relationships with several large Russian industrial groups and their suppliers, driving increases in volumes of cargo carried. This was partially offset by the decrease in average price per trip, reflecting the fact that in the year ended 31 December 2006 the Group was still adapting to the transition to the new route network with shorter average journey distances. See “—Key Factors Affecting the Group's Financial Condition and Results of Operations—Changes in the Group's core business”.

### *Cost of sales*

The following table sets forth a breakdown of cost of sales for the years ended 31 December 2006 and 2005.

	Years ended 31 December	
	2006 (Restated)	2005 (Restated)
	(USD in thousands)	
Infrastructure and locomotive tariffs:		
“Loaded trips”	252,551	193,716
“Empty run” trips and services provided by other transportation organisations	119,336	107,478
Total infrastructure and locomotive tariffs	371,887	301,194
Depreciation of property, plant and equipment	20,769	13,904
Loss/(gain) on sale of property, plant and equipment	26	(152)
Employee benefit expense	3,450	3,446
Operating lease rentals—rolling stock	52,595	47,372
Repairs and maintenance	13,784	6,293
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)	6,667	51,050
<b>Total</b>	<b>469,178</b>	<b>423,107</b>

Cost of sales increased by USD 46,071 thousand, or 10.9 per cent. from USD 423,107 thousand in the year ended 31 December 2005 to USD 469,178 thousand in the year ended 31 December 2006. Cost of sales in each period includes infrastructure and locomotive charges for “loaded trips” related to customer's “lump sum” contracts and paid to Russian Railways by the Group. Cost of sales also included cost of goods sold including the expense of purchasing the rolling stock associated with the Exceptional Rolling Stock Sales. Excluding these amounts, cost of sales increased by USD 31,619 thousand, or 17.7 per cent., from USD 178,341 thousand in the year ended 31 December 2005 to USD 209,960 thousand in the year ended 31 December 2006. The increase in cost of sales was primarily due to the increase in empty run costs from USD 65,773 thousand in 2005 to USD 83,064 thousand in 2006. This increase was partially offset by the decrease in services provided by other transportation organisations due to the increase in owned rolling stock under operation in 2006. Other factors driving the increase in cost of sales were an increase in operating lease rentals (reflecting an overall increase in operating lease rates and the quantity of rolling stock leased), increase in the costs of repair and maintenance of the Group's rolling stock (reflecting the expansion of the Group's fleet and the market increases in repair and maintenance costs) and increased depreciation of the Group's property, plant and equipment (reflecting the expansion of the Group's fleet).

### *Gross profit*

Gross profit decreased by USD 107 thousand, or 0.1 per cent., from USD 88,743 thousand in the year ended 31 December 2005 to USD 88,636 thousand in the year ended 31 December 2006. The small decrease in the gross profit principally reflected the decrease in rolling stock utilisation and average price per trip (which mainly reflected the Group's transition to the new route network and, with respect to decreased rolling stock utilisation, acquisitions of new rolling stock which could not be utilised immediately upon acquisition due to the period of time required to bring such rolling stock to its first place of

commercial utilisation). In addition, revenue from the Exceptional Rolling Stock Sales also decreased in the year ended 31 December 2006 compared with the year 31 ended December 2005. These decreases were offset by an increase in demand for the Group's transportation services.

#### ***Selling, marketing and administrative expenses***

Selling, marketing and administrative expenses increased by USD 4,778 thousand, or 20.9 per cent., from USD 22,864 thousand in 2005 to USD 27,642 thousand in 2006 due to increases in employee headcount and in compensation payable to existing employees, increases in the market rates for office rental and in the office space rented by the Group, as well as to the increase in information services expenses (mostly relating to increased volumes of rolling stock movement information received by the Group from Russian Railways in connection with the Group's transition to the new route network and associated destination management and route optimisation requirements). This increase also included an increase in impairment charge for receivables representing bad debts owed by a former medium-sized customer.

#### ***Other gains—net***

Other gains—net increased by USD 14,092 thousand, from USD 1,684 thousand in the year ended 31 December 2005 to USD 15,776 thousand in the year ended 31 December 2006. The increase was due to the one-off gain realised by the Group from the Neteller Sale in 2006.

#### ***Operating profit***

The Group's operating profit increased by USD 9,207 thousand, or 13.6 per cent., from USD 67,563 thousand in 2005 to USD 76,770 thousand in 2006. This increase was due to the one-off gain of USD 15,470 thousand realised by the Group from the Neteller Sale in the year ended 31 December 2006. Excluding the positive effect of the significant one-off gain from the Neteller Sale, the Group's operating profit would have declined in 2006. The decline in operating profit (excluding this one-off gain) reflected the significant increase in selling, marketing and administrative expenses discussed above without a commensurate increase in gross profit due to the transition periods relating to the significant expansion of the Group's transportation network.

#### ***EBITDA and Adjusted EBITDA***

EBITDA increased by USD 54,747 thousand, or 74.9 per cent., from USD 73,126 thousand in the year ended 31 December 2005 to USD 127,873 thousand in the year ended 31 December 2006. EBITDA in both periods included net foreign exchange gains associated with the Group's US Dollar denominated borrowings (see “—Key Factors Affecting the Group's Financial Results—Other factors affecting the Group's financial results—Foreign currency fluctuations”), and certain exceptional gains (including those realised from the Neteller Sale and the Exceptional Rolling Stock Sales in 2006 and 2005). Adjusted EBITDA (which excludes the effect of the net foreign exchange gains and the exceptional gain from the Neteller Sale), stood broadly the same and increased by USD 2,032 thousand, or 2.5 per cent., from USD 79,960 thousand in the year ended 31 December 2005 to USD 81,992 thousand in the year ended 31 December 2006. This reflects the increase in revenues due to the increase in the number of the Group's rolling stock under operations from 2005 to 2006 offset by a decrease in the Group's operating profit due to a transition period in the Group's logistics in the year ended 31 December 2006 compared with the year ended 31 December 2005.

#### ***Finance income***

Finance income increased by USD 3,013 thousand or 65.7 per cent., from USD 4,584 thousand in the year ended 31 December 2005 to USD 7,597 thousand in the year ended 31 December 2006. This increase was primarily driven by significant increases in finance lease income from related parties and third parties, as well as increases in average bank balances.

### *Finance costs*

The following table sets forth a breakdown of finance costs for the years ended 31 December 2006 and 2005.

	Years ended 31 December	
	2006 (Restated)	2005 (Restated)
	(USD in thousands)	
Interest expense:		
Bank borrowings . . . . .	(13,079)	(9,354)
Finance leases . . . . .	(22,708)	(19,577)
Loans from:		
Related parties . . . . .	(5,823)	(11,616)
Third parties . . . . .	(12)	—
Other . . . . .	(159)	—
Total interest expense . . . . .	(41,781)	(40,547)
Net foreign exchange transaction gains/(losses) on financing activities . . . . .	25,220	(12,884)
<b>Finance costs . . . . .</b>	<b>(16,561)</b>	<b>(53,431)</b>

Finance costs decreased by USD 36,870 thousand, or 69.0 per cent., in the year ended 31 December 2006 compared with the year ended 31 December 2005. The decrease in finance costs was primarily due to a change in net foreign exchange transaction gains/(losses) on financing activities of USD 38,104 thousand, from net foreign exchange transaction losses of USD 12,884 thousand in the year ended 31 December 2005 to net foreign exchange transaction gains of USD 25,220 thousand in the year ended 31 December 2006. The Rouble depreciated against the US Dollar in the year ended 31 December 2005 but it appreciated against the US Dollar in the year ended 31 December 2006. The net foreign exchange gain in 2006 was partially offset by an increase in interest expense of USD 1,234 thousand, or 3.0 per cent. This increase resulted from significant increases in the interest expense payable on finance leases and bank borrowings, reflecting increased acquisition of rolling stock through purchases financed with bank borrowing and under finance leases, which was partially offset by a decrease in interest expense due to related parties as a result of a decrease in total borrowings from related parties.

### *Share of profit of joint ventures*

Share of profit of joint ventures increased by USD 519 thousand, or 11.9 per cent., from USD 4,366 thousand in the year ended 31 December 2005 to USD 4,885 thousand in the year ended 31 December 2006. This increase was due to an increase in the profits of Transgarant, a Russian rail transportation company and a wholly owned subsidiary of Neteller, a joint venture in which the Group had a 50 per cent. interest until September 2006.

### *Profit before income tax*

Profit before income tax increased by USD 49,609 thousand, or 214.9 per cent., from USD 23,082 thousand in the year ended 31 December 2005 to USD 72,691 thousand in the year ended 31 December 2006. This increase was due to the significant increase in operating profit and the significant decrease in finance costs discussed above.

### *Income tax expense*

Income tax expense increased by USD 8,314 thousand, or 144.2 per cent., from USD 5,764 thousand in 2005 to USD 14,078 thousand in 2006. The increase in income tax expense was primarily due to the increase in profit before income tax discussed above.

The effective income tax rates were 19.4 per cent. and 25.0 per cent. in the years ended 31 December 2006 and 2005, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

### General

The business of freight rail transportation is capital-intensive. The Group's liquidity needs arise primarily from the need to incur substantial ongoing expenditures for, among other things, expansion and maintenance of its fleet of rolling stock and for general working capital requirements. In the period under review, the Group has been able to meet its liquidity and capital expenditure needs from operating cash flow, supplemented by funds provided by shareholders and borrowed from financial institutions.

The Group believes that, until about the end of 2009, cash generated from its operations, supplemented by the proceeds of the Offering, should be sufficient to fund the Group's liquidity and capital expenditure needs, although the Group may still choose to fund certain of these costs through borrowings if the Group believes that the loan market conditions are particularly favourable. In the longer term, the Group plans to fund its liquidity and capital expenditure needs from cash generated from operations and borrowed funds supplemented if required by additional equity offerings. See also "Risk Factors—Risks Relating to the Group's Business and Industry—Expansion of the Group's business may place a strain on its resources".

### Capital Expenditures

The Group's capital expenditures have principally been made to fund the acquisition of rolling stock. The Group's capital expenditure for the acquisition of rolling stock, including rolling stock leased under finance leases, for the years ended 31 December 2007, 2006 and 2005 were USD 147,526 thousand, USD 106,138 thousand and USD 173,761 thousand, respectively.

In line with its growth strategy, the Group currently plans to purchase approximately two thousand gondola (open top) cars by the end of 2008 and to purchase approximately three thousand gondola (open top) cars each year over the period of 2009 to 2012. The Group also intends to pursue the expansion of the rolling stock fleet by purchasing approximately 700 hopper cars by the end of 2008 and by purchasing approximately 500 hopper cars each year over the period of 2009 to 2012. The Group estimates that the current price of a gondola (open top) or a hopper car is approximately USD 62,500 to USD 67,500 excluding VAT. For details of the Group's current contractually committed capital expenditure to acquire rolling stock, see "—Contractual Commitments, Provisions and Contingent Liabilities" below.

### Cash Flows

The following table sets forth the principal components of the Company's consolidated cash flow statement for the years ended 31 December 2007, 2006 and 2005.

	Years ended 31 December		
	2007	2006 (Restated)	2005 (Restated)
	(USD in thousands)		
Net cash from operating activities . . . . .	181,906	62,587	74,050
Net cash used in investing activities . . . . .	(113,349)	(20,971)	(102,671)
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)
Cash and cash equivalents at end of year . . . . .	<u>31,103</u>	<u>57,316</u>	<u>15,009</u>

#### *Net cash from operating activities*

Net cash generated from operating activities increased by USD 119,319 thousand, or 190.6 per cent., from USD 62,587 thousand in the year ended 31 December 2006 to USD 181,906 thousand in the year ended 31 December 2007. This increase was primarily due to the USD 31,767 thousand increase in profit before income tax, supported by an increase of USD 20,123 thousand in trade and other payables, and offset by a USD 10,694 thousand decrease in trade and other receivables in each case in the year ended 31 December 2007 compared to the year ended 31 December 2006.

Net cash generated from operating activities decreased by USD 11,463 thousand, or 15.5 per cent., from USD 74,050 thousand in the year ended 31 December 2005 to USD 62,587 thousand in the year ended 31 December 2006. This decrease was primarily due to an increase in the Group's working capital requirements, principally as a result of trade and other receivables increasing more than trade and other

payables, which offset the moderate increase in cash from operating activities before working capital changes. The moderate increase in cash from operating activities before working capital changes reflected the slight decline in operating profit (excluding the gain from the Neteller Sale, the proceeds of which are included as net cash from investing activities) which was offset by a moderate increase in depreciation as a result of the increase in the Group's fleet of rolling stock.

#### *Net cash used in investing activities*

Net cash used in investing activities increased by USD 92,378 thousand, from USD 20,971 thousand in the year ended 31 December 2006 to USD 113,349 thousand in the year ended 31 December 2007. Net cash used in the Group's investing activities is largely driven by purchases of property, plant and equipment. Purchases of property, plant and equipment decreased by USD 22,346 thousand, or 19.6 per cent., from USD 113,913 thousand in the year ended 31 December 2006 to USD 91,567 thousand in the year ended 31 December 2007. The decrease in purchases of property, plant and equipment reflects the increased shift in the Group's rolling stock finance lease practices in the year ended 31 December 2007 from sales and leaseback arrangements contemplating a purchase by the Group from the relevant manufacturer of the rolling stock to be leased, with its subsequent sale to, and finance lease from, a leasing company (which were more prevalent in the years ended 31 December 2005 and 2006 and reflected the relative discomfort on the part of leasing companies with the credit risk associated with rolling stock manufacturers) to the more conventional finance lease arrangements not involving initial outright purchases by the Group of rolling stock to be leased. Actual additions of rolling stock (including rolling stock lease under finance leases) were relatively constant over the two periods. Despite the decrease in the purchases of property, plant and equipment in the year ended 31 December 2007 compared with the year ended 31 December 2006, net cash used in investing activities actually increased because of the effect of the sales proceeds received by the Group from the Neteller Sale in 2006, which substantially reduced net cash used in investing activities in the year ended 31 December 2006.

Net cash used in investing activities decreased by USD 81,700 thousand, or 79.6 per cent., from USD 102,671 thousand in the year ending 31 December 2005 to USD 20,971 thousand in the year ending 31 December 2006. This decrease was driven by a decrease in purchases of property, plant and equipment from USD 121,752 thousand in the year ended 31 December 2005 to USD 113,913 thousand in the year ended 31 December 2006, reflecting a slight decrease in acquisitions of rolling stock in the year ended 31 December 2006 compared with the year ended 31 December 2005. The decrease in net cash used in investing activities in the year ended 31 December 2006 compared with the year ended 31 December 2005 was exacerbated by the effect of the sales proceeds received by the Group from the Neteller Sale in 2006, which further reduced net cash used in investing activities in the year ended 31 December 2006.

#### *Net cash (used in)/from financing activities*

Net cash (used in)/from financing activities changed from USD 3,164 thousand net cash from financing activities in the year ended 31 December 2005, to USD 1,824 thousand net cash from financing activities in the year ended 31 December 2006, to USD 93,230 thousand net cash used in financing activities in the year ended 31 December 2007. Over the period under review, both the proceeds from borrowings and repayments of borrowings increased, reflecting the use of borrowings to finance the expansion of the Group's rolling stock, as well as repayments and re-borrowings under the Group's existing credit facilities during the period. Finance lease principal payments remained relatively stable. Changes in net cash (used in)/from financing activities were also driven by the steady decrease in proceeds from sale and leaseback transactions reflecting their reduced use by the Group, the receipt by the Group of USD 66,560 thousand in proceeds from a share issue in the year ended 31 December 2005, as well as USD 26,800 thousand and USD 30,123 thousand in dividends paid to shareholders in the Company in the years ended 31 December 2006 and 31 December 2007, respectively.

#### **Capital Resources**

The Group's financial indebtedness consisted of bank borrowings, loans from related and third parties and finance leases liabilities in an aggregate principal amount of USD 451,173 thousand in 2007, USD 446,824 thousand in 2006 and USD 371,455 thousand in 2005. These bank borrowings have been secured by pledges of rolling stock, assignments of certain contractual rights to transportation services and by guarantees granted by Group members. The Group's indebtedness also included unsecured borrowings from banks and related parties and unsecured commitments from banks.

The Group's ratio of net debt to Adjusted EBITDA was 2.7x, 4.8x and 4.5x for the years ended 31 December 2007, 2006 and 2005, respectively, where net debt is defined as the sum of current and non-current borrowings less cash and cash equivalents.

As at 31 December 2007, the interest payable on the Group's borrowings was determined by a fixed rate for 50 per cent. of the borrowings, and by a floating rate with regards to the remaining 50 per cent.

As at 31 December 2007, 31 per cent. of the Group's borrowings were unsecured, and the remaining 69 per cent. were secured.

The following table sets forth the maturity profile and other characteristics of the Group's non-current borrowings (excluding finance leases) as at 31 December 2007.

	<u>As at 31 December 2007</u>
	<u>(USD in thousands)</u>
Between 1 and 2 years .....	47,195
Between 2 and 5 years .....	79,040
Over 5 years .....	—
<b>Total</b> .....	<b><u>126,235</u></b>

As at 31 December 2007 the carrying amounts of the Group's borrowings were denominated in the following currencies:

	<u>As at 31 December 2007</u>
	<u>(USD in thousands)</u>
US Dollar .....	321,433
Euro .....	50
Russian Rouble .....	129,690
<b>Total</b> .....	<b><u>451,173</u></b>

As at 31 December 2007, the Group had the following committed and undrawn borrowing facilities:

	<u>As at 31 December 2007</u>
	<u>(USD in thousands)</u>
<b>Floating rate:</b>	
Expiring within 1 year .....	19,629
Expiring beyond 1 year .....	10,000
<b>Fixed rate:</b>	
Expiring within 1 year .....	30,555
<b>Total</b> .....	<b><u>60,184</u></b>

## Contractual Commitments and Contingent Liabilities

### Contractual Obligations

The following table summarises the contractual principal maturities of the Group's finance lease obligations and interest payments required under the leases.

<u>Present value of finance lease liabilities</u>	As at 31 December		
	2007	2006 (Restated)	2005 (Restated)
	(USD in thousands)		
Less than 1 year . . . . .	48,227	46,532	35,070
Between 1 and 5 years . . . . .	159,282	137,524	108,947
Over 5 years . . . . .	16,209	13,525	20,882
<b>Total . . . . .</b>	<b>223,718</b>	<b>197,581</b>	<b>164,899</b>

As at 31 December 2007 the Group has no material contractual obligations or commercial commitments to make future payments, relating to contractual commitments to purchase of rolling stock.

As at 31 December 2007, no member of the Group had any material obligation as a guarantor or surety of the obligation of any person, not being a member of the Group, which are not reflected on the balance sheet.

As at 31 December 2007, the Group was not aware of any contingent tax, litigation or other liabilities, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in the Consolidated Financial Statements.

### QUANTITATIVE AND QUALITATIVE DISCLOSURE ON MARKET AND OTHER RISKS

The Group's activities expose it to market risks, including foreign exchange risk, credit risk and interest rate risk.

#### Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency different from the functional currency of the Group. The Group has a substantial amount of long-term borrowings denominated in foreign currency (principally US Dollars) and is thus exposed to foreign exchange risk. Fluctuations in the exchange rate may produce a significant effect on the results of the Group's operations.

The carrying amount of assets and liabilities denominated in US Dollars as of 31 December 2007, 31 December 2006 and 31 December 2005 held by the Group are as follows:

	As at 31 December		
	2007	2006 (Restated)	2005 (Restated)
	(USD in thousands)		
Assets . . . . .	17,740	90,069	36,669
Liabilities . . . . .	333,579	336,289	326,243
Capital commitments . . . . .	32,418	20,853	4,280

Had the US Dollar exchange rate strengthened/weakened by 6 per cent. 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 (excluding translation effects), would have decreased/increased by USD 15,880 thousand, USD 12,178 thousand and USD 13,400 thousand, respectively. This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings and accounts receivable denominated in US Dollars.

The Group expects that the majority of its long-term borrowings will remain US Dollar-denominated, in the expectation that the rates for US Dollar denominated non-current borrowings will remain commercially more attractive than those for Rouble-denominated non-current borrowings. In the expectation that the Russian Rouble will continue to appreciate against the US Dollar in the medium term, the Group has chosen not to hedge its exposure to foreign currency risk, although the Group will keep its election not to hedge this risk under review.

## Credit risk

Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables, cash and cash equivalents.

Depending on the type of customer and length of customer relationship, customer contracts may require payment in advance of up to 100 per cent. of the price of the services to be rendered before the Group's services commence, or before the start of the relevant delivery period. Alternatively, they may provide for payment in arrear for a certain number of days following the provision of the relevant service. According to Group estimates, in the year ended 31 December 2007, sales to customers with contracts requiring full payment in advance represented 31 per cent. of the Group's total revenue. Other customers paid approximately 35 to 65 per cent. of the contract price in advance, with the balance payable in arrears within five to ten days of the invoice date. Although the customers paying a part of the contract price in arrears tend to be the Group's key industrial customers, the Group believes that such customers represent a relatively high credit quality in the Russian market. According to Group estimates, deviations from this payment schedule towards longer arrear payment periods affected less than 2.2 per cent. of the total revenue in the year ended 31 December 2007.

The table below summarises the Group's analysis of its accounts receivable and finance lease receivables based on contractual terms of settlement at the relevant balance sheet date.

<u>Accounts receivable and finance lease receivable</u>	<u>As at 31 December</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(USD in thousands)		
Fully performing . . . . .	54,865	65,105	70,602
Past due . . . . .	12,437	12,891	13,839
Impaired . . . . .	2,746	669	133
Impairment provision . . . . .	(2,746)	(669)	(133)
<b>Total . . . . .</b>	<b>67,302</b>	<b>77,996</b>	<b>84,441</b>

## Interest rate risk

A substantial proportion of the Group's non-current indebtedness is floating rate. In addition, approximately 50 per cent. of the Group's committed and undrawn borrowing facilities were floating rate as at 31 December 2007. The Group has not historically hedged against changes in interest rates. The Group is therefore subject to the risk of change in interest rates, which may affect the cost of the current and future financings.

## SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group believes its most significant accounting policies and its critical accounting estimates and judgements are those described below.

### Significant Accounting Policies

A detailed description of certain of the main accounting policies used in preparing the Consolidated Financial Statements is set forth therein. The Group believes its most significant accounting policies to be those described as follows.

#### *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 two types of contracts for operator's services:

(i) For "lump sum" contracts:

- 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 infrastructure and locomotive tariff is borne by the Group. Total proceeds from clients are included in the Group's revenue.

(ii) For "railcar charge only" contracts:

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

(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 Russian Railways rolling stock and the client is doing business with the 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.

(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.

**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
Hopper cars, gondola (open top) cars and oil tank cars . . . . .	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.

**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 under:

(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.

(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 under:

(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.

(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.

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.

#### ***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 likelihood 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.

#### **Critical Accounting Estimates and Judgments**

Critical accounting estimates and judgements are those that require the application of management's most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions.

A detailed description of certain of the critical accounting estimates and judgments used in preparing the Consolidated Financial Statements is set forth therein. The Group believes its most critical accounting estimates and judgments are those described below.

#### ***Revenue recognition***

Operator's services are rendered using own or leased rolling stock. The Group uses two types of contracts for its operator's services, "lump sum" contracts and "railcar charge only" contracts for which critical accounting judgements are involved in revenue recognition with respect to each type of contract:

- (i) For "lump sum" contracts, the Group's customers do not interact with Russian Railways. A full service price is charged by the Group to its customers and the Russian Railways tariff for infrastructure and locomotive services is borne by the Group. There are certain characteristics indicating that the Group is acting as an agent, particularly the fact that Russian Railways tariffs are available to the public, therefore are known to the customer, and the risk of delivery is borne by Russian Railways. However, the Group bears the credit risk and controls the flow of receipts and payments. The services are rendered with the use of own or leased rolling stock and the Group bears the 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. The Group's management believes that the Group acts as a principal in these arrangements and the Group accounts receipts from customers as revenue and the Russian Railways tariff is included in cost of sales. Had the Russian Railways tariff directly attributable to such services been excluded from revenues and cost of sales, both would have decreased by USD 172,439 thousand, USD 252,551 thousand and USD 193,716 thousand for the years ended 31 December 2007, 2006 and 2005, respectively.

- (ii) For certain "railcar charge only" contracts, the Group agrees with the customer the transport fee as above, excluding the Russian Railways tariff for infrastructure and locomotive services which is paid by the Group and re invoiced to the client as reimbursement. Management believes that the 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 Russian Railways tariff been included in revenues and cost of sales, both would have increased by USD 5,195 thousand, USD 8,895 thousand and USD 2,458 thousand for the years ended 31 December 2007, 2006 and 2005, respectively.

See also "—Key Factors Affecting the Group's Financial Condition and Results of Operations—Types of customer contracts".

#### ***VAT on export sales***

A significant percentage of the Group's revenue is derived from transactions which qualify as "export transactions" for the purposes of Russian VAT regulations. Pursuant to Russian tax laws, such export transactions are not subject to output VAT. 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 end of the relevant month, 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 certain documentation proving the "export transaction" nature of the sale. Part of such documentation needs to be collected from the relevant customer. In preparing its financial statements, the Group's management is required to estimate the level of VAT that will be collected. The actual collections from the VAT authorities may differ from these estimates depending on the ability of the Group to collect all the necessary documentation from its customers or the relevant authorities. Thus, if 10 per cent. of the customers by value do not provide the Group with the correct documentation, an amount of USD 2,965 thousand in 2007, USD 4,449 thousand in 2006 and USD 3,753 thousand in 2005 would be written off.

Historically, the Group has generally been successful in recovering these amounts in full.

#### **NEW ACCOUNTING PRONOUNCEMENTS**

The IASB has recently promulgated certain new International Financial Reporting Standards (*IFRS*), with amendments to standards and amendments to interpretations. These new standards and amendments are described in Note 2 to the Consolidated Financial Statements. As at the date of the Consolidated Financial Statements, all new standards and amended IFRS that are relevant to its operations and are effective for accounting periods beginning on 1 January 2007 have been adopted.

## RUSSIAN RAIL TRANSPORTATION MARKET

### OVERVIEW

Assisted by high natural resource prices and the beneficial effects of ongoing economic reforms, in recent years the Russian economy has been experiencing a high level of economic growth, which is predicted by Global Insight to be sustained in the medium term. Russia's fast growing domestic consumption as well as a strong external trade balance have created increasing demand in the freight rail transportation and logistics market.

Rail transport is the leading mode of freight transportation in Russia. According to Rosstat, 93 per cent. of all freight transportation in Russia, excluding pipeline traffic, was carried by rail in 2006. The Russian railway network is the second largest after the United States in terms of track length, and the third largest, after China and the United States, in terms of the volume of freight rail turnover, according to Rosstat, although in absolute terms, the volume of cargo transported by rail in Russia in 2006 was still below the peak level of 1990. The railway system plays a particularly important role in freight transportation in Russia due to the inherent limitations of other forms of freight transportation in the country. Both road and waterways systems provide inadequate coverage in many regions of Russia and are of variable quality (and in the case of waterways, subject to seasonality). The use of air transport for freight in Russia is limited and not economically efficient for mass cargoes.

In addition, the Russian freight rail industry is currently in the process of reform which commentators expect to lead to increased efficiency, growth and profitability in the market. Since 2003 the private freight rail sector in Russia has experienced rapid growth in the number of private operators and their respective fleets of railcars. Private operators have been able to set their own railcar prices and are able to compete on price, service and flexibility. However, Russian Railways, together with its freight operating subsidiary, Freight One, remains the leading player in most cargo segments of the Russian freight rail market. In addition, the regulated tariffs charged by Russian Railways for access to its infrastructure and for locomotive services continue to have a major market impact. Further stages of the planned rail reforms are expected to reduce the role of regulated tariffs and increase competition in the freight rail market.

According to A.T. Kearney, further growth in the volume of Russian freight rail transportation is expected over the next five years, driven by (a) continued economic growth creating demand in the construction sector and stimulating domestic demand for raw materials and high added value products requiring freight carriage from extraction of manufacturing centres to customers, (b) expected significant investment and further reform of the Russian rail industry (in particular rail infrastructure) and (c) expansion and development of Russia's coal-fired electricity generation capacity, driving demand for coal transportation by rail.

In addition to the growth in volume of Russian freight rail transportation, anticipated growth in the regulated freight rail tariffs set by Russian Railways is expected to support price increases by private operators. A.T. Kearney forecasts growth in rail tariffs of 59 per cent. between 2007 and 2012 and also that such growth will exceed the rate of inflation. Given the large number of railcars operated by Russian Railways, and the fact that currently the railcar tariffs charged by it often serve, for certain cargoes, as a benchmark for prices charged by private railcar operators, such tariff increases would help support price increases by private railcar operators.

Throughout this section, "F" denotes forecasted figures for the relevant period in the various tables.

### RUSSIAN RAIL TRANSPORTATION MARKET

#### General

The central role of freight rail in the transportation needs of the Russian economy is driven in large part by the geography of the Russian Federation. The Russian Federation is the largest country in the world by territory and is characterised by significant distances both between population centres and between suppliers of raw materials and their intermediate or end customers. According to A.T. Kearney, the United States had the largest share of global freight rail turnover in 2005, with China and Russia being in second and third place, respectively.

In addition, along with other large developing economies, such as Brazil, India and China, in 2006 freight rail in Russia accounted for a relatively larger proportion of total freight volumes than in more developed markets, as set forth in the table below.

**Freight transportation structure (tonnes-km, 2006)**

	Russia	US	Europe	Brazil	India	China
Rail . . . . .	42.4%	41.9%	10.0%	29.3%	52.6%	26.6%
Pipe . . . . .	54.3%	15.0%	3.4%	5.1%	0.0%	1.3%
Road . . . . .	0.9%	29.6%	44.2%	27.4%	32.5%	12.1%
Water . . . . .	1.0%	13.2%	42.4%	38.0%	14.7%	59.9%
Other . . . . .	1.3%	0.3%	0.1%	0.2%	0.2%	0.1%

Source: Business Monitor International, DG Energy and Transport, Rosstat

Note: Data for 2006, except Europe (2005)

In addition, a key factor in the relative importance of the freight rail industry in Russia is that, by comparison to other forms of transportation, it provides generally safe and reliable coverage over an extensive network throughout the country.

As a result of these factors, rail transport dominates the domestic freight transportation market in Russia, according to Rosstat comprising approximately 42 per cent. of overall throughput, and 93 per cent. if pipeline traffic is excluded, in 2006.

**Macroeconomic overview**

The last eight years have seen a period of economic and political stability in the Russian Federation, from which the Russian freight rail industry is well placed to benefit for the reasons discussed above. Favourable commodity market conditions have facilitated the improvement of the Russian Federation’s trade balance, allowing the Government to build up rapidly budget surpluses and foreign currency reserves, whilst maintaining a relatively moderate tax burden on the economy. According to the CBR, the Russian Federation’s current account surplus was USD 84.4 billion in 2005, USD 94.4 billion in 2006 and USD 78.3 billion in 2007.

This fiscal balance has created a favourable environment for business development, reflected in strong GDP growth in recent years. According to Global Insight, Russian GDP was USD 764 billion in 2005, USD 989 billion in 2006 and USD 1,288 billion in 2007. However, growth has been accompanied by relatively high inflation rates, with 2007 CPI growth of 11.9%, according to Rosstat.

Assisted by this strong economic growth, Russia has seen a significant increase in consumer spending power with wage growth supporting growing demand for manufactured products and, in particular, consumer goods. This increased demand has also resulted in growth in freight volumes in the Russian Federation.

Improvements in the Russian macroeconomic environment have also resulted in a significant acceleration in investment growth. This is especially evident in foreign direct investments (*FDI*). FDI into the Russian Federation more than tripled between 2005 and 2007, reaching USD 40 billion in 2007 compared with USD 13 billion in 2005. In addition, there was significant growth in both the total volume of gross investment in fixed assets in Russia as well as the size of the Russian construction industry, both major drivers of demand for freight rail transportation services. According to Global Insight, annual gross investment in fixed assets in Russia increased from USD 136 billion in 2005 to USD 257 billion in 2007, whereas the total revenue of the construction industry increased from USD 37 billion in 2005 to USD 65 billion in 2007.

According to Global Insight, there is likely to be continued strong economic growth in the Russian Federation in the medium term, with GDP forecast to rise from USD 1,288 billion in 2007 to USD 1,580 billion in 2008, USD 1,775 billion in 2009 and USD 1,968 billion in 2010.

The table below sets forth actual and forecast GDP, gross fixed investment, foreign direct investment, and construction expenditure in Russia between 2003 and 2010.

	Years ended 31 December							
	2003	2004	2005	2006	2007	2008F	2009F	2010F
	(USD in billions)							
Russian GDP . . . . .	432	592	764	989	1,288	1,580	1,775	1,968
Gross fixed investment . . . . .	79	109	136	176	257	333	381	429
Foreign direct investment in Russia . .	8	12	13	31	40	36	38	40
Construction in Russia . . . . .	23	30	37	50	65	78	87	95

Source: Global Insight

Additionally, Russian Railways expects an annual average increase in investments in the railway transportation sector in Russia of between RUB 616 billion and RUB 672 billion between 2007 and 2015, after investments of RUB 217 billion and RUB 243 billion, in 2006 and 2007, respectively.

Assisted by these positive economic trends, the size of the Russian transport and logistics market grew at a 6 per cent. CAGR over the period from 2000 to 2006, according to Rosstat. According to Rosstat, rail represented 42.4 per cent. of the total Russian freight turnover in 2006. Accordingly, whilst the aggregate volume of freight transported by rail in 2006 is still lower in absolute terms than that in the peak year of 1990, the share of freight transported by rail represented almost the same proportion of the total freight transported in Russia in 2006 as in 1990, according to Rosstat.

The overall size of the Russian freight rail transportation market in 1990, 1995, 2000 and 2006 was 2,523 billion tonnes-km, 1,214 billion tonnes-km, 1,373 billion tonnes-km and 1,951 billion tonnes-km, respectively.

#### REFORM OF RUSSIAN RAIL TRANSPORTATION MARKET

A significant factor in both the recent growth and the future prospects of the Russian freight rail industry is the current program of structural reform of rail transportation in Russia (the *Reform*). The Reform was initiated by the Government in 2001 with the aim, among others, to satisfy the growing demand of the Russian economy for transportation services by increasing the efficiency of the existing rail infrastructure and attracting additional investment to the sector. See “Regulation of Railway Transportation in Russia—Structural Reform of Railway Transportation in the Russian Federation” for further details regarding the Reform.

In 2001 the regulatory and business functions of the Russian rail industry were separated, having previously both been under the control of the Russian Ministry for Rail Transport. In 2003, Russian Railways was established as a joint stock company, wholly owned by the Government, and a number of private operators, including New Forwarding Company, one of the two operating subsidiaries of the Group, entered the freight rail market. While Russian Railways retained a monopoly in the provision of rail infrastructure and locomotive services, the new regulatory framework provided third party operators with a legal right to access such infrastructure on a non-discriminatory basis alongside Russian Railways and its subsidiaries.

In the next stage of the Reform, which is ongoing, Russian Railways is establishing wholly-owned operating subsidiaries engaged in competitive activities, freight transportation (i.e. Freight One), repairs and maintenance and non-core businesses. It is envisaged that, in the future, such subsidiaries will be divested with minority interests offered to investors in order to attract new capital and private sector expertise into such subsidiaries.

To date, the process of divesting stakes in Russian Railways’ operating subsidiaries (other than TransContainer, a subsidiary of Russian Railways operating a container business) has not yet commenced. Accordingly, the only rail industry segment to benefit from significant private investment to date is the railcar operating sector, which has seen significant growth in the number of private operators (See “—Russian Railcar Sector”). The Reform has benefited such private operators in that they are free to set their own railcar prices as a component of the overall prices charged to customers and may thus compete on pricing, services and flexibility while operating under the same regulatory environment as subsidiaries of Russian Railways (see “Regulation of Railway Transportation in Russia—The Pricing Policy”).



## RUSSIAN RAILCAR SECTOR

### Overview of railcar sector

As a result of the Reform, there has been significant recent growth in private rolling stock operations, both by volume of railcars operated and by market share. According to A.T. Kearney, between 2002 and 2007 there was a CAGR of 10% in the number of privately operated railcars as against a CAGR of 3% in the number of railcars operated in Russia as a whole. In addition, according to a presentation by Russian Railways, the market share of privately operated rolling stock in the Russian freight rail market increased from 26 per cent. in 2003 to 38 per cent in 2007. The market share of private operators is disproportionately greater in higher revenue generating cargo transportation, such as oil and oil products and iron ore and scrap metals, as set forth below.

### Market share of private operators (2007, by transportation volume)

	Oil and oil products	Iron ore	Scrap metal	Ferrous metal	Coal
Private operators . . . . .	67%	46%	43%	36%	22%
Russian Railways . . . . .	33%	54%	57%	64%	78%

Source: A.T. Kearney

As the numbers of private operators and their market share have grown, these operators have invested in new rolling stock. According to A.T. Kearney, the majority of new rolling stock purchases in recent years were made by private operators and this trend is expected to continue in the medium term. The table below sets forth actual and forecast purchases of rolling stock by Russian operators from 2000 to 2012.

### Rolling stock purchases by Russian operators (by group, thousand railcars)

	Years ended 31 December							
	2000	2006	2007	2008F	2009F	2010F	2011F	2012F
Russian Railways and affiliates . . . . .	1	10	16	24	26	28	27	27
Private operators . . . . .	3	36	50	49	49	53	62	69
<b>Total . . . . .</b>	<b>4</b>	<b>46</b>	<b>66</b>	<b>73</b>	<b>75</b>	<b>81</b>	<b>89</b>	<b>96</b>

Source: A.T. Kearney

In addition, such purchases of new rolling stock by private operators have focused on acquisition of general purpose rolling stock such as gondola (open top) cars, and specialised rolling stock, such as oil tank cars and cement hopper cars, as set forth below.

### Rolling stock purchases by Russian operators (by type, thousand railcars)

	Years ended 31 December							
	2000	2006	2007	2008F	2009F	2010F	2011F	2012F
Gondola (open top) cars . . . . .	2	17	27	41	42	43	49	53
Oil tank cars . . . . .	2	11	7	9	9	9	10	11
Cement Hopper cars . . . . .	—	2	5	5	5	6	5	5
Other . . . . .	—	16	27	18	19	23	25	26
<b>Total . . . . .</b>	<b>4</b>	<b>46</b>	<b>66</b>	<b>73</b>	<b>75</b>	<b>81</b>	<b>89</b>	<b>96</b>

Source: A.T. Kearney

These trends have had a significant impact on the average age of the fleets operated by many private operators compared with that of Russian Railways. According to A.T. Kearney, almost 40% of private operators' railcar fleets were purchased within the last six years. By contrast, according to A.T. Kearney, many of the rolling stock fleet operated by Russian Railways are at, or near to, the end of their useful life.

## Russian Railways fleet<sup>(1)</sup> average age<sup>(2)</sup> (years)

	Service life	Average age
Gondola (open top) cars . . . . .	22	19
Oil tank cars . . . . .	32	27
Hopper cars . . . . .	26	24
Other . . . . .	26	24

Source: A.T. Kearney

(1) Including railcars transferred to Freight One.

(2) As at January 2008.

For further information regarding the market factors impacting on the supply of new rolling stock, see “Business—Equipment—Supply of rolling stock”.

### Market structure of railcar sector

Since the inception of the Reform, the railcar operator market has been characterised by the rapid emergence of a large number of independent operators. According to A.T. Kearney, by the end of 2007 there were estimated to be over 2,000 private operators and railcar owners collectively owning over 348,000 railcars. However, a significant number of such operators and railcar owners have a largely regional focus or concentrate on a limited range of cargo.

Key market participants include the Group and other independent operators such as DVTG and Transgarant as well as a number of “captive” freight rail operators owned by large Russian industrial groups, such as Mechel and Evraz. In addition, the Group believes there is potential for consolidation in the industry, which could allow the creation of additional major competitors.

Russian Railways, together with Freight One, continues to play a leading role in the market. According to A.T. Kearney, Russian Railways owns approximately 429,000 railcars, or 64 per cent. of all rolling stock in operation in Russia in 2007 and Freight One owns another 200,200 railcars, most of which are leased back to, and operated by, Russian Railways. In addition, Russian Railways owns almost all of the locomotives in Russia. Russian Railways, together with Freight One, is therefore a major market player in the rail freight markets for many cargoes. While Russian Railways, together with Freight One, continue to dominate the Russian freight rail market in terms of the number of rolling stock owned, the share of rolling stock owned by private operators has been steadily growing since 2003 as set forth below.

### Railcar fleet structure in Russia

	Years ended 31 December					
	2002	2003	2004	2005	2006	2007
	(000s railcars)					
Russian Railways . . . . .	635	627	633	624	630	429
Private Operators . . . . .	216	230	242	280	300	348
Freight One . . . . .						200
<b>Total</b> . . . . .	<b>851</b>	<b>857</b>	<b>875</b>	<b>904</b>	<b>930</b>	<b>977</b>

Source: A.T. Kearney

For further information concerning the freight rail market and key market participants, see “Business—Competitive Environment”.

## PRICING IN THE RUSSIAN RAILCAR SECTOR

### Rail transportation services tariffs

Generally, tariffs which apply to the services provided by Russian Railways are established by the FTS. The freight rail transport service tariff includes the following two main components: infrastructure and locomotive charge for loaded trip and railcar charge. While the infrastructure and locomotive charge is set by the FTS for all market participants, as a result of the Reform, private freight rail operators may independently set the railcar element of their prices to customers. Accordingly, the overall price of freight rail services to end users continues to be heavily influenced by the regulatory environment.

The rail transportation tariff depends on a number of factors, including weight of cargo, distance travelled, destination (i.e. whether the freight is being transported to or from abroad through land border crossing or within Russia, including to or from sea ports) and cargo class (where Class 1 cargo attracts the lowest tariff and Class 3 cargo attracts the highest tariff). Set forth below are examples of types of cargo falling into each tariff class.

Examples of Class 1 cargo	Examples of Class 2 cargo	Examples of Class 3 cargo
Energy coal, coking coal Iron ore	Crude oil, gasoline, kerosene, diesel fuel	Ferrous and non-ferrous metals and scrap metal
Natural construction materials (including crushed stone and sand) Cement	Heating oil  Fertilizers	Construction materials for industrial production  Metal construction products
Wood	Bricks	Lubricants and oils
Chemical raw materials for fertilizer production	Agricultural machinery and equipment Asphalt Agricultural products  Cast iron	Timber production Mineral wax and other dark oil products Machinery and equipment (except agricultural) Automobiles Rubber, plastics and paint materials Organic and non-organic paint materials Alcohol products Soft goods

Source: Tariff 10-01

According to A.T. Kearney, each year between 2003 and 2007, the average tariff in the freight rail sector equalled or exceeded inflation as set forth below.

#### Historical railway tariff growth (Rebased to 100)

	Years ended 31 December				
	2003	2004	2005	2006	2007
CPI . . . . .	100	112	123	134	151
Railway tariff for internal and through sea ports transportation .	100	112	133	150	166

Source: A.T. Kearney

According to A.T. Kearney, future growth in the regulated tariffs charged by Russian Railways is likely to be determined by Russian Railways' investment programme (mainly driven by investment in infrastructure and purchase of locomotives), as well as inflation in the principal cost items of Russian Railways, such as energy, fuel, metals and other raw materials. As a result of these factors, Russian Railways' average regulated tariffs are expected by A.T. Kearney to exceed inflation each year between 2007 and 2012 as set forth below.

#### Expected railway tariff growth (Rebased to 100)

	Years ended 31 December					
	2007	2008F	2009F	2010F	2011F	2012F
CPI forecast . . . . .	100	107	114	121	128	136
Railway tariff for internal and through sea ports transportation . . . . .	100	114	127	139	153	169

Source: A.T. Kearney

In the medium term, A.T. Kearney forecasts that the increased presence of private freight rail transportation services will support a move away from regulated pricing to market driven pricing in the freight transportation market, while the infrastructure and locomotive services charge is expected to continue to be regulated in the medium term. Ultimately, liberalisation of the locomotive services segment of the Russian railcar market may increase the market-driven component of the pricing mechanism in the industry even further and afford significant competitive advantages to private operators already owning locomotives, such as the Group. However, such further liberalisation is not expected to occur before the completion of stage three of the currently planned Reform.

In addition to its current formal monopolistic function as provider of infrastructure and locomotive services in the Russian railcar sector, Russian Railways owns almost all railcar repair depots in the Russian Federation. Accordingly, prices for the services of such depots effectively represent an additional regulated charge on private operators. However, A.T. Kearney predicts that as the number of railcars operated by Freight One increases, the company will lobby Russian railways for lower repair prices and, if reductions occur, this would also benefit other freight rail operators.

### **Railcar tariffs**

In addition to its role as provider of infrastructure services at regulated tariffs, Russian Railways remains the largest provider of freight rail transportation and related services (see “—Russian Railcar Sector—Market structure of railcar sector”). As a result, the regulated freight railcar tariffs charged by Russian Railways have served as an effective benchmark for unregulated prices charged by privately owned freight rail transportation services providers in many cargo segments. However, in other segments, such as oil and oil products or cement, where Russian Railways operates limited or generally obsolete rolling stock, its railcar tariffs are not considered a pricing benchmark and prices are generally based on supply and demand.

The railcar tariff charged by Russian Railways may continue to be influenced by, among other things, the financing costs of Russian Railways’ investment programme, which may dictate tariff increases higher than the rate of inflation (see “—Rail transportation services tariffs”). However, A.T. Kearney forecasts that the establishment in 2007 of Freight One, a subsidiary of Russian Railways which is able to set its own, unregulated railcar charges, is likely to eventually reduce or eliminate the role of Russian Railways’ regulated tariff as an effective price benchmark for certain cargo types in the Russian freight rail industry.

Since, according to A.T. Kearney, Freight One’s pricing policy is to compete with private operators, such a change would be likely to result in more market based pricing. According to A.T. Kearney, this would ultimately be likely to lead to a divergence in tariffs for carriage of different cargoes depending on demand for the underlying cargo and then level of competition for carriage of that cargo. However, according to A.T. Kearney, it is likely that, similar to the case with Russian Railways, the tariffs of Freight One will also continue to be influenced by its significant capital expenditure requirements.

## **GROWTH TRENDS IN RUSSIAN RAILCAR SECTOR**

### **Demand for commodities representing key cargoes**

Growing demand for freight rail services in the Russian Federation in recent years has been driven, in particular, by strong demand for commodities which are major cargoes for Russian freight rail operators. In the future, levels of demand for such commodities are expected to continue to play a critical role in determining overall demand for freight rail. In addition, the strategic focus of operators on particular cargo classes which they believe offer the strongest growth may have a major impact on their ability to earn higher margins (see “Business—Strategy—Enhancing profit-focused growth in transportation volumes”).

Set forth below is certain data on historical and forecasted growth rate by key cargoes.

### ***Ferrous metals, scrap metal and iron ore***

Over the period of 2000 to 2006, production of metallurgical cargoes (ferrous metals, scrap metal and iron ore) grew at a CAGR of 3 to 7 per cent., driven by increased demand in construction, pipe manufacturing and other metal products manufacturing industries, according to A.T. Kearney.

### Russian ferrous metals, scrap metal and iron ore production (2006 and 2000)

	2006	2000
	(in million tonnes)	
Iron ore . . . . .	102	87
Cast iron . . . . .	52	45
Scrap metal . . . . .	31	20
Rolled steel . . . . .	58	47
<b>Total . . . . .</b>	<b>243</b>	<b>199</b>

Source: A.T. Kearney

### Production of key metallurgical cargoes in Russia (million tonnes)

	Years ended 31 December					
	2007	2008F	2009F	2010F	2011F	2012F
Iron ore . . . . .	112	119	126	133	141	150
Cast iron . . . . .	54	58	62	66	70	75
Scrap metal . . . . .	38	40	42	45	48	51
Rolled steel . . . . .	63	67	71	76	81	87
<b>Total . . . . .</b>	<b>267</b>	<b>284</b>	<b>301</b>	<b>320</b>	<b>340</b>	<b>363</b>

Source: A.T. Kearney

### Railway transportation of key metallurgical cargoes in Russia (million tonnes)

	Years ended 31 December					
	2007	2008F	2009F	2010F	2011F	2012F
Iron ore . . . . .	123	131	138	147	156	165
Cast iron . . . . .	11	11	12	13	13	14
Scrap metal . . . . .	37	39	41	43	46	49
Rolled steel . . . . .	90	96	101	107	114	121
<b>Total . . . . .</b>	<b>261</b>	<b>277</b>	<b>292</b>	<b>310</b>	<b>329</b>	<b>349</b>

Source: A.T. Kearney

According to A.T. Kearney, a key driver of the future growth in metallurgical production in Russia is the high expected investment in heavy engineering industries (such as car manufacturing, railways rolling stocks and agricultural machines) reflecting strong demand for such products due to economic growth and a trend of import replacement of domestic products. This is forecast to be assisted by high construction growth, including as a result of oil and gas fields development. However, these factors supporting growth are restricted, according to A.T. Kearney, by the still relatively under-developed network of mills producing high value products which are in the greatest demand and the relatively low quality of domestic manufacturing, which hampers export growth, as well as aggressive competition on the domestic market by foreign competitors, particularly from China.

### Oil and oil products

Boosted by the prevailing high market prices for crude oil and growth of domestic demand for oil products driven by the increasing car ownership in Russia, crude oil production in Russia grew at a CAGR of 7 per cent. over the period of 2000 to 2006 as shown in the table below. Over the same period, the production of oil products grew at a CAGR of 4 per cent. However, the share of crude oil and oil products transportation by rail has remained relatively stable over the same period, and represented 25 per cent. of all oil and oil product transportation volume in Russia in 2006, according to A.T. Kearney.

## Russian oil and oil products production (2006 and 2000)

	2006	2000
	(in million tonnes)	
Oil . . . . .	462	313
Oil products . . . . .	220	173

Source: A.T. Kearney

According to A.T. Kearney forecasts, crude oil production in Russia is not expected to grow at a high rate in the forthcoming years, constrained by the depletion of oil reserves, increasing capital and operating expenditures associated with crude oil exploration and production, slowing growth in market prices for crude oil, as well as high rates of taxation applicable to crude oil extraction. The share of rail transportation in the overall crude oil transportation by rail is also expected to remain relatively stable over the period of 2007 to 2012, according to A.T. Kearney. At the same time, A.T. Kearney expects domestic production of oil products to grow at a CAGR of approximately 2.4 per cent. over the period of 2007 to 2012, led by growth in petrol and diesel production and driven by increasing domestic demand for automobile fuels, improvement in refining technologies and growth in oil product exports. A.T. Kearney also forecasts a CAGR of 2.5% in volume of oil and oil products transportation over the period from 2007 to 2012. The projected growth of the production and the transportation of oil and oil products are set forth below.

### Oil and oil product production in Russia

	Years ended 31 December					
	2007	2008F	2009F	2010F	2011F	2012F
	(in million tonnes)					
Crude oil . . . . .	470	481	491	500	512	523
Gasoline . . . . .	36	38	40	42	43	45
Diesel . . . . .	67	70	73	76	79	82
Fuel oil . . . . .	61	62	63	65	66	67
Other oil products . .	62	63	64	65	66	66
<b>Total . . . . .</b>	<b>696</b>	<b>714</b>	<b>731</b>	<b>748</b>	<b>766</b>	<b>783</b>

Source: A.T. Kearney

### Oil and oil product transportation in Russia

	Years ended 31 December					
	2007	2008F	2009F	2010F	2011F	2012F
	(in million tonnes)					
Crude oil . . . . .	118	120	121	122	123	124
Gasoline . . . . .	8	8	9	9	10	10
Diesel . . . . .	25	27	30	32	34	36
Fuel oil . . . . .	49	51	52	54	56	57
Other oil products . .	31	32	32	33	33	34
<b>Total . . . . .</b>	<b>231</b>	<b>238</b>	<b>244</b>	<b>250</b>	<b>256</b>	<b>261</b>

Source: A.T. Kearney

### Construction materials

Driven principally by the increasing demand in the domestic construction and infrastructure sectors, which is being supported by higher government spending, declining mortgage rates and higher wages, total production of the key construction materials, cement and crushed stones in Russia (which, according to Russian railways represented more than 80% of total construction materials transportation volume in 2007) is forecast by A.T. Kearney to grow at a CAGR of 11 per cent. and 14 per cent. respectively over the period of 2007 to 2012. The main constraint on growth is expected to be the generally poor standard of cement and crushed stones production facilities, insufficient productivity levels and inefficient production technologies in Russia. According to A.T. Kearney, cement and crushed stone transportation by rail is expected to grow in line with cement and crushed stone production over the period of 2007 to 2012.

The projected growth and the transportation of cement and crushed stone production in Russia are set forth below.

### Cement and crushed stone production in Russia

	Years ended 31 December					
	2007	2008F	2009F	2010F	2011F	2012F
	(in million tonnes)					
Crushed stone . . . . .	213	242	273	308	353	404
Cement . . . . .	62	68	73	84	96	102
<b>Total . . . . .</b>	<b>275</b>	<b>310</b>	<b>346</b>	<b>392</b>	<b>449</b>	<b>506</b>

Source: A.T. Kearney, Russian Railways

### Cement and crushed stone transportation in Russia

	Years ended 31 December					
	2007	2008F	2009F	2010F	2011F	2012F
	(in million tonnes)					
Crushed stone . . . . .	211	242	276	315	359	409
Cement . . . . .	43	48	51	59	67	72
<b>Total . . . . .</b>	<b>254</b>	<b>290</b>	<b>327</b>	<b>374</b>	<b>426</b>	<b>481</b>

Source: A.T. Kearney, Russian Railways

### Coal

According to A.T. Kearney, coal production grew at a CAGR of 3 per cent. over the period of 2000 to 2006, driven by the growing demand for electricity from industrial consumers, growing prices for power coal in the international markets, as well as the relative scarcity of, and high prices for, oil and gas. Over the same period, production of power coal grew at the highest rate compared with other types of coal produced in Russia. The share of rail transportation in the overall volume of coal transported in Russia has remained relatively stable over the same period, at the high levels of 93 to 94 per cent. The table set forth below illustrates the production of coal in 2006 and 2000 reflecting the growth in coal production in Russia.

### Russian coal production (2006 and 2000)

	2006	2000
	(in million tonnes)	
Power coal . . . . .	234	186
Coking coal . . . . .	68	62
Other . . . . .	8	10
<b>Total . . . . .</b>	<b>310</b>	<b>258</b>

Source: A.T. Kearney

According to A.T. Kearney estimates, production of power coal in Russia is expected to grow at a CAGR of 6.3 per cent. over the period of 2007 to 2012, driven by higher demand for electricity generation, changing fuel mix of Russian fossil fuel generation toward coal and energy consumption both domestically and internationally (particularly in China and India), and generally constrained only by Russia's installed power generation capacity. Over the same period, rail transportation of power coal in Russia is expected by A.T. Kearney to grow in line with power coal production.

## Coal Production in Russia

	Years ended 31 December					
	2007	2008F	2009F	2010F	2011F	2012F
			(in million tonnes)			
Coking coal . . . . .	73	76	81	86	91	97
Energy coal . . . . .	247	260	275	290	310	337
<b>Total . . . . .</b>	<b>320</b>	<b>226</b>	<b>356</b>	<b>376</b>	<b>401</b>	<b>434</b>

Source: A.T. Kearney

## Coal Transportation in Russia

	Years ended 31 December					
	2007	2008F	2009F	2010F	2011F	2012F
			(in million tonnes)			
Coking coal . . . . .	67	71	75	80	85	90
Energy coal . . . . .	253	266	281	297	317	345
<b>Total . . . . .</b>	<b>320</b>	<b>337</b>	<b>356</b>	<b>377</b>	<b>402</b>	<b>435</b>

Source: A.T. Kearney

## Structural reform as a growth factor

In view of expected strong economic growth in Russia, tariff growth in the industry, the central role of freight rail in the Russian economy and the prospects for further reform and liberalisation, A.T. Kearney predicts that the private freight rail industry in Russia is likely to continue to achieve strong growth and increasing pricing power for the foreseeable future.



## BUSINESS

### OVERVIEW

The Group is Russia's largest privately owned freight rail operator, and the second largest freight rail operator in Russia by number of rolling stock operated, after Russian Railways and its subsidiaries, including Freight One. The Group provides freight rail transport and logistics services, as well as certain ancillary services to large industrial customers and medium-size corporate customers in Russia and carries customers' cargoes to destinations in Russia and Ukraine.

The Group's key customers include member companies of a number of large Russian industrial groups active in the metals and mining, oil and oil products, and other major sectors of the Russian economy, including Evraz, Lukoil, MMK, RITEK, Rosneft, Severstal and Ural Steel, as well as their affiliates and suppliers.

The Group's modern rolling stock fleet comprises several types of railcars, including gondola (open top) cars, oil tank cars, hopper cars and locomotives. As at 31 December 2007, the Group's rolling stock fleet totalled 21,310 cars and 19 locomotives. As at 31 December 2007, approximately 82 per cent. of the Group's rolling stock was either owned or leased from other companies under finance leases, with the remainder leased from third parties under operating leases. The average age of the rolling stock owned by the Group or leased by the Group under finance leases as at 31 December 2007 was approximately 3.1 years.

The Group's business model is based on (a) an extensive modern rolling stock fleet, consisting of several types of railcars, which enables it to cater to the high-volume transportation requirements of its key industrial customers, (b) a strong customer focus and sophisticated logistics know-how, enabling it to provide complex rail transportation and logistics solutions tailored to the needs of its customers, and (c) utilisation of advanced destination management and route optimisation, which reduces "empty runs" of the rolling stock and maximises the efficient commercial utilisation of the Group's rolling stock. The application of this business model has enabled the Group to acquire in a short period of time significant market shares in transportation of such higher-price cargoes as ferrous metals and scrap metal, oil and oil products. Based on data provided by A.T. Kearney, for the year ended 31 December 2007, the Group transported approximately 27 per cent. of the total volume of ferrous metals, 22 per cent. of the total volume of scrap metal, 7 per cent. of the total volume of iron ore, 7 per cent. of the total volume of oil and oil products and 4 per cent. of the total volume of coal carried in Russia by private freight rail operators.

The Group's operating profit for the years ended 31 December 2007, 2006 and 2005 were USD 127.6 million, USD 76.8 million and USD 67.6 million respectively, and the Group's assets as at 31 December 2007, 2006 and 2005 were USD 778.0 million, USD 697.7 million and USD 581.7 million respectively.

### HISTORY, DEVELOPMENT AND GROUP STRUCTURE

New Forwarding Company, currently one of the two operating subsidiaries of the Group, was established as a Russian open joint stock company in 2003 by entities controlled by the current beneficial owners of the Group, to be a new private rail transport services provider entering the Russian freight rail market, which was then undergoing deregulation. See "Regulation of Railway Transportation in Russia". In 2003, it began its transportation services operations and, in the same year, it received a freight rail carrier license.

In May 2004, the Company was established in Cyprus by EIL and a company controlled by the beneficial owners of TIHL. In July 2004, the original founding entities of New Forwarding Company transferred their respective shares in New Forwarding Company to the Company.

Sevtekhnotrans, currently the other operating subsidiary of the Group, was established in 2000 by entities controlled by the current and certain former beneficial owners of TIHL and their associates, as a Russian limited liability company. Until 2004, Sevtekhnotrans was mainly engaged in freight forwarding and rolling stock leasing. In 2004, TIHL acquired 100 per cent. ownership in Sevtekhnotrans.

In 2005 and 2006, both New Forwarding Company and Sevtekhnotrans continued to expand their respective rolling stock fleets, with the aggregate rolling stock owned and leased by the two companies reaching more than 17 thousand railcars in 2005 and more than 21 thousand railcars in 2006.

In May and June 2007, TIHL and EIL transferred their respective shares in Sevtekhnotrans to the Company through a series of transactions. As a result, the latter became the holding company of each of New Forwarding Company and Sevtekhnotrans.

Presently, the Group includes, in addition to the Company as the Group's holding company, New Forwarding Company and Sevtekhnotrans as the Company's wholly owned operating subsidiaries. Both operating subsidiaries own and lease rolling stock; however, New Forwarding Company as the owner of the "Novaya Perevoznaya Kompaniya" (New Forwarding Company) brand is responsible for marketing, sales and other customer-facing business activities of the Group. It is also the main contracting entity for freight rail transportation and other services provided by the Group.

## **COMPETITIVE STRENGTHS**

The Group believes that it has a number of key competitive strengths, which have enabled it to increase its revenue, profits, and market share over the relatively short period since its creation. The Group believes that these strengths should enable the Group to capitalise further on its leading position in the Russian freight rail transportation and logistics market in the future. These strengths include the following:

### **Leading privately owned freight rail operator in Russia**

The Group has a leading position in the Russian freight rail transportation market, being the largest privately owned freight rail operator in Russia, and second largest freight rail operator in Russia (after Russian Railways and its subsidiaries, including Freight One), by number of rolling stock operated. See "—Competitive Environment" below. The Group has significant market shares in the transportation of higher-priced cargoes (such as ferrous metals and scrap metal) in Russia.

The Group believes that it is the only privately owned operator with a geographic area of operations extending to all major industrial regions of Russia, as well to certain regions in Ukraine. This extensive operational network is managed centrally from the Group's own sales, logistics and dispatching centres in Moscow. In addition, the Group has local offices and individual representatives across its operational network, which are responsible for location-specific communications with customers, as well as facilitation of necessary local maintenance, dispatching and infrastructure support.

This wide geographic coverage enables the Group to provide a "one-stop-shop" service for its key customers with production facilities, suppliers and cargo destinations in multiple locations and reduces its dependence on select railway routes and destinations. Importantly, the Group believes that the wide geographic span of its operations facilitates the efficient use of rolling stock. See also "—Advanced destination management and route optimisation" below.

### **Advanced destination management and route optimisation**

The Group manages the dispatching and routing of its rolling stock so as to make its utilisation commercially efficient on outbound as well as return journeys. This is achieved, in essence, by matching customer orders for outbound freight transportation to particular destinations with other customer freight orders for routes originating in, or with points of origin conveniently reachable from, such destinations, thereby reducing costly "empty runs" of the Group's rolling stock on return journeys. The reduction of "empty runs" is a major driver of the Group's profitability. This is made possible by the Group's sophisticated centralised logistics function, its operational coverage, which is uniquely extensive among Russian privately owned rail operators, the presence of large Russian industrial groups and their suppliers among the Group's key customers, with production facilities and origins of supply and cargo destinations in multiple regions of Russia, as well as by the growing number of medium size customers with transport needs that are complementary to the needs of the Group's key industrial customers. The Group believes that efficient destination management and route optimisation substantially enhance the Group's competitive position. See "—Destination Management and Route Optimisation" below.

### **Large and modern fleet of rolling stock**

The Group operates the largest fleet of rolling stock among private freight rail operators in Russia, totalling 21,310 railcars and 19 locomotives as at 31 December 2007. The Group also has one of the most modern fleets of rolling stock in Russia with an average age of approximately 3.1 years for rolling stock owned by the Group and leased from third parties under finance leases. The size of the Group's fleet enables it to service some of the largest Russian rail transportation customers by volume of freight. The

Group's fleet includes gondola (open top) cars as well as the more specialised oil tank cars and hopper cars, which allows the Group to meet diverse customer needs and optimise fleet utilisation across various types of industrial cargo. The Group believes that the relatively young age of the Group's fleet, coupled with the regular maintenance it receives, enables the Group to operate its rolling stock at high levels of reliability.

#### **Focus on higher revenue generating cargoes**

The Group has successfully targeted certain higher price transportation market segments such as the transportation of ferrous metals and scrap metal, where prices for transportation services are higher and where the Group believes there is insufficient availability in the market of railcars operating on the relevant routes to meet customer demand for rail transportation. According to A.T. Kearney, for the year ended 31 December 2007, the Group transported approximately 27 per cent. of the total volume of ferrous metals, 22 per cent. of the total volume of scrap metal, 7 per cent. of the total volume of iron ore, and 4 per cent. of the total volume of coal carried in Russia by private freight rail operators. The Group believes that the higher pricing and increasing volumes associated with the transportation of these cargoes have been a significant contributor to the Group's revenue and operating profit. In addition, the Group focuses on the transportation of cargo in other higher price market segments with higher levels of competition, such as the transportation of oil and oil products, where, according to A.T. Kearney, the Group was the fourth leading private freight rail operator with a market share of 7 per cent. in 2007 in terms of volume of freight transported.

#### **Strong customer base and customer-driven relationships**

While the Group has over 250 customers, more than 70 per cent. of its revenue in 2007 was derived from servicing the transportation needs of customers belonging to seven key industrial groups operating in the metals and mining and oil and oil products sectors, including Evraz, Lukoil, MMK, RITEK, Rosneft, Severstal and Ural Steel and suppliers of the Group's key customers in the metal and mining sector. The key industrial customers of the Group, and, where relevant, their suppliers rely on the Group for reliable transportation of their high volume, time sensitive cargo shipments, on routes where there are often few alternatives to rail transport. A close working relationship with these key customers and an in-depth understanding of their production processes and transportation needs allow the Group to use its advanced destination management and route optimisation methods to provide frequent and reliable transportation services and to respond to rapidly changing customer needs. The Group also services a number of medium-size corporate customers, enabling the Group to improve the likelihood of finding customers for return journeys of its fleet, and enabling the Group to expand into new types of cargo, as well as to benefit from the economic growth of the Russian regions.

#### **Experienced management team**

The Group's core management team have spent most of their careers in the freight transport industry and have been employed by the Group for substantial periods of time. The Group's core management team have been actively involved in the business since the introduction of a competitive transport market environment in Russia and have significant experience in attracting customers as well as in competitive pricing of transportation services.

#### **STRATEGY**

The Group's strategic objective is to strengthen its leading freight rail transportation market position in Russia by further leveraging its scaleable business model. The Group intends to achieve this objective by pursuing a strategy involving the following key elements:

#### **Enhancing profit-focused growth in transportation volumes**

The Group intends to increase the volume of cargo carried by it and the Group's market share by increasing the size of its fleet of rolling stock. The Group believes that the growth in demand for products carried by gondola (open top) cars in Russia will track the overall growth of the Russian economy. Anticipating this growth in demand, the Group intends to significantly expand its fleet of owned (including cars leased under finance leases) gondola (open top) cars from 11,668 in the year ended 31 December 2007, by approximately 2,000 gondola (open top) cars in the year ended 31 December 2008, and by 3,000 gondola (open top) cars for each year thereafter until the year ended 31 December 2012.

Additionally, the Group will continue to closely monitor opportunities to capture leading positions in specialised and fast growing cargo transportation segments, such as cement and crushed stone, which the Group believes should provide it with the potential to diversify its revenue and contribute to its profit. As part of its strategy, the Group expects to purchase approximately 700 hopper cars by the year ended 31 December 2008 and purchase approximately 500 hopper cars each year thereafter until the year ended 31 December 2012, for a total purchase of approximately 2,700 hopper cars by 2012.

The Group also intends to consider the benefits of potential acquisitions of other freight rail companies or rolling stock assets with a particular focus on operating synergies, potential diversification of revenue, strengthening its market share, increasing its fleet of rolling stock and acquiring additional client relationships.

### **Consolidating its position as a leading provider of tailored logistic solutions**

The Group aims to consolidate its position as a leading provider of customer-tailored rail transportation solutions and further increase its share of total transportation volumes of key industrial companies.

As part of this strategy, the Group intends to allocate additional railcars to priority customers to serve their growing transportation needs, thereby facilitating increased customer dependence on the Group's transportation services.

In addition, the Group intends to leverage its strong customer focus and its in-depth understanding of customers' production processes and their specific transportation needs by offering additional services, such as a closer synchronisation of rail delivery of raw materials to customers' production facilities and to increase its share in the overall transportation volume of its customers. The Group believes that this should not only increase the Group's revenue but also strengthen the Group's position as a trusted partner and supplier of choice for rail transportation services.

In order to develop greater customer loyalty, the Group also intends to capitalise on its relationship with Russian Railways, facilitating the efficiency of customer interactions with Russian Railways and offering the service of direct interaction with Russian Railways to more customers.

### **Continuing to improve operating efficiencies**

The Group is focused on increasing the efficient use of its rolling stock fleet, which the Group believes to be a major profitability driver. To achieve this goal, the Group intends to continue to apply its route optimisation techniques, increase the use of block trains, continue to reduce dwell time and optimise maintenance and repair of its rolling stock. The Group's destination management and route optimisation will remain at the forefront of the Group's efficiency drive, and the Group intends further to support its application by ongoing development and improvement in the use of its route optimisation software, creation of new efficient "route loops" assisted by an increase in customer relationships with medium-size corporate customers, as well as continuing reduction of "empty runs" on existing routes. The Group plans to work with its existing customers with a view to increasing the use of "block trains" on regular high-cargo volume destinations. "Dwell time" driven inefficiencies are intended to be reduced by continuous identification and reduction of "dwell time" at customer premises, including by pricing its freight rail transportation services in a manner that incentivises key customers to minimise "dwell time" at their premises. Optimisation of maintenance and repair processes with respect to the Group's rolling stock fleet is intended to be achieved by careful planning and prioritisation of maintenance work on the Group's rolling stock at repair shops, as well as maintaining a modern fleet of rolling stock.

### **Expanding the client base**

The Group intends to expand its client base by offering its competitive and customer focussed transportation services and building on existing customer relationships, notably its key industrial customers. In addition, the Group plans to identify new customers among large industrial groups. The Group also intends to continue to build strategic relationships with medium-size corporate customers with a view to increasing volumes of cargo carried, reducing "empty runs" of its rolling stock, and adding new routes to leverage the Group's destination management and route optimisation. The Group believes that the addition of medium-size corporate customers will also allow the Group to benefit from the economic growth of the Russian regions.

The Group is seeking to develop additional sources of growth by strengthening its operations in Ukraine and diversifying and expanding its operational coverage into certain neighbouring countries such as the

Baltic States, Kazakhstan and other Central Asian countries by serving the growing needs of Russian clients as well as developing additional CIS client relationships.

### **Exploring opportunities to increase its services offering**

The Group believes it has the prerequisites to successfully begin locomotive services once the locomotive services sector liberalises, and opportunities for private carriers or operators emerge. The Group also believes that the locomotive services sector, once liberalised, could be one of the most profitable segments in the freight rail transportation sector. The Group further believes that operators with stable routes and owning fleets of locomotives should benefit the most from the sector's liberalisation. In anticipation of its liberalisation, the Group has obtained a carrier licence, built up a fleet of 19 locomotives and established the required internal support systems and is already operating some of its locomotives on short routes of stable demand to develop experience in the locomotive sector. See also “—Services—Other services”.

### **DESTINATION MANAGEMENT AND ROUTE OPTIMISATION**

Destination management and route optimisation are, alongside the extensive and diverse fleet of rolling stock, strong customer base and sophisticated logistics capability, a cornerstone of the Group's business model. Under the existing pricing conditions in the Russian rail transportation market, the rail transportation services price on most of the Group's important cargoes (including ferrous metals and scrap metal, but excluding oil and oil products) applicable to a given one-way shipment by rail incorporates a portion of the charge for the assumed empty return journey of the rolling stock for a significant part of the distance from the relevant shipment destination to the point of origin. For general purpose rolling stock (including gondola (open top) cars) the allowance included in the tariff for “empty run” on the return journey on average assumes an “empty run” on 60 per cent. of the return journey and for specialised rolling stock (such as oil tank cars and hopper cars) the allowance included in the tariff for “empty run” on the return journey assumes an “empty run” on approximately 100 per cent. of the return journey. As part of the transportation services price, this charge is passed on to the relevant customer. If, after having delivered the cargo to its destination, the Group's rolling stock does not carry cargo on a part of its return journey exceeding that covered by the “assumed empty return journey” charge, such an “empty run” would result in costs that the Group would not be able to pass through to the customer. These costs would therefore detract significantly from the margin derived by the Group from the outbound journey with cargo, or, depending on the route, even make the entire journey unprofitable. To reduce such costly “empty runs”, the Group manages its cargo destinations and routes so as to match a customer order for rail shipment of cargo to a particular destination with another cargo shipment order from that destination to the point of origin, or to another destination where yet another customer shipment would originate, and so on until its rolling stock returns to the initial point of origin. This matching of routes and destinations creates efficient “route loops”, where the Group's rolling stock carries cargo on each leg of the journey, maximising efficient use of the Group's fleet and driving revenue and margin. According to the Group's management accounts, the Group managed to decrease the “empty run” ratio for gondola (open top) cars from 39 per cent. in 2005 to 36 per cent. in 2006 and to 21 per cent. in 2007 as a result of expanded geographic coverage and better route optimisation.

This “looping” of routes is made possible by the presence of members of large industrial groups and their raw material suppliers among the Group's key customers, with production facilities, origins of supply and cargo destinations in multiple locations. The Group seeks to leverage this by expanding the medium-size corporate segment of its clientele, offering flexible pricing on return journeys to attract new customers. Efficient destination management and the ability to create “route loops” is a major margin driver of the Group's freight operation.

Continuous destination management and route optimisation, aligned with the complex transportation and logistic requirements of the Group's customers, is a logistical task of significant complexity and is the responsibility of the Group's logistics and dispatching centres in Moscow. The logistics centre is responsible for the monthly and weekly planning of the Group's transportation services, managing response to customer demand, identification and implementation of commercially efficient “route loops” on the basis of existing demand, route options and rolling stock location. It also analyses occurring delays or “empty runs” with a view to improving operational efficiencies. The daily operation of the Group's rolling stock and the implementation of the transportation plans designed by the logistics centre is the responsibility of the Group's dispatching (or transportation control) centre, which is also located in Moscow. The dispatching centre is responsible for the day-to-day, around the clock, dispatching and tracking of rolling stock fleet. With its information systems connected to, and receiving information from,

the main computer centre of Russian Railways, it is equipped to address day-to-day issues relating to the identification of route bottlenecks, journey delays and other inefficiencies as well to any operational incidents.

Another important element in the Group's destination management and route optimisation method is the use of "block trains". Consisting only of the Group's rolling stock bound for the same destination, these trains, in contrast to trains consisting of rolling stock operated by various parties and/or heading to various destinations, do not require the time-consuming attachment and detachment of rolling stock at stations, thus improving delivery time and thereby increasing railcar utilisation and the overall efficiency of the Group's services.

## SERVICES

### **Freight rail transportation and associated services**

#### *Freight rail transportation*

Freight rail transportation is the central value-added element in the Group's services offering. The Group considers itself a market leader in the Russian freight rail market. According to management estimates, for the year ended 31 December 2007, the Group had a total freight rail turnover (calculated as tonnage of freight carried by distance carried, measured in tonne-kilometres) of 61 billion tonne-kilometres and transported 35.4 million tonnes of freight in the same period.

The presence in the Group's fleet of several types of railcars allows the Group to carry a variety of cargoes, including ferrous metals, scrap metal, ores, coal and crushed stone (carried by gondola (open top) cars), oil and oil products (carried by oil tank cars, including "steam jacket" oil tank cars) as well as cement (carried by hopper cars). See "—Equipment". The pricing of freight rail transportation services varies across cargo type depending on (a) the level of the regulated railcar charge imposed by Russian Railways, Russia's largest freight rail operator, for transportation of most cargo types, with the notable exception of oil, oil products and cement, where the Russian Railways tariff is no longer the market benchmark due to inefficient numbers of rolling stock operated by Russian Railways in these segments and (b) the level of demand for transportation of a particular cargo type. In essence, the higher the regulated railcar charge imposed by Russian Railways for cargo transportation in the cargo segments where this railcar charge serves as a benchmark, the better opportunity this presents for privately owned freight rail operators such as the Group to offer more attractive pricing for transportation of the same cargo. See "—Pricing" below.

According to A.T. Kearney, for the year ended 31 December 2007, the Group transported approximately 27 per cent. of the total volume of ferrous metals, 22 per cent. of the total volume of scrap metal, 7 per cent. of the total volume of iron ore, 7 per cent. of the total volume of oil and oil products and 4 per cent. of the total volume of coal carried in Russia by private freight rail operators.

The Group believes that ferrous metals and scrap metal provide the most attractive pricing opportunities among the main cargo types carried by the Group, not only because of the higher pricing of these cargoes in Russian Railways' regulated railcar tariffs, but also because of the relatively limited availability of rolling stock operating on the relevant routes to meet the existing demand. Capitalising on the presence of members of major Russian metals and mining groups, such as Severstal, Evraz Group, Ural Steel and MMK, among its key customers, the Group has a significant market share in the ferrous metals and scrap metal cargo segment. Gondola (open top) cars utilised to carry this cargo represent the largest category in the Group's fleet of rolling stock. The Group believes that the oil and oil products cargo segment is also profitable because the freight rail operators are able to charge higher tariffs than Russian Railways regulated tariffs due to the significant demand in this sector and the relatively limited number of oil tank cars available, but the competition in this cargo segment is significantly higher than with ferrous metals and scrap metals. The Group has a stable market position in the transportation of oil and oil products due to its sizeable rolling stock of oil tank cars, including steam jacket oil tank cars, which are more efficient during winter months. The Group also has long standing relationships with its major clients in the oil and oil products sector in Russia, and the Group has also profitably leased-out some of its fleet of oil tank cars to third parties. The Group also intends to expand into transportation of cement and crushed stone, because of its attractive pricing characteristics and the presence of hopper cars in the Group's fleet suitable to carry cement. See also "—Pricing—Transportation services pricing".

### *Associated logistics and tracking services*

The Group believes that its logistics and tracking services add considerable customer value to the Group's value-added freight rail transportation services offering. Capitalising on its strong relationships with, and in-depth knowledge of the transportation aspects of, its key industrial customers' operational, raw material supply and production delivery patterns, the Group offers sophisticated logistics solutions to meet their high-volume transportation needs. These include timely provision of rolling stock for loading and unloading, carefully scheduled to match with key industrial customers' production processes and technical specifications, including supply of raw materials and shipment of production, and enabling relatively rapid adjustment to changes in the customer production processes and raw material supply requirements.

The Group also offers its customers sophisticated rolling stock and cargo tracking services, made possible by the Group's dispatching centre. Located in Moscow, this centre operates 24 hours a day, seven days a week. The centre's information systems are directly connected to the main computer centre and corporate communication systems of Russian Railways, enabling regular intra-day information reception from the transport control systems of Russia's railway network operator. This advanced transport control capability allows constant tracking of rolling stock movements at any time of the day throughout the Group's operational network and enables the Group to determine the location of its rolling stock carrying, or arriving to be loaded with, customer cargo. In addition, this service facilitates the expeditious detection, avoidance and minimisation of any unscheduled delays of cargo in transit.

The Group provides this service through constant communications between its dispatching centre and the transportation departments of its key customers, providing its customers with regular updates and prompt consultation on any operational issues arising in respect of their cargoes' progress to their destinations.

### **Other services**

Other services provided by the Group include freight forwarding (shipment of cargo carried by Russian Railway's rolling stock or other third parties' rolling stock, often belonging to customers' captive freight rail operators), locomotive services, which is currently only provided by the Group on two routes, and government documentation services (agency-based representation of and assistance to customers in securing necessary clearances and authorisation for transportation of special and hazardous cargoes, as well as other representation of customer interests vis-à-vis Russian Railways). In anticipation of the possible liberalisation of the locomotive services sector (see “—Strategy—Exploring opportunities to increase its services offering”), the Group has obtained a carrier licence which however is due to expire in August 2008 and will need to be renewed by the Group. At the time of the expiration of the licence, the Group intends to decide on the timing of the renewal of the licence depending on the then current progress with the liberalisation of the Russian locomotive sector. In certain cases, the Group also leases its rolling stock to third parties and related parties under operating leases; however, this is not a substantial part of the Group's business. As at 31 December 2007, the Group had leased out 1,459 of its railcars.

### **Development of new services**

Striving to develop new customer-tailored rail transportation solutions as part of its overall strategy (see “—Strategy—Consolidating its position as a leading provider of tailored logistic solutions” and “—Strategy—Continuing to improve operating efficiencies” above), the Group intends further to enhance its services offering. This may include a closer synchronisation of rail delivery of raw materials to customers' production facilities with the off-take of production or development of logistical solutions involving the use of several modes of transport (a complex service involving route planning aimed at optimising the use of the rail component with the use of the Group's route optimisation methods and provision of agency services in connection with the payment of regulated railroad tariffs charged by railway network operators). In addition, the Group intends to capitalise on its existing fleet of 19 locomotives and expand the provision of locomotive services, if and when the regulatory environment is liberalised to allow greater access of privately held service providers to this service sector. (See “—Strategy—Exploring opportunities to increase its services offering” above).

## **CUSTOMERS AND SALES**

### **Customer base**

The Group's customer base is concentrated on large Russian industrial groups leading in the metals and mining and oil and oil products sectors of the Russian economy, including Evraz, Lukoil, MMK, RITEK,

Rosneft, Severstal and Ural Steel. Sales of the Group's services to members of these seven key industrial groups and their suppliers active in the metals and mining sector represented more than 70 per cent. of the Group's overall Adjusted Revenue in the year ended 31 December 2007. While a majority of the Group's sales have been concentrated on a few key customer groups, these key customers, in terms of timely payment for services, have maintained a very high level of credit worthiness with the Group.

This key customer focus is aligned with the Group's focus on higher-priced cargo categories such as ferrous metals and scrap metal, as well as oil and oil products. Most of these key customers (particularly those in the metals and mining sector) have production facilities, sources of supply and production delivery destinations in multiple geographic locations. Their cargo transportation patterns are characterised by high cargo volumes and a need for regular and timely delivery of raw materials and shipment of finished production (which is particularly true for the metals and mining groups among the Group's key customers with their continuous production processes reliant on uninterrupted feedstock supply and production offtake). Ferrous metals (the finished product for the Group's key customers in metals and mining), scrap metal (an important raw material for the Group's key customers in metals and mining) and oil and oil products (required to be carried for the needs of the Group's key customers active in the oil and oil products sector) are also among the higher-priced cargoes in the current Russian rail transportation market environment. See "—Services—Freight rail transportation and associated services".

The table below shows the percentage of Adjusted Revenue generated by the Group from services provided to its key customers and their suppliers in the year ended 31 December 2007.

<u>Customer group and its suppliers</u>	<u>Customer's sector</u>	<u>Per cent. of the Group's Adjusted Revenue for the year ended 31 December 2007</u>
Severstal .....	Metals and mining	12.2
MMK .....	Metals and mining	10.3
Evrast Group .....	Metals and mining	8.5
Ural Steel .....	Metals and mining	4.2
Lukoil .....	Oil and oil products	17.7
Rosneft .....	Oil and oil products	13.5
RITEK <sup>(1)</sup> .....	Oil and oil products	4.9
Other .....	Various	28.8
<b>Total</b> .....		<b>100.0</b>

(1) Affiliate of Lukoil.

Source: The Group's management accounts (cannot be directly derived from the Group's EU IFRS accounts)

Of the Group's overall Adjusted Revenue in the year ended 31 December 2007, 28.8 per cent. was attributable to medium-sized corporate customers. The Group believes that these medium-sized customers allow the Group to diversify its destinations and routes and reduce "empty runs" of rolling stock on return journeys, which are key components in the Group's margin-driving destination management and route optimisation strategies. The Group's medium sized clients have grown from 115 at 31 December 2005 to 238 at 31 December 2006 and 276 at 31 December 2007. The Group expects that the presence of medium-size corporate customers among its overall customer base will assist the Group's proposed expansion into new cargo types, including cement, support its destination management and route optimisation processes, and enable the Group to benefit from economic growth in the Russian regions.

### **Contract and payment terms**

Most customers receive the Group's services on the basis of annual contracts. In the year ended 31 December 2007, the Group estimates that payments under annual contracts represented more than 80 per cent. of the Group's total revenue for the same period. The Group's preference to keep annual, as opposed to longer-term, contracts even with its large key industrial customers, is driven by current market conditions and the competitive environment, which the Group perceives to be relatively volatile. Annual contracts establish general terms for the provision of transportation services with firm volume, destination and price terms established and adjusted, generally, on a monthly basis in either a contractual addendum or an application for cargo transportation. Price adjustments are typically driven by changes in regulated tariffs, currency rates, prevailing competition levels among service providers and other market conditions.



Volume adjustments are largely driven by changes in the transportation needs of the Group's customers and tend to be within tolerance rates of approximately five to ten per cent. of the cargo volumes originally stated with respect to the relevant period in the annual contract. Annual contracts usually have automatic renewal provisions with termination at the request of one of the parties prior to the expiry of the contract. Some of the annual contracts are renewed by way of entering into supplementary contracts.

The Group offers its customers two types of contracts: (a) a "lump sum" contract pursuant to which the customer is charged a single price for the Group's services, the infrastructure and locomotive charges payable to Russian Railways are borne by the Group and the customer has no interaction with Russian Railways, and (b) a "railcar charge only" contract pursuant to which the customer pays only the railcar charge to the Group, and the infrastructure and locomotive charges for the loaded trip are payable by the customer to Russian Railways directly.

Depending on the type of customer and length of customer relationship, customer contracts may require payment in advance of up to 100 per cent. of the services price before the Group's services commence, or before the start of the relevant delivery period. Alternatively, they may provide for payment in arrear a certain number of days following the provision of the relevant service. According to the Group estimates, in the year ended 31 December 2007, sales to customers with contracts requiring full payment in advance represented 31 per cent. of the total revenue. Other customers paid approximately 35 to 65 per cent. of the contract price in advance, with the balance payable in arrears within several days of the invoice date or the signing date of the act of transfer and acceptance or within several days following the month when the relevant transportation services were provided. According to the Group estimates, deviations from this payment schedule towards longer arrear payment periods affected less than 2.2 per cent. of total revenue in the year ended 31 December 2007.

### **Sales network**

New customer requests for transportation services, as well as requests from existing customers for monthly volume, destination and price adjustments, are received and handled by the Group's centralised sales centre located in Moscow. Acting in close co-operation with the Group's centralised logistics centre, the sales department is responsible for new business origination, handling and pricing customer orders and other customer contacts. The Group's sales effort is also supported by the Group's local offices and individual representatives across the Group's operational network, which provide the sales centre with requests for services originated locally and other location specific pricing information.

## **PRICING**

### **General**

Pricing of the Group's transportation services is largely driven by the nature of Russia's regulated rail industry, which is currently undergoing gradual reform and liberalisation. Previously the exclusive domain of the state-owned railway companies, the Russian railway sector entered the first phase of the rail sector reform in 2001, heralded by the enactment of legislation securing non-discriminatory access of private rail operators to railway infrastructure. Russian Railways became the sole operator of the railway infrastructure, with the status of a regulated natural monopoly. Presently, Russian Railways is also still active in passenger and freight transportation, provision of locomotive services, maintenance, repair and other businesses, which are proposed to be decoupled from its railway infrastructure operation business into separate companies for subsequent flotation. Because of its regulated status as a natural monopoly, Russian Railway tariffs for infrastructure use, provision of locomotive services with the use of Russian Railways locomotives, and passenger and freight rail transport services provided with the use of Russian Railways rolling stock are fixed by regulation, with annual adjustments to take account of inflation and other factors. Prices charged by private rail operators for their transportation services are not regulated, but some of the services are still subject to the regulated tariff payable to Russian Railways for the use of railway infrastructure and, where Russian Railways locomotives are used, locomotive services. The regulated nature of the tariff charged by Russian Railways for its rail transport services give private rail operators an opportunity to compete on price with Russian Railways. Tariffs for the railway infrastructure use and locomotive services are established by FTS, a federal government body. For details see "Regulation of Railway Transportation in Russia".

## Price components

The price charged by the Group for its freight rail transport services covers the following two main components:

*infrastructure and locomotive charge for a “loaded trip”* a tariff charged for the use of railway infrastructure operated, and locomotive services provided, by Russian Railways and set by the FTS. Because Russian Railways is the sole infrastructure operator and provides locomotive services in most cases, this charge for loaded trips is passed through by private rail transport operators to their customers. Rather than paying infrastructure and locomotive charges for loaded trips to rail transport operators, customer contracts may provide for payment of these charges directly to Russian Railways;

*railcar charge* this price component is only regulated for rail transport services provided by Russian Railways. Private rail transport operators establish their own railcar charges free of regulation. However, the regulated railcar tariff charged by Russian Railways, still the largest rail transport operator by number of rolling stock operated, serves as a benchmark for other market participants in most cargo segments, with the notable exception of oil, oil products and cement, where insufficient rolling stock operated by Russian Railways has led to Russian Railways’ tariff no longer being considered the market benchmark. It is this price component that gives the Group pricing flexibility compared with Russian Railways and provides it with margin opportunities driven by attractively-priced efficient use of its rolling stock.

## Transportation services pricing

The calculation of transportation services price is a complex function of the class of cargo carried, type of railcar used, cargo destination, the distance carried and a number of additional factors. Tariff 10-01 differentiates between three Classes of cargo—Classes 1, 2 and 3. Class 3 (which includes ferrous metals and scrap metal) attracts the highest prices and Class 1 (which includes iron ore and coal) the lowest. Oil and oil products belong to cargo Class 2. According to the Group’s management estimates, in 2007, approximately 33.6 per cent. of the total volume of cargo transported by the Group belonged to Class 3, whereas Class 2 and Class 1 accounted for approximately 27.6 per cent. and 38.8 per cent., respectively. In 2007, approximately 41 per cent. of the Group’s Adjusted Revenue was derived from Class 3 cargo, whereas Class 2 and Class 1 cargoes accounted for approximately 36.6 per cent. and 22.4 per cent., respectively. The regulated railcar tariff charged by Russian Railways, still the largest rail transport operator by number of rolling stock operated, serves as a benchmark for other market participants in most cargo segments, with the notable exception of oil, oil products and cement, where insufficient rolling stock operated by Russian Railways has led to Russian Railways’ tariff no longer being considered the market benchmark.

Transportation services prices also increase with the distance that the relevant cargo is carried. However, the benefits of the distance factor are offset by the need to find cargo for at least a substantial part of the return journey, to avoid the cost of a return “empty run”. In respect of most cargoes, in the current Russian rail transportation market conditions, the transportation services price for a given distance includes a component which effectively assumes an “empty run” on a certain part of the return journey. For general-purpose rolling stock (including gondola (open top) cars) the allowance included in the tariff for “empty run” on the return journey on average assumes an “empty run” of 60 per cent. of the distance of the return journey, and for specialised rolling stock (such as oil tank cars and hopper cars) the allowance included in the tariff for “empty run” on the return journey assumes an “empty run” on approximately 100 per cent. of the distance of the return journey. To remain competitive on price, the Group has to manage its routes and destinations so that, on every given cargo journey, the actual “empty run” part of the return trip does not exceed the “empty run” distance covered by such assumed allowance, and, ideally, is significantly less than such assumed “empty run” distance. The Group’s advanced destination management and route optimisation methods create efficient “route loops” and minimise “empty runs”, ensuring that

the Group remains flexible on railcar charge pricing and driving the Group's margins. See also "—Destination Management and Route Optimisation".

According to A.T. Kearney, as Freight One enlarges its fleet in operation, the influence of Russian Railways' regulated tariff as market benchmark in the gondola (open top) car segment of the market is expected to decrease. The pricing in the oil tank car and hopper car market segment are already subject to market conditions and competition and pricing in these markets are higher than the regulated tariffs imposed on Russian Railways. Also according to A.T. Kearney, Freight One's pricing policy will be set to compete with other private operators, and the increased presence of Freight One in the market may also lead to the replacement of Russian Railways' regulated railcar tariff as market benchmark with Freight One's unregulated rail charge. In addition, as an operator of a very extensive rolling stock fleet, Freight One may lobby Russian Railways for a reduction of the price of rolling stock repair and maintenance charged by Russian Railways, which could also benefit Russian privately-held freight rail operators. See also "—Competitive Environment—Freight One".

### **Pricing of customer orders**

Pricing of the Group's transportation services is the responsibility of the Group's centralised sales department. See "—Customers and Sales—Sales network" above. Upon the receipt of a request for transportation from a potential customer, or that for a monthly adjustment under an annual contract from an existing customer, the sales centre identifies the volume, tariff classification and points of origin and destination and passes this information to the logistics centre. See "—Destination Management and Route Optimisation" above. The latter determines whether the cargo belongs to one of the higher-priced cargo classes, whether its volume is sufficient to be of commercial interest to the Group, whether the requested destination fits into one of the existing profitable "route loops" or may result in a significant "empty run" on the return journey, as well as whether the potential customer, its cargo or any other terms of the relevant request are likely to give rise to any other logistical or operational difficulties. These factors, as well as the analysis of the competition among freight rail operators on the relevant routes and availability of requisite rolling stock determine whether the Group offers its services in response to this request, and whether the Group's services are priced at a premium or a discount to the prevailing market prices. The Group employs *Rail-Tariff* pricing software for these complex pricing calculations. See "—Information Technology" below. On average, the Group seeks to respond to a potential customer within 24 to 48 hours after receipt of the relevant request.

### **EQUIPMENT**

The Group has an extensive and modern fleet of railcars and locomotives as described below.

#### **Railcars**

As at 31 December 2007, the Group's fleet of rolling stock numbered 21,310 railcars, of which 17,407 were either owned by the Group or leased from third parties under finance leases, and 3,903 were leased from third parties under operating leases. The average age of the Group's rolling stock owned or leased under finance leases was approximately 3.1 years as at 31 December 2007.

The majority of the Group's fleet of rolling stock are gondola (open top) cars. The general-purpose gondola (open top) cars can be used to carry a variety of cargoes, including ferrous metals, scrap metal, ores, crushed stone, coal, timber and pipes. As at 31 December 2007, gondola (open top) cars accounted for approximately 67.5 per cent. of the Group's fleet of rolling stock.

The second largest group of railcars in the Group's fleet are oil tank cars, utilised for transportation of oil and oil products. Approximately 20 per cent. of the Group's oil tank rolling stock fleet are steam jacket oil tank cars, which allow efficient transportation of oil and oil products over longer distances during winter months.

Hopper cars, a type that has several sub-categories equipped to carry various dry cargoes, including grain and cement, represented less than one per cent. of the Group's fleet as at 31 December 2007. The Group intends to significantly increase its hopper car fleet in connection with its proposed expansion into new cargo segments, such as cement. See "—Strategy—Enhancing profit-focused growth in transportation volumes" above. The Group also leases 38 flat cars.

## Locomotives

The Group believes it has the prerequisites to successfully begin locomotive services once the locomotive services sector liberalises, and opportunities for private carriers or operators emerge. The Group also believes that the locomotive services sector, once liberalised, could be one of the most profitable segments in the freight rail transportation sector. The Group further believes that operators with stable routes and owning fleets of locomotives should benefit the most from the sector's liberalisation. In anticipation of its liberalisation, the Group has obtained a carrier licence (which is due to expire in August 2008), built up a fleet of 19 locomotives, established the required internal support systems and is already operating some of its locomotives on short routes of stable demand to develop experience in the locomotive sector. At the time of the expiration of the licence, the Group intends to decide on the timing of the renewal of the licence depending on the then current progress with the liberalisation of the Russian locomotive sector.

The table below sets out information on the number and source of the Group's fleet of rolling stock by category and locomotives as at 31 December 2007.

<u>Units</u>	<u>Leased</u>	<u>Owned<sup>(1)</sup></u>	<u>Total number</u>
Gondola (open top) cars . . . . .	2,713	11,668	14,381
Oil tank cars <sup>(2)</sup> . . . . .	1,152	5,337	6,489
Hopper cars . . . . .	0	402	402
Flat cars . . . . .	38	0	38
Locomotives . . . . .	1	18	19
<b>Total</b> . . . . .	<b>3,904</b>	<b>17,425</b>	<b>21,329</b>

(1) Includes railcars leased under finance leases.

(2) Oil tank cars include steam jacket oil tank cars and regular oil tank cars.

## Supply of rolling stock

Most of the Group's rolling stock is owned or leased under finance leases, and the Group intends to continue to purchase the majority of rolling stock to be operated by the Group in the future. The Group purchases most of its rolling stock new from Russian and Ukrainian manufacturers, including among others, Uralvagonzavod, Ruzkhimmash, Altaivagon, Azovobschemash, Kryukovskii VSZ, Stakhanovskiy Carriage Works and Transmashholding and their authorised representatives. Purchase terms usually involve advance payments and quality control at the certification centres of Russian Railways or Ukrzaliznitsa (Ukrainian Railways). The Group acquires its rolling stock using cash generated from operations, finance leases or borrowings from banks or other institutions.

According to A.T. Kearney, in the medium term, based on the demand for fleet expansion and railcar renewal, the CIS manufacturers are expected to be able to grow their production capacity at a rate sufficient to satisfy the demand for new railcars. The purchasing activities of Russian Railways, who may need to replace its very extensive and ageing fleet of rolling stock, may limit the rolling stock production capacity available to private freight rail operators should purchase orders be placed by Russian Railways and its subsidiaries at a higher rate than that assumed by A.T. Kearney in its estimates. To date, the Group has not experienced significant constraints in purchasing new rolling stock, and is able to rely on leasing to respond to any short-term increases in its rolling stock requirements.

In addition to purchasing as the main source of the Group's rolling stock fleet enlargement, the Group relies on operational leasing from other companies as a way to enlarge its fleet relatively quickly and without significant capital outlays, should such enlargement be required by increases in customer orders for cargo transportation, including as a result of seasonal fluctuations. Leases of rolling stock by the Group tend to be specific to a particular customer order and particular route. Rolling stock lessors to the Group are mostly private leasing companies and captive rail transport operators of large industrial groups, including some of the key industrial customers of the Group. Under standard lease terms, the lessor is responsible for the cost of repair and the lessee for maintenance of the leased rolling stock.

## Maintenance and Repair

Because of the importance of reliable and efficiently functioning rolling stock in the Group's business, its proper maintenance and repair are key for the Group's success.

The Group's rolling stock undergoes scheduled servicing at car-repair depots, which are operated by Russian Railways, after every 160,000 kilometres and at least every year after the third year of life, except hopper cars, which undergo scheduled maintenance every two years after the third year of life. As at 31 December 2007, the average age of the Group's rolling stock owned or leased by the Group from third parties under finance leases, was 3.1 years. According to the Group's management estimates, for year ended 31 December 2007, the average cost of scheduled repair was approximately USD 1,700 for a gondola (open top) car, oil tank car or hopper car. Depending on the type of railcar, rolling stock undergoes capital repair (an exercise involving substantial overhaul and renovation) every 11 years (for gondola (open top) cars), every 13 years (for oil tank cars) or every 10 years (for hopper cars). According to the Group's management estimates, for year ended 31 December 2007, the average cost of capital repair was approximately USD 2,700 for a gondola (open top) car and hopper cars and approximately USD 1,700 for oil tank cars. A substantial portion of the maintenance and repair cost associated with operating rolling stock is the wear and tear of wheels and their replacement. Each railcar has four pairs of wheels, and each wheel pair is replaced once every six to seven years. According to the Group's management estimates, as at 31 December 2007, the average cost of replacing four pairs of wheels on a railcar was approximately USD 7,400.

In addition, the Group fleet receives routine technical inspection and minor repair at repair shops throughout the Russian Railways network.

The Group has signed maintenance and repair services contracts with 62 rolling stock repair depots, which are technical facilities providing scheduled maintenance and emergency and capital repair, and 95 rolling stock repair shops, which are smaller units providing routine inspection and minor repair. All of these facilities are owned by Russian Railways. The *MC—Slezhenie* system employed by the Group monitors the maintenance schedules for each railcar and can detect a railcar's proximity to within two to three hours of one of the contracted repair depots or shops, enabling rapid detachment of a railcar requiring regular maintenance or emergency repairs. See “—Information Technology” below.

The Group maintains a working inventory of essential spare parts, including wheel pairs, side frames, shock absorbers, significantly reducing car repair and maintenance idle time. The local offices and individual representatives of the Group assist in securing rapid resolution of any location-specific operational issues relating to maintenance and repair.

## COMPETITIVE ENVIRONMENT

### General

The competitive landscape in the Russian freight rail transportation market has changed significantly since the commencement of the rail sector reform in 2001. Whilst Russian Railways remains a dominant player with the country's largest fleet of rolling stock and a monopolistic role as the sole railway infrastructure operator, the market share of privately owned operators striving to compete with Russian Railways on service and pricing flexibility has grown considerably since the commencement of the reform. According to a presentation by Russian Railways, the market share of privately operated rolling stock in the Russian freight rail market increased from 26 per cent. in 2003 to 38 per cent. in 2007. Notwithstanding the large total number of private operators in the market, it remains significantly concentrated in the hands of a few large players, including the rail transport companies captive to large Russian industrial groups. According to A.T. Kearney, as at the end of 2007, there were approximately two thousand five hundred private rail operators in the Russian freight rail market, with the largest 100 to 120 operators by freight turnover accounting for over 80 per cent. of the freight turnover in the private sector.

Because of its extensive fleet of rolling stock, strong customer focus and business model built on advance destination management and route optimisation, the Group has been able to gain a significant market share in a range of higher-priced cargoes in a relatively short time. See “—Competitive Strengths” above. The table below illustrates the respective market shares of Russian Railways and the Group in various key cargoes, measured by freight turnover according to Russian Railways.

The following tables sets forth the respective market shares of Russian Railways and the Group by cargo type and freight turnover, expressed in million tonnes of cargo transported for the year ended 31 December 2007.

<b>Cargo type</b>	<b>Russian Railways &amp; Freight One</b>	<b>The Group</b>
Scrap metal . . . . .	21.0	3.5
Ferrous metals . . . . .	65.4	9.6
Oil and oil products . . . . .	77.0	10.8
Iron ores . . . . .	66.4	3.8
Crushed stone . . . . .	180.0	1.2
Cement . . . . .	30.0	0.2
Coal . . . . .	250.2	2.8

*Source: A.T. Kearney*

Because of the highly fragmented nature of the private sector in the Russian freight rail market and the largely regional focus of many other privately owned rail operators, the Group believes that it experiences a higher level of competition in certain regions, rather than on a nationwide scale. The Group believes it is the only privately owned freight rail operator with an operational coverage extending to every major industrial region in Russia, as well as certain regions in Ukraine.

In addition, the level of competition may vary depending on type of cargo; for instance, the Group believes that oil and oil product transportation is characterised by higher competition levels than that of ferrous metals or scrap metal, due to generally higher pricing.

Apart from Russian Railways and its subsidiaries (including Freight One), the Group considers its nationwide competition to include DVTG, Metalloinvesttrans, Transgarant, Mecheltrans and EvrazTrans.

Set forth below is a brief description of these competitors.

### **Russian Railways**

Russian Railways is the dominant rail transportation enterprise in Russia. The physical infrastructure and almost all of the locomotives in Russia are owned by Russian Railways. According to A.T. Kearney, approximately 429,000 rolling stock or 64 per cent. of all rolling stock in operation in 2007 were owned by Russian Railways, however, it operates 594,800 rolling stock. Russian Railways, together with its wholly-owned subsidiary, Freight One, are the leading market players in each of the various rail transportation product categories. Russian Railways, together with Freight One, are the most dominant market participants in metallurgical cargo, construction materials and coal transportation, and they are the leading market participants in the transportation of oil and oil products.

### **Freight One**

Freight One was created in July 2007 as a wholly-owned subsidiary of Russian Railways to operate on the same basis as a privately-held freight rail operator with unregulated railcar charges. According to A.T. Kearney, Freight One's total fleet of rolling stock is approximately 200,200 railcars; however, many of these railcars are at or have reached the end of their useful life, and A.T. Kearney estimates that only approximately 38,600 of them were operated by Freight One during the first quarter of 2008, with the balance being leased to Russian Railways. The Group expects that the number of rolling stock operated by Freight One will increase over time, with more railcars entering service upon return from the lease to Russian Railways. As an important step in the Russian rail sector reform, the creation of Freight One was meant to facilitate the decoupling of the freight rail business from the monopolistic functions of the railway network operator. The Group believes that Freight One's increasing presence in the market may add to the competitive pressures on the Group nationwide and across the relevant cargoes. According to A.T. Kearney, the increased presence of Freight One in the market may also lead to the replacement of Russian Railways' regulated railcar tariff as market benchmark with Freight One's unregulated rail charge in the sectors where the Russian Railways tariff currently remains the market benchmark.

## **Transgarant**

Transgarant provides transportation services to customers in a range of industries, including metals and mining, coal, oil and oil products, construction, timber and the food industry. According to information released by Transgarant, as at 1 February 2008 it had a fleet of more than 12,000 railcars, with more than 3,700 gondola (open top) cars. Transgarant and the Group have Evraz as a common client.

## **DVTG**

DVTG is one of the largest privately owned freight-forwarding and rail transportation services providers in Russia, operating in rail and sea transportation, as well as providing transportation services involving several modes of transport. DVTG specialises in the transportation of a wide range of cargoes, including oil products, timber, coal, alumina, metals and containers. As at 31 December 2007, the DVTG rolling stock consisted of approximately 9,900 railcars. DVTG and the Group have Evraz and MMK as common clients.

## **Metalloinvesttrans**

Metalloinvesttrans is the captive freight rail operator of Metalloinvest Holding, one of the leading metals and mining groups in Russia. Formed in February 2005, it provides freight rail transportation services to Metalloinvest Holding group companies, including the Mikhailovski and Lebedinski ore processing plants, as well as to certain unrelated customers, including major players in the Russian metals and mining sectors such as the Novolipetsk Metallurgical Plant (NLMK) and Mechel. According to Metalloinvesttrans, as at 31 December 2007, the operator had a fleet of rolling stock of more than 5,800 cars, mostly gondola (open top) cars.

## **Mecheltrans**

Mecheltrans is the captive freight rail company of Mechel, a mining and steel group active in coal, iron ore, nickel and steel production. Mecheltrans specialises in the transportation of a wide range of cargoes, including iron ore, coal, ferrous metals and construction materials. According to A.T. Kearney, as at 31 December 2007, the operator had a fleet of rolling stock of approximately 3,400 railcars, mostly gondola (open top) cars. Mecheltrans and the Group have MMK as a common client.

## **EvrazTrans**

EvrazTrans is the captive freight rail operator of Evraz Group, a leading Russia-based vertically integrated mining group with assets in Russia, Czech Republic, Italy, North America and South Africa. EvrazTrans transports a wide range of cargoes, including coal, iron ore and ferrous metals. According to A.T. Kearney, as at 31 December 2007, the operator had a fleet of rolling stock of approximately 3,000 railcars, mostly gondola (open top) cars. EvrazTrans and the Group have Evraz as a common client.

## **Related Parties**

The Group believes that it is possible that Transoil, a related party, and Balttransservis, a related party and a subsidiary of TIHL, may merge in the future, potentially creating a large competitor of the Group. In addition, both of these companies already have carrier licences to operate their own locomotives, which may affect the Group's future plans to enter the locomotive segment of the freight rail market, if and when it is liberalised, by increasing competition in it.

### ***Transoil***

According to A.T. Kearney, Transoil had a fleet of rolling stock of approximately 9,400 oil tank cars. Transoil provides transportation services to customers in the oil and oil products industry. Transoil and the Group have Rosneft as a common client.

### ***Balttransservis***

According to A.T. Kearney, Balttransservis had a fleet of rolling stock of approximately 7,700 oil tank cars. Balttransservis provides transportation services to customers in the oil and oil products industry. Balttransservis and the Group have Rosneft as a common client.

## INFORMATION TECHNOLOGY

The importance and sophistication of the logistics, dispatching, rolling stock tracking and cargo tracing components of the Group's services offering requires the employment of advanced information technology systems and software that are sufficient for the Group's current needs and are scalable to support the growth in volume of the Group's operations. The specialised rail transport and logistics software in the current use by the Group includes *MC—Slezhenie*, *IRS Perevozki*, *Rail-Tariff* and *ETRAN RZhD*.

The Group's operations are dependent on these four specialised software systems, for which the Group has, to the extent required obtained non-exclusive licences. Each of these software programs has been specifically customised by the Group's own information technology professionals to the Group's rail transport and logistics requirements and maintained under service agreements with third parties.

*MC—Slezhenie* stores, updates and displays information on operating rolling stock routes, current rolling stock locations, as well as the technical condition and maintenance status of the Group's rolling stock. Operated by the Group's logistics and dispatching centres, *MC—Slezhenie* enables the provision of value-added logistics, dispatching and tracking services and also facilitates the regular, timely and efficient maintenance of the rolling stock fleet. It is integrated with the data systems of Russian Railways. See also “—Equipment—Maintenance and Repair”.

*IRS Perevozki* is a software system responsible for the storage and processing of transportation data and shipment documentation. Designed to receive information from Russian Railways information systems as well as exchange it with those of the Group's key customers, *IRS Perevozki* enables the integration of customer transportation contracts and documentation with up-to-date transport control and tracking information.

*Rail-Tariff* calculates transportation service prices charged by the Group to its customers, in a complex interplay between the regulated tariff components of the price and railcar charge driven by the nature and volume of the cargo, requisite route, distance carried, proximity to profitable “route loops” and certain other criteria. See also “—Pricing—Pricing of customer orders” above. Importantly, the Group also employs *Rail-Tariff* to analyse the commercial feasibility of new and existing routes and destinations, a key part in the Group's destination management and route optimisation activities. See “—Destination Management and Route Optimisation” above.

*ETRAN RZhD* is Russian Railways software for rolling stock tracking and on-line completion of bills of lading and other cargo documentation. Currently only a pilot project being tested by the Group at selected railway stations, it is expected, if and when fully implemented, significantly to reduce the length of the documentation process and the resulting rolling stock idle time after unloading and before reloading compared with the current situation, where most cargo documents are filled out in paper form. The Group also expects *ETRAN RZhD* implementation to lead to greater integration of the Group's information systems with Russian Railways, resulting in more frequent updates on rolling stock locations and movements than those currently available to the Group's dispatching centre.

With respect to the data regarding updates on rolling stock locations and movements that the Group receives from Russian Railways, the Group is required to pay Russian Railways a fee per byte of information received.

The Group also uses a range of advanced accounting, management information and banking software systems. The Group uses proprietary and licensed software. The Group intends continuously to develop and upgrade its information systems and software used in line with its business development and expansion plans.



## EMPLOYEES

The following table sets forth the Group's employees by department (simplified), as at 31 December 2007, 2006 and 2005.

Department	As at 31 December		
	2007	2006	2005
Administrative <sup>(1)</sup> . . . . .	174	166	149
Operations <sup>(2)</sup> . . . . .	317	272	236
<b>Total</b> . . . . .	<b>491</b>	<b>438</b>	<b>385</b>

(1) Administrative principally includes employees of the Administration, Accounting and Finance, Public Relations and other departments.

(2) Operations includes Commercial, Transport and Transport Management, IT, Marketing and Development, Russian Railways Liaison and Logistics departments and local offices.

Source: The Group's management accounts (cannot be directly derived from EU IFRS accounts)

The Group has not experienced any strikes, work stoppages, labour disputes or actions that have materially affected the operation of its business and there are no unions or collective bargaining arrangements in place with its employees. The Group considers its relationship with its workforce to be good. The Group makes mandatory contributions to the government pension scheme in Russia. Beyond the contributions provided by law, the Group has not provided any additional benefits to employees upon their retirement, or afterwards. The Group's employee policy is focused on professional development of employees and the creation of a positive working environment. While the Group's employee salaries are in line with industry average, the Group is implementing a bonus system to reward middle and top management for achieving and exceeding growth targets.

## INSURANCE

All rolling stock owned or leased by the Group from third parties under finance leases are insured for loss or damage caused to the rolling stock. Under the existing legal liability regime and based on the current scope of operations, the Group does not believe it has significant exposure to third party liability in the ordinary course of its business; however, the Group complies with the terms of certain property insurance and finance lease agreements requiring third party liability insurance as a contractual matter, and has insured for third party liability in connection with the use of the rolling stock covered by the relevant property insurances and the use of the rolling stock leased under the relevant finance leases.

In the future, if the Group expands into locomotive service segments, the Group may be exposed to third party liability in connection with the transportation of cargo, and the Group intends to acquire and maintain sufficient third party liability insurance in such circumstances.

## ENVIRONMENTAL

The Group believes that, in general, its operations do not create potential environmental liabilities. Although its railcars may sometimes transport environmentally sensitive materials, any spillage or leakage of such materials is the responsibility of Russian Railways as it owns the railway infrastructure and currently provides the locomotive services for the Group. The Group believes that it is in compliance with applicable environmental legislation. If the Group expands into the locomotive service segment in the future, it may then be exposed to potential environmental liabilities if it transports environmentally sensitive cargoes. The Group is not aware of any current, pending or potential material environmental claims against it. The Group did not record any material liabilities associated with, or make any material payments relating to, environmental costs as at or in the years ended 31 December 2007, 2006 or 2005.

## INTELLECTUAL PROPERTY AND SIGNIFICANT LICENCES

The Group registered its rights with respect to two trademarks for "Novaya Perevozoch'naya Kompaniya" (New Forwarding Company) with the Federal Service for Intellectual Property, Patents and Trademarks of the Russian Federation on 12 May 2005 and 16 July 2007 with a trademark priority commencing on 24 May 2004 for the first trademark and on 22 September 2005 for the second. The registration of the two trademarks are valid until 24 May 2014 and 22 September 2015, respectively.

Other than in respect of these two trademarks, the Group does not hold any intellectual property rights or licences material to its business.

#### **LITIGATION AND OTHER PROCEEDINGS**

From time to time, the Group is involved in litigation as a plaintiff or defendant in court proceedings arising in the ordinary course of its business. The Group is also involved in regular proceedings before the competent tax authorities in connection with reclaiming output VAT on export sales. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Significant Accounting Policies, Critical Accounting Estimates and Judgments—Critical Accounting Estimates and Judgments—VAT on export sales”. Such proceedings before the tax authorities are part of the usual process of reclaiming such VAT and do not, as at the date of this Prospectus, involve any litigation with the tax authorities. The Group does not believe that any of the litigation or proceedings in which the Group has been or is currently involved is likely, individually or in aggregate, to have a material adverse effect on its business or financial condition.

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

As at the date of this Prospectus, the membership of the Board of Directors is set out below.

<u>Name</u>	<u>Year of birth</u>	<u>Current position</u>	<u>Since</u>
Mr. Alexander Eliseev	1967	Chairman of the Board of Directors, non-executive director	2008
Mr. Michael Zampelas	1937	Member of the Board of Directors, independent non-executive director.	2008
Dr. Hans Durrer	1938	Member of the Board of Directors, independent non-executive director.	2008
Ms. Elia Nicolaou	1979	Member of the Board of Directors, non-executive director	2008
Mr. Konstantin Shirokov	1974	Member of the Board of Directors, executive director	2008
Mr. Mikhail Loganov	1981	Member of the Board of Directors, executive director	2008
Mr. Sergey Maltsev	1963	Member of the Board of Directors, executive director	2008

#### **Mr. Alexander Eliseev—Chairman of the Board of Directors**

Mr. Eliseev was appointed as the Chairman non-executive member of the Board of Directors in March 2008. In addition, Mr. Eliseev has been chairman of the board of directors of New Forwarding Company since 2003 and chairman of the board of directors of Sevtekhnотrans since 2007. Mr. Eliseev has more than 14 years of management experience, with most of this experience in the railway industry. He graduated from the Second Moscow Medical Institute, Russian State Medical University where he studied Biophysics. Prior to joining the Group, Mr. Eliseev worked for OOO MMK-Trans as Chief Accountant from 1999 until 2000, then as Financial Director from 2000 until 2005 and then as Deputy General Director from 2005 until 2007. In addition, Mr. Eliseev served as a General Director at ZAO KPlus from December 1993 until February 1997, as a Commercial Director at OOO PromSnab from March 1997 until October 1997 and as a General Director at ZAO Evraztrans from November 1997 until February 1999. He was a member of the board of directors at OOO Neokont from August 2004 until February 2006 and a member of the board of directors at Transgarant from October 2004 until September 2006. He also has been the Chairman of the board of directors of ZAO Ural Wagon Repair Company, since 2006 and a Financial Director of OOO Logistika i Transport since 2007.

Mr. Eliseev owns 49 per cent. of the shares in EIL, one of the Selling Shareholders of the Company.

#### **Mr. Michael Zampelas—Member of the Board of Directors**

Mr. Zampelas was appointed as an independent non-executive member of the Board of Directors in March 2008. Mr. Zampelas has more than 30 years of management experience, including as founding member, chairman and managing partner of accounting and consulting firm, Coopers & Lybrand (which later became PricewaterhouseCoopers), in Cyprus and Athens. He is a chartered accountant and a Fellow of the Institute of Chartered Accountants in England and Wales.

From 2002 until 2006, Mr. Zampelas was elected mayor of Nicosia and he is currently the Honorary Consul General of Estonia in Cyprus, which role he has held since 1997.

In addition, Mr. Zampelas held the following positions in the last five years:

- President of the Nicosia Sewerage Board, from January 2002 to December 2006;
- President of the Kofinou Slaughter House from January 2002 to December 2006;
- President of the Union of Municipalities in Cyprus from January 2002 to December 2004, and
- President of the Institute of Neurology and Genetics from April 1999 to March 2005.

As from March 2008 he holds the Position of Vice-President of the Board of Eurobank EFG Cyprus Limited and the position of the Chairman of the Audit Committee of Eurobank EFG Cyprus Limited.

**Dr. Hans Durrer—Member of the Board of Directors**

Dr. Durrer was appointed as an independent non-executive member of the Board of Directors in March 2008. Dr. Durrer has more than 30 years of management experience. He graduated from the University of Zürich with a doctorate in economics and he is admitted to the Swiss Fiduciary Association. He started his career in 1957 with Union Bank of Switzerland in Geneva and became a financial analyst. In 1970 he founded his own company Fidura Treuhand AG which holds interests in bookkeeping, auditing, financial and real estate companies. Dr. Durrer was former president of the oil company Montafan AG, and a former board member of the transport company IMT-Dienst AG. He is an executive board member of several privately held companies.

**Ms. Elia Nicolaou—Member of the Board of Directors**

Ms. Nicolaou was appointed as a non-executive member of the Board of Directors in March 2008. She is currently the Director of Legal and Corporate Services at Amicorp (Cyprus) Ltd, Nicosia, Cyprus, which position she has held since March 2007. Ms. Nicolaou has more than four years' legal and management experience. She graduated from the University of Nottingham, UK and has an LLB in Law. Ms. Nicolaou also has an LLM in Commercial and Corporate Law from University College London, UK and an MBA from the Cyprus International Institute of Management, Nicosia, Cyprus. She is also a member of the Cyprus BAR Association. Prior to joining the Group, Ms. Nicolaou worked as the Head of the Corporate Law Department at Polakis Sarris & Co. from July 2003 until March 2007. Prior to that she worked as a lawyer at C. Patçalides & Associates from 2002 until 2003.

**Mr. Konstantin Shirokov—Member of the Board of Directors**

Mr. Shirokov has served as an executive member of the Board of Directors since March 2008. He is currently Financial Manager for TIHL, one of the Selling Shareholders of the Company, and a member of the internal audit committee for the TIHL group of companies, which positions he has held since 2005 and 2007, respectively. Mr. Shirokov has more than seven years of management experience. He graduated from the Finance Academy of the Russian Federation where he studied International Economic Relations. Mr. Shirokov has also completed a course in Business Management at the business school Oxford Brookes University, UK. Prior to joining TIHL, Mr. Shirokov worked as Financial Director at OOO Metsnabservice from June 2003 until January 2005 and prior to that as Financial Manager at OOO Uglemet from July 2001 until May 2003. Mr. Shirokov also served as a Deputy Financial Director at OAO Mechel from April 2000 until June 2001 and as an economist at Glenore International AG, Moscow office from September 1995 until March 2000.

**Mr. Mikhail Loganov—Member of the Board of Directors**

Mr. Loganov has served as an executive member of the Board of Directors since March 2008. He is currently Finance Manager for Leverrett Holding Ltd, which position he has held since May 2006. Mr. Loganov joined the Group in June 2004 as a finance manager at OOO Sevtekhnotrans. Mr. Loganov has more than seven years of financial experience. He graduated from the University of Brighton, East Sussex and has a BA honours degree in Business Studies with Finance. Prior to joining the Group, Mr. Loganov worked as a financial analyst for American Express (Europe) Ltd in the UK from June 2001 until May 2004.

**Mr. Sergey Maltsev—Member of the Board of Directors**

Mr. Maltsev has served as an executive member of the Board of Directors since March 2008 and has been the Chief Executive Officer of the Group. Mr. Maltsev has more than 24 years of management experience, with most of this experience in the railway armed forces and railway industry. He graduated from the Leningrad Frunze Higher school of railway forces and military communications where he obtained a degree as an engineer on the operation of railways. Prior to joining the Group in 2008, Mr. Maltsev served in the Armed Forces of the Russian Federation (Soviet Union), worked for ZAO Petra from 1993 until 1997 as Head of the Transportations Department, then in the same position at OOO PromSnab from 1997 until 1999. In addition, Mr. Maltsev holds the position of a Counsellor to General Director of New Forwarding Company, since 2007.

Mr. Maltsev served as Counsellor to General Director of OOO MMK-Trans, from 1999 until 2007.

Mr. Maltsev owns 51 per cent. of the shares in EIL, one of the Selling Shareholders.

Mr. Alexander Eliseev and Mr. Sergey Maltsev have a beneficial interest in OOO MMK-Trans a company engaged in freight rail transportation. The Group has in the past engaged, and is currently engaging in, transactions with OOO MMK-Trans, including transactions in the ordinary course of business (see also “Material Contracts and Related Party Transactions—Related Party Transactions—Services to related parties—OOO MMK-Trans” and “Material Contracts and Related Party Transactions—Related Party Transactions—Services and leases from related parties—OOO MMK-Trans”). As a result of the different interests of the Group and OOO MMK-Trans potential conflicts of interest could arise. Other than as described above or as set forth in “Material Contracts and Related Party Transactions—Related Party Transactions” and “Risk Factors—Risks Relating to the Group’s Business and Industry—The Group’s controlling beneficial shareholders may have interests that conflict with those of the holders of the GDRs” in relation to OOO MMK-Trans, there are no current or potential conflicts between the private interests and duties of the members of the Board of Directors and the duties of those persons to the Group.

In the previous five years, no member of the Board of Directors has been convicted of any fraudulent offence; served as a director, partner, founder or senior manager of any organisation that had any bankruptcies; receiverships; was subject to any official public incrimination or sanctions by statutory or regulatory authorities, including designated professional bodies, or has been disqualified by a court from acting as a director of an issuer or from acting in the management or conduct of the affairs of any issuer.

## SENIOR MANAGEMENT

As at the date of this Prospectus, the senior management, by function, of the Group is set out below.

<u>Name</u>	<u>Year of birth</u>	<u>Current position</u>	<u>Since</u>
Mr. Sergey Maltsev	1963	Chief Executive Officer	2008
Mr. Valery Shpakov	1956	First Deputy Chief Executive Officer	2007
Ms Irina Alexandrova	1973	Deputy Chief Executive Officer, Business Development	2006
Mr. Ilya Dudinskiy	1978	Deputy Chief Executive Officer, Operations	2006
Mr. Alexander Shenets	1978	Chief Financial Officer	2003
Mr. Boris Torbin	1966	Marketing Director	2007
Mr. Roman Goncharov	1970	Head of Treasury	2007
Mr. Sergey Vaselenko	1971	Chief Information Officer	2007

The biographies of the senior management of the Group, as at the date of this prospectus, are set out below to the extent that they are not members of the Board of Directors of the Company and set out above.

### **Mr. Valery Shpakov—First Deputy Chief Executive Officer**

Mr. Shpakov, First Deputy Chief Executive Officer of the Group, has served as the Chief Executive Officer of New Forwarding Company since April 2007. Mr. Shpakov has 34 years of industry experience. He graduated from the Leningrad Frunze Higher school of railway forces and military communications where he obtained a degree as an engineer on the operation of railways. Prior to joining the Group, Mr. Shpakov worked at MMK Trans between 2000 and 2002 as Head of Internal Transportation Department and between 2002 and 2003 as Head of Railway Wagons Department. He worked at Transgarant NPK in 2003 as General Director prior to joining the Group. Prior to this appointment, he worked for New Forwarding Company as General Director between 2002 and 2003, as Executive Director between 2003 and 2005 and as First Deputy General Director between 2005 and 2007.

### **Ms Irina Alexandrova—Deputy Chief Executive Officer, Business Development**

Ms Alexandrova, Deputy Chief Executive Officer, Business Development, of the Group, has served as the Chief Executive Officer of Sevtekhnotrans since September 2006. Ms. Alexandrova has more than ten years of management experience in the railroad industry. She studied at the Sholokhov Moscow State Open Pedagogic University and has a degree in mathematics, informatics and computer engineering. In 2002 and 2003 Ms. Alexandrova completed a course on “Logistics of industrial enterprises and railway transport in Germany” and a course on “Studies of German freight forwarding experience” in the German

Management Academy of Lower Saxony. Prior to becoming Chief Executive Officer of Sevtekhnotrans, Ms Alexandrova was deputy head of the railroad department of ZAO Severstaltrans from June 1996 until September 2006 and prior to that she worked as a leading specialist in the railroad department of TOO Rosinturtrans.

**Mr. Ilya Dudinskiy—Deputy Chief Executive Officer, Operations**

Mr. Dudinskiy, Deputy Chief Executive Officer, Operations of the Group, has served as Deputy Chief Executive Officer of New Forwarding Company since December 2006. Mr. Dudinskiy previously worked for New Forwarding Company from April 2004 until June 2005, during which time he held several management roles within New Forwarding Company. He graduated from the Tsiolkovsky Moscow State Aviation Technology University with a diploma with honours and a masters degree in technology. Mr. Dudinskiy has also completed an Economy and Finance Director course at the Institute of Business Administration of the Academy of National Economy for the Government of the Russian Federation. From June 2005 until December 2006, Mr. Dudinskiy worked as Commercial Director of OOO MMK-Trans and has previously worked for OOO MMK-Trans from December 2001 until April 2004.

**Mr. Alexander Shenets—Chief Financial Officer**

Mr. Shenets is the Chief Financial Officer of the Group and has served in this capacity since October 2003. He has acted as head of the finance department at Sevtekhnotrans between June 2003 and October 2003. Mr. Shenets has more than six years' experience in finance, with more than four of these years in the railway industry. Mr. Shenets graduated from the faculty of Computational Mathematics and Cybernetics, Moscow State University and has a degree in Applied Mathematics. He also has a Master of Business Administration degree from the Graduate School of Business Administration, Moscow State University and a Candidate of Philosophy degree obtained at Bauman Moscow State Technical University. Prior to joining the Group, Mr. Shenets served as finance director of OOO Metsnabservice from June 2001 until May 2003. He worked for ZA GEO-Nodir from January 2000 until February 2001, as Head of the programming department and as Programmer from January 1999 until January 2000.

**Mr. Boris Torbin—Marketing Director**

Mr. Torbin, Marketing Director of the Group, has served as Head of the Marketing and Development Department of New Forwarding Company since August 2007. Mr. Torbin has more than four years of management experience, with most of these in the railroad industry. Mr. Torbin studied at the Riga High Politico-Military Academy and the Military Diplomatic Academy, and he has an MBA from the Academy of Foreign Trade of the Ministry of Economic Development and Trade of Russia. Prior to joining the Group, Mr. Torbin worked as General Director of OOO Apple Trans from February 2007 until August 2007 and prior to this he worked as Commercial Director of OOO TransLes from February 2006 until January 2007, and as Commercial Director of OOO Lesnaya Transportnaya Kompania from August 2005 until February 2006, as Deputy Commercial Marketing director of OOO Neokont from October 2004 until June 2005, as Marketing director for OOO StS-KS from June 2003 until September 2004 and as Sales director for Maratons LTD from May 2001 until June 2003.

**Mr. Roman Goncharov—Head of Treasury**

Mr. Goncharov, Head of Treasury of the Group, has served as Chief Financial Officer of New Forwarding Company since September 2007. Mr. Goncharov has more than six years of management experience in finance. He studied at the Plekhanov Moscow High Combined Arms Commanding Academy where he obtained a diploma with honours, and at the Russian Economic Academy where he obtained a diploma in finance and credit. Mr. Goncharov also has an MBA from the Moscow International High School of Business. Prior to joining the Group, Mr. Goncharov worked as Finance Director of OOO Firma Transgarant from December 2005 until September 2007, and prior to this he worked for ZAO Severstaltrans as a senior specialist from March 1998 until July 2001 and then as Head of the Finance Department from July 2001 until November 2005.

**Mr. Sergey Vaselenko—Chief Information Officer**

Mr. Vaselenko, Chief Information Officer of the Group, has served as Deputy General Director on Economy and Information Technology of New Forwarding Company since March 2007. Mr. Vaselenko joined New Forwarding Company in November 2004 since which time he has held various management

positions within New Forwarding Company. Mr. Vaselenko has more than 15 years of management experience. He studied at the Baumen Moscow State Technical University where he specialised in automated control and information processing systems. Mr. Vaselenko is also a qualified system engineer. Prior to joining the Group, Mr. Vaselenko worked as Deputy General Director of business processes for OOO Alpinor-M from November 2001 until April 2004. In addition Mr. Vaselenko holds the following positions:

- majority shareholder and General Director of OOO KARDINAL Soft, since September 2000; and
- majority shareholder and General Director of OOO Firma KARDINAL, since September 1992.

Except for the beneficial interests of Messrs. Eliseev and Maltsev in OOO MMK-Trans described above, there are no current or potential conflicts between the private interests and duties of the senior managers of the Group and the duties of those persons to the Group.

In the previous five years, no senior manager of the Group has been convicted of any fraudulent offence; served as a director, partner, founder or senior manager of any organisation that had any bankruptcies or receiverships; was subject to any official public incrimination or sanctions by statutory or regulatory authorities, including designated professional bodies, or has been disqualified by a court from acting as a director of an issuer or from acting in the management or conduct of the affairs of any issuer.

#### **COMPENSATION OF DIRECTORS AND KEY MANAGERS**

The aggregate amount of compensation paid by the Group to its key managers for their services to the Group for the years ended 31 December 2007 (9 persons), 2006 (9 persons) and 2005 (10 persons) was USD 7,477 thousand, USD 1,400 thousand and USD 1,365 thousand, respectively. There are no amounts set aside or accrued by the Company or its subsidiaries to provide pension, retirement or similar benefits to such persons. None of the current members of the Board of Directors has received any compensation for the years ended 31 December 2007, 2006 or 2005 in such capacity.

No director or senior manager is a party to any service contract with the Group where such contract provides for benefits upon termination of employment.

#### **CORPORATE GOVERNANCE**

As the Ordinary Shares are not listed on the Cyprus stock exchange, the Group, despite the incorporation in Cyprus of the Company, is not required to comply with the corporate governance regime relating to companies listed on the Cyprus stock exchange. The Company has currently appointed two independent non-executive directors and has established audit, nomination and remuneration committees of the Board of Directors.

The Group believes that the EBRD may purchase GDRs in the Offering representing approximately 3.2 per cent. of the outstanding share capital of the Company, accounting for approximately 10.0 per cent. of the Offering, assuming the exercise of the Over-Allotment Option in full, or approximately 11.0 per cent. of the Offering, assuming no exercise of the Over-Allotment Option. The EBRD has informed the Group that if it becomes the holder of a significant percentage of the GDRs, it may request the Selling Shareholders to procure that the Company adopt certain minority shareholder protection policies and an environmental action plan and seek representation on the Company's Board of Directors. As at the date of this Prospectus, there is no agreement or commitment in respect of any of these matters and there is no assurance that such arrangements will be sought or, if sought, implemented.

#### **Board of Directors**

The Company has established three committees: an audit committee, a nomination committee and a remuneration committee. The members of these committees are appointed principally from among the independent directors. A brief description of the planned terms of reference of the Committees is set out below.

#### **Audit Committee**

The audit committee comprises two directors, one of whom is independent, and expects to meet at least four times each year. Currently the audit committee is chaired by Mr. Zampelas, and Ms 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 and assesses the efficiency of the work of the Chairman of the Board of Directors.

#### **Nomination Committee**

The nomination committee comprises at least three directors, the majority of whom are independent directors, and will meet at least once each year with four meetings to take place in 2008. Currently the nomination committee is chaired by Mr. Durrer and the other members are Messrs. Zampelas and Loganov. The committee's role 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 and makes recommendations to the Company's Board of Directors as to any changes. The committee also considers future appointments in respect of the composition of the Board of Directors as well as making recommendations regarding the membership of the audit and remuneration committees.

#### **Remuneration Committee**

The remuneration committee comprises at least three directors, the majority of whom are independent directors, and expects to meet at least once each year with four meetings to take place in 2008. Currently the remuneration committee is chaired by Mr. Durrer and Messrs. Zampelas and Eliseev are members. The remuneration committee is responsible for determining and reviewing, amongst other matters, 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**

The Company's internal audit function is currently performed by Mr. 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 also files an annual report with the audit committee and the Board of Directors and must be available for any meetings of the audit committee or the Board of Directors.

For details of the procedures for appointment and removal of directors of the Company, see "Description of Share Capital and Applicable Cypriot Law—Articles of Association—Directors".



## **DESCRIPTION OF THE COMPANY**

The Company was incorporated as a private limited liability company limited by shares and was registered in Cyprus on 20 May 2004 under the name Globaltrans Investment Ltd., pursuant to the certificate of incorporation issued by the Office of the Registrar of Companies in Cyprus, and has conducted business since that date. The principal legislation under which the Company operates, and under which the Ordinary Shares are created, is the Companies Law, Cap. 113 of Cyprus (as amended). The shareholders of the Company resolved on 19 March 2008 that Globaltrans Investment Ltd. be converted into a public company and that its name be changed to Globaltrans Investment PLC. The formal registration of the change of name with the Registrar of Companies in Cyprus occurred on 15 April 2008. The Company's registered number is 148623, and its registered office is at Omirou 20, Agios Nicolaos, CY-3095, Limassol, Cyprus. The telephone number of the Company's registered office is +357 255 83 125. The Company's principal place of business is located in Cyprus at City House, 3rd floor, Office 308, 6 Karaiskakis Street Limassol CY-3032, Cyprus and the telephone number at the principal place of business is +357 255 03 153.

## PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth the ownership of the Company immediately prior to the Offering and immediately following the Offering, assuming the Over-Allotment Option is exercised in full.

Shareholder	Immediately prior to the Offering		Immediately following the Offering		Immediately following exercise of the Over-Allotment Option	
	Number of Ordinary Shares	Percentage	Number of Ordinary Shares	Percentage	Number of Ordinary Shares	Percentage
Transportation Investments Holding Limited <sup>(1)(3)</sup> . . . . .	69,999,995 <sup>(3)</sup>	69.99995%	58,596,486	50.09999%	58,596,486	50.09999%
Envesta Investments Ltd. <sup>(2)(3)</sup> . . . . .	30,000,000 <sup>(3)</sup>	30.00000%	24,444,445	20.90000%	21,052,632	18.00000%
Others <sup>(4)</sup> . . . . .	5	0.00005%	5	0.00005%	5	0.00005%
Depository . . . . .	—	0%	33,918,128	28.99999%	37,309,941	31.89999%
<b>Total</b> . . . . .	<b>100,000,000</b>	<b>100.0%</b>	<b>116,959,064</b>	<b>100.0%</b>	<b>116,959,064</b>	<b>100.0%</b>

(1) Transportation Investments Holding Limited (*TIHL*) is a company organised and existing under the laws of Cyprus with its registered office and principal place of business at 20 Omirou, Agios Nikolaos, P.C. 3095, Limassol, Cyprus. Nikita Mishin, Konstantin Nikolaev and Andrey Filatov jointly control all of the voting shares of TIHL, and each is a beneficial owner of one-third of TIHL.

(2) Envesta Investments Ltd. (*EIL*) is a company organised and existing under the laws of Cyprus with its registered office and principal place of business at 20 Omirou, Agios Nikolaos, P.C. 3095, Limassol, Cyprus. Sergey Maltsev beneficially owns 51 per cent. and Alexander Eliseev beneficially owns 49 per cent. of EIL. See “Directors and Senior Management”.

(3) The Selling Shareholders expect to enter into an agreement that would limit the right of each Selling Shareholder to transfer Ordinary Shares in the Company to any party other than an affiliate of the Selling Shareholders. The agreement would also make any other transfer subject to a right of first refusal by the other Selling Shareholder and, if such right is not exercised, to a tag-along right permitting the other Selling Shareholder to sell to the proposed buyer at the same price. Also pursuant to such agreement, each Selling Shareholder would be permitted at any time (subject only to the Lock-up Agreement) to initiate a procedure created to compel one Selling Shareholder to purchase all of the shares in the Company owned by the other Selling Shareholder.

The arrangements would also prevent the Selling Shareholders from acquiring Ordinary Shares from the public unless such acquisition is pro-rata to their existing shareholdings.

(4) Wholly owned subsidiaries of TIHL.

The beneficial owners of TIHL also beneficially own, by virtue of their holdings in TIHL, a number of other companies forming the largest privately-held transportation group in Russia and known by the brand name of NTrans.

EIL has pledged 18,000,000 Ordinary Shares to OAO “Swedbank” to secure an existing loan facility extended by OAO “Swedbank” to EIL. The pledged Ordinary Shares do not form part of the Offering.

## MATERIAL CONTRACTS AND RELATED PARTY TRANSACTIONS

### MATERIAL CONTRACTS

The Group believes that it has no material contracts (not being contracts entered into in the ordinary course of business), other than the Underwriting Agreement referred to in “Subscription and Sale”. The Group further believes that none of the members of the Group had any material contracts during the three years prior to the date of this Prospectus.

### RELATED PARTY TRANSACTIONS

The Company is required to report all related party transactions, as defined in IAS 24 “Related Party Disclosures,” in accordance with EU IFRS. In addition, the Company’s Russian subsidiaries are required to comply with applicable Russian law with respect to related party transactions. During the three years prior to the date of this Prospectus, the Group has entered into a number of transactions with third parties under common control with, or otherwise related to, one of the Selling Shareholders, or with associates of an entity in which the Group is a joint venture partner, in respect of the acquisition of companies, the provision of agency services, in connection with third party financings and in the ordinary course of business. The following related party transactions are considered to be significant by the Group:

#### **Asset sales to related parties**

In the years ended 31 December 2006 and 2005, the Group sold rolling stock to Balttransservis, a company under common control with TIHL. The sale proceeds amounted to USD 7,164 thousand and USD 34,462 thousand in the years ended 31 December 2006 and 2005, respectively. The Group believes that such sales were effected at market prices and otherwise on arms’ length terms in all material respects.

#### **Services to related parties**

During the three years prior to the date of this Prospectus, the Group provided rail transportation services to the following related parties.

#### ***OOO MMK-Trans***

OOO MMK-Trans is a company in which the beneficial shareholders of EIL have a beneficial interest and which is an affiliate of MMK. As part of the freight rail services arrangements between the Group and MMK, during the three years prior to the date of this Prospectus, the Group provided rail transportation services to OOO MMK-Trans, recording revenue of USD 25,609 thousand, USD 1,922 thousand and (together with revenue derived from services provided to OOO MMK-Transmetsnab, an affiliate of OOO MMK-Trans) USD 9,092 thousand in the years ended 31 December 2007, 2006 and 2005, respectively, from the provision of these services. The Group believes that rail transportation services were provided to OOO MMK-Trans and OOO MMK Transmetsnab on arm’s length terms in all material respects.

#### ***ZAO Severstaltrans***

ZAO Severstaltrans is a company controlled by TIHL. During the three years prior to the date of this Prospectus, the Group provided rail transportation services to ZAO Severstaltrans, recording revenue of USD 80,135 thousand, USD 70,819 thousand and USD 3,021 thousand in the years ended 31 December 2007, 2006 and 2005, respectively, from the provision of these services. The Group believes that rail transportation services were provided to ZAO Severstaltrans on arm’s length terms in all material respects.

#### ***Intergate AG***

Intergate AG is a company under common control with TIHL. During the three years prior to the date of this Prospectus, the Group provided rail transportation services to Intergate AG, recording revenue of USD 17,952 thousand, USD 21,145 thousand and USD 280 thousand in the years ended 31 December 2007, 2006 and 2005, respectively, from the provision of these services. The Group believes that rail transportation services were provided to Intergate AG on arm’s length terms in all material respects.

#### ***Balttransservis***

Balttransservis is a subsidiary of TIHL. During the three years prior to the date of this Prospectus, the Group provided leases of rolling stock to Balttransservis, recording revenue of USD 5,688 thousand, USD 5,553 thousand and USD 5,546 thousand in the years ended 31 December 2007, 2006 and 2005,

respectively, from the provision of these services. The Group believes that rail transportation services were provided to Balttransservis on arm's length terms in all material respects.

#### ***Transoil***

The Group provided operating leases of rolling stock to Transoil, a related party, recording revenue of USD 6,521 thousand in the year ended 31 December 2007 from the provision of these services. The Group believes that rail transportation services were provided to Transoil on arm's length terms in all material respects.

#### ***Transgarant and OOO Transgarant-Vostok***

Transgarant, a wholly-owned subsidiary of Neteller Holding Limited in which the Group had a 50 per cent. equity interest until the Neteller Sale in 2006, and its associate OOO Transgarant-Vostok (***Transgarant-Vostok***) were related parties in the years ended 31 December 2006 and 2005. The Group provided rail transportation services to Transgarant and Transgarant-Vostok, recording aggregate revenues of USD 499 thousand and USD 1,132 thousand in the years ended 31 December 2006 and 2005, respectively, from the provision of rail transportation services to these two parties. The Group believes that rail transportation services were provided to Transgarant and Transgarant-Vostok on arm's length terms in all material respects.

#### ***OAO Karelsky Okatysh***

OAO Karelsky Okatysh was a related party of the Group in the years ended 31 December 2006 and 2005. During these years, the Group provided rail transportation services to Karelsky Okatysh, recording revenues of USD 1,632 thousand and USD 3,800 in the years ended 31 December 2006 and 2005, respectively, from the provision of these services.

### **Finance leases to related parties**

#### ***Transoil***

During the year ended 31 December 2007, the Group leased rolling stock under finance leases to Transoil, recording a current finance lease receivable of USD 9,177 thousand and a non-current lease receivable of USD 9,589 thousand, in each case due from Transoil as at 31 December 2007. The Group believes that these finance leases were on arm's length terms in all material respects. The finance lease arrangements with Transoil were terminated in February 2008 (see "Management Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments"). As at the date of this Prospectus, the Group does not have any finance leases to related parties.

#### ***Transgarant***

During the year ended 31 December 2005, the Group leased rolling stock under finance leases to Transgarant, recording a current finance lease receivable of USD 2,728 thousand and a non-current lease receivable of USD 12,339 thousand, in each case due from Transgarant as at 31 December 2005. The Group believes that these finance leases were on arm's length terms in all material respects. Following the Neteller Sale in 2006, Transgarant ceased to be a related party.

### **Services and leases from related parties**

During the three years prior to the date of this Prospectus, the Group subcontracted freight rail services to, leased rolling stock from, and/or received other services from, the following related parties.

#### ***OOO MMK-Trans***

As part of the freight rail services arrangements between the Group and MMK, OOO MMK-Trans was subcontracted by the Group to provide freight rail services to MMK. OOO MMK-Trans also leased rolling stock to the Group and provided the Group with rolling stock maintenance and payment agency services, in connection with the freight rail services provided by the Group to MMK. The aggregate cost of such services incurred by the Group in the years ended 31 December 2007, 2006 and 2005 was USD 42,171 thousand, USD 68,444 thousand and USD 33,633 thousand, respectively. The Group believes that the services provided by, and the leases from, OOO MMK-Trans were on arms' length terms in all material respects.

### ***ZAO Severstaltrans***

During the years ended 31 December 2007, 2006 and 2005, ZAO Severstaltrans leased rolling stock to the Group and acted as payment agent with respect to payments of parts of the Group's services price relating to the Russian Railways regulated tariff and paid by some of the Group's customers, including Severstal. ZAO Severstaltrans also received transportation services from the Group in the year 2007 and 2006. See "Business—Pricing—Price components". The aggregate cost of such services incurred by the Group in the years ended 31 December 2007, 2006 and 2005 was USD 4,683 thousand, USD 4,040 thousand and USD 3,467 thousand, respectively. The Group believes that such leases and services were provided on arms' length terms in all material respects.

### ***Transgarant-Vostok***

During the years ended 31 December 2006 and 2005, the Group received transportation services from Transgarant-Vostok. The aggregate cost of such services incurred by the Group in the years ended 31 December 2006 and 2005 was USD 192 thousand and USD 1,930 thousand, respectively. The Group believes that such services were provided on arms' length terms in all material respects.

### ***Transgarant***

During the years ended 31 December 2006 and 2005, the Group received transportation services from Transgarant. The aggregate cost of such services incurred by the Group in the years ended 31 December 2006 and 2005 was USD 438 thousand and USD 214 thousand, respectively. The Group believes that such services were provided on arms' length terms in all material respects.

### ***Balttransservis***

During the years ended 31 December 2005, 2006 and 2007 Balttransservis leased rolling stock to the Group. Operating lease costs incurred by the Group in the years ended 31 December 2007, 2006 and 2005 were USD 3,880 thousand, USD 3,726 thousand and USD 3,831 thousand, respectively. The Group believes that operating leases of rolling stock were on arm's length terms in all material respects.

### ***OAO Severstal***

During the years ended 31 December 2007, 2006 and 2005, OAO Severstal leased rolling stock to the Group. Operating lease costs incurred by the Group in the years ended 31 December 2007, 2006 and 2005 were USD 3,155 thousand, USD 9,659 thousand and USD 24 thousand, respectively. The Group believes that operating leases of rolling stock were on arm's length terms in all material respects.

### ***Daugavpils Lokomotivju Remonta Rupnica***

In the year ended 31 December 2005, the Group received locomotive repair services from Daugavpils Lokomotivju Remonta Rupnica, a company controlled by the beneficial shareholders of TIHL. The aggregate cost of such services incurred by the Group was USD 3,532 thousand. The Group believes that the services provided by Daugavpils Lokomotivju Remonta Rupnica were on arm's length terms in all material respects.

### ***OOO ARZ-6***

During the year ended 31 December 2007, the Group leased office space from OOO ARZ-6, an entity controlled by beneficial owners of EIL, and incurred rental costs in the amount of USD 1,677 during that year. The Group believes that the lease was on arm's length terms in all material respects.

### ***Charitable foundation for education assistance Dar***

In the year ended 31 December 2007, the Group contributed USD 1,018 thousand to Charitable foundation for education assistance Dar, a charity in which Mr. Mishin, one of the beneficial owners of TIHL, is a member of senior management.

### **Purchases of rolling stock from related parties**

During the years ended 31 December 2007 and 2006, the Group purchased used rolling stock from the following related parties.

### ***OOO MMK-Trans***

During the years ended 31 December 2007 and 2006, the Group purchased rolling stock from OOO MMK-Trans in the total amount of USD 2,420 thousand and USD 1,544 thousand, respectively. The Group believes that such rolling stock purchases were on arm's lengths terms in all material respects.

### ***ZAO Severstaltrans***

During the years ended 31 December 2007 and 2006, the Group purchased rolling stock from ZAO Severstaltrans in the total amount of USD 8,860 thousand and USD 17 thousand, respectively, as purchase price for used rolling stock. The Group believes that such rolling stock purchases were on arm's lengths terms in all material respects.

### **Shareholder loans**

The Group received an interest-bearing unsecured shareholder loan from TIHL in the year ended 31 December 2004. The principal amount of this loan in the years ended 31 December 2007, 2006 and 2005 was USD 50,000 thousand, USD 80,000 thousand and USD 80,000 thousand, respectively. The loan bore interest at the rate of 7 per cent. per annum until August 2007 and at the rate of 8.75 per cent. per annum thereafter and the Group intends to fully repay this loan out of the proceeds of the Offering. The Group also received interest-bearing unsecured loans from TIHL in the amount of USD 12,000 thousand in May 2006 and from EIL in the amount of USD 3,641 thousand in June 2006. Both loans bore interest at the rate of 7 per cent. per annum and were repaid in October 2006.

In addition, as at the beginning of the year ended 31 December 2005, the Group had shareholder loans outstanding from TIHL and EIL in the amount of USD 45,256 thousand and USD 19,635 thousand, respectively. Both loans were unsecured, bore interest at the interest rate of 7 per cent. per annum and were fully repaid by 31 December 2005.

## REGULATION OF RAILWAY TRANSPORTATION IN RUSSIA

Set forth below are certain key provisions of Russian legislation relating to railway transportation, which apply to the Group's business activities. However, this description is not comprehensive and is qualified in its entirety by reference to applicable Russian law.

### APPLICABLE LEGISLATION

The regulation of railway transportation in Russia is primarily based on the following laws and regulations.

- The Civil Code of the Russian Federation, as amended (the *Civil Code*):

The Civil Code regulates property relations between commercial parties. In particular the Civil Code establishes (i) the rules for obtaining and transferring ownership of movable and immovable property; (ii) the main rules for concluding, amending, performing and terminating contracts; and (iii) the material terms and conditions of a number of contracts (including, but not limited to, forwarding contracts, transportation (carriage) agreements, service agreements, lease agreements, and loan and credit agreements).

- Federal Law “On Railway Transport in the Russian Federation” No. 17-FZ dated 10 January 2003, as amended (the *Railway Transport Law*):

The Railway Transport Law establishes the legal basis for the functioning of railway transport and for the interaction between entities rendering railway transportation services and state authorities in the sphere of railway transportation.

- Federal Law “Charter of Railway Transport of Russian Federation” No. 18-FZ dated 10 January 2003, as amended (the *Railway Transport Charter*):

The Railway Transport Charter regulates relations between shippers, passengers, consignors, consignees, owners of railway transport infrastructure and other persons in the sphere of services rendered by organisations of railway transport infrastructure. The Railway Transport Charter defines the principal terms and conditions for the carriage of passengers, cargoes, luggage and freight luggage, for the rendering of services by owners of the railway transport infrastructure and of the other services connected with transportation services.

- Federal Law “On Forwarding Services” No. 87-FZ dated 30 June 2003, as amended (the *Forwarding Law*):

The Forwarding Law specifies procedures for carrying out freight forwarding activities, i.e. organisation of the transportation of cargoes and the drawing up of the documents necessary for effecting such carriage.

- Federal Law “On Licensing of Certain Activities” No. 128-FZ dated 8 August 2001, as amended (the *Law on Licensing*):

The Law on Licensing is discussed below (see “—Licensing”).

- Government Regulation “On Approval of Forwarding Services Rules” No. 554 dated 8 September 2006, as amended (the *Forwarding Services Rules*):

The Forwarding Services Rules set out the list of forwarding documents, the procedure for rendering forwarding services, and the requirements for the quality of these services.

- Government Regulation “On the Programme of Structural Reform of Railway Transportation” No. 384 dated 18 May 2001, as amended (the *Programme*):

The main provisions of the Programme are described below (see “—Structural Reform of Railway Transportation in the Russian Federation—Restructuring the railways system in the Russian Federation”).

- Government Regulation “On Approval of Provisions on the Framework of State Regulation of Railway Transport Tariffs and Rules of Setting Exclusive Railway Transport Tariffs” No. 787 dated 15 December 2004, as amended (the *Regulation and Rules*):

The Regulation and Rules determine the framework of the state regulation of tariffs with respect to railway transportation carried out, and services relating to usage of the railway infrastructure provided, by natural monopolies (i.e. Russian Railways) within the Russian Federation.

- Federal Energy Commission Regulation “On approval of the price list No. 10-01 “Tariffs for Freight Forwarding and Infrastructure Services Provided by Russian Railways” No. 47-t/5 dated 17 June 2003, as amended (the *Tariff 10-01*):

The main provisions of the Tariff 10-01 are provided below (see “—The Pricing Policy”).

- Ministry of Railway Transport Instruction “On Work Performance for the Establishment of Certification System; Rules of Certification of the Federal Railway Transport of Russian Federation. Main Provisions (P SSFZT 01-96)” No. 166u dated 12 November 1996, as amended (the *Railway Transport Certification Rules*):

The main provisions of the Railway Transport Certification Rules are provided below (see “—Certification Requirements”).

- Ministry of Transport Order “On Approval of Rules of Freight Transportation in the Trains Formed of Locomotives and Cars Owned by or Belonging on Other Grounds to Dispatchers, Cargo Consignees or Other Legal Entities or Natural Persons Which are not Railway Carriers Themselves” No. 150 dated 22 October 2007 (the *Order on Rules of Freight Transportation*):

The Order on Rules of Freight Transportation regulates the procedure and terms of cargo railway transportation in trains formed of locomotives and cars not owned by the railway carrier.

## THE REGULATORY BODIES

### The principal regulatory bodies

At the federal level, regulatory authority over the Russian railway industry is divided between several federal ministries:

- the Ministry of Transport is responsible for the development of governmental policy and legal and regulatory standards in the transportation sector of the Russian economy;
- the Ministry of Economic Development and Trade approves: (i) strategic plans for social and economic development; (ii) the list and order of determination of the indexes of economical efficiency for federal state unitary enterprises and open joint-stock companies whose shares are owned by the Russian Federation; and (iii) opinions on drafts of the legal acts which regulate the relationships of business entities or their relationships with the Russian Federation and which also affect macroeconomic indicators of the Russian Federation; and
- the Ministry of Finance determines the taxation policy, considers the provision of subsidies for the development of railway infrastructure and allocates subsidies to regional budgets.

However, the federal ministries in Russia do not have authority over compliance control or management of state property and provision of state services. These matters are under the jurisdiction of several federal services and agencies. The federal services and agencies that regulate the Russian railway industry are as follows:

- the Federal Agency for Railway Transport, which implements government policies in the railway transportation sector of the Russian economy, monitors legal and regulatory standards, manages state property in the railroad sector, maintains the registers of rolling stock and decides on suspension of freight transportation on certain routes;
- the Federal Transport Supervision Service, which carries out licensing and governmental supervision of railway transport;
- the FTS, which determines and implements state regulation of tariffs and regulates the pricing of natural monopolies in the Russian Federation; and
- the Federal Antimonopoly Service (the *FAS*), which performs a monitoring and supervision role over compliance with the antimonopoly law.

The federal services and agencies listed above are directly involved in regulating and supervising the Russian railway industry. In addition, there are certain other government bodies which, together with their sub-divisions, have authority over various general issues relating to the Russian railway industry or are otherwise relating to the Group’s business, including emergency procedures, customs, justice, tax and other matters.

At the level of the CIS, the Commonwealth Railway Transportation Council coordinates railway transport activity and provides recommendations with respect to pricing rates and technical policy within the territory of the CIS countries.



Moreover, Russian Railways performs certain regulatory functions in the Russian railway industry: it issues relevant permits, prohibits the transportation of certain cargo in certain types of railway cars and determines the procedure for submitting and agreeing freight carriage applications.

## **STRUCTURAL REFORM OF RAILWAY TRANSPORTATION IN THE RUSSIAN FEDERATION**

### **Restructuring the railways system in the Russian Federation**

The Russian railway system has been undergoing a reform aimed at improving the quality of the services offered to users of the railways. The legal process for the reform commenced in 2001 with the enactment of the Programme. The main objectives of the reform set out in the Programme are to:

- satisfy the growing demand of the Russian economy for transportation services, both in traffic volume and quality;
- renew and upgrade assets;
- increase efficiency of asset utilisation;
- provide better incentives to industry employees;
- attract investments for the renewal of the railcar and locomotive fleet; and
- increase efficiency of infrastructure.

In accordance with the Programme the reform of the rail industry (the *Reform*) comprises three stages, as set out below. The first stage was scheduled to be completed in 2002, but in fact was completed in September 2003, with the establishment of Russian Railways. The second stage was, in accordance with the Programme, to be completed by 2005. However, according to A.T. Kearney, certain of the second-stage reform objectives are still not accomplished (e.g., ending cross-subsidising of freight and passenger transportation). While the Programme envisaged the commencement of the Reform's third stage in 2006 and completion by 2010, according to A.T. Kearney, its implementation has not yet started.

#### ***First stage: Preparation for the Reform***

The first stage of the Reform involved the separation of the regulatory and the business functions relating to the Russian railway system as well as creation of the necessary legal framework. These had, until 2003, both been carried out by the Ministry for Railway Transport. The key results of the first stage were the establishment of Open Joint-Stock Company "Russian Railways" (*Russian Railways*) and an increase in the number of private operators participating in the freight rail market.

#### ***Second stage: Corporate build-up and encouragement of competition***

As mentioned above, some events of the second stage of the Reform are still ongoing. Generally the second stage of the Reform involves the restructuring of Russian Railways by establishing wholly owned subsidiaries of Russian Railways engaged in competitive activities: long-distance and suburban passenger transportation services, freight transportation (i.e. Freight One), container transportation (i.e. TransContainer), repairs and maintenance and non-core businesses (business activities which are not connected with railway carriage/transportation).

The Reform provided that the first activities to be split off at this stage were transit, intermodal and refrigerator freight transportation services. Next were long-distance and suburban passenger transportation services, repairs and maintenance of rolling stock and passenger services. Closer to the completion stage, the enterprises operating in the social sphere and construction, telecommunications and real estate were to be divested.

At this stage, the Reform also provided for the development and implementation of the measures necessary to enhance effectiveness of passenger transportation operations and to decrease cross-subsidies at the expense of freight traffic. The aim of these measures was to provide for the creation of a competitive environment in passenger and freight transportation and to decrease the existing cost burden on the Russian economy by reducing the growth rates of freight traffic tariffs.

The programme envisaged the creation of conditions for private operators to own locomotives as well as an increase in the percentage of freight cars owned by private operators to 50 per cent. or more of the total number of freight cars in Russia.

The second stage was intended to create the conditions for free market pricing in the competitive sectors of the Russian railway industry.

### *Third stage: Formation and development of a competitive market*

The final stage of the Reform envisaged in the Programme provides for the further development of competition in passenger and freight transportation (including an increase in the percentage of freight cars owned by private operators to 60 per cent. or more of the total number of freight cars in Russia), issuance of licences for providing long-distance and suburban passenger transportation services. Furthermore, the Programme provided for partial sale of the shares of the subsidiaries of Russian Railways which operate in the field of cargo transportation, long distance and suburban passenger transportation services, repair facilities and non-core businesses.

### **THE PRICING POLICY**

According to the Programme the main aim of the tariff policy for the Russian railway industry is to provide for the development of competition in the provision of railway services and to ensure non-discriminatory access for freight forwarders to railway infrastructure. Tariffs should ensure a reasonable profit and include projections for renovation and rehabilitation of the infrastructure. Tariffs are set annually but may be reviewed at any time at the discretion of the FTS or the Russian Ministry of Transport, or as a response to a request from an authority or a company.

Generally, tariffs which apply to the services provided by Russian Railways are established by the FTS except for international transit tariffs set by the Russian Ministry of Transport. The freight tariff structure for the Russian railway sector is divided into two main parts: (a) a general infrastructure and locomotive charge and (b) a railcar charge.

While the infrastructure and locomotive charge is set by the FTS for all market participants (including Russian Railways and private operators) the railcar charges established by the FTS apply only for Russian Railways. Accordingly, private operators, such as the Group, are free to set their own rates of railcar charges. In reality, however, for certain cargoes, private operators use the railcar tariffs set by the FTS for Russian Railways as a benchmark.

The railway tariff primarily depends on the distance, cargo class and type of destination (i.e. whether the freight is being transported from Russia abroad by rail, or whether the freight is being transported within Russia, including transportation to/from the sea ports). The tariffs for carriage of cargoes and infrastructure services rendered by Russian Railways are contained in the Tariff 10-01. There are three cargo classes where Class 1 cargo attracts the lowest tariff and Class 3 cargo attracts the highest one.

The Government periodically approves certain parameters for economic growth, including yearly tariff increases for the services of natural monopolies (such as Russian Railways). In accordance with such approved parameters, from 1 January 2008 the FTS increased the tariffs on railway services on average by 11 per cent. From 1 April 2008, the FTS increased the tariffs on railway services on average by another one per cent. to improve the infrastructure in the Sochi region prior to the Winter Olympics in 2014.

According to A.T. Kearney, the formation of Freight One has improved the competitive environment in the railway transportation sector leading to liberalisation of price setting. Freight One is not subject to FTS regulation of railcar charges. In the future, the tariffs charged for railway transportation are expected by A.T. Kearney to become more aligned to market rates.

### **ROLLING STOCK OPERATORS**

The business of the Group includes providing rolling stock for use on the Russian railway system, which is regulated by the Railway Transport Law.

A rolling stock operator is a legal entity or an individual entrepreneur which owns railcars and participates in transportation on the basis of an agreement with a carrier by providing such rolling stock for use. Rolling stock operators may also participate in transportation by providing either their own or leased locomotives or may rely on Russian Railways for such services. The number of locomotive operators is currently limited due to the need to obtain permits from Russian Railways for usage of locomotives on selected short routes.

Current Russian legislation does not clearly specify the characteristics of rolling stock operators' activities. This causes some uncertainty when determining whether a company holds the legal status of a rolling stock operator. A distinction is drawn between a rolling stock operator, which owns cars, and a carrier, which assumes an obligation to move cargoes from one point to another on the railway network. A rolling stock operator is also differentiated from the owner of infrastructure, such as railway tracks and railway stations. The Group is primarily classified as a rolling stock operator. Russian Railways currently owns most of the railway infrastructure and remains the leading railway carrier in Russia.

In addition to providing its rolling stock to customers, the Group facilitates the entering into agreements for transportation between such customers and Russian Railways. As a monopoly carrier, Russian Railways may not refuse to conclude carriage agreements with the clients of other rolling stock operators (such as the Group) or to prefer its own clients over those of other rolling stock operators.

The Group charges its customers for the provision of rolling stock to transport cargoes and Russian Railways receives charges for the use of the infrastructure and locomotive services.

The Railway Transport Law is expected to be amended by introducing: redistribution of the government regulatory functions among the current government agencies; a more precise definition of rolling stock operator and determination of an operator's rights and obligations; and a new notion of carriage by non-general designation transport (the possibility to conclude non-public transportation agreements, which is fundamental for future private carriers).

#### **CERTIFICATION REQUIREMENTS**

The Railway Transport Law also requires the certification of rolling stock, which must comply with safety requirements, including health and labour safety, fire safety and environmental protection rules. The Railway Transport Certification Rules specify particular types of rolling stock which must be certified. During the term of a certificate, inspection control must be carried out at least once a year. The main functions of inspection control are prevention and suppression of non-compliance of certified rolling stock with applicable legal requirements. Inspection control findings are documented in an official act of inspection. If a breach of certification rules or legal requirements is determined to have occurred, the act will contain a decision of the inspection authorities as to whether to suspend or revoke the certificate. A decision to suspend the certificate will be made if the holder of the certificate is able to cure such breach.

#### **FREIGHT FORWARDING SERVICES**

Forwarding services are regulated by the Civil Code, the Forwarding Law, the Forwarding Services Rules and the state standards adopted by Russian governmental authorities. In addition, the Russian Forwarders Association, a non-governmental organisation, has adopted non-binding general terms of forwarding.

The forwarding services include organisation of cargo transportation, facilitating of the conclusion of carriage agreements, supporting of cargo shipments and receipts and certain other services ancillary to cargo transportation. The Forwarding Law provides for the liability of a forwarder for non-performance or under-performance of its obligations. This is limited in most cases to the actual damage resulting from such non or under-performance. The law also provides for a 1 year limitation period for claims in relation to forwarding services. Prices for forwarding services are currently not regulated by the Government.

#### **ROLLING STOCK LEASING**

The business activities of the Group include leasing rolling stock, including locomotives. Leasing activities are regulated by the Civil Code. According to the Civil Code, rolling stock is movable property and may be leased pursuant to a lease agreement. Russian law does not require any registration of leases of rolling stock and commercial terms and conditions of such leases are not subject to state regulation.

#### **LICENSING**

The Law on Licensing sets the requirements for obtaining licences in respect of certain activities, including railway transportation of cargoes.

The Group obtained a freight rail carrier licence on 20 August 2003. The licence is valid until 20 August 2008. However, as at the date hereof, the Group has not concluded any agreements for railway transportation with its clients as a carrier. Currently a number of rolling stock operators have obtained a freight rail carrier licence, but do not actually operate as carriers. This is a consequence of the absence of appropriate detailed legal regulation and practical interaction between those entities who obtained the carrier licence and Russian Railways, a monopoly carrier. In order to permit the operation of private carriers, it is required that (among other things) current tariff regulation and operating procedures of locomotive facilities be amended and access to the railway infrastructure be simplified.

## DESCRIPTION OF SHARE CAPITAL AND APPLICABLE CYPRIOT LAW

Set forth below is a description of the Company's Share Capital, the material provisions of the Company's memorandum and articles of association in effect on the date of this Prospectus and certain requirements of Cypriot legislation. Holders of GDRs will be able to exercise their rights with respect to the Ordinary Shares underlying the GDRs only in accordance with the provisions of the Deposit Agreement and the Deed Poll (see "Terms and Conditions of the Global Depositary Receipts") and the relevant requirements of Cypriot law.

### PURPOSE

The Company's purpose includes, amongst other things, the carrying on of investments and trade. The Company's objects are set forth in full in Clause 3 of its Memorandum of Association.

### SHARE CAPITAL

The Company was incorporated as Globaltrans Investment Ltd., a private company limited by shares on 20 May 2004 with an authorised share capital of USD 5,000,000 divided into 5,000,000 ordinary shares of USD 1 each out of which all 5,000,000 ordinary shares were allotted fully paid; 1,500,000 ordinary shares were allotted to EIL and 3,500,000 ordinary shares were allotted to Leverret Holding Limited (*LHL*). On 11 November 2004, LHL transferred its entire shareholding to TIHL. On 23 May 2005, the authorised share capital of the Company was increased to USD 10,000,000 by the creation of 5,000,000 ordinary shares of USD 1 each. On 31 May 2005, 3,500,000 ordinary shares were issued fully paid and transferred to TIHL and 1,500,000 ordinary shares were issued fully paid to EIL.

On 19 March 2008, by way of a written resolution of the shareholders of the Company, the authorised share capital of the Company was subdivided into 100,000,000 ordinary shares of USD 0.10 each and, on the same day the authorised share capital of the Company was increased to 116,959,064 ordinary shares of USD 0.10. On 19 March 2008, TIHL agreed, with Envesta's consent, to transfer 1 share each to Valleyfield Investments Limited, Stoneyford Investments Limited, Webeck Holdings Ltd, NCC Pacific Investments Limited, and National Container Holding Company Limited (all owned, directly or indirectly by TIHL). The Board of Directors approved the transfer of shares from TIHL to Valleyfield Investments Limited, Stoneyford Investments Limited, Webeck Holdings Ltd, NCC Pacific Investments Limited, and National Container Holding Company Limited.

The Ordinary Shares are in registered form.

The shareholders of Globaltrans Investment Ltd. resolved by way of written resolution on 19 March 2008 to (a) convert the Company into a public limited company and to adopt new articles of association, as well as (b) change the Company's name to Globaltrans Investment PLC.

By way of written resolutions adopted on 19 and 20 March 2008, the shareholders of the Company resolved to accept the resignation of Mr. Michael Thomaidis from his position as director of the Company and to appoint Mr. Alexander Eliseev, Mr. Michael Zampelas, Dr. Hans Durrer, Mrs. Elia Nicolaou, Mr. Konstantin Shirokov, Mr. Mikhail Loganov, and Mr. Sergey Maltsev to the Board of Directors. See "Directors and Senior Management".

As at the date of this Prospectus, the Company's issued share capital consisted of 100,000,000 Ordinary Shares, which are fully paid. The Company's authorised share capital consists of 116,959,064 Ordinary Shares. Assuming 16,959,064 Ordinary Shares are issued in connection with the Offering the Company's authorised and issued fully paid share capital immediately following the Offering will be 116,959,064 Ordinary Shares.

The Company does not have in issue any listed or unlisted securities not representing its share capital.

Neither the Company nor any of its subsidiaries (nor any party on its behalf) holds any of its Ordinary Shares.

Neither the Company nor any of its subsidiaries has any outstanding convertible securities, exchangeable securities or securities with warrants or any relevant acquisition rights or obligations over the Company's or either of the subsidiaries' authorised but unissued capital or undertakings to increase its issued share capital.

The Company's articles of association and the Companies Law, Cap 113 (as amended), to the extent not disapplied by shareholders' resolution, confer on shareholders certain rights of pre-emption in respect of

the allotment of equity securities which are, or are to be, paid up in cash and, following the Offering, will apply to the Company's authorised but unissued share capital. Subject to certain limited exceptions, unless the approval of the Company's shareholders in a general meeting is obtained, the Company must offer shares to be issued for cash to holders of shares on a pro rata basis. None of the Company's shares are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.

#### **ARTICLES OF ASSOCIATION**

In this section *Law* means the Companies Law, Cap. 113 of Cyprus and any successor statute or as the same may from time to time be amended. The Company's current articles of association were adopted on 19 March 2008.

The following is a brief summary of certain material provisions of the Company's articles of association as will be in effect on and immediately prior to the Closing Date.

#### **Rights Attaching to Ordinary Shares**

All Ordinary Shares have the same rights attaching to them, a summary of which is set forth below.

##### *Issue of Shares*

As a matter of Law the Ordinary Shares shall be at the disposal of the directors who, upon complying with the provisions of the articles of association and Sections 60A and 60B of the Law, may allot or otherwise dispose of any unissued shares in the appropriate manner as regards the persons, the time and, in general, the terms and conditions as the directors may decide, provided that no share shall be issued at a discount.

##### *Pre-emption Rights*

Unless otherwise determined by resolution approved at a general meeting of the Company in accordance with the provisions of Section 60B of the Law, all new shares and/or other securities which are convertible into shares in the Company that are to be issued for cash, shall be offered to the existing shareholders of the Company on a pro-rata basis to the participation of each shareholder in the capital of the Company. Any such offer shall be made upon written notice to all the shareholders specifying the number of the shares and/or other securities convertible into shares in the Company, which the shareholder is entitled to acquire and the time periods within which the offer, if not accepted, shall be deemed to have been rejected. If, until the expiry of the said time period, no notification is received from the person to whom the offer is addressed that such person accepts the offered shares or other securities which are convertible into shares of the Company, the directors may dispose of them in any manner as they deem more advantageous for the Company.

##### *Voting Rights*

Subject to any special rights or restrictions as to voting attached to shares (of which there are none at present), every holder of shares who is present in person or by proxy shall have one vote and on a poll every holder who is present in person or by proxy shall have one vote for each share held by him or her. A corporate member may, by resolution of its directors or other governing body, authorise a person to act as its representative at general meetings and that person may exercise the same powers as the corporate shareholder could exercise if it were an individual member.

No shareholder shall be entitled to vote at any general meeting unless all calls or other sums presently owed by him in respect of his shares in the Company have been paid.

##### *Dividend and Distribution Rights*

The Company may in a general meeting of shareholders declare dividends, but no dividend shall exceed the amount recommended by the directors. The directors may from time to time and subject to the provisions of Section 169C of the Law pay to shareholders such interim dividends as appear to the directors to be justified by the Company's profits but no dividend will be paid otherwise than out of profits.

The directors may set aside out of the Company's profits such sums as they think proper as a reserve or reserves which shall, at the discretion of the directors, be applicable for any purpose to which the Company's profits may, at their discretion, either be employed in the Company's business or be invested in

such investments (other than the Company's shares) as the directors may from time to time think fit. The directors may also, without placing the same in the reserve, carry forward to the next year any profits which they may think prudent not to distribute.

### ***Variation of Rights***

If at any time the share capital is divided into different classes of shares, the rights attached to any class may, subject to the provisions of Sections 59A and 70 of the Law, whether or not the Company is being wound up, be amended or abolished with the sanction of a resolution approved in accordance with the provisions of Section 59A of the Law at a separate general meeting of the holders of the shares of the class.

### ***Alteration of Capital***

The Company may by resolution taken in accordance with the provisions of Section 59A of the Law:

- increase its share capital by such sum, to be divided into shares of such amount, as the resolution shall prescribe;
- consolidate and divide all or any of its share capital into shares of larger amounts than its existing shares;
- subdivide its existing shares, or any of them, into shares of a smaller amount than is fixed by the memorandum of association subject, nevertheless, to the provisions of Section 60(1)(d) of the Law; and
- cancel any shares which, at the date of the passing of the resolution, have not been taken nor agreed to be taken by any person.

The Company may also, by special resolution, reduce its share capital, any capital redemption reserve fund or any share premium account in any manner and subject to any terms required by the Law.

### ***Redemption of shares***

Subject to the provisions of Section 57 of the Law, any preference shares may, with the sanction of an ordinary resolution, be issued on the condition that they are, or at the option of the Company are liable to be, redeemed on such terms and in such manner as the Company, prior to the issue of such shares, may by special resolution determine.

### ***Winding Up***

If the Company shall be wound up, the liquidator, may, with the sanction of an extraordinary resolution of the Company's shareholders, and any other sanction required by the Law:

- divide amongst the shareholders in kind or in specie all or part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as the liquidator deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the shareholders or different classes of shareholders; and
- vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the liquidator shall think fit, but so that no shareholder shall be compelled to accept any shares or other securities whereon there is any liability.

### ***Form and Transfer of Shares***

The instrument of transfer of any share shall be executed by or on behalf of the transferor and the transferee, and the transferor shall be deemed to be the holder of the share until the name of the transferee is entered into the register of members in relation to such share.

### ***Directors***

#### ***Number of Directors***

The minimum number of directors shall be two and there shall be no maximum. The Company may, from time to time, by ordinary resolution of the shareholders, increase or reduce the number of directors,

provided that such number shall not be smaller than the minimum number of directors as provided in the articles of association.

### ***Board of Directors***

The quorum necessary for the transaction of the business of the directors shall be at least half of all the directors of the Company. Additionally, a resolution in writing, signed and approved by letter, telegram, telefax, electronic mail or by any other means of transmission of written documents by all the directors shall be as valid and effective for all purposes as if the same had been passed at a meeting of the directors duly convened and held.

The simultaneous connection through telephone or other means of communication of a number of directors constituting a quorum, even if one or more of these directors are outside Cyprus, shall be deemed to constitute a meeting of the directors, provided that (i) all the directors shall be entitled to receive notice of a meeting by means of a telephone or other means of communication and to be connected by telephone or other such means of communication for the purposes of such meeting and (ii) each director participating at the meeting must be able to hear each one of the other directors participating at the meeting.

Questions arising at any meeting of the Board of Directors shall be decided by a majority of votes. In the case of equality of votes, the chairman shall not have a second or casting vote. A director may, and the secretary on the requisition of a director shall, at any time, summon a meeting of the directors.

The directors may resolve to form committees with power to review and consider, and supervise over the matters delegated to the relevant committee (including without limitation the accounts, financial controls and governance controls and matters within the competency of the audit, nomination and remuneration committees) and to provide advice to the Board and/or shareholders in relation to such matters (but not any of the other powers of the Board).

### ***Appointment of Directors***

No person may be elected as a director at any general meeting unless proposed by the directors, or unless a written notice, signed by a shareholder who is entitled to attend and vote at the said meeting of the Company is delivered to the registered office of the Company, stating his or her intention to propose the said person for election, along with a written notice signed by the said person, stating his readiness to be elected, at least three and no more than twenty-one days before the date fixed for the meeting.

The Company may by ordinary resolution of the shareholders, of which special notice has been given in accordance with Section 136 of the Law, remove any director before the expiration of his period of office notwithstanding anything in the articles of association or in any agreement between the Company and such director. Such removal shall be without prejudice to any claim such director may have for damages for breach of any contract of service between him and the Company.

The shareholders of the Company may, at any time and from time to time appoint by ordinary resolution any person as director either to fill a causal vacancy or as an additional director and specify the period during which the said person shall hold this position.

The office of director shall be vacated if the director:

- becomes bankrupt or makes any arrangement or composition with his creditors generally; or
- becomes prohibited from being a director by reason of any court order made under Section 180 (disqualification from holding the position of director on the basis of fraudulent or other conduct) of the Law; or
- becomes of unsound mind; or
- resigns his office by notice in writing to the Company; or
- shall have been absent, for reasons which are not related to the business of the Company, for more than six months, from at least three consecutive meetings of the board of directors which were duly convened and held, without the permission of the board.

### ***Directors' Interests***

A director who is in any way directly or indirectly interested in a contract or proposed contract with the Company shall declare the nature of his interest at a meeting of the directors in accordance with Section 191 of the Law. Directors who have an interest in any contract, agreement or settlement proposed to be concluded between the Company and a third party may attend the meeting at which the matter is discussed but shall not have the right to vote. None of these restrictions shall apply in relation to:

- any arrangement for the provision to any director, of any security or guarantee in relation to money which he paid or obligations which he undertook in favour of the Company; or
- any arrangement for the provision by the Company of any security to third parties in relation to a liability or obligation of the Company for which the director himself assumed responsibility whether wholly or in part pursuant to any guarantee or by the deposit of any security; or
- any contract for the countersignature or subscription by any director in relation to shares or debentures of the Company; or
- any contract or arrangement with any other company in which he is interested only as officer of the Company or as holder of shares or other securities.

And these restrictions may at any time be suspended or varied to any extent, only by the Company in general meeting.

A director who to his knowledge is in any way, whether directly or indirectly, interested in a contract with the Company shall declare the nature of his interest at the meeting of the directors at which the question of entering into the contract is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the directors after he knows that he is or has become so interested.

The directors may hold any other office or profit making position in the Company along with the office of director (other than the office of an independent auditor) for such period and on such terms (as to remuneration and other matters) as the directors may determine; and no director or prospective director shall be disqualified on the grounds of holding such office, from contracting with the Company whether with regard to his tenure or any such other office or place of profit or as a vendor, purchaser or otherwise; nor shall any such contract, or any contract or settlement concluded by or on behalf of the Company in which any director has, in any way, interest, be liable to be cancelled; nor shall any director so contracting or having such an interest be liable to account to the Company for any profit realised by any such contract or settlement by reason of such director holding that office or of the fiduciary relationship thereby established.

The directors may act either personally or in a professional capacity for the Company, and the director or his firm shall be entitled to remuneration for professional services as if he were not a director; provided that a director or his firm shall not act as auditor to the Company.

The remuneration of the directors shall be determined from time to time by the shareholders of the Company in a general meeting. In addition to and independently of such remuneration, any managing directors shall receive such remuneration as the directors may determine from time to time. The directors may also be paid all travelling, hotel and other expenses properly incurred by them in attending and returning from meetings of the directors or in connection with the business of the Company.

A director need not be a registered holder of shares in the Company to be a director.

### ***Directors' Powers***

The business of the Company shall be managed by the directors, who may exercise all such powers of the Company as are not, by the Law or by the articles of association, required to be exercised by the shareholders in general meeting, subject nevertheless to any provisions of the articles of association, of the Law and of any regulations (which are not in conflict with the articles of association or the provisions of the Law) as may be prescribed by the Company in general meeting; but no regulation made by the Company in general meeting shall invalidate any prior act of the directors which would have been valid if that regulation had not been made.



## **Meetings of Shareholders**

The first annual general meeting must be held within 18 months of incorporation and thereafter, not more than 15 months shall elapse between the date of one annual general meeting and the next.

The directors may, whenever they think fit, decide by a majority vote to convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on requisition or, in default, they may be convened by such requisitionists as provided by Section 126 of the Law, i.e. shareholders holding at least 10 per cent. of the issued share capital of the Company. If at any time there are not, within Cyprus, sufficient directors capable of forming a quorum, any director or any two shareholders may convene an extraordinary general meeting in the same manner or as approximately as possible as such meetings would be convened by the directors.

The annual general meeting and a meeting called for the passing of a special resolution shall be called by at least twenty-one days' written notice. The Company's other meetings shall be called by fourteen days' written notice at least. In case of special business, the notice shall specify the general nature of that business. Provided that the meetings of the Company may be called by shorter notice and shall be deemed to have been duly called if it is so agreed:

- in the case of a meeting called as the annual general meeting, by all the shareholders entitled to attend and vote; and
- in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares.

A notice convening a general meeting must be sent to each of the shareholders, provided that the accidental failure to give notice of a meeting to, or the non-receipt of notice of a meeting by any person entitled to receive notice, shall not invalidate the proceedings at that meeting to which such notice refers. All shareholders are entitled to attend the general meeting or be represented by a proxy authorised in writing. Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands, every member present in person or by proxy shall have one vote, and on a poll, every member shall have one vote for each share of which he is the holder (which may be given personally or by proxy).

The quorum for a general meeting will consist of at least one shareholder, representing at least 50 per cent. of the issued share capital of the Company, present in person or by proxy. If within half an hour from the time appointed for the meeting a quorum is not formed, the meeting, if convened upon the requisition of members, shall be dissolved. In any other case, it shall stand adjourned on the same day the following week, at the same time and place or on such other day and at such other time and place as the directors may determine and specify and if at the adjourned meeting a quorum is not formed within half an hour from the time appointed for the meeting, one or more members present shall form a quorum.

Subject to the provisions of the Law, a resolution in writing which bears the signature or has been passed by letter, facsimile, electronic mail, telegram or other means of transmission of written documents by each shareholder, who has the right to receive notice of the holding of general meetings, attend and vote (or in the case of legal persons the signature of their authorised representatives), is valid and has the same legal effect as if the resolution had been passed at a meeting of the Company duly convened and held.

## **CYPRIOT LAW**

### **General**

The principal legislation under which the shares have been created and under which the Company was formed and now operate is the Cyprus Companies Law, Cap 113 (as amended). The liability of shareholders is limited. Under the Cyprus Companies Law, Cap 113 (as amended), a shareholder of a company is not personally liable for the acts of the company, save that a shareholder may become personally liable by reason of his or her own acts.

According to Cyprus law, whenever shares will be issued in exchange for a cash consideration, the shareholders have pre-emption rights with respect to such issuance of shares. These pre-emption rights may be disapplied by a resolution of the general meeting which is passed by a two thirds majority if less than half of all the votes are represented at the meeting and by an ordinary resolution if at least half of all the votes are represented at the meeting. The directors have an obligation to present to the relevant

general meeting a written report which explains the reasons for the dissolution of the pre-emption rights and justifies the proposed allotment price of the shares.

As a company with its registered office in Cyprus whose securities represented by GDRs are proposed to be listed on a regulated market in the United Kingdom, any offer for such GDRs will be subject to the provisions of the United Kingdom City Code on Takeovers and Mergers (the *City Code*) in respect of consideration, disclosure requirements and procedural matters applicable to the offer, while Cypriot law would apply to such an offer in relation to company law matters, including the threshold for a mandatory bid. Pursuant to Article 5(1) of Directive 2004/25/EC of the Parliament and Council of the European Union dated 21 April 2004 on takeover bids (the *Takeover Directive*), all member states of the European Union are required to introduce legislation requiring any person who, together with those acting in concert with him, acquires “control” of a company having its registered office in that member state, to make a mandatory offer to all holders of securities of the company. Pursuant to the Takeover Directive, the percentage of voting rights conferring “control” is to be determined by the rules of the member state in which the company has its registered office. Currently applicable Cyprus law contains provisions relating to mandatory offers requiring any person who acquires shares in a company to which such law applies, which together with the shares already held by him and by persons acting in concert with him, carry 30 per cent. or more of such company’s voting rights, to make a general offer for that company’s entire issued share capital. However, these provisions are expressed to apply only to companies listed on a regulated market in Cyprus. Accordingly, notwithstanding the requirements of the Takeover Directive, it appears there would currently be no requirement for any person acquiring control of the Company to make an offer to acquire the GDRs or Ordinary Shares held by other holders.

The Cyprus Companies Law, Cap. 113 (as amended) contains provisions in respect of squeeze out rights. The effect of these provisions is that, where a company makes a take-over bid for all the shares or for the whole of any class of shares of another company, and the offer is accepted by the holders of 90 per cent. of the shares concerned, the offeror can upon the same terms acquire the shares of shareholders who have not accepted the offer, unless such persons can persuade the court not to permit the acquisition. If the offeror company already holds more than 10 per cent. in value of the shares concerned, additional requirements need to be met before the minority can be squeezed out. If the company making the take-over bid acquires sufficient shares to aggregate, together with those which it already holds, more than 90 per cent. then, within one month of the date of the transfer which gives the 90 per cent., it must give notice of the fact to the remaining shareholders and such shareholders may, within three months of the notice, require the bidder to acquire their shares and the bidder shall be bound to do so upon the same terms as in the offer or as may be agreed between them or upon such terms as the court may order.

There have been no public takeover bids by third parties for all or any part of the Company’s equity share capital since its date of incorporation.

#### **Cypriot companies law compliance matters**

The minimum amount which in the opinion of the directors is required to be raised by the Offering for the matters specified in paragraph 4 of Part I of the Fourth Schedule to the Companies Law, Cap.113 is USD 224.7 million being USD 11 million for preliminary expenses and commissions and the remainder for working capital.

The time of the opening of the subscription for the GDRs representing the Ordinary Shares is 7 May 2008.

The documents attached to the copies of the Prospectus delivered to the registrar of companies in Cyprus are:

- (a) the written consent of PricewaterhouseCoopers Limited referred to in “Independent Auditors” of the Prospectus; and
- (b) a copy of the Underwriting Agreement referred to in “Subscription and Sale” of the Prospectus.

## TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

*The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:*

The Global Depositary Receipts (**GDRs**) represented by this certificate are each issued in respect of one Ordinary Share of nominal value USD 0.10 (the **Shares**) in Globaltrans Investment PLC (the **Company**) pursuant to and subject to an agreement to be dated 7 May 2008, and made between the Company and The Bank of New York in its capacity as depositary (the **Depositary**) for the “Regulation S Facility” and for the “Rule 144A Facility” (such agreement, as amended from time to time, being hereinafter referred to as the **Deposit Agreement**). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed BNY (Nominees) Limited, as Custodian to receive and hold on its behalf any relevant documentation respecting certain Shares (the **Deposited Shares**) and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the **Deposited Property**). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the **Conditions**), references to the “Depositary” are to The Bank of New York and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the “Custodian” are to BNY (Nominees) Limited, or any other custodian from time to time appointed under the Deposit Agreement and references to the “Main Office” mean, in relation to the relevant Custodian, its head office in the city of London or such other location of the head office of the Custodian in the United Kingdom as may be designated by the Custodian with the approval of the Depositary (if outside the city of London) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

*The GDRs will upon issue be represented by interests in a Regulation S Master GDR, evidencing Regulation S GDRs, and by interests in a Rule 144A Master GDR, evidencing Rule 144A GDRs (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in “Summary of Provisions Relating to the Global Depositary Receipts While in Master Form” for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the Master GDR.*

References in these Conditions to the **Holder** of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the **Register**) as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement.  **Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the Depositary in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

1. Withdrawal of Deposited Property and Further Issues of GDRs
  - 1.1 Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:
    - (i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Cyprus of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;
    - (ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;

- (iii) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and
- (iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out in Schedule 4, Part B, to the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8), if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

- (i) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book- entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
- (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

- (a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or
- (b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Cyprus of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3 of the Deposit Agreement (*which is described in the following paragraph*) (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8) by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) Schedule 4, Part A of the Deposit Agreement (*which is described in the second following paragraph*) (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8) by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these

Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

*The certificate to be provided in the form of Schedule 3 of the Deposit Agreement certifies, among other things, that the person providing such certificate is located outside the United States (as defined in Regulation S under the Securities Act) and will comply with the restrictions on transfer set forth under “Selling and Transfer Restrictions—Transfer Restrictions”.*

*The certificate to be provided in the form of Schedule 4, Part A, of the Deposit Agreement certifies, among other things that the person providing such certificate is a QIB or is acting for the account of another person and such person is a QIB and, in either case, will comply with the restrictions on transfer set forth under “Selling and Transfer Restrictions—Transfer Restrictions”.*

- 1.5 Any further GDRs issued pursuant to Condition 1.4 which (i) represent Shares which have rights (whether dividend rights or otherwise) which are different from the rights attaching to the Shares represented by the outstanding GDRs, or (ii) are otherwise not fungible (or are to be treated as not fungible) with the outstanding GDRs, will be represented by a separate temporary Master Regulation S GDR and/or temporary Master Rule 144A GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master Regulation S GDR and/or a Master Rule 144A GDR (by increasing the total number of GDRs evidenced by the relevant Master Regulation S GDR or Master Rule 144A GDR by the number of such further GDRs, as applicable).
- 1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a “Pre-Release” as defined in Condition 1.7.
- 1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, prior to the receipt of Shares (a **Pre-Release**). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property is to be delivered (the **Pre-Releasee**) that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Deposited Property or GDRs, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days’ notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee’s obligations in connection herewith, including the Pre-Releasee’s obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom a Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and

completed certificate substantially in the form set out in Schedule 4 Part A of the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8). The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 of the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8).

- 1.8 The Depositary may make such amendments to the certificates contained in the Deposit Agreement in Schedule 3 and in Schedule 4 Parts A and B as it may determine are required in order for the Depositary to perform its duties under the Deposit Agreement, or to comply with any applicable law or with the rules and regulations of any securities exchange, market or automated quotation system upon which the GDRs may be listed or traded, or to comply with the rules or requirements of any book entry system by which the GDRs may be transferred, or to confirm compliance with any special limitations or restrictions to which any particular GDRs are subject.

## 2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts corresponding to Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

## 3. Transfer and Ownership

The GDRs are in registered form, each corresponding to one Share. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Master Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the *Securities Act*).

## 4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance

with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; PROVIDED THAT:-

- (a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and
- (b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(iv).

#### 5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

#### 6. Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

#### 7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be

the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:-

- (i) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in US Dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or
- (ii) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or
- (iii) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, PROVIDED THAT Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.
  - (a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the **Primary GDR Rights Offering**), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder's GDRs (**Additional GDR Rights**) if at the date and time specified by the Depositary for the conclusion of the Primary GDR Rights Offering (the **Instruction Date**) instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder's instructions to subscribe for such Additional GDR Rights (**Additional GDR Rights Requests**) shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the **Maximum Additional Subscription**) and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto (**Unsubscribed Rights**), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in US Dollars or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).
  - (b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Rights Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.



- (c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depositary shall be entitled to receive such opinions from Cypriot counsel and US counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(iv) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (i), (ii), (iii) and (iv) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

#### 8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in

part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any Payments

9.1 Any distribution of cash under Condition 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.

9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. Capital Reorganisation

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding Taxes and Applicable Laws

11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Cypriot and other withholding taxes, if any, at the applicable rates.

11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Cyprus in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent, registration or permit, or to file any such report.

## 12. Voting Rights

- 12.1 Holders will have voting rights with respect to the Deposited Shares. The Company has agreed to notify the Depositary of any resolution to be proposed at a General Meeting of the Company and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor as well as written requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against each and any resolution specified in the agenda for the meeting, which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23. The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to appoint a representative to attend the relevant meeting and vote on behalf of the Depositary.

- 12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.
- 12.3 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.
- 12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permitted by Cypriot law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Cypriot law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.
- 12.5 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received, except that if no voting instructions are received by the Depositary (either because no voting instructions are returned to the Depositary or because the voting instructions are incomplete, illegible or unclear) from a Holder with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, such Holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a person designated by the Company with respect to such Deposited Shares, and the Depositary shall give a discretionary proxy to a person designated by the Company to vote such Deposited Shares, PROVIDED THAT no such instruction shall be deemed given, and no such discretionary proxy shall be given, with respect to any matter as to which the Company informs the Depositary (and the Company has agreed to provide such information in writing as soon as practicable) that (i) the Company does not wish such proxy to be given, or (ii) such matter materially and adversely affects the rights of holders of Shares.
- 12.6 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Cypriot law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3, 12.4 or 12.5 the Depositary shall not vote or cause to be voted such Deposited Shares.
- 12.7 Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.3, 12.4 or 12.5 above the Depositary shall notify the Chairman of the Company and appoint a person designated by him as a representative of the Depositary to attend such meeting

and vote the Deposited Shares in the manner required by this Condition. The Depositary is entitled to request the Company to provide to the Depositary, and where such request has been made shall not be required to take any action required by this Condition 12 unless it shall have received, an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that such voting arrangement is valid and binding on Holders under Cypriot law and the statutes of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depositary will not be deemed to be exercising voting discretion.

12.8 By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition as it may be amended from time to time in order to comply with applicable Cypriot law.

12.9 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.

### 13. Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the *Charges*) shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 23.

### 14. Liability

14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.

14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of Cyprus or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, any Agent or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.

- 14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.
- 14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Condition 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.
- 14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.
- 14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- 14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.
- 14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.
- 14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.
- 14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.
- 14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorised by a director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- 14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.

- 14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company and further provided that the Depositary shall exercise reasonable care in selection of any delegate. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable, and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.
- 14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.
- 14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.
- 14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement, except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees. Without prejudice to the generality of the foregoing, in no circumstances shall the Depositary have any liability for any act or omission of any securities depository, clearing agency or settlement system in connection with or arising out of book-entry settlement of Deposited Shares or otherwise.
- 14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.
- 14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Cypriot law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.

- 14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.
- 14.21 Nothing in this Agreement shall exclude any liability for loss or damage caused by fraud on the part of the Depositary.
15. Issue and Delivery of Replacement GDRs and Exchange of GDRs
- Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.
16. Depositary's Fees, Costs and Expenses
- 16.1 The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:
- (i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: U.S.\$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;
  - (ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;
  - (iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of U.S.\$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;
  - (iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of U.S.\$0.02 or less per GDR for each such dividend or distribution;
  - (v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: U.S.\$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;
  - (vi) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of U.S.\$0.05 or less per GDR;
  - (vii) a fee of U.S.\$0.02 or less per GDR (or portion thereof) per annum for depositary services which shall be payable as provided in paragraph (viii) below; and
  - (viii) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions),
- together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.
- 16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

17. Agents

17.1 The Depositary shall be entitled to appoint one or more agents (the *Agents*) for the purpose, inter alia, of making distributions to the Holders.

17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18. Listing

The Company has undertaken in the Deposit Agreement to use its reasonable endeavours to maintain, so long as any GDR is outstanding, a listing for the GDRs on the official list maintained by the Financial Services Authority (the "Official List") and admission to trading on the market for listed securities of the London Stock Exchange.

For that purpose the Company will pay all fees and sign and deliver all undertakings required by the Financial Services Authority and the London Stock Exchange in connection with such listings. In the event that the listing on the Official List and admission to trading on the market for listed securities of the London Stock Exchange is not maintained, the Company has undertaken in the Deposit Agreement to use its reasonable endeavours with the reasonable assistance of the Depositary (provided at the Company's expense) to obtain and maintain a listing of the GDRs on any other internationally recognised stock exchange in Europe.

19. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Cyprus, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Cyprus, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

20.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 120 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 120 days' prior notice in writing to the



Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the Financial Services Authority and the London Stock Exchange.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use its reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the Financial Services Authority and the London Stock Exchange.

20.2 Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

## 21. Termination of Deposit Agreement

21.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(i) and Clause 10.1.1(a) of the Deposit Agreement for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.

21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, pro rata to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

## 22. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of

any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(i) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

### 23. Notices

- 23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by telex or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.
- 23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by telex transmission, as provided in this Condition, shall be effective when the sender receives the answerback from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any telex or facsimile transmission received by it from the other or from any Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.
- 23.3 So long as GDRs are listed on the Official List and admitted to trading on the London Stock Exchange and the rules of the Financial Services Authority or the London Stock Exchange so require, all notices to be given to Holders generally will also be published in a leading daily newspaper having general circulation in the UK (which is expected to be the *Financial Times*).

### 24. Reports and Information on the Company

- 24.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of:-
- (i) in respect of the financial year ending on 31 December 2007 and in respect of each financial year thereafter, the consolidated balance sheets as at the end of such financial year and the consolidated statements of income for such financial year in respect of the Company, prepared in conformity with International Financial Reporting Standards, as adopted for use in the European Union and reported upon by independent public accountants selected by the Company, as soon as practicable (and in any event within 180 days) after the end of such year;
  - (ii) if the Company publishes semi-annual financial statements for holders of Shares, such semi-annual financial statements of the Company, as soon as practicable, after the same are

published and in any event no later than three months after the end of the period to which they relate; and

(iii) if the Company publishes quarterly financial statements for holders of Shares, such quarterly financial statements, as soon as practicable after the same are published.

24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

24.3 For so long as any of the GDRs remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the Securities Act, to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the Securities Act. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company’s expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

26. Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Governing Law

- 28.1 The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedules 3 and 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Cypriot law. The Company has submitted in respect of the Deposit Agreement and the Deed Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in the Borough of Manhattan, New York City. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.
- 28.2 The Company has irrevocably appointed Law Debenture Corporate Services Limited, as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and appointed Law Debenture Corporate Services Inc. as its agent in New York to receive service of process in any Proceedings in New York. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.
- 28.3 The courts of England are to have jurisdiction to settle any disputes (each a *Dispute*) which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs (*Proceedings*) may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.
- 28.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).
- 28.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.
- 28.6 The Depositary irrevocably appoints The Bank of New York, London Branch (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

## **SUMMARY OF PROVISIONS RELATING TO THE GLOBAL DEPOSITARY RECEIPTS WHILE IN MASTER FORM**

The GDRs will initially be evidenced by (i) a single Master Regulation S GDR in registered form and (ii) a single Master Rule 144A GDR in registered form. The Master Rule 144A GDR will be registered in the name of Cede & Co. as nominee for DTC, and will be held by The Bank of New York in New York as custodian for DTC. The Master Regulation S GDR will be deposited with The Bank of New York, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of The Bank of New York Depositary (Nominees) Limited.

The Master GDRs contain provisions which apply to the GDRs while they are in master form, some of which modify the effect of the terms and conditions of the GDRs set forth under “Terms and Conditions of the Global Depositary Receipts”. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the “Terms and Conditions of the Global Depositary Receipts” shall have the same meaning herein.

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described below in whole but not in part. The Depositary will irrevocably undertake in the Master GDRs to deliver certificates evidencing GDRs in definitive registered form in exchange for the relevant Master GDR to the Holders within 60 calendar days in the event that:

- DTC, or any successor to DTC, in the case of the Master Rule 144A GDR, or Euroclear or Clearstream, Luxembourg, or any successor to them, in the case of the Master Regulation S GDR, notifies the Company that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days;
- either DTC in the case of Master Rule 144A GDR, or Euroclear or Clearstream, Luxembourg in the case of the Master Regulation S GDR, is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 calendar days;
- in respect of the Master Rule 144A GDR, DTC or any successor ceases to be a “clearing agency” registered under the US Securities Exchange Act of 1934, as amended; or
- the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the Company’s expense, including printing costs.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear, Clearstream, Luxembourg or DTC. Pursuant to the conditions set forth under “Terms and Conditions of the Global Depositary Receipts”, upon any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Master Rule 144A GDR and the Master Regulation S GDR, or any distribution of GDRs or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property, the relevant details shall be entered by the Depositary on the register maintained by the Depositary whereupon the number of GDRs represented by the relevant Master GDR shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the register, provided always that, if the number of GDRs represented by a Master GDR is reduced to zero, such Master GDR shall continue in existence until the Company’s obligations under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

### **PAYMENTS, DISTRIBUTIONS AND VOTING RIGHTS**

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Master Regulation S GDR, be made by the Depositary through Euroclear and Clearstream, Luxembourg and, in the case of GDRs represented by the Master Rule 144A GDR, will be made by the Depositary through DTC, on behalf of persons entitled thereto upon receipt of the relevant funds from the Company. Any free distribution or rights issue of Ordinary Shares to the Depositary on

behalf of the Holders will result in the records maintained by the Depositary being adjusted to reflect the enlarged number of GDRs represented by the relevant Master GDR.

Holders will have voting rights as set forth under “Terms and Conditions of the Global Depositary Receipts”.

#### **SURRENDER OF GDRS**

Any requirement in the “Terms and Conditions of the Global Depositary Receipts” relating to the surrender of a GDR represented by the Master Regulation S GDR to the Depositary shall be satisfied by the production by Euroclear and Clearstream, Luxembourg, and relating to the surrender of a GDR represented by the Master Rule 144A GDR to the Depositary shall be satisfied by the production by DTC, on behalf of a person entitled to an interest therein of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, Luxembourg or DTC, as appropriate. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

#### **NOTICES**

For as long as the Master Regulation S GDR is registered in the name of the common depositary (or its nominee) for Euroclear and Clearstream, Luxembourg, and the Master Rule 144A GDR is registered in the name of DTC (or its nominee), notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg with respect to the Master Regulation S GDR, and to DTC with respect to the Master Rule 144A GDR, for communication to persons entitled thereto in substitution for delivery of notices in accordance with their terms except that so long as the GDRs are listed on the Official List maintained by the Financial Services Authority and admitted for trading on the London Stock Exchange and the Financial Services Authority or the London Stock Exchange so requires, notices shall also be published in a leading newspaper having general circulation in the UK (which is expected to be the *Financial Times*).

The Master GDRs are governed by and must be construed in accordance with English law.

## TAXATION

*The following summary of material Cyprus, US federal income and United Kingdom tax consequences of ownership of the GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of GDRs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of GDRs. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of GDRs, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as at the date of this Prospectus, and of any actual changes in applicable tax laws after such date.*

### CYPRUS TAX CONSIDERATIONS

#### **Tax residency**

A company which is considered to be a resident for tax purposes in Cyprus is subject to corporate income tax in Cyprus (Corporate Income Tax) on its worldwide income, taking into account certain exemptions. A company is considered to be a resident of Cyprus for tax purposes if its management and control is exercised from Cyprus.

With respect to the individual GDR holders, an individual is considered to be a tax resident of Cyprus if he or she is physically present in Cyprus for a period or periods exceeding in aggregate more than 183 days in any calendar year.

#### **Rates of taxation**

The rate of Corporate Income Tax in Cyprus is 10 per cent.

Defence Tax is levied on certain types of income. Defence Tax applies, subject to any available exemptions, at three per cent. on 75 per cent. of certain rental income, at 10 per cent. on interest income not arising in the ordinary course of the business and at 15 per cent. on dividend income from non resident companies. Defence Tax is levied on gross income without any deduction for expenses.

Capital gains tax (Capital Gains Tax) is levied in Cyprus at a rate of 20 per cent. on profits from disposal of immovable property situated in Cyprus or shares of companies which own immovable property situated in Cyprus (unless the shares are listed on a recognized stock exchange).

#### **Taxation of income and gains of the Company**

##### *Gains from the disposal of securities*

Any gain from disposal of securities by the Company shall be exempt from Corporate Income Tax irrespective of the trading nature of the gain, the number of shares held or the holding period and shall not be subject to Defence Tax. Such gains are also outside of the scope of Capital Gains Tax provided that the company whose shares are disposed of does not own any immovable property situated in Cyprus.

The definition of securities includes shares and bonds of companies or legal persons wherever incorporated and options thereon. GDRs are generally accepted as falling within the definition of securities.

The Cyprus-Russia double tax treaty (the *Tax Treaty*) grants Cyprus the exclusive right of taxing capital gains realised on disposal of securities by a Cypriot resident entity, which does not carry on activities in Russia through a permanent establishment (a *PE*).

##### *Dividends to be received by the Company*

Under the Tax Treaty provided that the Company is the beneficial owner of the dividend income and does not create a PE in Russia, the rate of Russian withholding tax on dividends should be no more than 10 per cent. This rate is reduced to 5 per cent. if the Company has invested in the capital of a Russian tax resident company not less than the equivalent of USD 100,000.

Dividend income (whether received from Cypriot resident or non-resident companies) is exempt from Corporate Income Tax in Cyprus. Dividend income from Cypriot resident companies is exempt from Defence Tax whereas dividend income received from non-Cypriot resident companies is exempt from Defence Tax if there is a participation of at least one per cent. in the share capital of the foreign company paying the dividend. The exemption does not apply if the company paying the dividend engages directly or indirectly for more than 50 per cent. in activities which lead to investment income and the foreign tax burden of the company paying the dividend is substantially lower than the tax burden of the company in Cyprus receiving the dividend (in practice “foreign tax burden being significantly lower” means at an effective tax rate of less than five per cent.). If the exemption for Defence Tax does not apply, dividends receivable from non-Cypriot resident companies are taxed at a rate of 15 per cent. Russian withholding tax on dividend assessed at source as well as the Russian underlying tax (i.e. corporate profit tax of the Russian subsidiary which is paying the dividends) can be credited against any such Defence Tax payable in Cyprus provided that proper documentation can be provided to the Cyprus tax authorities evidencing the foreign tax withheld at source and the profit tax suffered in Russia by the company paying the dividend. There is no assurance that such credit will be available in practice.

#### ***Interest income***

Any interest accruing to the Company which is considered to arise in the ordinary course of the business or is considered closely connected thereto qualifies as business income and shall be subject only to Corporate Income Tax in Cyprus at a rate of 10 per cent. Such interest income shall be exempt from Defence Tax.

Specifically, interest income arising from the provision of loans to related or associated parties should be generally considered income arising from activities closely connected with the ordinary carrying on of a business and should as such be exempt from Defence Tax and only be subject to Corporate Income Tax.

Interest income not arising in the ordinary course of a business and not being considered closely connected thereto shall be exempt in respect of 50 per cent. of the Corporate Income Tax that would otherwise apply and shall be subject to Defence Tax at a rate of 10 per cent. The effective taxation on such interest can therefore be up to 15 per cent.

#### **Taxation of income and gains of the GDR holders**

##### ***Gains from disposal of GDRs by the GDR holders***

A gain realised on the sale of GDRs by a non resident holder shall not be subject to tax in Cyprus.

A gain realised on the sale of GDRs by a resident holder shall be exempt from tax in Cyprus as GDRs are considered to fall within definition of securities for Cypriot tax purposes.

##### ***Dividends to be received by the GDR holders***

Dividends to be received from the Company by non resident GDR holders and corporate resident GDR holders shall not be subject to tax in Cyprus, whether by way of withholding or otherwise.

Dividends to be received from the Company by resident individual GDR holders shall be subject to Defence Tax at the rate of 15 per cent.

##### ***Deemed distribution rules***

Defence Tax at a rate of 15 per cent. would be payable by the Cypriot company on deemed dividend to the extent that its shareholders (both individuals and companies) are Cypriot tax residents. A Cypriot company which does not distribute 70 per cent. of its after-tax profits within two years of the end of the year in which the profits arose, would be deemed to have distributed this amount as a dividend two years after that year end. The amount of this deemed dividend distribution (subject to Defence Tax) is reduced by any actual dividend (not subject to Defence Tax) paid out of the profits of the relevant year at any time up to the date of the deemed distribution. The accounting profits to be taken into account in this respect do not include fair value adjustments to movable or immovable property (if any).

##### **Withholding taxes**

No withholding taxes shall apply in Cyprus with respect to payment of interest by the Company to non-resident lenders (both corporations and individuals).



There is no withholding tax in Cyprus on interest income paid to Cypriot tax resident corporate lenders, unless the Company issues a corporate bond, note or any other similar fixed income instrument and the resident lender receiving the interest is not considered to have generated this interest in the course of its ordinary activities or in connection with activities closely connected to the ordinary carrying on of its business.

Any payment of interest by the Company to Cypriot tax resident individual lenders shall not be subject to withholding tax in Cyprus, unless the Company has issued a corporate bond, note or any other similar fixed income instrument in which case the Company would have an obligation to withhold Defence Tax at a rate of 10 per cent. on payment made in favour of Cypriot tax resident individual holders.

### **Capital duty**

Capital duty in the form of registration fees is payable to the Registrar of Companies in respect of the registered authorised and issued share capital of a Cypriot company upon its incorporation and upon subsequent increases thereon.

The capital duty rates for subsequent changes of the registered authorised and issued share capital are as follows:

- 0.6 per cent. on the nominal value of additional registered authorised share capital; and
- EUR 17 flat duty on every issue, whether the shares are issued at their nominal value or at a premium.

### **Stamp duty**

Cyprus levies stamp duty on every instrument if:

- it relates to any property situated in Cyprus; or
- it relates to any matter or thing which is performed or done in Cyprus.

There are instruments which are subject to stamp duty in Cyprus at a fixed fee (ranging from three cents to EUR 34) and instruments which are subject to stamp duty based on the value of the instrument (0.15 per cent. for sums up to EUR 170,860 and 0.2 per cent. for sums exceeding EUR 170,860 and up to EUR 8,543,007). There is a maximum (capped) stamp duty of EUR 17,086 per agreement/contract regarding amounts exceeding EUR 8,543,007. The above obligation arises irrespective of whether the instrument is executed in Cyprus or abroad.

It is possible for the Company to apply to the Commissioner of Stamp Duty for exemption from stamp duty on any contract by providing an application together with the proposed or signed contract or agreement.

With regard to loans to be provided by the Company to its foreign subsidiaries, the Commissioner of Stamp Duty is usually expected to be satisfied that the loan agreements should not be subject to stamp duty in Cyprus provided the agreement is governed by a foreign law and to be submitted to the courts of a foreign jurisdiction, the contract is executed outside of Cyprus and neither the loan asset nor the shares of the Company are to be secured by way of a registered charge either in Cyprus or abroad.

### **UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS**

The following discussion is a general summary based on present law of certain US federal income tax consequences of the acquisition, ownership and disposition of the GDRs. The discussion is not a complete description of all tax considerations that may be relevant. It applies only to US Holders (as defined below) that acquire GDRs in the Offering, hold GDRs as capital assets for US federal income tax purposes and use the US Dollar as their functional currency. It does not address the tax treatment of investors subject to special rules, such as banks, tax-exempt entities, insurance companies, dealers, traders in securities that elect to mark to market, investors liable for alternative minimum tax, US expatriates, investors that directly, indirectly or constructively own 10 per cent. or more of our voting stock, investors that are resident or ordinarily resident in or have a permanent establishment outside the US or investors that hold the GDRs as part of a straddle, hedging, conversion or other integrated transaction. It also does not address US state and local tax considerations.

**THE STATEMENTS ABOUT US FEDERAL TAX CONSIDERATIONS ARE MADE TO SUPPORT THE MARKETING OF THE GDRS. NO TAXPAYER CAN RELY ON THEM TO AVOID TAX PENALTIES. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN THE GDRS UNDER THE LAWS OF CYPRUS, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS, AND ANY OTHER JURISDICTIONS WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.**

As used here, “US Holder” means a beneficial owner of GDRs that, for US federal income tax purposes, is (i) a citizen or individual resident of the United States, (ii) a corporation or other business entity treated as a corporation created or organized under the laws of the United States or its political subdivisions, (iii) an estate the income of which is subject to US federal income tax without regard to its source or (iv) a trust subject to the control of one or more US persons and the primary supervision of a US court.

The US federal income tax treatment of a partner in a partnership that holds GDRs will depend on the status of the partner and the activities of the partnership. Partners in a prospective purchaser that is a partnership should consult their own tax advisors regarding the specific US federal income tax consequences to them of the partnership’s acquisition, ownership and disposition of the GDRs.

Generally, holders of GDRs will be treated for US federal income tax purposes as holding Ordinary Shares represented by the GDRs. No gain or loss will be recognised upon an exchange of Ordinary Shares for GDRs or an exchange of GDRs for Ordinary Shares, provided the Depositary has not taken any action inconsistent with the Deposit Agreement or the US Holder’s ownership of the underlying shares.

### **Dividends**

Dividends on the GDRs should be included in a US Holder’s gross income as ordinary income from foreign sources. Dividends will not be eligible for the dividends received deduction allowable to US corporations or for the preferential capital gain tax rate applicable to qualified dividend income of individuals and certain other non-corporate taxpayers. Dividends paid in currency other than US Dollars will be includable in income in a US Dollar amount based on the exchange rate in effect on the date of receipt by the Depositary whether or not the payment is converted into US Dollars at that time. A US Holder will have a basis in the currency received equal to the US Dollar value on the date of receipt by the Depositary. Any gain or loss on a subsequent conversion or other disposition of the currency for a different US Dollar amount generally will be US source ordinary income or loss.

### **Disposition**

A US Holder will recognize gain or loss when it disposes of the GDRs in an amount equal to any difference between the US Dollar value of the amount realized and its adjusted tax basis in the GDRs. A US Holder’s adjusted tax basis in the GDRs generally will be its US Dollar cost. Capital gain or loss generally will be treated as arising from sources within the United States for foreign tax credit limitation purposes. The capital gain or loss will be long-term capital gain or loss if a US Holder has held the GDRs for more than one year. Deductions for capital losses are subject to limitations.

If a US Holder receives a currency other than US Dollars on the disposition of the GDRs, it will realize an amount equal to the US Dollar value of the currency received at the spot rate on the date of disposition or, if the GDRs are traded on an established securities market and a US Holder is a cash-basis or electing accrual basis taxpayer, at the spot rate on the settlement date. If a US Holder is an accrual basis taxpayer that does not elect to determine the amount realized using the spot rate on the settlement date, its gain or loss will be foreign currency gain or loss to the extent of any difference between the US Dollar amount realized on the date of disposition and the US Dollar value of the currency received at the spot rate on the settlement date. A US Holder will have a tax basis in the currency received equal to the US Dollar value of the currency received on the settlement date. Any gain or loss on a subsequent conversion or other disposition of the currency for a different US Dollar amount generally will be US source ordinary income or loss.

### **Passive Foreign Investment Company**

The Company believes it is not, and is not likely to become, a passive foreign investment company (*PFIC*) for US federal income tax purposes. A non-US corporation is a PFIC in any taxable year in which, after taking into account the income and assets of certain subsidiaries, either (i) at least 75 per cent. of its gross

income is passive income (such as dividends, interest, rents, royalties and the excess of gains over losses from the disposition of assets that produce passive income) or (ii) at least 50 per cent. of the average quarterly value of its assets consists of assets producing or held to produce passive income. Since the determination whether the Company has become a PFIC must be made on an annual basis, the status could change depending upon (among other things) the quarterly market value of the Company's shares, changes in the Company's activities and assets and changes in the assets and gross receipts of subsidiaries in which the Company owns at least a 25 per cent. interest. If the Company were a PFIC in any year during which a US Holder owns GDRs, the US Holder would be subject to additional taxes on distributions exceeding 125 per cent. of the average amount received during the three preceding taxable years (or, if shorter, the US Holder's holding period) and on any gain from the disposition of the GDRs (regardless of whether the Company continued to be a PFIC). The US Holder also will be subject to additional tax form filing requirements.

### **Information Reporting and Backup Withholding**

Dividends on and proceeds from the sale or other disposition of the GDRs that are made within the United States or through certain US-related financial intermediaries may be reported to the IRS unless the US Holder is a corporation or otherwise establishes a basis for exemption. Backup withholding tax may apply to amounts subject to reporting if the US Holder fails to provide an accurate taxpayer identification number or otherwise establish a basis for exemption. A US Holder can claim a credit against its US federal income tax liability for amounts withheld under the backup withholding rules, and a US Holder can claim a refund for amounts in excess of its tax liability if it provides the required information to the IRS. Each prospective purchaser should consult its own tax advisor about qualifying for exemption from backup withholding.

**THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE IMPORTANT TO YOU. EACH PROSPECTIVE PURCHASER SHOULD CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES OF AN INVESTMENT IN THE GDRS UNDER THE INVESTOR'S OWN CIRCUMSTANCES.**

### **UNITED KINGDOM TAX CONSIDERATIONS**

The comments below are of a general nature and are based on current UK law and published HM Revenue & Customs practice as of the date of this Prospectus, both of which are subject to change, possibly with retrospective effect. This summary only covers the principal UK tax consequences for the absolute beneficial owners of GDRs and any dividends paid in respect of them, in circumstances where the dividends paid are regarded for UK tax purposes as that person's own income, and not the income of some other person, and who are resident, (and, in the case of individuals only, ordinarily resident and domiciled) in the UK for tax purposes and who are not resident in any other jurisdiction and do not have a permanent establishment or fixed base in any other jurisdiction with which the holding of GDRs is connected ("UK holders"). In addition, this summary: (a) only addresses the tax consequences for UK holders who hold the GDRs as capital assets and does not address the tax consequences which may be relevant to certain other categories of UK holders, for example, dealers; (b) does not address the tax consequences for UK holders that are banks, financial institutions, insurance companies, collective investment schemes or persons connected (other than by reason of holding the GDRs) with the Company; (c) assumes that the UK holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10 per cent. or more of the Ordinary Shares or voting power, rights to profit or capital of the Company; (d) assumes that there will be no register in the UK in respect of the GDRs or underlying Ordinary Shares; (e) assumes that the GDRs will not be issued by a depository incorporated in the UK; (f) assumes that neither the GDRs nor the underlying Ordinary Shares will be paired with shares issued by a company incorporated in the UK; (g) assumes that the UK holder of GDRs is, for UK tax purposes, beneficially entitled to the underlying Ordinary Shares and to dividends on those Ordinary Shares; (h) assumes that the UK holder has not (and is not deemed to have) acquired the GDRs by virtue of an office or employment; and (i) assumes that the Company is not resident in the UK for tax purposes.

**THE FOLLOWING IS INTENDED ONLY AS A GENERAL GUIDE AND IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSIDERED TO BE, LEGAL OR TAX ADVICE TO ANY PARTICULAR UK HOLDER. POTENTIAL INVESTORS SHOULD SATISFY THEMSELVES AS TO THE OVERALL TAX CONSEQUENCES, INCLUDING, SPECIFICALLY, THE CONSEQUENCES UNDER UK LAW AND HM REVENUE & CUSTOMS PRACTICE, OF ACQUISITION, OWNERSHIP AND DISPOSITION OF**

**GDRS IN THEIR OWN PARTICULAR CIRCUMSTANCES, BY CONSULTING THEIR OWN PROFESSIONAL TAX ADVISORS.**

**Taxation of Dividends**

***Income Tax and Corporation Tax***

UK holders will, in general, be subject to income tax or corporation tax on the aggregate of the amount of any dividends received on their GDRs and any dividend tax credit as referred to under the heading “—Proposed changes to UK tax legislation” below.

***Withholding Tax***

Dividend payments in respect of the GDRs should not be subject to UK withholding tax.

UK holders are referred to the statements regarding Cyprus tax in the section entitled “Dividends to be received by the GDR holders” under the heading “Cyprus Tax Considerations”. The following paragraphs therefore proceed on the basis that no withholding tax is levied in Cyprus on dividend payments in respect of the GDRs.

***Tax Liability for Individual Holders***

Individual holders may be liable to income tax on any dividends either at the dividend ordinary rate, currently 10 per cent., or at the dividend upper rate, currently 32.5 per cent., depending on their individual circumstances.

***Tax Liability for Corporate Shareholders***

A holder within the charge to UK corporation tax will be liable for UK corporation tax on the receipt of the dividend.

***Provision of Information***

Persons in the United Kingdom paying “foreign dividends” to, or receiving “foreign dividends” on behalf of, an individual may be required to provide certain information to H.M. Revenue & Customs regarding the identity of the payee or the person entitled to the “foreign dividend” and, in certain circumstances, such information may be exchanged with tax authorities in other countries. Certain payments on or under the GDRs may constitute “foreign dividends” for this purpose.

**Taxation of Chargeable Gains**

The disposal or deemed disposal of GDRs by a UK holder may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains, depending on the UK holder’s circumstances and subject to any available exemption or relief. In addition, UK holders who are individuals and who dispose of their GDRs while they are temporarily non-resident may be treated as disposing of them in the tax year in which they again become resident or ordinarily resident in the UK if (broadly speaking) the period of non-residence is less than five tax years. Any gains or losses in respect of currency fluctuations over the period of holding GDRs would also be brought into account on the disposal.

**Stamp Duty and Stamp Duty Reserve Tax**

No UK stamp duty or stamp duty reserve tax will be payable on the issue of the GDRs.

No UK stamp duty reserve tax will be payable on any agreement to transfer the GDRs, and no UK stamp duty will be payable where such transfer is effected in electronic book entry form in accordance with the procedures of Euroclear, Clearstream, Luxembourg or DTC and not by written instrument of transfer.

**Inheritance Tax**

UK inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by, the owner of GDRs, where the owner is an individual who is domiciled or is deemed to be domiciled in the UK. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rates apply to gifts where the donor reserves or retains some benefit.

## **Proposed Changes to UK Tax Legislation**

**THE FOLLOWING STATEMENT IS INTENDED AS GENERAL INFORMATION ONLY. IT DOES NOT REFLECT CURRENT UK LEGISLATION AND ANY OF THE AMENDMENTS OUTLINED BELOW MAY BE ENACTED WITH MODIFICATIONS OR NOT AT ALL. POTENTIAL INVESTORS SHOULD CONSULT THEIR OWN PROFESSIONAL TAX ADVISERS ON THE POTENTIAL IMPLICATIONS FOR THEIR TAX POSITION.**

The UK Government has published draft legislation to change the rules relating to capital gains tax on disposals by non-corporate taxpayers with effect from 6 April 2008. This draft legislation provides, in particular, for the introduction of a new flat rate of tax at 18 per cent. (the current rate applicable to taxpayers subject to tax at the higher rate is 40 per cent.) and the withdrawal of taper relief. If implemented, these changes may have significant consequences for UK holders subject to capital gains tax in the United Kingdom.

Moreover, the UK Government has published draft legislation which, if enacted, will take effect in respect of dividends arising on or after 6 April 2008. Pursuant to this draft legislation, individual UK holders whose shareholding in the Company is less than 10 per cent. would, subject to certain other conditions also being met, be entitled to a non-payable tax credit of one ninth of the amount of the dividend. This would have the effect of reducing the effective rate of UK income tax payable by individuals eligible for this tax credit on their dividends to 0 per cent. (for individuals taxable at the dividend ordinary rate) and 25 per cent. of the amount of the dividend (for individuals taxable at the dividend upper rate).

## SUBSCRIPTION AND SALE

The Offering comprises (i) an offering of GDRs outside the United States and the Russian Federation in reliance on Regulation S and (ii) an offering of GDRs within the United States to qualified institutional buyers as defined in, and in reliance on, Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the Securities Act.

Under the terms of, and subject to, the conditions contained in an underwriting agreement (the *Underwriting Agreement*) dated 30 April 2008 entered into among the Company, the Selling Shareholders and the Joint Bookrunners, the Joint Bookrunners named below have severally agreed to procure purchasers for, or to themselves purchase, at the Offer Price, the number of GDRs in the aggregate amount as indicated below. The Company and the Selling Shareholders have agreed to make available, at the Offer Price, to the Joint Bookrunners, the following number of Ordinary Shares for such purpose:

<u>Joint Bookrunners</u>	<u>Number of GDRs</u>
Deutsche Bank AG, London Branch . . . . .	20,350,877
Morgan Stanley & Co. International plc . . . . .	13,567,251
	<u>33,918,128</u>

The total expenses payable by the Company and the Selling Shareholders for the Offering, other than the Joint Bookrunners' fees and commissions, are estimated to be up to USD 3 million (net of expense reimbursements).

The Joint Bookrunners will be soliciting non-binding indications of interest in acquiring GDRs in the Offering from prospective investors. Prospective investors will be required to specify the number of GDRs they would be prepared to acquire at the Offer Price. This process is known as book-building. GDRs allocated under the Offering, following the determination of the Offer Price, will be fully underwritten by the Joint Bookrunners as described in this section. Allocations will be determined by the Joint Bookrunners (with final approval by the Company) after non-binding indications of interest from prospective investors have been received in the book-building process.

All GDRs sold in the Offering will be sold at the Offer Price. The Offer Price for the GDRs will be determined by agreement between the Company, the Selling Shareholders and the Joint Bookrunners. A number of factors may be considered in determining the Offer Price and the bases of allocation under the Offering, including the level and nature of demand for the GDRs and the objective of encouraging the development of an orderly after-market in the GDRs. The Offer Price may be established at a level determined in accordance with these arrangements, taking into account indications of interest received (whether before or after the times and/or dates stated) from persons (including market makers and fund managers) connected with the Joint Bookrunners.

Application has been made to: (i) the FSA for a listing of up to 116,959,064 GDRs, consisting of 33,918,128 GDRs to be issued on the closing of the Offering, up to 3,391,813 additional GDRs to be issued pursuant to the Over-Allotment Option and up to 79,649,123 additional GDRs to be issued from time to time against the deposit of Ordinary Shares with the Depositary, and to be admitted to the Official List, and (ii) the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities. Application has also been made to have the Rule 144A GDRs designated eligible for trading in PORTAL. Prior to the Offering, there has been no substantial market for the GDRs. Trading in the GDRs on the London Stock Exchange is expected to commence on 30 April 2008, on a "when and if issued" basis. Closing and settlement are expected to take place on 7 May 2008, and admission to the Official List of the FSA and to unconditional trading on the London Stock Exchange's regulated market for listed securities are expected to take place on 8 May 2008.

Investors wishing to enter into transactions in the GDRs prior to the closing of the Offering, whether such transactions are effected on the London Stock Exchange or otherwise, should be aware that the closing of the Offering may not take place on 7 May 2008 or at all if certain conditions or events referred to in the Underwriting Agreement are not satisfied or waived or do not occur on or prior to such date. All such transactions will be of no effect if the Offering does not become unconditional.

The Underwriting Agreement and related arrangements contain the following provisions, among others:

- EIL has granted an Over-Allotment Option to the Joint Bookrunners to acquire up to 3,391,813 additional GDRs at the Offer Price for the purpose of covering over-allotments and other short

positions, if any, in connection with the Offering. The Over-Allotment Option is exercisable upon written notice to EIL and the Company at any time up to and including the thirtieth day following the announcement of the Offer Price. If the Joint Bookrunners exercise the Over-Allotment Option, EIL will be obligated to sell and each Joint Bookrunner will be severally obligated, subject to the conditions contained in the Underwriting Agreement, to purchase, a number of additional GDRs proportionate to that Joint Bookrunner's initial amount indicated in the table above.

- The Joint Bookrunners will receive fees and commissions of 2.85 per cent. of the gross proceeds of the Offering and, at the sole discretion of the Company and the Selling Shareholders, an additional fee of up to 0.75 per cent. of the gross proceeds of the Offering, including in respect of any GDRs purchased by the Joint Bookrunners pursuant to the Over-Allotment Option. In addition, the Company and the Selling Shareholders have agreed in the Underwriting Agreement to reimburse the Joint Bookrunners for certain of their expenses in connection with the offering, including, but not limited to, fees, expenses and disbursements of their legal counsel and out of pocket and other expenses.

The Over Allotment Option is granted to the Joint Bookrunners as part of the Underwriting Agreement for no additional consideration to EIL from the Joint Bookrunners.

The obligations of the parties to the Underwriting Agreement are subject to certain conditions that are typical for an agreement of this nature. These conditions include, amongst others, the accuracy of the representations and warranties under the Underwriting Agreement and the application for admission to the Official List of the FSA and to trading on the London Stock Exchange having been approved on or prior to the closing of the Offering. The Joint Bookrunners may terminate the Underwriting Agreement prior to the closing of the Offering in certain specified circumstances that are typical for an agreement of this nature. These include the occurrence of certain material changes in the Group's condition, including its financial condition, business affairs and business prospects, and certain changes in financial, political or economic conditions. If any of the above-mentioned conditions are not satisfied or waived or the Underwriting Agreement is terminated prior to the closing of the Offering, then the Offering will lapse.

The Company and the Selling Shareholders have given certain representations and warranties to the Joint Bookrunners in relation to the Ordinary Shares and the GDRs and in relation to the contents of this Prospectus.

The Company and the Selling Shareholders have given customary indemnities to the Joint Bookrunners in connection with the Offering.

If a Joint Bookrunner defaults, the Underwriting Agreement provides that in certain circumstances, the purchase commitments of the non-defaulting Joint Bookrunner may be increased or the Underwriting Agreement may be terminated.

The Company and each of the Selling Shareholders has agreed that neither it, nor any of its subsidiaries, nor any person acting on its or their behalf will, from the date hereof until 180 days after the Closing Date or, if later, the Over-Allotment Option closing date, without the prior written consent of the Joint Bookrunners:

- (i) issue, offer, sell, lend, mortgage, assign, pledge, charge, contract to sell, sell or grant any option to contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant or contract to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any Ordinary Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and option or global depositary receipts representing the right to receive any such securities; or
- (ii) enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of GDR's Ordinary Shares or other such shares in the Company; or
- (iii) enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above,

whether any such transaction described above is to be settled by delivery of GDRs, Ordinary Shares or such other securities, in cash or otherwise, subject to certain limitations.

The lock-up arrangement described above shall not apply to the Offering, the Over-Allotment Option and any GDRs lent by EIL in connection therewith.

In connection with the Offering, Deutsche Bank AG, London Branch (the *Stabilising Manager*) or any agent or other person acting for the Stabilising Manager, may over-allot or effect transactions intended to enable it to satisfy any over-allocations or which stabilise, maintain, support or otherwise affect the market price of the GDRs at a level higher than that which might otherwise prevail for a period of 30 days following the announcement of the Offer Price. However, there is no obligation on the Stabilising Manager or any agent of the Stabilising Manager, to do this. Such transactions may be effected on the London Stock Exchange and any other securities market, over-the-counter-market, stock exchange or otherwise. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end 30 days following the announcement of the Offer Price. Save as required by law, the Joint Bookrunners do not intend to disclose the extent of any over-allotments and/or stabilisation transactions under the Offering.

In accordance with applicable regulations the Joint Bookrunners may also sell GDRs in excess of their Over-Allotment Option up to a maximum of 5 per cent. of the Offering, creating a naked short position. The Joint Bookrunners must close out any naked short position by purchasing GDRs in the open market.

In connection with the Offering, each of the Joint Bookrunners and any affiliate acting as an investor for its own account may take up the GDRs offered in the Offering and in that capacity may retain, purchase or sell the GDRs for its own account and may offer or sell such securities otherwise than in connection with the Offering. The Joint Bookrunners do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Joint Bookrunners and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Group. They receive customary fees and commissions for these transactions and services.

#### **PROPOSED INVESTMENT BY THE EBRD**

The Group believes that the EBRD may purchase GDRs in the Offering representing approximately 3.2 per cent. of the outstanding share capital of the Company, accounting for approximately 10.0 per cent. of the Offering, assuming the exercise of the Over-Allotment Option in full, or approximately 11.0 per cent. of the Offering, assuming no exercise of the Over-Allotment Option. The EBRD has informed the Group that if it becomes the holder of a significant percentage of the GDRs, it may request the Selling Shareholders to procure that the Company adopt certain minority shareholder protection policies and an environmental action plan and that it be represented on the Company's Board of Directors. As at the date of this Prospectus, there is no agreement or commitment in respect of any of these matters and there is no assurance that such arrangements will be sought or, if sought, implemented.



## SELLING AND TRANSFER RESTRICTIONS

### SELLING RESTRICTIONS

The distribution of this document and the Offering in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any restrictions, including those set forth in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

#### General

No action has been or will be taken in any jurisdiction that would permit a public offering of the GDRs, or possession or distribution of this Prospectus or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the GDRs may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisement in connection with the GDRs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of this Prospectus and the offer, subscription and sale of the GDRs offered in the Offering, including those in the paragraphs below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus does not constitute an offer to subscribe for or buy any of the GDRs offered in the Offering to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

#### Canada and Australia

The relevant clearances have not been, and will not be, obtained from the Securities Commission of any province or territory of Canada; no document in relation to the Offering has been, or will be lodged with, or registered by, The Australian Securities and Investments Commission in relation to the Offering or the GDRs. Accordingly, subject to certain exceptions the GDRs may not, directly or indirectly, be offered or sold within Canada or Australia or offered or sold to a resident of Canada or Australia.

#### European Economic Area

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each, a *Relevant Member State*), an offer to the public of GDRs which are the subject of the offering contemplated by this Prospectus may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of GDRs may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (i) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (ii) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (iii) by the Joint Bookrunners to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Bookrunners for any such offer; or

(iv) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of GDRs shall result in a requirement for the publication by the Company or any Joint Bookrunner of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the GDRs to be offered so as to enable an investor to decide to purchase any GDRs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

## **Russian Federation**

Each Joint Bookrunner has agreed that the GDRs will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law; it being understood and agreed that the Joint Bookrunners may distribute this Prospectus to persons in the Russian Federation in a manner that does not constitute an advertisement (as defined in Russian law) of the GDRs and may sell the GDRs to Russian persons in a manner that does not constitute “placement” or “public circulation” of the GDRs in the Russian Federation (as defined in Russian law).

## **United Kingdom**

Each Joint Bookrunner has represented, warranted and agreed that:

- (i) it has only communicated and caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any GDRs in circumstances in which section 21(1) of the FSMA does not apply to the Company; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the GDRs in, from or otherwise involving the United Kingdom.

## **United States**

The GDRs offered in the Offering have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in certain transactions exempt from or not subject to the registration requirements of the Securities Act. The Joint Bookrunners propose (i) to offer the GDRs to institutional investors outside the United States in accordance with Regulation S under the Securities Act and (ii) to offer the GDRs to qualified institutional buyers in the United States as defined under and in accordance with Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of the Offering, an offer or sale of the GDRs into or within the United States by a dealer, whether or not such dealer is participating in the Offering, may violate the registration and prospectus delivery requirements of the Securities Act if such offer or sale is not made in accordance with Rule 144A.

## **TRANSFER RESTRICTIONS**

### **Rule 144A GDRs**

Each purchaser of GDRs located in the United States, by its acceptance of delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged as follows:

1. The purchaser (i) is a QIB as that term is defined by Rule 144A under the Securities Act, (ii) is aware that, and each beneficial owner of such GDRs has been advised that, the sale to it is being made in reliance on Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, (iii) is acquiring such GDRs for its own account or for the account of one or more QIBs and (iv) if it is acquiring such GDRs for the account of one or more QIBs, has sole investment discretion with respect to each such account and has full power to make the acknowledgements, representations and agreements herein on behalf of each such account.
2. The purchaser is aware that the GDRs purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act have not been and will not be registered under the Securities Act and are being offered in the United States only in transactions not involving any public offering in the United States and are “restricted securities” as defined in Rule 144(a)(3) under the Securities Act (*Restricted Securities*).
3. In the future, if the purchaser decides to offer, resell, pledge or otherwise transfer the GDRs purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, such GDRs may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the GDRs

purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law:

THIS MASTER RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF GLOBALTRANS INVESTMENT PLC REPRESENTED HEREBY (THE “SHARES”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF BY PURCHASING THE GDRs, AGREES FOR THE BENEFIT OF GLOBALTRANS INVESTMENT PLC THAT THE GDRs AND THE SHARES CORRESPONDING HERETO MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GDRs WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRs OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE RESTRICTED SECURITIES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

4. For so long as Ordinary Shares are Restricted Securities, it will not deposit such Ordinary Shares into any depositary receipt facility in respect of shares established and maintained by a depositary bank other than a Rule 144A restricted depositary receipt facility.
5. The Company, the Selling Shareholders, the Joint Bookrunners and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

**Prospective purchasers are hereby notified that the sellers of the GDRs purchased pursuant to Rule 144A under the Securities Act may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.**

#### **Regulation S GDRs**

Each purchaser of the GDRs offered in reliance on Regulation S (the *Regulation S GDRs*) will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

1. the purchaser is, at the time of the offer to it of GDRs and at the time the buy order originated, outside the United States for the purposes of Rule 903 under the Securities Act;
2. the purchaser is aware that the Regulation S GDRs have not been and will not be registered under the Securities Act and are being offered outside the United States in reliance on Regulation S;
3. any offer, sale, pledge or other transfer made other than in compliance with the above-stated restrictions shall not be recognised by the Company in respect of the Regulation S GDRs; and
4. the Company, the Selling Shareholders, the Joint Bookrunners and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

## SETTLEMENT AND TRANSFER

### Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream, Luxembourg and DTC to facilitate the initial issue of the GDRs offered in the Offering and cross-market transfers of the GDRs associated with secondary market trading.

### Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

### DTC

DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant tax laws and regulations of the United States. See "Taxation—Tax Residency—United States Federal Income Tax Considerations"

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

### Registration and Form of GDRs

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by a Master Regulation S GDR registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for The Bank of New York, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by a Master Rule 144A GDR registered in the name of Cede & Co., as nominee for DTC, which will be held by the Depositary as custodian for DTC. As necessary, the Depositary will adjust the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depository will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depository for Euroclear and Clearstream, Luxembourg and the nominee for DTC. The Depository will be responsible for ensuring that payments received by it from the Company for holders holding through Euroclear or Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg as the case may be, and the Depository will also be responsible for ensuring that payments received by it from the Company for holders holding through DTC are received by DTC.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg or DTC and certain fees and expenses payable to the Depository in accordance with the terms of the Deposit Agreement.

## **Global Clearance and Settlement Procedures**

### ***Initial Settlement***

The GDRs will be in global form evidenced by the two Master GDRs. Purchasers electing to hold book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depository receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depository receipts.

### ***Secondary Market Trading***

For a description of the transfer restrictions relating to the GDRs, see “Selling and Transfer Restrictions—Transfer Restrictions”.

*Trading between Euroclear and Clearstream, Luxembourg participants.* Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream, Luxembourg and will be settled using the normal procedures applicable to depository receipts.

*Trading between DTC participants.* Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depository receipts, if payment is effected in US Dollars, or free of payment, if payment is not effected in US Dollars. Where payment is not effected in US Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

*Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser.* When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream, Luxembourg participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depository to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the relevant account of the Euroclear or Clearstream, Luxembourg participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depository to (i) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR and (ii) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream, Luxembourg and represented by the Master Regulation S GDR.

*Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser.* When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of a DTC participant, the Euroclear or Clearstream, Luxembourg participant

must send to Euroclear or Clearstream, Luxembourg a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will instruct the Depository to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, shall on the settlement date instruct the Depository to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR and (ii) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR.

### *General*

Although the foregoing sets forth the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxembourg and DTC, none of Euroclear, Clearstream, Luxembourg or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Group, the Joint Bookrunners, the Depository, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

### **INFORMATION RELATING TO THE DEPOSITARY**

The Depository is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to the regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depository was constituted in 1784 in the State of New York. It is a wholly owned subsidiary of The Bank of New York Mellon Corporation, a New York bank holding company. The principal office of the Depository is located at One Well Street, New York, New York 10286, United States of America. Its principal administrative offices are located at 101 Barclay Street, 22 floor West, New York, New York 10286, United States of America. A copy of the Depository's Articles of Association, as amended, together with copies of The Bank of New York Mellon Corporation's most recent financial statements and annual report are available for inspection at the Corporate Trust Office of the Depository located at 101 Barclay Street, New York, NY 10286 and at The Bank of New York, One Canada Square, London E14 5AL, United Kingdom.

### **LEGAL MATTERS**

Certain legal matters in connection with the Offering will be passed upon for the Group with respect to the laws of England, the United States and the Russian Federation by Freshfields Bruckhaus Deringer and with respect to Cypriot law by Georgiades & Pelides. Certain legal matters in connection with the Offering will be passed upon for the Joint Bookrunners with respect to the laws of England, the United States and the Russian Federation by Clifford Chance LLP, London, England, and Clifford Chance CIS Limited, Moscow, Russian Federation and as to Cypriot law by Chrysses Demetriades & Co Law Office, joined by P.L. Cacoyannis & Co, Limassol, Cyprus.

## INDEPENDENT AUDITORS

The Group's Consolidated Financial Statements as at and for the years ended 31 December 2007, 2006 and 2005 have been audited by PricewaterhouseCoopers Limited, independent auditors, as stated in their report (the *Accountants' Report*) appearing herein. PricewaterhouseCoopers Limited has also provided a report on certain summarised information relating to the Company solely for compliance with the requirements of the Cyprus Companies Law, Cap. 113, Schedule 4, paragraph 19 (the *Report on the Additional Financial Information*). PricewaterhouseCoopers Limited have registered offices at Julia House, 3 Themistocles Dervis Street, CY-1066 Nicosia, Cyprus. PricewaterhouseCoopers Limited is a member of the Institute of Certified Public Accountants of Cyprus.

PricewaterhouseCoopers Limited has given and has not withdrawn its written consent to the inclusion of its name, the Accountants' Report and the Report on the Additional Financial Information in this Prospectus in the form and context in which they appear and has authorised the contents of such reports for the purposes of Rule 5.5.4R(2)(f) and item 1.2 of Annex X of the Prospectus Rules and for the purposes of section 40 of the Cyprus Companies Law, Cap. 113, as amended.

Written consents and authorisations under Rule 5.5.4R(2)(f) and item 1.2 of Annex X of the Prospectus Rules and under section 40 of the Cyprus Companies Law, Cap. 113, as amended, are different from a consent filed with the U.S. Securities and Exchange Commission under Section 7 of the Securities Act, which is applicable only to transactions involving securities registered under the Securities Act. As the GDRs represented by the Ordinary Shares have not and will not be registered under the Securities Act, PricewaterhouseCoopers Limited has not filed a consent under Section 7 of the Securities Act.

For the purposes of offers and sales outside the United States as defined in Regulation S under the Securities Act in reliance on Regulation S and within the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act; PricewaterhouseCoopers Limited has acknowledged the inclusion in this Prospectus of, and all references to (i) its name, (ii) its Accountants' Report dated 30 April 2008 on the audit of the Group's Consolidated Financial Statements as at and for the years ended 31 December 2007, 2006 and 2005, and (iii) its Report on the Additional Financial Information dated 30 April 2008, in the form and context in which they are respectively included in this Prospectus.

## TECHNICAL GLOSSARY

The following technical terms are used in this Prospectus:

- **block train** means a train comprising only rolling stock operated by the Group which is bound for the same destination;
- **carrier** means a company or organisation which assumes an obligation to move goods from one point to another on the railway network;
- **destination management** means the process of managing cargo destinations and routes by matching customer orders for transportation of cargo bound for certain destinations with those for transportation of cargo originating in such destinations, or in other locations which can be efficiently reached from such destinations, so as to reduce the distance travelled by rolling stock without carrying the cargo of a paying customer;
- **dwell time** means the time a railcar spends waiting at the origin or destination to be loaded or unloaded;
- **“empty run” or “empty runs”** means movement of rolling stock without cargo for the whole or a substantial part of the journey;
- **“empty run” ratio for gondola (open top) cars** is calculated as total empty trips in kilometres divided by total “loaded trips” in kilometres for the Group’s gondola (open top) cars;
- **ferrous metals** means metals that consist primarily of iron;
- **flat car** means a type of rolling stock with a flat top and is primarily used to carry containers;
- **freight turnover** means a measure of freight carriage activity over a particular period calculated as the tonnage of freight carried multiplied by the distance carried, expressed in tonne-kilometres;
- **gondola (open top) car** means a type of rolling stock with an open top and low sides used for transporting a wide variety of cargoes;
- **hopper car** means a type of rolling stock equipped to carry dry cargoes such as grain and cement and has several sub-categories;
- **locomotive** means a self-propelled vehicle for traction, that is used for hauling cars along tracks;
- **oil tank car** means a type of rolling stock used for transporting liquids, such as oil and oil products;
- **“route loop”** means a combination of routes where the destination of one route is the point of origin for another route and so on to the original point of origin. This concept is used to minimise rolling stock journeys without cargo to return rolling stock from cargo destinations (see also “empty run”);
- **route optimisation** means the process of plotting routes so as to create “route loops” (see “route loops”);
- **scrap metal** means iron containing waste material (mainly industrial or household waste) that generally is remelted and recast into new steel;
- **steam jacket oil tank car** means oil tank cars specially equipped with heating mechanism to allow efficient offloading of oil and oil product during winter time; and
- **tonnes** means metric tonnes (equivalent to 1,000 kilograms).



## ADDITIONAL INFORMATION

1. The issuance of the newly issued Ordinary Shares, and the Company entering into the Underwriting Agreement and the Deposit Agreement were duly authorised by the Board of Directors on 30 April 2008 in accordance with the Company's constitutional documents. The board of directors of each of the Selling Shareholders duly approved and authorised the transfers and sale of the Ordinary Shares, and each of the Selling Shareholders entering into the Underwriting Agreement and EIL entering into the Securities Lending Agreement on 30 April 2008.
2. It is expected that listing of the GDRs will take place on or about 8 May 2008, subject only to the issuance of the Master GDRs. Prior to listing, it is expected that conditional dealings will be permitted by the London Stock Exchange in accordance with its rules. It is expected that unconditional dealings in the GDRs will commence on or about 8 May 2008. Transactions will normally be effected for settlement in US Dollars and for delivery on the third working day after the day of the transaction. Listing of the GDRs on the London Stock Exchange is conditional upon the issuance of the GDRs by the Depositary.
3. There has been no significant change in the Group's financial or trading position since 31 December 2007, the end of the last financial period for which financial information has been published, except as set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments".
4. From time to time the Group is involved in legal proceedings arising in the ordinary course of business. However, there are no governmental, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which the Group is aware, during the 12 months preceding the date of this Prospectus which may have, or have had in the recent past significant effects on the Group's financial position or profitability.
5. In the event that certificates in definitive form are issued in respect of the GDRs, the Company will appoint an agent in the United Kingdom for so long as the GDRs are listed on the London Stock Exchange.
6. Copies in English of the following documents may be inspected at the offices of Freshfields Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HS, during usual business hours on any weekday, excluding Saturday, Sunday and public holidays, for a period of one year from publication of the Prospectus:
  - the Company's articles and memorandum of association in effect upon completion of the Offering;
  - the Company's audited annual consolidated EU IFRS financial statements as at and for the years ended 31 December 2007, 2006 and 2005; and
  - the Deposit Agreement.
7. The Group prepares consolidated annual and interim financial statements in accordance with EU IFRS.
8. There are no temporary documents of title issued in respect of the GDRs. There is no premium and there are no expenses specifically charged to any purchaser of GDRs in the Offering. The Offering is an institutional offering only in which payment for the GDRs by investors will be arranged with the Joint Bookrunners. Holders may inspect the rules governing the issue of the certificates at the offices of the Depositary from the Closing Date of the Offering. The GDRs have no nominal or par value. The Offer Price was determined based on the results of the book building exercise conducted by the Joint Bookrunners.
9. The following table sets forth the registered offices of the Group's material subsidiaries:

<u>Name</u>	<u>Country of incorporation</u>	<u>Beneficial ownership/ voting rights</u>	<u>Registered Office</u>
OA0 New Forwarding Company .	Russia	100%	16/6 Spartakovskaya Square, Moscow 105082, Russia,
OOO Sevtekhnotrans . . . . .	Russia	100%	20/1 Ovchinnikovskaya Embankment, Moscow 115035, Russia

## INDEX TO FINANCIAL INFORMATION

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### **Additional Financial Information**

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**ACCOUNTANTS' REPORT TO THE BOARD OF DIRECTORS OF GLOBALTRANS INVESTMENT PLC  
(PREVIOUSLY GLOBALTRANS INVESTMENT LIMITED)**

**Report on the Consolidated Financial Statements**

We have audited the accompanying financial statements of Globaltrans Investment PLC (previously Globaltrans Investment Limited) (the "Company") and its subsidiaries (the "Group") on pages F-3 to F-65, which comprise the consolidated balance sheets as at 31 December 2007, 31 December 2006 and 31 December 2005, and the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the years 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). 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.

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.

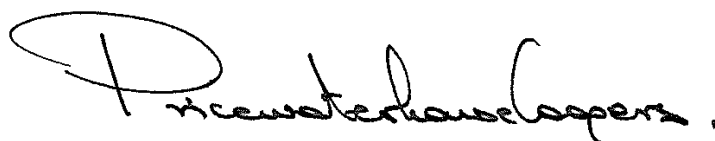
Our work has not been carried out in accordance with Auditing Standards generally accepted in the United States of America or Auditing Standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those Standards.

*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, 31 December 2006 and 31 December 2005 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.

**Declaration**

For the purposes of Prospectus Rule 5.5.4R (2)(f), we are responsible for this report as part of the Prospectus and declare that we have taken all responsible care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omissions, likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex X of the Prospectus Directive Regulation.



PricewaterhouseCoopers Limited  
Chartered Accountants  
Limassol, 30 April 2008

**GLOBALTRANS INVESTMENT PLC (PREVIOUSLY GLOBALTRANS INVESTMENT LIMITED)**  
**FINANCIAL STATEMENTS FOR THE THREE YEARS ENDED 31 DECEMBER 2007**  
**CONSOLIDATED INCOME STATEMENTS**

	Note	Year ended 31 December		
		2007	2006	2005
		US\$'000	US\$'000 (Restated)	US\$'000 (Restated)
Revenue . . . . .	5	548,871	557,814	511,850
Cost of sales . . . . .	6	(380,141)	(469,178)	(423,107)
<b>Gross profit</b> . . . . .		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
<b>Operating profit</b> . . . . .		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
<b>Profit before income tax</b> . . . . .		104,458	72,691	23,082
Income tax expense . . . . .	10	(26,376)	(14,078)	(5,764)
<b>Profit for the year</b> . . . . .		<u>78,082</u>	<u>58,613</u>	<u>17,318</u>
<b>Attributable to:</b>				
Equity holders of the Company . . . . .		78,498	58,765	17,318
Minority interest . . . . .		(416)	(152)	—
		<u>78,082</u>	<u>58,613</u>	<u>17,318</u>
<b>Basic and diluted earnings per share for profit</b> <b>attributable to the equity holders of the Company</b> <b>during the year (expressed in US\$ per share)</b> . . . . .	25	<u>0.785</u>	<u>0.588</u>	<u>0.213</u>

The notes on pages F-7 to F-65 are an integral part of these financial statements.

**GLOBALTRANS INVESTMENT PLC (PREVIOUSLY GLOBALTRANS INVESTMENT LIMITED)**  
**FINANCIAL STATEMENTS FOR THE THREE YEARS ENDED 31 DECEMBER 2007**  
**CONSOLIDATED BALANCE SHEETS**

	Note	As at 31 December		
		2007 US\$'000	2006 US\$'000 (Restated)	2005 US\$'000 (Restated)
<b>Assets</b>				
<b>Non-current assets</b>				
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	—
		<u>623,172</u>	<u>519,376</u>	<u>441,182</u>
<b>Current assets</b>				
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
		<u>154,831</u>	<u>178,358</u>	<u>140,493</u>
<b>Total assets</b> . . . . .		<u><u>778,003</u></u>	<u><u>697,734</u></u>	<u><u>581,675</u></u>
<b>Equity and liabilities</b>				
<b>Capital and reserves</b>				
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
		<u>222,658</u>	<u>209,433</u>	<u>155,653</u>
Minority interest . . . . .		—	702	—
		<u>222,658</u>	<u>210,135</u>	<u>155,653</u>
<b>Non-current liabilities</b>				
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
		<u>325,028</u>	<u>283,941</u>	<u>268,737</u>
<b>Current liabilities</b>				
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
		<u>230,317</u>	<u>203,658</u>	<u>157,285</u>
<b>Total liabilities</b> . . . . .		<u><u>555,345</u></u>	<u><u>487,599</u></u>	<u><u>426,022</u></u>
<b>Total equity and liabilities</b> . . . . .		<u><u>778,003</u></u>	<u><u>697,734</u></u>	<u><u>581,675</u></u>

The notes on pages F-7 to F-65 are an integral part of these financial statements.

**GLOBALTRANS INVESTMENT PLC (PREVIOUSLY GLOBALTRANS INVESTMENT LIMITED)**

**FINANCIAL STATEMENTS FOR THE THREE YEARS ENDED 31 DECEMBER 2007**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

		Attributable to equity shareholders of the Company								
	Note	Share capital	Share premium	Common control transaction reserve <sup>(1)</sup>	Translation reserve	Capital contribution <sup>(1)</sup>	Retained earnings	Total	Minority interest	Total
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Balance at 1 January 2005:</b>										
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
<b>Balance at 31 December 2005</b>		<b>10,000</b>	<b>61,560</b>	<b>44,380</b>	<b>(3,047)</b>	<b>—</b>	<b>42,760</b>	<b>155,653</b>	<b>—</b>	<b>155,653</b>
<b>Balance at 1 January 2006</b>										
Currency translation differences		10,000	61,560	44,380	(3,047)	—	42,760	155,653	—	155,653
Currency translation differences from the disposal of joint venture		—	—	—	14,950	—	—	14,950	(4)	14,946
		—	—	—	(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
<b>Balance at 31 December 2006</b>		<b>10,000</b>	<b>61,560</b>	<b>44,380</b>	<b>10,643</b>	<b>4,325</b>	<b>78,525</b>	<b>209,433</b>	<b>702</b>	<b>210,135</b>
<b>Balance at 1 January 2007</b>										
Currency translation differences		10,000	61,560	44,380	10,643	4,325	78,525	209,433	702	210,135
		—	—	—	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)
Dividends relating to 2007 and 2006	20	—	—	—	—	(14,075)	(27,500)	(41,575)	—	(41,575)
Advances prior minority shareholders		—	—	—	—	—	—	—	12	12
Minority interest on disposal	26	—	—	—	—	—	—	—	(331)	(331)
<b>Balance at 31 December 2007</b>		<b>10,000</b>	<b>61,560</b>	<b>(95,620)</b>	<b>27,195</b>	<b>90,000</b>	<b>129,523</b>	<b>222,658</b>	<b>—</b>	<b>222,658</b>

(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 F-7 to F-65 are an integral part of these financial statements.

**GLOBALTRANS INVESTMENT PLC (PREVIOUSLY GLOBALTRANS INVESTMENT LIMITED)**  
**FINANCIAL STATEMENTS FOR THE THREE YEARS ENDED 31 DECEMBER 2007**  
**CONSOLIDATED CASH FLOW STATEMENTS**

	Note	Year ended 31 December		
		2007	2006	2005
		US\$'000	US\$'000 (Restated)	US\$'000 (Restated)
<b>Cash flows from operating activities</b>				
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)
		<u>159,534</u>	<u>83,074</u>	<u>79,911</u>
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
		<u>201,567</u>	<u>67,492</u>	<u>78,916</u>
Tax paid		(19,661)	(4,905)	(4,866)
		<u>181,906</u>	<u>62,587</u>	<u>74,050</u>
<b>Cash flows from investing activities</b>				
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
		<u>(113,349)</u>	<u>(20,971)</u>	<u>(102,671)</u>
<b>Cash flows from financing activities</b>				
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	—
		<u>(93,230)</u>	<u>1,824</u>	<u>3,164</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<u>(24,673)</u>	<u>43,440</u>	<u>(25,457)</u>
<b>Exchange (losses)/gains on cash and cash equivalents</b>		<u>(1,540)</u>	<u>(1,133)</u>	<u>1,028</u>
<b>Cash and cash equivalents at beginning of year</b>	18	<u>57,316</u>	<u>15,009</u>	<u>39,438</u>
<b>Cash and cash equivalents at end of year</b>	18	<u>31,103</u>	<u>57,316</u>	<u>15,009</u>

**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 F-7 to F-65 are an integral part of these financial statements.

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**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, and converted into a public company on 15 April 2008. 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 prepared for the purposes of inclusion in the Prospectus and were authorised for issue by the Board of Directors as part of the Prospectus.

**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 PLC (previously Globaltrans Investment Limited) has direct and indirect shareholding in the following investments in subsidiaries and joint ventures:

<u>Name</u>	<u>Status</u>	<u>Country of Incorporation</u>	<u>Principal Activities</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
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).

**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 position 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.



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**1. GENERAL INFORMATION (Continued)**

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 PLC (previously 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.

*(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".

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**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

*(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.
- 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 entity should measure any gain or loss arising on the loss of control of a subsidiary. 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.

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**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(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.
- 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 statements.
- 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 to 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.
- IFRIC 12, “Service Concession Arrangements”<sup>\*</sup> (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”<sup>\*</sup> (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.

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**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

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

- 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.

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.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**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.

**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

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**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**Revenue recognition (Continued)**

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).
- 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) 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.

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**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**Revenue recognition (Continued)**

**(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.

**(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.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**Foreign currency translation (Continued)**

**(c) Group companies (Continued)**

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.

**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:

	<u>Number of years</u>
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.

**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.



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**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**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.

(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).

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**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

*The Group is the lessor (Continued)*

(a) Finance leases (Continued)

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.

(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.

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.

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**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**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.

**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 likelihood 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.

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**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

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.

**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.

**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.

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**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**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

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**3. FINANCIAL RISK MANAGEMENT (Continued)**

**(a) Market risk (Continued)**

**(i) Foreign exchange risk (Continued)**

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.

The carrying amount 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	2006	2005
	US\$'000	US\$'000	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.

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.

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**3. FINANCIAL RISK MANAGEMENT (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.

	<b>Fully performing</b>	<b>Past due</b>	<b>Impaired</b>	<b>Impairment provision</b>	<b>Total</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
<b>As of 31 December 2007</b>					
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
	<u>54,865</u>	<u>12,437</u>	<u>2,746</u>	<u>(2,746)</u>	<u>67,302</u>
<b>As of 31 December 2006</b>					
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
	<u>65,105</u>	<u>12,891</u>	<u>669</u>	<u>(669)</u>	<u>77,996</u>
<b>As of 31 December 2005</b>					
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
	<u>70,602</u>	<u>13,839</u>	<u>133</u>	<u>(133)</u>	<u>84,441</u>

**(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.

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**3. FINANCIAL RISK MANAGEMENT (Continued)**

**(c) Liquidity risk (Continued)**

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	Between one month and three months	Between three and six months	Less than one year	Between one and two years	Between two and five years	Over five years	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>As of</b>								
<b>31 December 2007</b>								
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
<b>As of</b>								
<b>31 December 2006</b>								
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
<b>As of</b>								
<b>31 December 2005</b>								
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

**(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	2006	2005
	US\$'000	US\$'000	US\$'000
Total borrowings . . . . .	451,173	446,824	371,455
Total capitalisation . . . . .	673,831	656,959	527,108
Total borrowings to total capitalisation ratio (percentage) . . . .	67%	68%	70%



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**3. FINANCIAL RISK MANAGEMENT (Continued)**

**(d) Capital risk management (Continued)**

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.

**(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.

**(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

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**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)**

**(a) Critical accounting estimates and assumptions (Continued)**

**(i) VAT on export sales (Continued)**

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 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 these 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 re-invoiced 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**

**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.

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**5. SEGMENTAL INFORMATION (Continued)**

**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:

	<b>Railway transportation Services</b>	<b>Resale of wagons and locomotives</b>	<b>Other</b>	<b>Unallocated</b>	<b>Group</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
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)
<b>Profit before income tax . . . . .</b>					104,458
Income tax expense . . . . .					(26,376)
<b>Profit for the year . . . . .</b>					<u>78,082</u>

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

	<b>Railway transportation Services</b>	<b>Resale of wagons and locomotives</b>	<b>Other</b>	<b>Unallocated</b>	<b>Group</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
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
<b>Profit before income tax . . . . .</b>					72,691
Income tax expense . . . . .					(14,078)
<b>Profit for the year . . . . .</b>					<u>58,613</u>

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**FINANCIAL STATEMENTS FOR THE THREE YEARS ENDED 31 DECEMBER 2007**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**5. SEGMENTAL INFORMATION (Continued)**

**Primary reporting format—business segments (Continued)**

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

	Railway transportation services	Resale of wagons and locomotives	Other	Unallocated	Group
	US\$'000	US\$'000	US\$'000	US\$'000	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
<b>Profit before income tax . . . . .</b>					23,082
Income tax expense . . . . .					(5,764)
<b>Profit for the year . . . . .</b>					<u>17,318</u>

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

	Year ended 31 December 2007			
	Railway transportation services	Resale of wagons and locomotives	Other	Group
	US\$'000	US\$'000	US\$'000	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	Resale of wagons and locomotives	Other	Group
	US\$'000	US\$'000	US\$'000	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	Resale of wagons and locomotives	Other	Group
	US\$'000	US\$'000	US\$'000	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.

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**FINANCIAL STATEMENTS FOR THE THREE YEARS ENDED 31 DECEMBER 2007**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**5. SEGMENTAL INFORMATION (Continued)**

**Primary reporting format—business segments (Continued)**

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.

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	Resale of wagons and locomotives	Other	Unallocated	Group
	US\$'000	US\$'000	US\$'000	US\$'000	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	Liabilities
	US\$'000	US\$'000
Segment assets/liabilities . . . . .	745,476	520,136
<i>Unallocated:</i>		
Deferred tax . . . . .	—	22,751
Current tax . . . . .	852	2,619
Current borrowings . . . . .	—	2,732
Non-current borrowings . . . . .	—	7,107
Receivables . . . . .	31,675	—
<b>Total</b> . . . . .	<u>778,003</u>	<u>555,345</u>

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

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	Resale of wagons and locomotives	Other	Unallocated	Group
	US\$'000	US\$'000	US\$'000	US\$'000	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

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**FINANCIAL STATEMENTS FOR THE THREE YEARS ENDED 31 DECEMBER 2007**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**5. SEGMENTAL INFORMATION (Continued)**

**Primary reporting format—business segments (Continued)**

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

	<u>Assets</u>	<u>Liabilities</u>
	<u>US\$'000</u>	<u>US\$'000</u>
Segment assets/liabilities . . . . .	655,164	458,923
<i>Unallocated:</i>		
Deferred tax . . . . .	163	14,462
Current tax . . . . .	327	1,666
Current borrowings . . . . .	—	2,735
Non-current borrowings . . . . .	—	9,813
Receivables . . . . .	42,080	—
<b>Total</b> . . . . .	<u>697,734</u>	<u>487,599</u>

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

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

	<u>Business segment</u>				
	<u>Railway transportation services</u>	<u>Resale of wagons and locomotives</u>	<u>Other</u>	<u>Unallocated</u>	<u>Group</u>
	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
Assets . . . . .	461,728	6,034	14,765	48,830	531,357
Joint ventures . . . . .	50,318	—	—	—	50,318
Total assets . . . . .	<u>512,046</u>	<u>6,034</u>	<u>14,765</u>	<u>48,830</u>	<u>581,675</u>
Liabilities . . . . .	<u>390,519</u>	<u>7,819</u>	<u>1,440</u>	<u>26,244</u>	<u>426,022</u>
Capital expenditure (Note 12) . . . . .	<u>173,761</u>				<u>173,761</u>

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

	<u>Assets</u>	<u>Liabilities</u>
	<u>US\$'000</u>	<u>US\$'000</u>
Segment assets/liabilities . . . . .	482,527	399,778
<i>Unallocated:</i>		
Deferred tax . . . . .	—	4,189
Current tax . . . . .	294	3,081
Current borrowings . . . . .	—	2,985
Non-current borrowings . . . . .	—	15,989
Receivables . . . . .	48,536	—
<b>Total</b> . . . . .	<u>531,357</u>	<u>426,022</u>

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

**GLOBALTRANS INVESTMENT PLC (PREVIOUSLY GLOBALTRANS INVESTMENT LIMITED)**  
**FINANCIAL STATEMENTS FOR THE THREE YEARS ENDED 31 DECEMBER 2007**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**5. SEGMENTAL INFORMATION (Continued)**

**Primary reporting format—business segments (Continued)**

*Analysis of revenue by category:*

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	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	—
	<u>548,871</u>	<u>557,814</u>	<u>511,850</u>

**6. EXPENSES BY NATURE**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	US\$'000
<b>Cost of sales</b>			
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	—	—
	<u>380,141</u>	<u>469,178</u>	<u>423,107</u>

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**FINANCIAL STATEMENTS FOR THE THREE YEARS ENDED 31 DECEMBER 2007**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**6. EXPENSES BY NATURE (Continued)**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	US\$'000
<b>Selling, marketing and administrative expenses</b>			
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 rentals—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
	<u>43,805</u>	<u>27,642</u>	<u>22,864</u>
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	US\$'000
<b>Total expenses</b>			
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 . . . . .	<u>423,946</u>	<u>496,820</u>	<u>445,971</u>



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**FINANCIAL STATEMENTS FOR THE THREE YEARS ENDED 31 DECEMBER 2007**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**7. OTHER GAINS—NET**

	2007	2006	2005
	US\$'000	US\$'000	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
	<u>2,700</u>	<u>15,776</u>	<u>1,684</u>

**8. EMPLOYEE BENEFIT EXPENSE**

	2007	2006	2005
	US\$'000	US\$'000	US\$'000
Wages and salaries . . . . .	17,065	12,627	10,295
Bonuses . . . . .	6,664	—	565
Social insurance costs . . . . .	2,343	1,635	1,305
	<u>26,072</u>	<u>14,262</u>	<u>12,165</u>

**9. FINANCE INCOME AND COSTS**

	2007	2006	2005
	US\$'000	US\$'000	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 . . . . .	<u>(47,325)</u>	<u>(41,781)</u>	<u>(40,547)</u>
Net foreign exchange transaction gains/(losses) on financing activities (Note 11) . . . . .	18,137	25,220	(12,884)
Finance costs . . . . .	<u>(29,188)</u>	<u>(16,561)</u>	<u>(53,431)</u>
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 . . . . .	<u>6,021</u>	<u>7,597</u>	<u>4,584</u>
Net finance costs . . . . .	<u>(23,167)</u>	<u>(8,964)</u>	<u>(48,847)</u>

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.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**10. INCOME TAX EXPENSE**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	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
	<u>26,376</u>	<u>14,078</u>	<u>5,764</u>

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	US\$'000
Profit before tax . . . . .	<u>104,458</u>	<u>72,691</u>	<u>23,082</u>
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 . . . . .	<u>26,376</u>	<u>14,078</u>	<u>5,764</u>

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.

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:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	US\$'000
Net finance income/(costs) (Note 9) . . . . .	18,137	25,220	(12,884)
Other gains—net (Note 7) . . . . .	(427)	(236)	409
	<u>17,710</u>	<u>24,984</u>	<u>(12,475)</u>

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FINANCIAL STATEMENTS FOR THE THREE YEARS ENDED 31 DECEMBER 2007

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. PROPERTY, PLANT AND EQUIPMENT

	Rolling stock US\$'000	Motor vehicles US\$'000	Assets under construction US\$'000	Other US\$'000	Total US\$'000
<b>At 1 January 2005</b>					
Cost . . . . .	253,243	528	4,120	343	258,234
Accumulated depreciation . . . . .	(7,693)	(131)	—	(112)	(7,936)
Net book amount . . . . .	<u>245,550</u>	<u>397</u>	<u>4,120</u>	<u>231</u>	<u>250,298</u>
<b>Year ended 31 December 2005</b>					
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 . . . . .	<u>350,444</u>	<u>930</u>	<u>195</u>	<u>1,389</u>	<u>352,958</u>
<b>At 31 December 2005</b>					
Cost . . . . .	369,019	1,216	195	1,642	372,072
Accumulated depreciation . . . . .	(18,575)	(286)	—	(253)	(19,114)
Net book amount . . . . .	<u>350,444</u>	<u>930</u>	<u>195</u>	<u>1,389</u>	<u>352,958</u>
<b>Year ended 31 December 2006</b>					
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 . . . . .	<u>466,255</u>	<u>1,983</u>	<u>4,415</u>	<u>1,588</u>	<u>474,241</u>
<b>At 31 December 2006</b>					
Cost . . . . .	505,316	2,556	4,415	2,060	514,347
Accumulated depreciation . . . . .	(39,061)	(573)	—	(472)	(40,106)
Net book amount . . . . .	<u>466,255</u>	<u>1,983</u>	<u>4,415</u>	<u>1,588</u>	<u>474,241</u>
<b>Year ended 31 December 2007</b>					
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 . . . . .	<u>599,812</u>	<u>1,404</u>	<u>—</u>	<u>1,596</u>	<u>602,812</u>
<b>At 31 December 2007</b>					
Cost . . . . .	670,399	2,441	—	2,316	675,156
Accumulated depreciation . . . . .	(70,588)	(1,037)	—	(719)	(72,344)
Net book amount . . . . .	<u>599,811</u>	<u>1,404</u>	<u>—</u>	<u>1,597</u>	<u>602,812</u>

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**12. PROPERTY, PLANT AND EQUIPMENT (Continued)**

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

	2007	2006	2005
	US\$'000	US\$'000	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 . . .	<u>151</u>	<u>22</u>	<u>46,322</u>

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

	2007	2006	2005
	US\$'000	US\$'000	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
	<u>151</u>	<u>22</u>	<u>46,322</u>

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

	2007	2006	2005
	US\$'000	US\$'000	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
	<u>354,108</u>	<u>296,786</u>	<u>211,425</u>

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	2006	2005
	US\$'000	US\$'000	US\$'000
Rolling stock . . . . .	353,733	296,020	210,973
Motor vehicles . . . . .	375	766	452
	<u>354,108</u>	<u>296,786</u>	<u>211,425</u>

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.

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**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	2006	2005
	US\$'000	US\$'000	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	2006	2005
	US\$'000	US\$'000	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).

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**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.

<u>Name</u>	<u>Country of incorporation</u>	<u>Non- current assets</u> US\$'000	<u>Current assets</u> US\$'000	<u>Non- current liabilities</u> US\$'000	<u>Current liabilities</u> US\$'000	<u>Income</u> US\$'000	<u>Expenses</u> US\$'000	<u>Interest held</u> %
<b>2005</b>								
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
		<u>140,679</u>	<u>65,083</u>	<u>43,546</u>	<u>135,876</u>	<u>131,869</u>	<u>123,138</u>	
<b>2006</b>								
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**

	<u>Loans and receivables</u> US\$'000
<b>31 December 2007</b>	
<b>Financial assets as per balance sheet</b>	
Trade and other receivables . . . . .	67,302
Cash and cash equivalents . . . . .	31,103
Total . . . . .	<u>98,405</u>

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**14. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)**

	<b>Financial liabilities measured at amortised cost</b>
	<b>US\$'000</b>
<b>Financial liabilities as per balance sheet</b>	
Borrowings . . . . .	451,173
Trade and other payables . . . . .	26,037
Total . . . . .	<u>477,210</u>
	<b>Loans and receivables</b>
	<b>US\$'000</b>
<b>31 December 2006</b>	
<b>Financial assets as per balance sheet</b>	
Trade and other receivables . . . . .	77,996
Cash and cash equivalents . . . . .	57,316
Total . . . . .	<u>135,312</u>
	<b>Financial liabilities measured at amortised cost</b>
	<b>US\$'000</b>
<b>Financial liabilities as per balance sheet</b>	
Borrowings . . . . .	446,824
Trade and other payables . . . . .	5,914
Total . . . . .	<u>452,738</u>
	<b>Loans and receivables</b>
	<b>US\$'000</b>
<b>31 December 2005</b>	
<b>Financial assets as per balance sheet</b>	
Trade and other receivables . . . . .	84,441
Cash and cash equivalents . . . . .	15,009
Total . . . . .	<u>99,450</u>
	<b>Financial liabilities measured at amortised cost</b>
	<b>US\$'000</b>
<b>Financial liabilities as per balance sheet</b>	
Borrowings . . . . .	371,455
Trade and other payables . . . . .	14,194
Total . . . . .	<u>385,649</u>

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**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	2006	2005
	US\$'000	US\$'000	US\$'000
<i>Trade receivables</i>			
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.

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*

<u>Agency</u>	<u>Rating</u>	2007	2006	2005
		US\$'000	US\$'000	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



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**16. TRADE AND OTHER RECEIVABLES**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	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 . . . . .	<u>(2,746)</u>	<u>(669)</u>	<u>(133)</u>
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 . . . . .	<u>29,650</u>	<u>44,487</u>	<u>37,534</u>
	<u>142,692</u>	<u>164,946</u>	<u>159,943</u>
Less non-current portion:			
Prepayments <sup>(1)</sup> . . . . .	(103)	(12,226)	(3)
Prepayments-related parties <sup>(1)</sup> . . . . .	—	(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 . . . . .	<u>(3,620)</u>	<u>(3,926)</u>	<u>(1,900)</u>
Total non-current portion . . . . .	<u>(20,360)</u>	<u>(44,972)</u>	<u>(37,906)</u>
Current portion . . . . .	<u>122,332</u>	<u>119,974</u>	<u>122,037</u>

All non-current receivables are due until 2010.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	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 . . . . .	<u>18,586</u>	<u>—</u>	<u>15,066</u>
Total financial assets . . . . .	<u>66,972</u>	<u>76,751</u>	<u>84,441</u>
Non-financial assets:			
Prepayments—related parties . . . . .	1,076	6,039	461
Prepayments—third parties . . . . .	44,664	36,424	37,507
VAT recoverable . . . . .	<u>29,650</u>	<u>44,487</u>	<u>37,534</u>
Total non-financial assets . . . . .	<u>75,390</u>	<u>86,950</u>	<u>75,502</u>
Total trade and other receivables . . . . .	<u>142,362</u>	<u>163,701</u>	<u>159,943</u>

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

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**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:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	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
	<u>12,437</u>	<u>12,891</u>	<u>13,839</u>

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:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	US\$'000
Currency:			
US dollar . . . . .	16,369	42,614	36,716
Russian Roubles . . . . .	125,833	121,580	122,966
Other . . . . .	490	752	261
	<u>142,692</u>	<u>164,946</u>	<u>159,943</u>

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	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 . . . . .	<u>2,746</u>	<u>669</u>	<u>133</u>

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.

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**16. TRADE AND OTHER RECEIVABLES (Continued)**

The finance lease receivables are scheduled as follows:

	<u>Less than 1 year</u>	<u>Between 1 to 5 years</u>	<u>Total</u>
	US\$'000	US\$'000	US\$'000
<b>At 31 December 2007</b>			
Minimum lease receivable . . . . .	15,136	18,504	33,640
Less: Unearned finance income . . . . .	<u>(3,302)</u>	<u>(1,867)</u>	<u>(5,169)</u>
Present value of minimum lease receivables . . . . .	<u>11,834</u>	<u>16,637</u>	<u>28,471</u>
<b>At 31 December 2006</b>			
Minimum lease receivable . . . . .	15,825	32,176	48,001
Less: Unearned finance income . . . . .	<u>(4,757)</u>	<u>(4,971)</u>	<u>(9,728)</u>
Present value of minimum lease receivables . . . . .	<u>11,068</u>	<u>27,205</u>	<u>38,273</u>
<b>At 31 December 2005</b>			
Minimum lease receivable . . . . .	16,256	45,225	61,481
Less: Unearned finance income . . . . .	<u>(5,960)</u>	<u>(9,222)</u>	<u>(15,182)</u>
Present value of minimum lease receivables . . . . .	<u>10,296</u>	<u>36,003</u>	<u>46,299</u>

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.

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:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	US\$'000
Receivable within one year . . . . .	11,834	11,068	10,296
Receivable later than one year and not later than 5 years . . . . .	<u>16,637</u>	<u>27,205</u>	<u>36,003</u>
Total . . . . .	<u>28,471</u>	<u>38,273</u>	<u>46,299</u>

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**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	US\$'000
Raw materials and consumables . . . . .	544	539	1,004
Goods for resale . . . . .	—	200	2,149
Other . . . . .	—	2	—
	<u>544</u>	<u>741</u>	<u>3,153</u>

All inventories are stated at cost.

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**18. CASH AND CASH EQUIVALENTS**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	US\$'000
Cash at bank and in hand . . . . .	17,896	8,114	3,926
Short term bank deposits . . . . .	13,207	49,202	11,083
	<u>31,103</u>	<u>57,316</u>	<u>15,009</u>

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.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	US\$'000
Cash and cash equivalents . . . . .	<u>31,103</u>	<u>57,316</u>	<u>15,009</u>

**19. SHARE CAPITAL AND SHARE PREMIUM**

	<u>Number of shares</u>	<u>Share capital</u>	<u>Share premium</u>	<u>Total</u>
		US\$'000	US\$'000	US\$'000
At 1 January 2005 . . . . .	5,000,000	5,000	—	5,000
Issue of shares . . . . .	<u>5,000,000</u>	<u>5,000</u>	<u>61,560</u>	<u>66,560</u>
At 31 December 2005/1 January 2006 and 31 December 2006/1 January 2007 and 31 December 2007 . . . . .	<u>10,000,000</u>	<u>10,000</u>	<u>61,560</u>	<u>71,560</u>

As at 31 December 2007, 31 December 2006 and 31 December 2005, the total authorised number of ordinary shares was 10,000,000 shares with a par value of US\$1 per share. All authorised and issued shares are fully paid.

In 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.

In March 2008, the Company changed its authorized and issued 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.

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**21. DEFERRED GAINS**

	2007	2006	2005
	US\$'000	US\$'000	US\$'000
Current . . . . .	136	180	366
Non-current . . . . .	124	242	386
	<u>260</u>	<u>422</u>	<u>752</u>

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

**22. BORROWINGS**

	2007	2006	2005
	US\$'000	US\$'000	US\$'000
<b>Current</b>			
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
	<u>149,447</u>	<u>177,587</u>	<u>107,293</u>
<b>Non-current</b>			
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
	<u>301,726</u>	<u>269,237</u>	<u>264,162</u>
<b>Total borrowings . . . . .</b>	<u>451,173</u>	<u>446,824</u>	<u>371,455</u>
<b>Maturity of non-current borrowings (excluding finance lease liabilities)</b>			
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
	<u>126,235</u>	<u>118,188</u>	<u>134,333</u>
<b>Finance lease liabilities—minimum lease payments</b>			
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
	<u>300,213</u>	<u>272,059</u>	<u>228,969</u>
Future finance charges of finance leases . . . . .	(76,495)	(74,478)	(64,070)
Present value of finance lease liabilities . . . . .	<u>223,718</u>	<u>197,581</u>	<u>164,899</u>
<b>The present value of finance lease liabilities is as follows:</b>			
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
	<u>223,718</u>	<u>197,581</u>	<u>164,899</u>

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**22. BORROWINGS (Continued)**

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 the Company 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).

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 the Company 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)).

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**22. BORROWINGS (Continued)**

*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.

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 the Company 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:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	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
	<u>451,173</u>	<u>446,824</u>	<u>371,455</u>

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

	<u>Carrying amount</u>			<u>Fair value</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	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
	<u>301,726</u>	<u>269,237</u>	<u>264,162</u>	<u>293,414</u>	<u>242,561</u>	<u>251,189</u>

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<sup>(1)</sup> rates.

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**22. BORROWINGS (Continued)**

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	US\$'000
US Dollar . . . . .	321,433	350,053	321,632
Euro . . . . .	50	—	78
Russian Rouble . . . . .	129,690	96,771	49,745
	<u>451,173</u>	<u>446,824</u>	<u>371,455</u>

The Group has the following undrawn borrowing facilities:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	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
	<u>60,184</u>	<u>59,309</u>	<u>6,253</u>

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
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:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	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)	—
	<u>22,751</u>	<u>14,462</u>	<u>4,189</u>
Deferred tax liabilities (net) . . . . .	<u>22,751</u>	<u>14,299</u>	<u>4,189</u>



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**23. DEFERRED INCOME TAX (Continued)**

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

	2007	2006	2005
	US\$'000	US\$'000	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
<b>End of year . . . . .</b>	<b>22,751</b>	<b>14,299</b>	<b>4,189</b>

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:

<b>Deferred tax liabilities</b>	<b>Property, plant and equipment</b>	<b>Lease liability</b>	<b>Tax losses</b>	<b>Borrowings</b>	<b>Trade and other payables</b>	<b>Other assets</b>	<b>Other liabilities</b>	<b>Total</b>
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>At 1 January 2005 . . . . .</b>	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)
<b>At 31 December</b>								
<b>2005/1 January 2006 . . . . .</b>	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
<b>At 31 December</b>								
<b>2006/1 January 2007 . . . . .</b>	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
<b>At 31 December 2007 . . . . .</b>	<b>63,931</b>	<b>(53,583)</b>	<b>—</b>	<b>—</b>	<b>(2,320)</b>	<b>(3,779)</b>	<b>18,502</b>	<b>22,751</b>

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

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.

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**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
<b>Current</b>			
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 <sup>(1)</sup> . . . . .	38,963	15,967	13,060
Advances from related parties (Note 29 (f)) <sup>(1)</sup> . . . . .	4,865	1,639	18,124
Dividends payable (Note 29 (f)) . . . . .	11,452	—	—
	78,115	24,225	46,545
<b>Non-current</b>			
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	2006	2005
Profit attributable to equity holders of the company (US\$'000)	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 and issued 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 ratio 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.

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**26. BUSINESS COMBINATIONS (Continued)**

*Year ended 31 December 2007 (Continued)*

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

	<b>Carrying amount</b>
	<b>US\$'000</b>
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:

	<b>Carrying amount</b>
	<b>US\$'000</b>
Inventories . . . . .	3
Cash and cash equivalents . . . . .	3
Carrying amount of net assets disposed off . . . . .	6

- 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:

	<b>Carrying amount</b>
	<b>US\$'000</b>
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

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**26. BUSINESS COMBINATIONS (Continued)**

*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.

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

	US\$'000
<b>Attributable fair value</b>	
Other assets . . . . .	10
<b>Fair value of acquired interest in net assets of subsidiary</b> . . . . .	10
Goodwill arising from acquisition . . . . .	—
<b>Total purchase consideration</b> . . . . .	10
Less: Cash and cash equivalents of subsidiary acquired . . . . .	—
<b>Outflow of cash and cash equivalents on acquisition</b> . . . . .	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 Agrohitrans 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 75% 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
<b>Attributable fair value</b>	
Cash and cash equivalents . . . . .	56
Other assets . . . . .	56
Minority interest . . . . .	(28)
<b>Fair value of acquired interest in net assets of subsidiary</b> . . . . .	84
Goodwill arising from acquisition . . . . .	—
<b>Total purchase consideration</b> . . . . .	84
Less: Cash and cash equivalents of subsidiary acquired . . . . .	(56)
<b>Outflow of cash and cash equivalents on acquisition</b> . . . . .	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.

*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).

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**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 preceding 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.

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.

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**27. CONTINGENCIES (Continued)**

**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:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	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:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	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)).

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**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.

The following transactions were carried out with related parties:

**(a) Sales of goods and services**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	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 . . . . .	<u>135,916</u>	<u>101,875</u>	<u>22,685</u>
	<u>135,916</u>	<u>109,052</u>	<u>57,333</u>

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

**(b) Purchases of goods and services**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	US\$'000
Purchases of services:			
Joint ventures in which the Group is a venturer . . . . .	—	438	214
Other related parties . . . . .	<u>56,943</u>	<u>86,177</u>	<u>46,814</u>
	<u>56,943</u>	<u>86,615</u>	<u>47,028</u>

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

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**29. RELATED PARTY TRANSACTIONS (Continued)**

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	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
	<u>39</u>	<u>—</u>	<u>9,005</u>

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.

**(d) Interest income and expenses**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	US\$'000
Interest income (Note 9):			
Loans to:			
Other related parties . . . . .	39	143	—
Finance leases:			
Other related parties . . . . .	1,523	1,451	874
	<u>1,562</u>	<u>1,594</u>	<u>874</u>
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)
	<u>(5,541)</u>	<u>(5,823)</u>	<u>(11,616)</u>

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**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	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.



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**29. RELATED PARTY TRANSACTIONS (Continued)**

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	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
	<u>7,796</u>	<u>—</u>	<u>7</u>
Prepayments to related parties (Note 16):			
Other related parties . . . . .	1,076	6,039	461
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	—	—
	<u>18,766</u>	<u>—</u>	<u>15,066</u>
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
	<u>9,752</u>	<u>1,871</u>	<u>7,494</u>
Other payables to related parties (Note 24):			
Other related parties . . . . .	153	21	270
Dividends payable . . . . .	<u>11,452</u>	<u>—</u>	<u>—</u>
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.

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**29. RELATED PARTY TRANSACTIONS (Continued)**

**(g) Loans to related parties**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	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 . . . . .	<u>3,363</u>	<u>846</u>	<u>—</u>

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.

***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**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	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 . . . . .	<u>(8,356)</u>	<u>—</u>	<u>—</u>
	<u>51,103</u>	<u>81,412</u>	<u>81,412</u>

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.

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**29. RELATED PARTY TRANSACTIONS (Continued)**

The interest rate has been changed from 7% to 8.75% on 1 August 2007.

	2007	2006	2005
	US\$'000	US\$'000	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 . . . . .	<u>—</u>	<u>—</u>	<u>—</u>

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	2006	2005
	US\$'000	US\$'000	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 . . . . .	<u>—</u>	<u>—</u>	<u>—</u>

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%.

***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%.

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**29. RELATED PARTY TRANSACTIONS (Continued)**

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

	2007	2006	2005
	US\$'000	US\$'000	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 . . . . .	<u>51,103</u>	<u>81,412</u>	<u>81,412</u>

**(i) Other transactions with related parties**

**Year ended 31 December 2007:**

- 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 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).
- 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
	<u>56,184</u>
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
	<u>137,013</u>

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

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**29. RELATED PARTY TRANSACTIONS (Continued)**

*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

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	2006	2005
	US\$'000	US\$'000	US\$'000
Not later than 1 year . . . . .	279	1,223	326

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**29. RELATED PARTY TRANSACTIONS (Continued)**

**(k) Operating leases—Group as lessor**

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	US\$'000
Not later than one year . . . . .	<u>6,573</u>	<u>5,596</u>	<u>5,519</u>

**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.

	<u>2006</u>	<u>2005</u>
	US\$'000	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 . . . . .	<u>4,885</u>	<u>4,366</u>
Net effect on profit for the year . . . . .	<u>—</u>	<u>—</u>

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**30. CHANGE IN ACCOUNTING POLICIES (Continued)**

	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000
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
	<u>—</u>	<u>57,170</u>
Decrease in inventories . . . . .	—	167
Decrease in current trade and other receivables . . . . .	—	31,211
Decrease in cash and cash equivalents . . . . .	—	1,152
	<u>—</u>	<u>32,530</u>
Decrease in total assets . . . . .	<u>—</u>	<u>89,700</u>
(Decrease) in current borrowings . . . . .	—	(21,190)
(Decrease) in deferred tax liabilities . . . . .	—	(582)
	<u>—</u>	<u>(21,772)</u>
(Decrease) in trade and other payables . . . . .	—	(10,900)
(Decrease) in current borrowings . . . . .	—	(57,028)
	<u>—</u>	<u>(67,928)</u>
Decrease in total liabilities . . . . .	<u>—</u>	<u>(89,700)</u>

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:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	US\$'000	US\$'000	US\$'000
Not later than one year . . . . .	<u>6,678</u>	<u>5,676</u>	<u>5,569</u>

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 Sevtexnotrans OOO, a railway transportation company (Note 29(i)). 28.75% of share capital of Sevtexnotrans 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

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**32. COMMON CONTROL TRANSACTION (Continued)**

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.

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:

	<b>Carrying amount</b>
	<b>US\$'000</b>
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 . . . . .	<u>44,380</u>

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

	<b>Carrying amount</b>
	<b>US\$'000</b>
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 . . . . .	<u>61,367</u>



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**32. COMMON CONTROL TRANSACTION (Continued)**

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

	<u>Carrying amount</u>
	<u>US\$'000</u>
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 . . . . .	<u>70,078</u>

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

	<u>Carrying amount</u>
	<u>US\$'000</u>
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 . . . . .	<u>108,394</u>

**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.

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

	<u>2006</u>	<u>2005</u>
	<u>US\$'000</u>	<u>US\$'000</u>
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 . . . . .	<u>(1,322)</u>	<u>—</u>

**GLOBALTRANS INVESTMENT PLC (PREVIOUSLY GLOBALTRANS INVESTMENT LIMITED)**  
**FINANCIAL STATEMENTS FOR THE THREE YEARS ENDED 31 DECEMBER 2007**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**33. PRIOR YEAR ADJUSTMENT (Continued)**

	2006	2005
	US\$'000	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.

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 15 April 2008, the Company converted into a public company and renamed to Globaltrans Investment PLC.

On 19 March 2008, the Company changed its authorized and issued 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.

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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The Board of Directors  
Globaltrans Investment PLC (previously Globaltrans Investment Limited)  
20 Omirou street  
Agios Nicolaos  
CY-3095 Limassol  
Cyprus

30 April 2008

Dear Sirs,

**Globaltrans Investment PLC (previously Globaltrans Investment Limited)**

We have audited the statutory consolidated financial statements issued by Globaltrans Investment PLC (previously Globaltrans Investment Limited) (“the Company”) for the period from incorporation to 31 December 2004 and the years ended 31 December 2005, 31 December 2006, and 31 December 2007, and the standalone financial statements of the Company for the year ended 31 December 2007, from which the additional financial information (the “Additional Financial Information”) set out on page F-68 of the Prospectus dated 30 April 2008, has been derived. These Financial Statements were prepared in accordance with International Financial Reporting Standards as adopted by the EU and the Cyprus Companies Law, Cap. 113. In our respective reports dated 7 October 2005, 4 August 2006, 3 August 2007 and 3 April 2008, we expressed unqualified audit opinions on the statutory financial statements. No accounts have been made up in respect of the period from 1 January 2008 to the date falling three months before the issue of the Prospectus.

This report has been requested by you solely for compliance with the requirements of the Cyprus Companies Law, Cap. 113, Schedule 4, paragraph 19. The Additional Financial Information is not necessarily prepared on a consistent basis with the consolidated financial statements on pages F-3 to F-65 of the Prospectus.

**Responsibilities**

It is the responsibility of the Board of Directors of the Company to prepare the Additional Financial Information in accordance with the requirements of the Cyprus Companies Law, Cap. 113, Schedule 4, paragraph 19.

It is our responsibility to form an opinion as to whether the Additional Financial Information is consistent, in all material respects, with the statutory financial statements from which they were derived.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Additional Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

**Basis of Opinion**

We conducted our work in accordance with the International Standard of Auditing 800, The Auditor’s Report on Special Purpose Audit Engagements.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Additional Financial Information is consistent, in all material respects, with the statutory financial statements from which they were derived.

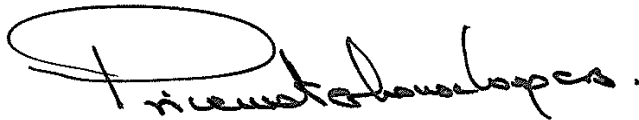
Our work has not been carried out in accordance with Auditing Standards generally accepted in the United States of America or Auditing Standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those Standards.

### **Opinion**

In our opinion the Additional Financial Information is consistent, in all material respects, with the statutory financial statements from which they were derived.

### **Declaration**

For the purposes of Prospectus Rule 5.5.4R (2)(f), we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omissions, likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2. of Annex X of the Prospectus Directive Regulation.

A handwritten signature in black ink, appearing to read "PricewaterhouseCoopers", with a large, stylized flourish above the first few letters.

PricewaterhouseCoopers Limited  
Chartered Accountants

Limassol, 30 April 2008

**GLOBALTRANS INVESTMENT PLC (PREVIOUSLY GLOBALTRANS INVESTMENT LIMITED)**

**ADDITIONAL FINANCIAL INFORMATION**

The table below sets out financial information for Globaltrans Investment PLC (previously Globaltrans Investment Limited) additional to that presented in the consolidated financial statements for the years ended 31 December 2007, 31 December 2006, 31 December 2005 and 31 December 2004, solely for compliance with paragraph 19 of Schedule 4, of the Cyprus Companies Law, Cap 113.

It is stressed that the information set out below is not necessarily prepared on the same basis and therefore is not comparable with the financial information in the consolidated financial statements on pages F-3 to F-65 of the Prospectus.

<u>Globaltrans Investment PLC</u>	<u>As at 31 December 2007</u>	<u>Year ended 31 December 2007</u>	<u>Year ended 31 December 2006</u>	<u>Year ended 31 December 2005</u>	<u>Period ended 31 December 2004</u>
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
1. Consolidated profit for the year after tax and after minority interest . . . . .			30,046	7,509	9,211
2. Total assets—company . . . . .	191,665				
3. Total liabilities—company . . . . .	11,935				
		<u>%</u>	<u>%</u>		
4. Rate of dividends per share (dividend per share divided by the nominal value of each share)		415	268		

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**REGISTERED OFFICE OF THE COMPANY**

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Limassol  
Cyprus

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**Envesta Investments Ltd.**  
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**JOINT BOOKRUNNERS**

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